**CITY OF PONTIAC, MICHIGAN**
**POLICE AND FIRE RETIREMENT SYSTEM**

**January 24, 2008**

A regular meeting of the Board of Trustees was held on Thursday, January 24, 2008 at the Shrine Room, Main Level, City Hall, 47450 Woodward Avenue, Pontiac, MI 48342. The meeting was called to order at 9:00 a.m.

**TRUSTEES PRESENT**
Raymond Cochran, Secretary
Brian Lee
Thomas Miller *(arrived at 9:09 a.m.)*
Craig Storum, Chairman

**TRUSTEES ABSENT**
Mayor, Clarence Phillips *(absent)*

**OTHERS PRESENT**
Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.
Laurence Gray, Gray & Company
Christopher Kuhn, Gray& Company
David Hoffman, Gabriel, Roeder, Smith & Company *(arrived at 9:07 a.m.)*
Roman Prosser, Firefighter *(arrived at 9:03 a.m.)*
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

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**CONSENT AGENDA**

A. Minutes of Regular Meeting: November 29, 2007
B. Minutes of Special Joint Meeting: December 14, 2007
C. Communications:
1. Correspondence from Wentworth, Hauser & Violich Re: Q4 Newsletter
2. Correspondence from Munder Capital Re: Q4 Market Snapshot
3. Correspondence from Boston Company Re: Dennis Sheehan Leave
4. Correspondence from DDJ Capital Re: December 2007 Market Overview
5. Correspondence from DDJ Capital Re: Managing Membership Interests
6. Conferences:
a. Benefits Conference for Public Employees – IFEBP – Feb. 25-26, 2008
b. 2008 Annual Legislative Conference – NCPERS – Feb. 4-6, 2008
c. Public Funds Roundtable – III – April 23-25, 2008

D. Financial Reports:
1. Financial Reports – November & December 2007
2. Commission Recapture Report – November 2007
3. Securities Lending – December 2007
4. Accounts Payable – December 2007 & January 2008

E. Remove from the Rolls
1. Robert Kirkham (deceased 12-06-07) : survivor benefit of $1,025.42/ mo. to Sonia Kirkham
2. Jack McKenna (deceased 12-10-07) : survivor benefit of $955.07 /mo. to Tracy McKenna

F. Application for Service Retirement
1. William Ware – PPSA 20 years, 10 months Age 53
2. Santiago Serna – PPOA 40 years, 9 months Age 63
3. Wilburt McAdams – PFFU 24 years, 3 months Age 47

G. Application for Disability Retirement: (information only)
1. Jerri Gray - PPOA

Chairman Storum asked to attend the IFEBP CAPPP and Benefit Conference being held February 23, 2008 through February 26, 2008.

**RESOLUTION 08-001** By Cochran, Supported by Lee
Resolved, That the Board approve Chairman Storum's attendance at the IFEBP CAPPP and Benefit Conference in Savannah, Georgia on February 23, 2008 through February 26, 2008 with the costs to be paid from the earnings of the Fund.

Yeas: 3 - Nays: 0

**RESOLUTION 08-002** By Lee, Supported by Cochran
Resolved, That the consent agenda be approved.

Chairman Storum said he would like to address the correspondence from Gabriel, Roeder, Smith and Company. Ms. Zimmermann said that she has spoken with Sandra Rodwan and that they should not require GRS involvement in the transition. She felt the tone of the letter was somewhat harsh. She used language from the actuarial code of conduct in her response.

Chairman Storum said that the union had informed him that they requested cost studies in September, 2007 and October, 2007 which they have never received and were promised by the end of November, 2007. The union recently received an email from GRS that stated they would not provide the studies because their contract has been terminated with the Board. The union plans to refer this issue to their attorney.

Chairman Storum recommended that a letter be drafted from the Board addressing the denial to provide the studies and that they plan to investigate the issue. Ms. Billings suggested that this might be incorporated into the letter Ms. Zimmermann is currently drafting.

**CONSULTANTS**

**Re: Gabriel, Roeder, Smith & Company – 2006 Actuarial Valuation**
Mr. Hoffman reviewed the actuarial valuation as of December 31, 2006. This report will determine contributions for fiscal year beginning July 1, 2008.

