KNOX COUNTY RETIREMENT AND PENSION BOARD

JULY 28, 2014

The Knox County Retirement and Pension Board met in regular session on Monday, July 28, 2014, at 9:00 A.M. in the County Commission Conference Room 640, City County Building, Knoxville, Tennessee. Chairman Rick Trott, presided and called the meeting to order.

The following members were present: Mr. Rick Trott, Chairman, Commissioner Ed Shouse, Vice Chairman, Mr. Nick McBride, Secretary, Commissioner Richard Briggs, Commissioner Mike Hammond, Commissioner Tony Norman, Mr. Chris Caldwell, representing Mayor Tim Burchett, Ms. Crystal Hill and Ms. Robin Moody. Also present at the meeting were: Mr. William Mason, Mr. Richard Beeler, Legal Counsel, Mr. Bob Cross, USICG, Mr. Gerald Witt, Knoxville News Sentinal and Retirement staff, Mrs. Kim Bennett, Mrs. Terri Chase, Mrs. Janet Rowan and Mrs. Jennifer Schroeder.

IN RE: APPROVAL OF MINUTES OF PREVIOUS MEETING

Consideration of approval of the minutes of the previous meeting of June 23, 2014 was presented. A motion was made by Mr. Caldwell that the minutes be approved as presented. The motion was seconded by Mr. McBride and unanimously carried.

IN RE: APPLICATIONS FOR RETIREMENT AS PROVIDED IN THE DEFINED BENEFIT PLAN

The following applications for retirement, as provided in the Defined Benefit Plan, were presented for consideration:

<table>
<thead>
<tr>
<th>NAME</th>
<th>DEPARTMENT</th>
<th>CREDITED SERVICE</th>
<th>EFFECTIVE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia A Shingles</td>
<td>Schools</td>
<td>24 years 5 months</td>
<td>August 1, 2014</td>
</tr>
</tbody>
</table>

After review, a motion was made by Commissioner Hammond to approve the applications for retirement under the Defined Benefit Plan as presented and authorize the Master Trustee, State Street Bank, to make disposition of the benefits. The motion was seconded by Ms. Hill and unanimously approved.

IN RE: APPLICATIONS FOR RETIREMENT AS PROVIDED IN THE DEFINED CONTRIBUTION PLAN

The following applications for retirement, as provided in the Defined Contribution Plan, were presented for consideration:

<table>
<thead>
<tr>
<th>NAME</th>
<th>DEPARTMENT</th>
<th>CREDITED SERVICE</th>
<th>EFFECTIVE DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nihad Brkic</td>
<td>Schools</td>
<td>5 years</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Kathleen C Brown</td>
<td>Health</td>
<td>7 years 10 months</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Susan J Cox</td>
<td>Schools</td>
<td>17 years 11 months</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Annette W Hardin</td>
<td>Schools</td>
<td>25 years</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Rebecca R Kidd</td>
<td>Schools</td>
<td>24 years</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Robin R Pankey</td>
<td>Schools</td>
<td>29 years 4 months</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Ronnie G Robbins</td>
<td>Parks &amp; Rec</td>
<td>27 years 7 months</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Patricia M Russell</td>
<td>Health</td>
<td>21 years</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Patricia E Simmons</td>
<td>Schools</td>
<td>27 years</td>
<td>August 1, 2014</td>
</tr>
<tr>
<td>Brenda J Waggoner</td>
<td>Judges</td>
<td>35 years 3 months</td>
<td>August 1, 2014</td>
</tr>
</tbody>
</table>
Anita G Weaver        Schools        23 years        August 1, 2014
Hope D White          Schools        8 years         August 1, 2014
Linda A Whittle       Schools        27 years        August 1, 2014
Milton F Wolfe        Schools        26 years        August 1, 2014

After review, a motion was made by Commissioner Hammond to approve the applications for retirement under the Defined Contribution Plan as presented and authorize the Directed Custodian, Wells Fargo Bank, to make disposition of the benefits upon certification from USI. The motion was seconded by Mr. Caldwell and unanimously approved.

IN RE: CONSIDERATION OF ISSUANCE OF DEATH BENEFIT CERTIFICATES ON COMPLETED YEARS OF SERVICE

The request for issuance of certificates of death benefits as provided for in the Plan, based upon completed years of credited service at the date of termination or retirement, for the following participants was presented for consideration:

CERTIFICATES:
Georgia A Shingles       Nihad Brkic
Susan J Cox             Annette V Hardin
Robin R Pankey          Patricia M Russell
Brenda J Waggoner       Anita G Weaver
Milton F Wolfe

ACTUARIAL VALUE:
Kathleen C Brown        Rebecca R Kidd
Ronnie G Robbins        Patricia E Simmons
Hope D White            Linda A Whittle

After review, a motion was made by Commissioner Hammond to approve the requests as presented as provided by the Plan. The motion was seconded by Mr. Caldwell and unanimously approved.

