

City of
Pittsburgh



COMPREHENSIVE MUNICIPAL PENSION TRUST FUND

Year End Report & Update

For the year ended December 31, 2000

Dear Member:

It was at the October 26, 2000 Post-Agenda on pensions that Mayor Murphy announced the formation of a Labor-Management Pension Task Force to address the benefit concerns of all union and non-union employees. Flanked by representatives of our municipal, police, and fire unions, the Mayor laid out the mission of the task force: ***To seek benefit enhancements for all municipal employees and to do so in a way not to damage the funding status of our pension fund.***

I am pleased to report we are well underway. We have a broad-based committee assisted by nationally known pension advisors. We have scheduled monthly meetings and are assessing the legal, financial, administrative, and operational issues of those enhancements identified by the officers of the Police, Fire, and Municipal Pension Boards. They are:

1. A Deferred Retirement Optional Plan (DROP),
2. Elimination of the 50% social security offset,
3. Change in the Early Retirement Benefit, and,
4. A Defined Contribution Plan

Throughout, the process has been open. It was designed by the members of the Comprehensive Municipal Pension Trust Fund Board to be fair and objective. It will bring to all municipal employees recommendations on complex issues surrounding each change in benefits.

It would be fiscally irresponsible to simply mandate benefit improvements without taking into account the current funding of our pension today. Currently, state laws govern many aspects of our pension benefits. These must be carefully considered with changes sought as needed. Moreover, benefit changes are the subject of collective bargaining for the vast majority of our City workers. The Labor-Management Pension Task Force will work cooperatively to implement enhancements that benefit all workers not just one class or union. Our intent is to offer pension benefits that help the city retain and recruit a talented workforce.

In 1994 the City's pension fund covered only 13% of its IOU to employees and retirees. Today, we are 67% funded. We have increased the assets of our plan by over \$300 million through pension bonds and the engagement of nationally recognized fund managers.

Let's continue to work together to address the desires of all municipal employees and do so without jeopardizing the funding level of our current pension. There are ways to improve benefits responsibly and the Pension Task Force is poised to offer opportunities.

Ellen M. McLean
Executive Director
Comprehensive Municipal Pension Trust Fund

2000 REVIEW OF PERFORMANCE

Yearend results for the Comprehensive Municipal Pension Trust Fund were negatively effected by the Fourth Quarter decline in the financial markets. Returns for 2000 were -3.49%, a marked change from 1999 returns of 13.46%.

The poor performance of the U.S. equity market was exceeded only by that of international stocks. Stock prices plunged as the Internet and Technology bubble burst. Value stocks dramatically outperformed growth stocks. Small company stocks, however, significantly out performed large cap stocks. Bonds, on the other hand, produced strong returns in response to lower interest rates. The CMPTF's investment in high yield bonds produced an annual return of 12.33%, which helped the fund to weather the year-end stock market decline. This recent performance of bonds and stocks reinforces the futility of predicting which asset class will perform best in any given year. It is for this reason that diversification among bonafide investments is used to enhance portfolio value. The CMPTF Board of Directors has worked diligently over the last five years to diversify the investments across a number of asset classes and money managers.

Manager	Style	Asset Class					Total Assets
		Cash & Equivalents	Bonds & Notes	U.S. Stock Large Cap	U.S. Stock Small Cap	Non-U.S. Developed	
FIXED INCOME							
Blackrock	Cash	\$7,294,343					\$7,294,343
Blackrock	Core		\$36,677,881				\$36,667,881
Federated	Core		\$27,492,958				\$27,492,958
Miller Anderson	Core		\$27,729,399				\$27,729,399
Morgan Grenfell	Core		\$37,592,095				\$37,592,095
Miller Anderson	High Yield		\$29,522,592				\$29,522,592
EQUITIES							
Goldman Sachs	Growth, Core			\$34,957,371			\$34,957,371
Jennison	Growth, Core			\$29,825,821			\$29,825,821
Mellon	Value, Core			\$51,590,656			\$51,590,656
RRZ	Index Sensitive			\$33,957,957			\$33,957,957
Frontier	Growth, Core				\$23,663,347		\$23,663,347
Geewax Terker	Value, Core				\$18,588,168		\$18,588,168
Guasuta	Value Convertibles				\$11,324,462		\$11,324,462
Artisan/Cap Guardian	EAFE, Core					\$54,638,450	\$54,638,450
TOTAL		\$7,294,343	\$159,014,895	\$150,331,805	\$53,638,450	\$54,638,450	\$424,855,470
Current Allocation		2%	37%	35%	13%	13%	100%

