

Meeting Minutes - December 9, 2008

The meeting of the Des Plaines Police Pension Board was called to order by President Chiaro at 9:05 a.m. in Room 101 of City Hall in Des Plaines, Illinois.

Roll Call. Present: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Absent: None (0). Also present were Annuitant Wendall Whitted, Annuitant James Roel, Board Financial Advisor Thomas McShane, and Board Attorney Joseph Perkoski.

Approval of Minutes. Motion by Salas, seconded by Neil, to approve the October 14, 2008 regular meeting minutes. Motion carried by unanimous voice vote.

Disbursements. The Board reviewed the disbursements as identified in the December 9, 2008 warrant list #12 in a total amount of \$32,768.34. Motion by Muehlenbeck, seconded by Marks, to approve the disbursements as identified in the December 9, 2008 warrant list #12 in a total amount of \$32,768.34. A roll call vote was taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

Board Attorney's Report

a. Lalowski Complaint for Administrative Review Update. Attorney Perkoski shared with the Board the order issued by Judge Billek in the Chancery Court for Cook County dismissing Lalowski's Complaint for Administrative Review. Attorney Perkoski discussed the extensive oral argument which had occurred on November 25, 2008 and the Court's subsequent ruling on December 5, 2008 with the Court issuance date December 8, 2008.

b. Schroeder Disability Claim. Attorney Perkoski discussed with the Board that Mr. Schroeder had chosen not to appeal the Board's decision of October 2, 2008 within the 35-day time frame allotted for an appeal. This

effectively ends Mr. Schroeder's ability to appeal the decision and the Board's decision will stand.

c. Review of Legal Developments. Attorney Perkoski further discussed the proposed revisions to the Board's Rules and Regulations and the Board's Investment Policy as a result of HB 5088 and as a result of a recent amendment to the Pension Code definition of "adoption". Attorney Perkoski acknowledged concerns raised at the previous Board meeting regarding legalistic wording being added to the Board's Investment Policy. In light of these concerns, Attorney Perkoski reported that a new section to the Rules and Regulations would be developed in lieu of amending the Investment Policy to preserve the Investment Policy as a lay-person type document. Attorney Perkoski reported that he would have a draft of the amended Rules and Regulations incorporating the changes necessitated by HB 5088 for the next meeting. The Board discussed approval of the amendment to the Rules and Regulations incorporating the amended Pension Code definition of "adoption". Motion by Muehlenbeck, seconded by Salas, to approve the amendment to the Rules and Regulations incorporating the new Pension Code definition of adoption. The motion was carried by unanimous voice vote.

In addition, the Board discussed Lauterbach & Amen's memorandum concerning House Bill 5088. Lauterbach & Amen is offering to clients the service of completing the municipal compliance report as required by the new legislation for an additional fee of \$500.00 billed upon completion of the services.

New Business.

a) Retirement of Jim Salas. The Board discussed the retirement of Trustee Jim Salas from the Des Plaines Police Department and his resignation from the Des Plaines Police Pension Board. Jim will be providing a written notice of resignation to the Board. The Board discussed the process for filling the open position on the Board through a special election.

b) Approval of 2009 Board Meeting Dates. The following schedule for the Pension Board meetings in 2009 shall be as follows. All meetings will take place at 9:00 a.m. in Room 101 of City Hall, Des Plaines, Illinois except for the June meeting as stated below: February 10, 2009, April 14, 2009, June 9, 2009 (11:00 a.m. the Law Offices of Robbins, Schwartz, Nicholas, Lifton, & Taylor, Ltd., 20 North Clark Street, Suite 900, Chicago, IL 60602), August 11, 2009, October 13, 2009, and December 8, 2009.

c) Explanation of Change in HELPS Retirees Act. The Board discussed a memorandum issued by Lauterbach & Amen dated November 2008 concerning health insurance premiums and the HELPS Retirees Act. The HELPS Retirees Act was passed in August 2006, allowing annuitants to have their health insurance premiums withheld from their pension checks on a pre-tax basis beginning January 1, 2007. At the time of the enactment, pension boards were advised that there would be a special box on the form 1099R in which pension boards would report the amount of pre-tax insurance deductions. As noted by Lauterbach & Amen, once the 2007 1099R form's instructions were released, it was learned that the IRS did not want this information reported on the 1099R. Rather the IRS amended Form 1040 to include a line on which the annuitant can report health insurance premiums withheld from their pension check up to \$3,000.00. This line on the form 1040 increases the taxable earnings of the annuitant which accomplishes the same benefits as deducting the insurance on a pre-tax basis from the monthly pension check. The difference is that the decreased taxable earnings are realized at year's end instead of on a per-month basis. Because of this, Lauterbach & Amen is advising in their November 2008 memorandum that as of January 2009, they would not be deducting the insurance on a pre-tax basis. Lauterbach & Amen is distributing an informational memorandum to all HELPS participants with the December payroll.