IN RE: APPLICATION FOR LUMP SUM DISTRIBUTION – DEFINED BENEFIT PLAN – BASED ON COMPLETED YEARS OF SERVICE

The request for authorization for payment of lump sum benefits as provided in the Defined Benefit Plan, based upon completed years of credited service at the date of termination, for the following participants was presented for consideration:

Georgia A Shingles

After review, a motion was made by Mr. Caldwell that the Retirement Board approve the request for lump sum distributions as listed above and authorize the Master Trustee, State Street Bank, to make disposition of the benefits as provided by the Plan. The motion was seconded by Ms. Hill and unanimously approved.

IN RE: REPORT OF EXECUTIVE DIRECTOR

Mrs. Bennett discussed the prior Board authorization to use CountyBank for Public Safety Officers $3,000 federal income tax exemption for medical insurance and long term care premiums per IRS regulations from any insurance provider. Mrs. Bennett made a recommendation the Retirement
System not administer this benefit to any insurance coverage other than the County retiree medical coverage.

After review, a motion was made by Mr. McBride that the Retirement Board administer the $3,000 tax exempt medical insurance program for Public Safety Officers for County sponsored retiree medical insurance only. The motion was seconded by Ms. Moody and unanimously approved.

Mrs. Bennett stated the postcards have been mailed to all active employees advising the Summary Plan Description booklets for all active retirement plans are located on the Retirement website. This is a big cost savings.

Mrs. Bennett advised that life insurance vendor, Voya Financial (previously ING), has renewed life insurance rates for 2015. This is the last year of the contract; therefore, life insurance will be put out for bid next year.

Mrs. Bennett advised during the calendar year 2013 audit, the auditors discovered that three Uniformed Officers Pension Plan retirees had been overpaid a total of approximately $28,000 since 2007. This was due to Benx1 calculation error in the final average earnings computation when the program was initially run. The auditors do not recommend that any of this overpayment be collected since it involves a few isolated cases, is not reoccurring, and happened in 2007. Mrs. Bennett advised the retirees will be notified and benefits will be adjusted going forward.

Mrs. Bennett advised the Retirement Office has received the funding required for the actuarial valuation on the Teachers Plan and Disability Plan. She stated some of the funding for the Defined Benefit and Uniformed Officers Pension Plans has also been received; however these plans are funded every payroll period. Mr. Cross pointed out that under GASB68, starting next year, any cash contributions received before the end of the fiscal year will be included in that year’s GASB68 computation.

Mrs. Bennett advised the fiduciary liability insurance, with coverage in the amount of $10 million, at a current annual premium cost of ~$50,000 will expire August 31, 2014. Information has been sent requesting a renewal quote for the Retirement Board, staff and the System’s over $¾ billion in assets.

Mrs. Bennett stated the Retirement Office fiscal year audit begins in August. This audit will actually be an 18 month audit in total, for the periods ending December 31, 2013 and June 30, 2014. Pugh & Co will be at the Retirement Office the last week in August and again in October 2014.

**IN RE: RFP COMMITTEE REPORT**

Mrs. Bennett stated the recommendations have been made by the RFP Committee regarding the selection of the Trustee for the Defined Contribution Plans and the Trustee/Custodian for the Defined Benefit Plans.

Mrs. Bennett stated the recommendation from the RFP Committee for Trustee of the Defined Contribution Plans is CountyBank.

After review, a motion was made by Commissioner Shouse to approve the recommendation and to authorize the Executive Director, on the advice of counsel, to execute any appropriate agreements or amendments with CountyBank for the defined contribution plans and the Disability Plan. The motion was seconded by Commissioner Briggs and unanimously approved.
Mrs. Bennett stated the recommendation from the RFP Committee for the Trustee/Custodian for the Defined Benefit Plans is State Street Bank with the understanding that performance must be improved within 18 months or the contract will be put out to bid again. State Street's original price quote was decreased by 15% after State Street's July 14th, 2014 meeting with the Committee and Board members.

After review, a motion was made by Mr. McBride to approve the recommendation and to authorize the Executive Director, on the advice of counsel, to execute appropriate agreements or amendments with State Street for the defined benefit plans. The motion was seconded by Mr. Caldwell and unanimously approved.