2000 Initiative of the CMPTF

Pension Task Force and Working Group

On October 26, 2000, Mayor Murphy announced the formation of a Labor-Management Pension Task Force to address the benefit concerns of all union and non-union employees. This Task Force consists of the president and an alternate from each bargaining unit, a member of City Council, a member of the Controller's Office and representatives from the Administration. Members are as follows.

AREA	MEMBER	ALTERNATE
Police	Eugene Grattan, Jr.	To be named
Fire	Joe King	“
Teamsters	Joe Rossi	“
PJCBC	Gerald Pecora	“
AFSCME	Eric Momberger	“
SEIU	Dino Bruno	“
EMS	Jeffery Vesce	“
School Guards	Catherine Carr	Grace Snyder
City Council	Valerie McDonald	Scott Kunka
Controller's Office	Tom Flaherty	Tony Pokora
Administration	Ellen McLean	
	Jacqueline Morrow	

The Pension offices were asked which benefit enhancements their members were most interested in and their priority. Four were identified. From there, the Comprehensive Municipal Pension Trust Fund Board formed a Pension Working Group, responsible for all "fact finding" on the issues. The goal of the Working Group is to obtain the list of enhancements, have pension industry experts detail the programmatic and legal issues of each enhancement, and to provide all necessary information to the Labor Management Task Force by May so that Task Force can begin the process without getting bogged down in the details. The Working Group is on target to meet their May, 2001 deadline.

1. **Deferred Retirement Option Plan (DROP):** A DROP is a feature in a defined benefit plan that allows an individual to receive a partial lump sum payment as well as a monthly annuity. Instead of receiving the monthly annuity immediately, the monthly amount is credited to an escrow account within the defined benefit plan. At the time of retirement, the individual will begin receiving the original monthly annuity plus the value of the escrow account.
2. **Defined Contribution Plan:** A defined contribution plan allows an employee to choose his or her own investments. It only promises that contributions will be made each year. The investment return on the account balance, the number of years of contributions, and the age at retirement determine how large the account balance is for retirement purposes. There is no guarantee that the account balance will provide a specific monthly income after retirement. It is up to the individual participant to invest and withdraw to meet retirement needs.
3. **Early Retirement Subsidy:** Currently, municipal employees may retire early at age 50 with eight years of service but their benefit is reduced by ½% per month for each month that the payment commences prior to age 60. Changes to the monthly percentage reduction are being considered.
4. **Social Security Offset:** Currently, the City's pension plan is designed to complement the benefits provided by social security so that in total, reasonable retirement benefits are provided to employees. Retirement planning experts suggest a retirement income goal of 70% to 80% of pre-retirement income. Changes to the social security offset are being considered as well as analysis of pension formulas for those hired pre-1975 and those hired after 1975.

Pension Funding Update

In a down market – such as year-end 2000, the wisdom of two pension bond issues is most apparent. As Chart A illustrates, the market value of the City’s pension fund has jumped from approximately \$100 million in 1993 to \$420 million in 2000. The two pension bond series totaling \$300 million have enjoyed nice returns and weathered a poor financial market in 2000 further providing evidence of the importance of the decision to issue pension bonds. Overall, we have stabilized and ensured future pension payments.

