

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
AUGUST 27, 2014**

A regular meeting of the Board of Trustees was held on Wednesday, August 27, 2014 at the Pontiac General Employees' Retirement System Office located at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:06 a.m.

TRUSTEES PRESENT

Jane Arndt
Shirley Barnett
Koné Bowman, Vice Chair
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
Nevrus Nazarko (*arrived at 10:50 a.m.*)
Deirdre Holloway-Waterman (*arr. at 10:35 a.m.*)
Patrice Waterman

OTHERS PRESENT

Matt Henzi, Sullivan, Ward, Asher & Patton
Denise Jones, Rodwan Consulting
Claudia Scott, Rodwan Consulting
Deborah Munson, Interim Executive Director
Larry Marshall, Retiree (arrived at
Tony Saunders (arrived at
Billie Swazer, Retiree
Deborah Woods, Retiree (arrived at 10:
Linda Watson, Retiree

TRUSTEES ABSENT

Walter Moore (*excused*)
Kevin Williams (*excused*)

PUBLIC DISCUSSION/UNION REPS

Retiree, Billie Swazer indicated that she attended the TAB meeting and after requesting information from the TAB she discovered that a background check is being performed on her. She reported that Mayor Waterman told the TAB that the Retirement System has had its tax exempt status since November 2013 and it is effective through 2019.

She was disappointed to hear that the Board could not reach an agreement with Miss Munson for the Executive Director position. She told the Board that she is against a TPA and that this is just one more step towards going to MERS. MERS does not have top 5% to 10% performance and they try to segment their underperformance under the performance of the various municipalities.

She hopes that whoever replaces Miss Munson does not get more in their compensation package than the Board was willing to offer Miss Munson.

She also felt that the TAB meetings should be videotaped like the City Council meetings. She told the Board that Randy Carter is against the Board and would like to get rid of the retirees like General Motors did.

Retiree, Linda Watson said she attended the System's manager review meeting.

She agrees with Ms. Swazer with regard to Miss Munson. She would prefer to keep Miss Munson.

She also asked what the payments to Iron Mountain and WCM were.

Miss Munson explained that Iron Mountain is our records storage vendor and WCM is an investment manager.

Ms. Watson also asked why the GrayCo audit cannot be resolved when it has been over a year.

Miss Munson explained that the audit issue is near resolution and that the amendment is being reviewed by legal and will be incorporated into the agreement.

AGENDA CHANGES

APPROVAL OF CONSENT AGENDA

A. Approval of Minutes of Regular Meeting: July 30, 2014

B. Communications:

1. Correspondence from Ambassador Re: August 2014 Market Update
2. Correspondence from Ambassador Re: August 2014 Status Update
3. Correspondence from First Eagle Re: July 2014 Client Statement
4. Correspondence from Sawgrass Asst. Mgmt. Re: New Team Member Dick Hoag
5. Correspondence from Zack Cziryak Re: FOIA Request
6. Conferences:
 - a. Trustees Master Program – IFEBP October 11 – 12, 2014
 - b. Custom Target-Date Strategies Summit – P&I: September 30 and October 2, 2014

C. Financial Reports:

1. Statements of Changes: July 2014
2. Accounts Payable: August 2014
3. Northern Trust Gray & Company Performance Reports – July 2014
4. Ratification of Private Equity Distribution:
 - a. GrayCo Alternative Capital Call \$34,483.00
 - b. Mesirow Financial Fund VI Capital Call \$60,000.00
 - c. GrayCo Alternative Capital Call \$172,414.00

D. Applications for Retirement, Final Calculations, Refunds, Re-examinations

1. Remove from the Rolls:
 - a. Freida Flener (deceased 03/29/14)
 - b. Rudell Williams (deceased 03/19/14)
 - c. Jean Wilson (deceased 06/09/14)
2. Applications for Service Retirement:
 - a. James Banks – AFSCME Local 2002 12 yrs. 1 mo Age 60 (Off Deferred)
 - b. Cheryl Gilchrist – Hospital 18 yrs. 9 mos. Age 60 (Off Deferred)
 - c. Elaine K. Smith – Hospital 7 yrs. 4 mos. Age 60 (Off Deferred)

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|----------------------------------|---------------|-----------------------|
| d. Michelle A. Zeeman – Hospital | 15 yrs. 1 mo. | Age 60 (Off Deferred) |
|----------------------------------|---------------|-----------------------|
3. Final Benefit Calculations:
 - a. James R. Banks #2760 (+\$400.00 Temp. Inc.)
 - b. Michelle A. Zeeman #2762 (+\$400.00 Temp. Inc.)
 4. Disability Re-exams

RESOLUTION 14-077 By Moore, Supported by Gaffney
 Resolved, That the Board approve the consent agenda for July 30, 2014.

