Date:	October 8, 2015	
For ACTION:		
For INFORMATION:		__X__
Board Agenda:	Yes	_____
	No	__X__

Board Brief

FROM: Kevin North, Chief Human Resources Officer

THROUGH: Alvin Crawley, Ed.D., Superintendent

TO: The Honorable Karen A. Graf, Chairman, and Members of the Alexandria City School Board

COPY: Executive Staff

TOPIC: **Supplemental Retirement Plan - Annual Update**

BACKGROUND:

In December 2013, the School Board approved an investment policy statement, which established an Investment Advisory Board for the Supplemental Retirement Plan. This advisory board has been in place for over one year now and this is the first annual update to the School Board regarding the plan. This update includes information on:

- How is the plan structured
- How the retirement funds are invested
- The performance level of the fund and the funding level
- Plan characteristics and the benefits our employees receive
- The investment options the advisory board is currently considering

PLAN STRUCTURE AND HISTORY:

The plan was established with The Principal in 1971 as a defined benefit plan with an insurance component. Upon retirement, Principal guarantees retiree benefits. Because of this guarantee, Principal has the right to control the investment of funds and monitor the level of assets available to pay those benefits. Should assets fall below a level established by Principal (the so-called "Benefits Index") Principal has the right to take the entire fund and purchase annuity contracts to pay retirees. The effect of such an action would be to eliminate some or all funds available to pay benefits for current employees, and to finance payments for retirees using the most conservative and prospectively low yielding investments. It is a goal of the plan to maintain a funding level such that annuitizing retiree benefits will never be necessary.

Maintaining the fund above the Benefits Index at all times requires that the funds have a significant fixed income component. Fixed income securities typically return less than other asset classes, but usually have positive returns during periods of stock market decline such as 2008. Maintaining a large portion of assets in fixed income securities reduces the chance that assets will fall below the benefits index during a market decline.

INVESTMENT ADVISORY BOARD

The Investment Advisory Board is composed of the following members:

- Plan Administrator (Chairman) Kevin North
- Plan Investment Officer/CFO Stacey Johnson
- Active Employee Dawn Lucas
- Retired Employee Jay Johnson
- Investment Professional Larry Swartz

FUNDING

The plan is fully funded as of the Aug. 31, 2015 valuation date, with $113.7 million available to pay vested benefits. The current investment profile is conservative, with 50% of assets invested in fixed income. The Board is now considering whether to recommend the movement of some fixed income investment into equity, real estate, or a multi-asset portfolio.

The plan was originally funded entirely by the School Board. Over time, the funding source has shifted to employees as shown below:

Fiscal Year	ACPS Contributions	Employee Contributions
2009	1.45%	0.00%
2010	2.12%	0.42%
2011	2.25%	0.50%
2012	0.00%	2.25%
2013	0.00%	2.25%
2014	0.00%	1.50%
2015	0.00%	1.50%

It is a goal of the advisory board to keep employee contributions as stable as possible given the funding requirements and would recommend that any future increases, if needed, be funded by the School Board.

PLAN CHARACTERISTICS

Employees contribute 1.5% of salary. Employee contributions earn 5% interest. Normal retirement is at an employee's 65th birthday, or 30 years of service after the employees 50th birthday. Vesting occurs 100% after five years of service. The earned benefit is 0.40% of average monthly pay multiplied by benefit service after 1984. The Principal Group guarantees benefits upon retirement by The Principal Group. The School Board has ultimate authority over all investment decisions.

The table below displays the asset allocation for the Plan compared with the average for all U.S. public plans. In the last column show the general trend for use for the asset class, whether its use is going down or up. The table shows that the asset allocation for Alexandria Schools is more conservative than average, with a smaller percentage of assets in equity and a larger percentage in fixed income relative to the U.S. Average. The table also shows that the trend in asset allocation is away from traditional assets (equity, fixed income) toward private and alternative assets (private equity, real estate and hedge funds).