Exhibit A
Impact of Pension Bond Issues

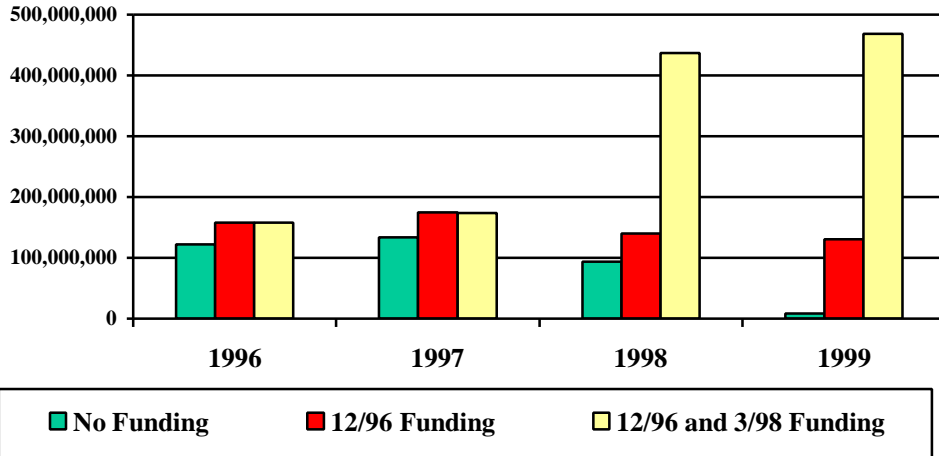


Exhibit A illustrates what would have happened if the City had not raised the asset level with pension bonds. By 1999 the plan would have been out of cash. The first column in each group shows the declining balance within the pension. The second column represents the smaller bond issue that took place in 1996 to save the Municipal Fund, and the third column shows the bond issue of 1998. If nothing had been done, the fund would have run out of money in 2000!

Chart A
Market Value of Assets

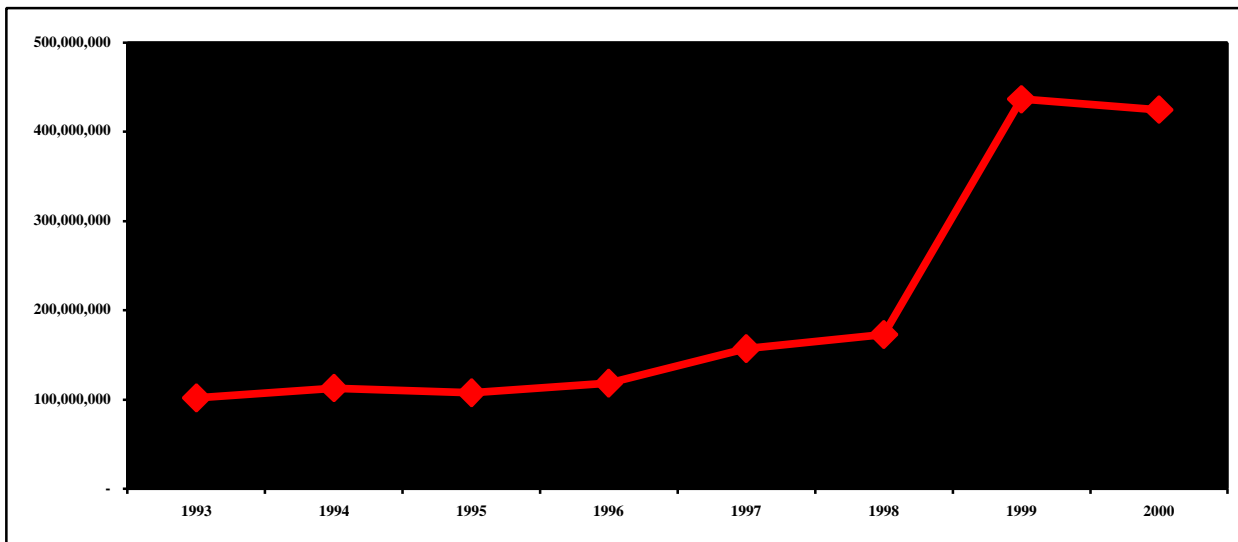


Exhibit B shows the market value at the end of 2000. Although the financial markets did not perform as well as we had hoped, our larger asset base allowed us to ride out these market dips. Without an asset base as we have currently, one bad year could mean potential disaster for a poorly funded pension. We will continue to seek strategies to fully fund our pension system.

Pension Asset Management

- Changed the asset allocation of the plan to 35% fixed income and 65% equity. This rebalancing of the assets will increase the long-term growth rate of the fund and help solidify the plan for current and future retirees.
- A new asset class was approved and will be phased in during the next three years. This class termed 'Private or Alternative Equity' has historically offered a high yield return. It should contribute to increases in the returns of the pension portfolio.