Yeas: 9 – Nays: 0

CONSULTANTS

Re: Rodwan Consulting – 2013 Annual Valuation Presentation

Ms. Jones indicated that the purpose of the annual actuarial valuation of the System is to compute the liabilities associated with benefits likely to be paid on behalf of current retired, active and vested inactive members of the Retirement System.

The recognized rate of return is 7.5%. Benefit changes included were relatively small. The funded ratio decreased to 141.8% but there should be no alarm. Funded ratios will decrease to offset the additional benefit provisions.

Benefit provisions included active members that are within three months of the service credit needed for retirement being eligible for retirement. The Teamsters straight life benefit formula was increased from 2.25% to 2.50% for this valuation.

There was also a temporary two-year \$400.00 per month increase for all members in pay status.

Chairman Harrison questioned whether without these changes the System’s funded ratio would have remained the same.

Ms. Jones indicated that with the number of early-outs the funding level would probably have decreased.

Ms. Jones explained that the amortization method changed from a level percent of payroll to a level dollar amortization. This made more sense since the Plan is closed to most new hires.

She reviewed the participant data with the breakdown of the General and Hospital retirees. She described the participant breakdown with liabilities. There are 32 active members with a payroll of \$1.57 million. There are 719 General retirees with annual pensions of \$15.83 million. There are 413 Hospital retirees with annual pensions of \$4.11 million. The total annual pensions were \$19.94 million.

There were 193 General vested inactive members with estimated annual pensions of \$2.35 million. There are 68 Hospital vested inactive members with estimated annual pensions of \$250K.

Trustee Nazarko asked about the number of Hospital retirees in 2012 at 421 going to 413 in 2013.

Miss Munson explained that the number includes deceased retirees and members that went from deferred to retired.

Trustee Giddings asked why the estimated Hospital annual pensions were so low.

Miss Munson explained that the Hospital benefit amounts are based on wages and the number of years the member had in the System as of December 31, 1993. She explained that their years of service and annual salaries were generally lower than members retiring from the City who continued to accrue service credit and receive salary increases.

Trustee Arndt indicated that most of the Hospital deferred members applying for their pension benefits have less than ten years of service credit which results in a lower benefit.

Ms. Jones described the City's computed contribution. Because the System has a full funding credit the total employer contribution was computed to be \$0 because the funding credit completely offsets the normal cost contribution of \$279,188.00. The City has not made a contribution to the System since 2004.

The actuarial accrued liabilities as of December 31, 2013 were \$279,931,726 with assets allocated to funding at \$396,857,874 leaving an unfunded actuarial accrued liability of (\$116,926,149). She compared those numbers to the numbers as of December 31, 2012 with actuarial accrued liabilities of \$247,968,743; assets allocated to funding at \$369,621,671 with an unfunded actuarial accrued liability of (\$121,652,928).

She reviewed the unfunded accrued liability. The accrued liability for benefit payments for the General retirees is \$214,097,861 and \$43,607,644 for Hospital retirees for a total of \$257,705,505. The accrued liability for vested inactive General members is \$14,358,750 and Hospital vested inactive members \$2,802,221 for a total of \$17,160,971. The accrued liability for City active members is \$5,065,250. The total actuarial accrued liability for all groups is \$279,931,726. This resulted in a funded position of 141.8%.

There is no way to determine which assets belong to the Hospital and which belong to the City.

She reviewed the history of assets and accrued liabilities. She noted that the purpose of the System is to accumulate assets to pay for benefits.

Trustee Giddings asked about the funding in 2000 to 2001 and asked if there is a way to break down the assets and liabilities to determine what portion belongs to the Hospital members.

Ms. Jones stated that they would have used the valuation schedule from 2007 or 2008 when they became the actuary for the System.

Trustee Nazarko asked when the smoothing method started being used in the valuation.

Ms. Jones and Miss Munson indicated that it has always been used.

Trustee Nazarko also questioned the funded ratio and the increase and decrease in assets since 2000. He indicated that the funded ratio went from 173% to 141.8%.