He began with the executive summary. Computed City contributions were reported by division stating the projected percent of payroll and the equivalent dollar contribution. Contributions as a percent of payroll for Fire were 16.67% with contributions of $1,144,096; Non-Union Management were 49.87% totaling $109,963; Police Command were 15.65% totaling $317,344; Police Rank and File were 10.79% totaling $544,051.

*Trustee Miller arrived at 9:09 a.m.*

The contribution rates were compared between the 2006 and 2005 Valuations. The contribution rate for Fire in the 2006 valuation is 16.67% versus 16.03% in the 2005 valuation; Non-Union Management is 49.87% versus 60.81% in 2005 valuation; Police Command is 15.65% versus 17.91% in the 2005 valuation and Police Rank and File is 10.79% versus 16.85% in the 2005 valuation.

Contribution rates change for three reasons: changes in benefits or eligibility; changes in valuation assumptions and the difference between a plan's actual experience and predicted assumptions. There were no changes in the assumptions or methods between the 2005 and 2006 valuation.

In the 2005 valuation the funding ratio was 110.4%. The 2006 valuation funding ratio is 111.7%. The increase in the funding position is due primarily to the plan experience.

Trustee Cochran asked for a more precise definition of demographic assumptions. Mr. Hoffman said that the demographic assumptions project how and when active members will leave the plan and how long those members will be receiving benefits as a retiree.

Plan experience is based on the gains and losses of the plan's investments. The long-term valuation assumption rate from investment gains is 7.5%. For 2006, the plan experience was 6.7% which is lower than the long-term assumed rate. The demographic experience realized a $2,631,343 gain in 2006.

The current cost to the City to operate the plan is 26% to 27% of payroll. He discussed how the contribution totals are determined based on the age and service of the members, member contributions, current benefit costs, plan revisions and investment earnings from the system. The contribution rates are based on a twenty-year rolling amortization period.

Investment losses are phased in. There were $8 million in unrecognized gains which was smoothed in. The fund did not realize a lot of over funding at $27 million. If the plan's current investment experience continues the fund could see additional drops in contribution rates.
As of the valuation date, there is a shortfall in the retiree reserve for each division. It is recommended that the difference between the accrued liabilities and the reported reserves be

transferred from the Retirement System's employer reserve to the retiree reserve to bring into balance.

It is also recommended that at the end of each year transfers be made on the System's books between group accounts within a reserve for members who have moved from one group to another during the year. This year there were no active member transfers reported.

As long as the plan experience matches the assumptions and there are no changes in benefits, contribution rates should remain close to the percent of payroll shown in this report. In the future it could go up.

Chairman Storum asked about Non-Union Management funding. He asked if the funding will be reduced since two members have retired and are now working as retiree rehires. Mr. Hoffman said that the last group's funding was based on the funding rate of payroll amortized over twenty years. It is best to come up with a dollar amount or a per pay provision flat dollar contribution while members are in active status.

Ms. Billings asked if the gains and losses were smoothed. Mr. Hoffman said that they were smoothed in over a five-year period.

Chairman Storum said that they need to look at options for contribution rates for non-union management, but it will not be an issue until Chief Gross retires. Trustee Lee and Ms. Billings said that the contributions still have to be funded. Ms. Zimmermann said Chiefs always elect union benefits. She said that the payroll mechanism will continue to make these contributions. Chairman Storum asked if retiree re-hires are paid through payroll. Ms. Zimmermann was unsure how the re-hires are paid.

**RESOLUTION 08-003** By Cochran, Supported by Lee
Whereas, The responsibility for the direction and operation of the City of Pontiac Police and Fire Retirement System and for making effective the provisions thereof are vested in the Board of Trustees; and

Whereas, The pension provisions provide that an actuarial valuation shall be made at the close of each fiscal year for the purpose of establishing the financial condition of the Retirement System and as a check on its current operating experience, and that the Secretary shall prepare each year the annual report of the Board to be submitted to the City Council showing among other things, a statement of assets, liabilities and reserves certified by the actuary; and

Whereas, The pension provisions further provide that an annual determination shall be made of the actuarial reserve requirements or the several annuities and benefits prescribed, to be financed in addition to interest and other income accruing to the Retirement System by contributions by the members and by the City; and

Whereas, The actuary has computed the pension reserves and contributions necessary for the July 1, 2008 through June 30, 2009 fiscal year and has presented the Report of the Forty-Fourth

Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System as of December 31, 2006 to the Retirement Board;