2000 CMPTF Board of Directors

Mayoral Appointees

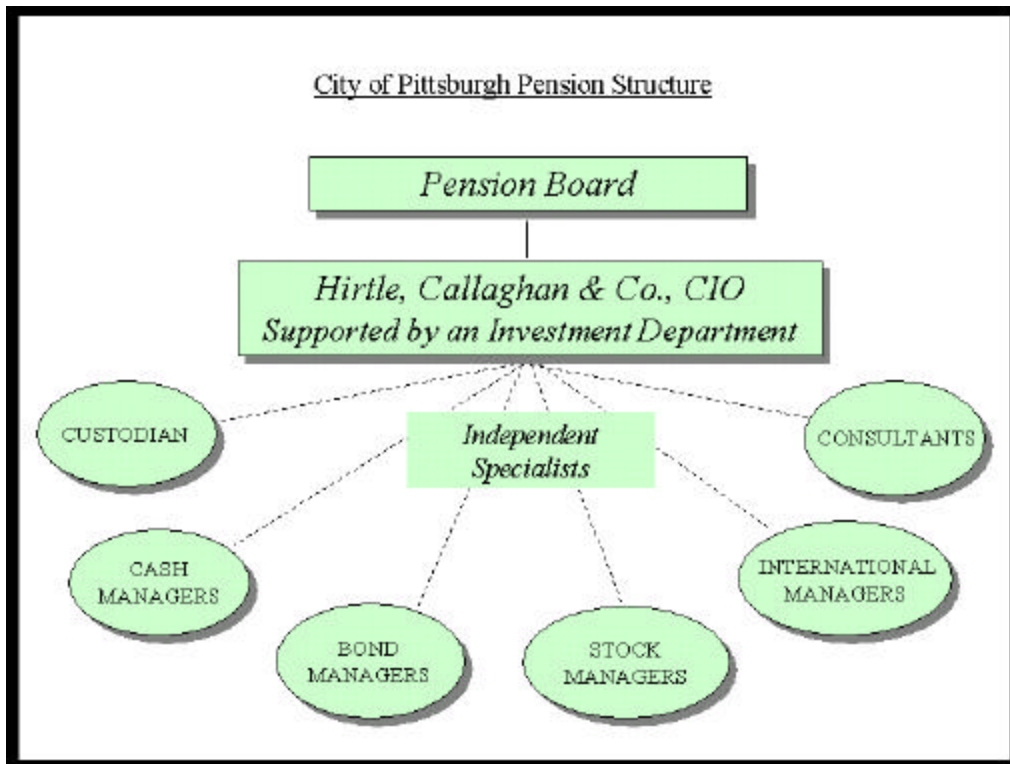
Tom Murphy, Mayor
Sal Sirabella, Deputy Mayor
Bob O'Conner, Councilman
Jacqueline Morrow, City Solicitor

Elected Representatives

Joe King, Firefighters
Marty Elikan, Municipal
Eugene Gratton, Police

Management of Investments

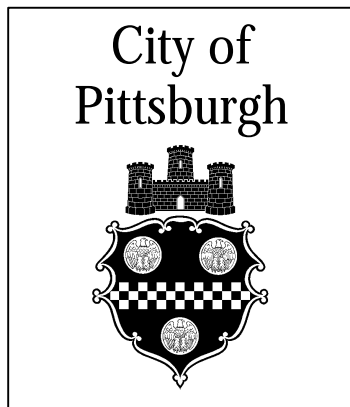
In 1995 the Board of Directors hired the firm of Hirtle, Callaghan & Co. as Chief Investment Officer of the pension trust assets. Hirtle, Callaghan & Co.'s strong reputation and investment expertise provides the CMPTF strategic asset allocation advice and access to the best specialists in the investment field while enhancing the CMPTF's buying power. Their job is to recommend, evaluate and supervise investment managers. PNC Bank, as trustee, holds all CMPTF assets and is responsible for keeping track of those assets and determining and reporting their value on a monthly basis.



Department of Finance
City of Pittsburgh
414 Grant Street.
Pittsburgh, PA 15219-2476

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