Ms. Jones indicated that there were a number of contributing factors including the increase in liabilities. She noted that both the assets and the liabilities have inflation built into them.

Trustee Arndt noted the rise in liabilities from 2012 to 2013.

Ms. Jones indicated that there were a large number of early outs, the temporary two-year increase and benefit provision changes.

Ms. Jones reviewed the actuarial assumptions. She noted that the assumed rate of investment return and the mortality tables have the largest impact on determining the liability. Rodwan is comfortable with continuing the 7.5% assumed investment rate of return. The assumed salary increases have a smaller impact, but does affect the value of pensions and it is important to measure the liabilities as accurately as possible. She indicated that the Board should review their economic assumptions going forward including salary increases of 4.5% and merit increases.

The mortality table will have a much larger impact. The System uses the 1983 GAMT, but there are tables as recent as 2014. More longevity is built into that one as people are living longer and Rodwan recommends using the 2014 table. Ms. Jones indicated that by changing to a more current table it could decrease the funded ratio by .1%.

Miss Munson questioned if employee and wage data were provided to the actuary, could the actuary make recommendations of what the wage-related assumptions should be going forward. Ms. Jones indicated that they could.

Trustee Nazarko stated that based on the small number of active employees the 4.5% should not make or break the System.

Chairman Harrison indicated that Trustee Nazarko would have more accurate salary information for active employees.

The current salary assumptions are on the conservative side. It could look bad if it appears that a City like Pontiac is handing out increases during a fiscal crisis.

There was discussion regarding which mortality table should be used and whether to move to a more current table.

Ms. Jones reviewed the age-related retirement rates. She felt that it would be prudent to change the percent of employees at retirement age who retire to be 100% since most active members will retire when eligible.

Miss Munson indicated that any recommended assumption changes made by the actuary will be referred to the Finance Sub-Committee for consideration.

Ms. Jones reviewed the active members eligible to retire as of December 31, 2013. The average number of retirees and annual pensions has remained stable over the last several years. The total number of retirees is 1,132 and the average pension is \$17,618.00.

She described the funding value of assets. She indicated that the realized and unrealized gains and losses are smoothed over a five-year period. The total investment income for 2013 was \$16.5 million with a total phased-in recognition of \$42.9 million included for 2013. The recognized rate of return in 2013 14.59% compared to 2.22% for 2012 and the estimated market rate of return was 17.78% versus 9.53%. She noted that this is an actuarially calculated rate of return and should not be seen as to conflict with the consultant's measurement of performance.

There are currently nine retirees over the age of ninety.

Trustee Gaffney confirmed that the average pension amount does not include the \$400 per month temporary increase and COLA.

Ms. Jones asked if the Board had any questions.

RESOLUTION 14-078 By Gaffney, Supported by Nazarko
Resolved, That the Board receive and file the Actuarial Valuation for the period ending December 31, 2013.

Yeas: 9 – Nays: 0

REPORTS

Re: Chairman

Chairman Harrison indicated that the Mayor had requested that a presentation by Mr. Saunders on retiree healthcare be added to this month's agenda. The Board resolved that Mr. Saunders' presentation be referred to the Finance Sub-Committee and indicated that the Mayor should have received an email from the Board's attorney indicating the change.

Trustee Holloway-Waterman indicated that she did not ask to put Mr. Saunders on today's agenda. She asked that he attend the meeting to introduce him and for him to get an idea of how the Board works. She asked to put the tax- exempt issue on the agenda.

She would like to settle the retiree health insurance issue with the City. It is her position to look at a variety of other options including the 420 Transfer. She recognized the 420 Transfer as a place-holder in her budget. The TAB is resolved to go to MERS. She has access to Mr. Saunders for the short-term and he has lots of financial experience working with municipalities.

He was the Emergency Manager at Benton Harbor and Highland Park and can do some of the analyses to see what is feasible. She needs him to work expeditiously and he needs hard numbers and the actuarial valuation to get the information and compile data to bring back to the Board with recommendations.

Chairman Harrison indicated that in order to expedite things what is needed is for Mr. Saunders to reach out to the Board and work with the Finance Sub-Committee to get the information. The Board has been presented with ideas previously but was not given information. The Board could already have been working on this issue if they were aware of the need for information.

Trustee Holloway-Waterman indicated that right now she has found a way to pay for Mr. Saunders' services.

Trustee Gaffney indicated that there could be a conflict paying for a consultant to work with the Board relating to retiree healthcare. This could be a violation.