d) Increase in Hourly Rates for Legal Services. The Board discussed the notice from Robbins, Schwartz, Nicholas, Lifton, & Taylor, Ltd. dated November 3, 2008 advising of an increase in the hourly rates for legal services for all municipal local government clients by \$10.00 per

hour. The new rates for attorneys and paralegals are to be effective for chargeable time entered beginning November 1, 2008.

e) Service Transfer Approvals for Officer Susan Pavak and Commander Daniel Niemann. The Board discussed the letter issued by Lauterbach & Amen dated November 11, 2008 concerning Susan Pavak's transfer of creditable service from IMRF to Des Plaines Police Pension Fund. The letter notes that payment for the transfer of creditable service had been received in full. The letter further advises of an adjustment in the date of hire in accordance with Public Act 095-0812. As a result, the revised date of hire is May 14, 1989. The Board also discussed the letter issued by Lauterbach & Amen dated November 26, 2008 regarding Daniel R. Niemann and his transfer of creditable service from IMRF to the Des Plaines Police Pension Fund. As noted in the letter, payment had been received in full for the transfer of creditable service. In addition, Commander Niemann's date of hire with the Des Plaines Police Pension Fund had been adjusted with the revised date of hire now April 5, 1989 in accordance with the Public Act 095-0812.

f) Death of Surviving Spouse, Delores Lanham. The Board discussed the passing of the surviving spouse of Lieutenant William Lanham, Delores Lanham. Delores passed away on 12 November 2008 at the age of 73. Lieutenant William Lanham had served with the department from June 4, 1949 until September 5, 1971.

g) Approval of Lauterbach & Amen's Balance Sheets for September and October 2008. Motion by Salas, seconded by Muehlenbeck to approve the Lauterbach & Amen Balance Sheets for September and October, 2008. A roll call vote was taken. Ayes: Trustees Muehlenbeck, Salas, Marks, Neil and President Chiaro (5). Nays: None (0). Motion carried: 5-0.

Financial Report. Financial Advisor, Thomas McShane, presented the Board with his fourth quarter 2008 portfolio update. A copy of the portfolio update dated December 9, 2008, and depicting the Fund performance for the trailing 12 months ending November 30, 2008, is

attached hereto as Exhibit A. McShane further discussed a chart depicting long-term returns on S&P 500 and Russell type index funds as of November 2008. McShane's copy of the November 2008 long-term returns chart is attached hereto as Exhibit B and incorporated herein. McShane further discussed an article from the Wall Street Journal dated December 6, 2008 concerning job loss numbers which indicates more than 850,000 jobs were lost in the U.S. in October and November 2008. This is the biggest decline in jobs since 1974.

McShane discussed that the market was experiencing a "rolling margin call" on all businesses constituting a massive deleveraging. This phenomenon has continued to cause problems with liquidity despite the government's infusion of money into the market. However, the government's infusion of money will eventually take hold. The government's purchase of so-called "toxic loans" will expedite the process of restoring liquidity.

McShane also discussed issues concerning CitiGroup. McShane addressed concerns with the recent government bailout of CitiGroup, noting that his firm took measures before the bailout to ensure that if the bailout did not occur that there would be adequate access to the Pension Fund's funds. Going forward, McShane discussed that he will review liabilities (expected payouts for retirees) and will make sure that sufficient cash is available five to six years out. President Chiaro noted that the current police force is now younger overall and that there is no expectation of major retirements in the next few years.

McShane further discussed that he is in the process of formulating a plan for increasing equities in the portfolio in the event that there is a rally in the markets. McShane discussed indications that a rally would occur after the first of the new year. The preference is to have an orderly and slow movement upward in the market as opposed to an explosive rally. If there is an explosive rally, McShane indicated that he would be more inclined to hold back on increasing equity investment as he would anticipate a drop following such a rally. The Board discussed calling a special meeting if the

market moved to the 10,000 point mark. McShane believes that for the most part the bleeding has stopped in the portfolio.

Adjournment. Motion by Muehlenbeck, seconded by Marks to adjourn at 11:20 a.m. The motion was carried by unanimous voice vote.

Approved:

Nick Chiaro

President