IN RE: DISABILITY COMMITTEE REPORT

Mrs. Bennett stated the Disability Committee has met in conjunction with UNUM to understand how the Return to Work program works and determine processes and procedures. At the current time, Knox County has not submitted any disability applications to UNUM under the new Disability Plan but the Retirement Office does have three in the works. She described the Return to Work Program as follows:

After a participant is determined to be disabled, UNUM will determine, applying its standard criteria, whether the participant is eligible for the Program on a case by case basis taking into consideration all facts and circumstances.

The Program may include:

- Vocational evaluations to determine employment options
- Coordination with the employer to assist in returning to work
- Adaptive equipment or job accommodations
- Job placement services
- Resume preparation and job seeking skills training
- Education or re-training

The Program benefits include:

- The provision of supplemental cost to the Plan for the Return to Work program is limited to $10,000 per participant.
- An additional benefit of 10% of Participant's gross disability payment (up to a maximum of $1,000 per month) for participating in the Program for a maximum of 12 months
- An additional 3 months of disability payments if he or she is unable to find employment following the date his or her disability ends
- Reimbursement of dependent care expenses (upon sufficient proof that the Participant is incurring such expenses) at a rate of $350 per month per dependent not to exceed $1,000 per month for all dependents

UNUM will request advance approval from the Knox County Retirement System for each expense to be incurred by the Plan under the Program.

- Executive Director will report on the Program annually
• Executive Director will ask for Board approval of Program expenses in excess of $10,000 for any one Participant

The Board retains the authority at any time to (a) approve any other amounts or items not provided for in the written Program; (b) amend, modify, or revoke the Program.

Mrs. Bennett stated the Return to Work Program would include jobs with Knox County and Knox County Schools employers and employers outside of the County and Schools.

Commissioner Briggs stated the Committee reviewed other alternatives but this is the most reasonable and feasible program that was discussed.

Mr. McBride asked how the Return to Work Program would affect a disabled employee that was also receiving Social Security disability. After discussion, it was stated income earned by returning to work would affect the Social Security disability benefit amount in accordance with rules enforced by the Social Security Administration.

Mrs. Bennett made a recommendation that the Return to Work program with UNUM's assistance be adopted by the Board.

After review, a motion was made by Commissioner Briggs to approve the Return to Work Program effective August 1, 2014. The motion was seconded by Commissioner Shouse and unanimously approved.

IN RE: REPORT OF LEGAL COUNSEL, RICHARD BEELER AND BILL MASON

Mr. Beeler stated no legal issues to report.

Mr. Mason advised the IRS has now ruled favorably on the action by the Pension Board last summer and on the related action by the Knox County Commission in adopting County ordinance Article XIV, Chapter 2, 0-13-8-101. The Pension Board requested a private letter ruling that disability benefits paid to County Employees (including Schools and Officers) for disability incurred in the line of duty be free from federal income tax and FICA tax.

Mr. Mason said the ruling is applicable to all disability benefits paid to employees of Knox County for injury in the line of duty pursuant to the terms of the Knox County Code and each of the employee benefit plans of the Knox County Retirement System that provides benefits. The ruling is applicable to both employees who become disabled hereafter, as well as those who suffered in line of duty disabilities in the past and are receiving disability benefits under the Closed DB or UOPP plans. Current plan summaries were written in anticipation of this ruling. Neither the County nor the employees need to do anything further to take advantage of this ruling.

IN RE: REPORT OF ACTUARY BOB CROSS

Mr. Cross stated no issues to report.

IN RE: REPORT OF INVESTMENT COMMITTEE

Commissioner Shouse reviewed the rates of return as of June 30, 2014, that were previously distributed to the Board Members.
IN RE: STATEMENT OF ACCOUNTS AS AUDITED AND RECOMMENDED FOR PAYMENT BY KIM BENNETT, EXECUTIVE DIRECTOR

The following statement of accounts for professional services was presented for consideration of approval of payment, as in accordance with agreements and audited and recommended for payment by Mrs. Bennett:

Fee Schedule:

Kennerly, Montgomery & Finley, P.C.
Invoice #188639
$5,416.50

Kennerly, Montgomery & Finley, P.C.
Invoice #188641
$3,693.50

Kennerly, Montgomery & Finley, P.C.
Invoice #188642
$150.00

USI Consulting Group
Invoice #90001947
$28,643.50

TOTAL FOR JULY 2014
$37,903.50

After review of the statement of accounts and invoices, motion was made by Mr. McBride that the Board authorize the payment indicated above to be paid from the designated State Street funds. The motion was seconded by Mr. Caldwell and unanimously approved.

IN RE: ADJOURNMENT

As there was no further business to come before the Board, the meeting was adjourned in order.

RICK TROTT, CHAIRMAN

NICK McBRIEDE, SECRETARY