Re: Trustees/Committees

Personnel Committee

Trustee Gaffney reported that the Committee met on August 18, 2014 and are re-posting the Executive Director position and the RFP for the TPA. They are meeting on September 11, 2014 to review the responses.

Re: Executive Director

Annual Meeting

The annual meeting is scheduled for October 7, 2014 from 3:30 p.m. to 5:15 p.m. The meeting will be held at the St. Joseph Mercy Hospital's Franco Auditorium. A save the date notice was sent out to the members.

UNFINISHED BUSINESS

Re: Personnel Policies (Referred to Personnel Committee) – Pending

Re: Fiduciary/Dishonest Insurance (Referred to Finance Sub-Committee) – Pending

Re: Resolution to Receive and File 2013 Audit Report

RESOLUTION 14-079 By Gaffney, Supported by Arndt
Resolved, That the Board receive and file the 2013 Audit Report.

Yeas: 9 – Nays: 0

NEW BUSINESS

Re: United Healthcare Insurance Premium Rebate 2013

Miss Munson told the Board that the GERS received a refund of \$39.47 as part of the Patient Protection and Affordable Care Act of 2010 which requires insurance companies to spend at least 80% of the premiums they receive on healthcare services. If insurers fail this 80/20 mandate, the difference must be refunded to employers. The employer must either refund this money to employees who were covered in 2013 or use it to reduce their future premiums.

She is requesting that the Board reduce the 2015 employee healthcare premiums by \$39.47 which will result in a \$0.75 per employee per pay reduction.

RESOLUTION 14-080 By Gaffney, Supported by Bowman

Resolved, that the Board approve to reduce the 2015 employee healthcare premiums by \$39.47.

Yeas: 9 – Nays: 0

Re: 420 Transfer/System Tax Exempt Status

Trustee Holloway-Waterman indicated that there has been quite a bit of discussion regarding the 420 Transfer and the Ordinance amendments. Retiree healthcare is a structural deficit in her budget and TAB has refused to ratify her budget because she used the 420 Transfer as a placeholder in her 2015-2016 budget.

Trustee Holloway-Waterman said that Ms. Billings has indicated that the System's tax-exempt status is held in abeyance until the adoption of the 420 Transfer amendments. The City has asked why the tax status and 420 Transfer were tied together. Trustee Nazarko spoke with the IRS and was told that the System's tax-exempt status is in effect from November 2013 to 2019.

He was told that the Ordinance does not need to be amended to qualify for the 420 Transfer and that the period to qualify for a 420 Transfer had been extended to 2021. The only reason he contacted the IRS was because the 420 Transfer was tied to the tax-exempt and qualified plan status.

Trustee Holloman-Waterman stated that there is no need to worry because the tax-exempt status is in effect

She referred to the VCP program and indicated that the State of Michigan Treasury Department asked for additional information. She indicated that Miss Munson told her that the VCP applications could not be submitted without the Ordinance amendments being adopted.

She questioned why the City would have to be in the VCP if the Plan is qualified. The City doesn't believe it has any obligation and is not subject to any fines.

Chairman Harrison indicated that Mr. Henzi should respond to the Ordinance amendment issue.

Mr. Henzi asked to hear from Trustee Nazarko with regard to his conversation with the IRS.

Trustee Nazarko indicated that he received direction from the Mayor and the TAB to contact the IRS to find out why the 401(a) tax-exempt status was tied to the 420 Transfer. He made it clear to the IRS agent – Ms. Chen - that he was calling as a representative of the employer. Ms. Chen indicated that the System’s case has been closed since November 2013 and that the System’s tax-exempt status had been extended to December 31, 2019. He asked if there are any penalties. She indicated that she did not know as she does not work for that side of the IRS.

He also asked if the 420 application can be retracted and why it was combined with the 401(a). She responded that the 420 Transfer request must be attached to something so it was attached to the tax-exempt status. She did not know the answer about retracting it, but would have someone else contact him. An IRS agent responded via voice mail that yes you can petition to stop the 420 Transfer, but that that petition must be prospective - not retroactive – and another amendment would be required. She also indicated that she is not authorized to stop a 420 application and that that would have to go to someone higher up.

He has a voice mail from the IRS agent that he would like to share with Mr. Henzi and Ms. Billings.

Trustee Gaffney noted that the Board never intended to make a transfer now or in the future. They were just putting everything in order in the event they decided to move forward.