Asset Class	**Alexandria**	**U.S. Average**	**Trend**
Domestic Equity	30%	25%	Down
Foreign Equity	10%	22%	Flat
Private Equity	0%	10%	Up
Real Estate	6%	8%	Up
Other Real Assets	4%	3%	Flat
Hedge Funds	0%	3%	Up
Fixed Income	50%	25%	Down
Other	0%	4%	Up
Total	100%	100%	

A list of our current managers in contained in Attachments 1 broken down by asset class: equity, real assets and fixed income.

PERFORMANCE

Prior to June 2008 the fund was invested in an all-fixed income portfolio. This asset allocation allowed the fund to earn about 6% during the financial crisis while other public funds posted steep declines. In June 2008 ACPS began to diversify the asset mix to include both equity and real assets. The fund remained primarily in fixed income until 2009 when the equity market began a robust recovery from the financial crisis.

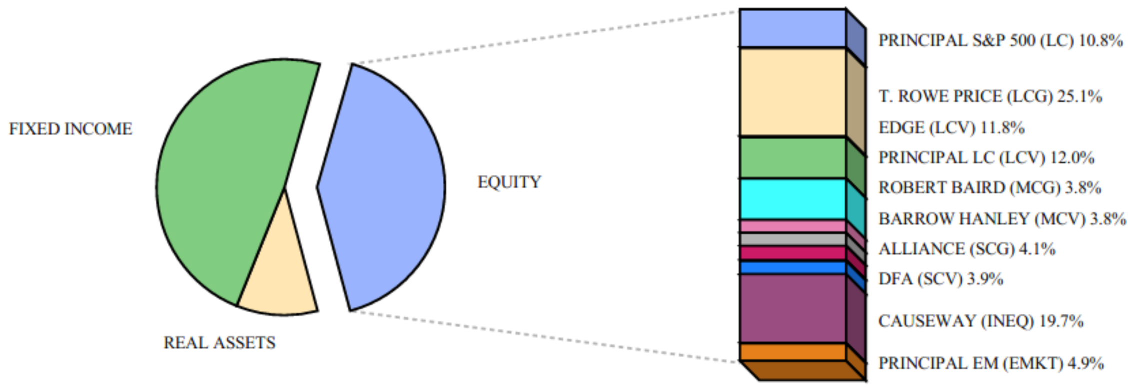
In the last five years the plan has returned 8.6% against a public fund median return of 10.8%. The plan does better than the average fund plan in down or flat markets (2008/2009 and 2012 years ending in June), but worse in up markets.

OUTLOOK

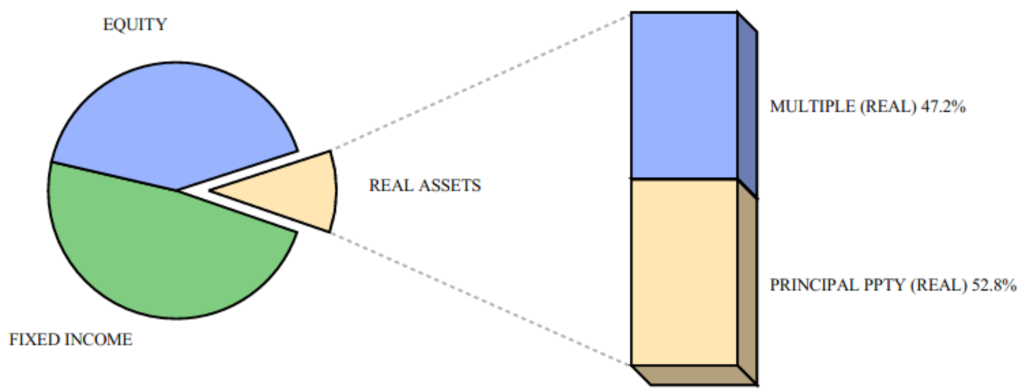
A goal of the advisory board is to maintain the fully funded status while keeping employee contributions at 1.5%. The challenge is to meet the fund's actuarial assumption of 6.5% in a rising rate environment with a 50% bond allocation (bond prices decline as interest rates rise). The advisory board is currently considering a recommendation to move 5%-10% of assets from fixed income into equity, real estate or a multi-asset portfolio to mitigate the effect of rising rates.

ATTACHMENT 1

Equity Managers



Real Asset Managers



Fixed Income Managers