Trustee Nazarko also stated that Ms. Chen told him that they qualified for the 420 Transfer submitted in 2006 and that it had been extended to 2021. She also stated that the City would not be penalized if the Ordinance amendments were not approved. Ms. Chen did not know anything about the VCP process.

Mr. Henzi questioned Ms. Chen’s reference to 2006 and wondered whether she could be referring to Pontiac, Illinois. He noted that it is strange for the IRS to say that we have our tax-exempt status when we have not received this in writing.

Mr. Henzi noted that Ms. Billings filed the original application for a 420 Transfer Letter of Determination with the IRS on May 28, 2013. At that time she was told that Ordinance amendments would be needed and that it could take six to eight months to get the letter.

They sent the packet to the IRS and the IRS faxed their response (they primarily communicate via fax). He is surprised because they typically do not work this way (by telephone). He offered to listen to the voice mail and to follow up with a fax asking Ms. Chen to confirm in writing our qualified exempt status. If IRS confirms this, everyone can move forward.

Trustee Holloway-Waterman said that as it stands Mr. Henzi can verify the information and it could resolve three issues.

Chairman Harrison stated that Trustee Nazarko had a phone conversation with someone who is not qualified to provide all the information. It is on the City if there are penalties and fines. There is a way to get to the bottom of this issue.

Mr. Henzi stated that he needs to confirm the information.

Chairman Harrison stated that he is not convinced that the issue is resolved. The Board needs confirmation in writing.

Trustee Nazarko told the Board that if the 420 Transfer complicates the issue then it should be retracted and recommended that the Board request that the IRS separate the 420 Transfer application.

There was discussion on why the 420 Transfer should be rescinded.

Trustee Bowman questioned why it should be stopped if it has not been rescinded.

Trustee Gaffney said that it would allow for a possible transfer of assets someday for retiree healthcare. She also stated that there was a memo from the Department of Treasury with regard to using a 420 Transfer.

Trustee Holloway-Waterman stated that it is also her intention to engage the Board with regard to Mr. Saunders which is why she brought the information to the Board.

Re: Legal

Invesco Agreement

Mr. Henzi reported that Ms. Billings tried to negotiate a side agreement with regard to the Invesco Fund VI Agreement. The Board authorized a \$3 million allocation to this private equity fund subject to legal counsel review.

Invesco is refusing to budge from the gross negligence standard of care which is impossible to prove.

Chairman Harrison questioned whether going forward they can be removed as a manager.

Miss Munson indicated that the Board has a current investment with Invesco in Fund V. The System has not funded any commitment to the new fund.

Chairman Harrison asked where the allocation is.

Miss Munson indicated that the actual dollars are still allocated among the System's other managers and that the System would need to rebalance in order to raise funds for the allocation.

Mr. Henzi stated that Sullivan Ward never recommends signing a contract with a gross negligence standard of care.

Portfolio Monitoring Reports

- Robbins Geller July 2014 Portfolio Monitoring Report

RESOLUTION 14-081 By Moore, Supported by Gaffney
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Arndt – yea	Chairman Harrison - yea
Trustee Barnett – yea	Trustee Nazarko - yea
Trustee Bowman	Trustee Deirdre Waterman - yea
Trustee Gaffney - yea	Trustee Waterman - yea
Trustee Giddings - yea	

The Board moved to closed session at 12:08 p.m.

Ms. Jones, Ms. Scott, Mr. Marshall, Mr. Saunders, Ms. Swazer, Ms. Woods and Ms. Watson left at 12:08 p.m.

The Board returned from closed session at 12:10 p.m.

RESOLUTION 14-082 By Bowman, Supported by Waterman
Resolved, that the Board ratify the Chairman’s signature on the Federal Express securities litigation agreement.

Yeas: 9 – Nays: 0

RESOLUTION 14-083 By Gaffney, Supported by Bowman
Resolved, That the Board ratify the Chairman’s signature and approve to file for lead plaintiff status in the L3 Communications securities litigation.

Yeas: 9 – Nays: 0

RESOLUTION 14-084 By Gaffney, Supported by Bowman
Resolved, that the Board approve the closed session minutes for July 30, 2014.

Yeas: 9 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, September 24, 2014 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

General Employees Retirement System
Regular Meeting
August 27, 2014

RESOLUTION 14-085 By Gaffney, Supported by Waterman
Resolved, That the meeting be adjourned at 12:12 p.m.

Yeas: 9 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on August 27, 2014

As recorded by Jane Arndt