Now, Therefore, Be it Resolved, That the Report of the Forty-Fourth Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System as of December 31, 2006 be accepted by the Retirement Commission and be placed on file; and

Be It Further Resolved, That the City contribution requirements of covered member payroll for the period contained on page B-2 thereof, and the City dollar contribution and payment schedule requirement contained on page B-3 thereof is hereby certified to the City Council as the amount necessary for the July 1, 2008 through June 30, 2009 fiscal year appropriation by the City Council to finance the pension reserves of the City of Pontiac Police and Fire Retirement System; and

Be It Further Resolved, That the annual transfers recommended on pages B-5 thereof be authorized; and

Be It Further Resolved, That a copy of this resolution be provided to the actuary and copies of this resolution and the report of the Forty-Fourth Annual Actuarial Valuation of the City of Pontiac Police and Fire Retirement System be provided to the City Council.

Yeas: 4 – Nays: 0

**Re: Gray & Company**

Mr. Gray distributed a snapshot of the portfolio to date. He wanted to set the expectations for 2008. In November, 2007 the plan was $284.1 million, in December, 2007 it was $282 million and as of January 18, 2008 it was $269.6 million. He wanted to temper the expectations of the Board for 2008.

Equity, the stock market globally, has taken a hit. The election of a new president will not affect change. The Fed dropped interest rates and the market bounced back. For this interim period, Gray has not calculated the current total fund performance percentage. As of September 30, 2007 it was 7.2% to 7.5%, but the current returns will not be as high. The Board needs to reset their expectations and understand that 2008 will be a tough year.

Trustee Miller questioned how the decline in assets or having a bad year will impact the City's contribution requirements. Mr. Gray reviewed the prior performance of the fund with one-year at 14% versus three-year performance of 11% and five-year performance of 11.5%. Ms. Zimmermann said that with the declining payroll base it will put pressure on the contribution rates.

*Trustee Cochran left at 9:32 a.m.*

Mr. Gray explained why it is important to protect the assets in a down market and how it is essential to understand the cycles in the market. Chairman Storum remarked on Richard Hirayama's excellent performance for the fund. Mr. Gray said that the fixed income allocation is up $6 million with DDJ flat and the Northern Trust Growth Index up $2 million. The Equity side continues to take it on the chin.

*Trustee Cochran returned at 9:33 a.m.*

Trustee Miller asked what part of the portfolio mix has been most affected by sub-prime. Mr. Gray said that it does not affect one specific area of the market. Joe Gatz has provided good performance and asked that his message be conveyed to the Board that they are one of the first areas that will be affected by lower returns.

Mr. Kuhn said that the equity markets will take the largest hit from sub-prime with value-oriented managers more heavily weighted in financials with large corporations like Citigroup and Merrill Lynch. You will see the value side of the equity market taking the largest hit. With the current market conditions it is a good time to look at financial ETF's.

Trustee Cochran asked why Merrill Lynch versus Citigroup has taken less of a hit. Mr. Gray said it would depend on the financial makeup of their portfolio. Merrill Lynch wrote off $20 billion in bad mortgages and Citigroup has wrote off $20 billion and another $60 billion of sub-prime exposure transferred to the balance sheet. It is hard to determine the total value due to not knowing the real value of the assets, the ability to sell underlying assets and whether people will continue to make their mortgage payments. Chairman Storum added that it also depends on their accounting practices with one company taking the hit now and the other taking it later.

**Re: Boston Company Update**

Mr. Kuhn reported that Dennis Sheehan whose role was in client service will be leaving the firm. His departure will not have an impact since his responsibilities did not include portfolio management. He does not feel a formal notice from the Board is necessary.

On December 12, 2007 he met with the leaders of the company, David Cameron and John Trusshell, who said they were caught off guard when their team left. They have never had anything like that happen before. Within a week they were operating at 90% capacity. They are currently working on recreating the team.

They have instituted new changes across all strategies including a compensation program that is more favorable with bonuses paid over a three year rolling period including non-compete agreements. They are offering larger bonus percentages tied to their performance which will help to lock people in. This is becoming a standard in the industry. Not everyone has signed onto the new contracts.

They have utilized members of their sector research team on the international product during the transition. These individuals will return to the sector team once new portfolio managers/ analysts are in place. They have hired four new members for the international team. Their quantitative model looks at all securities in their model and eliminates three-quarters of the 2,000 issues, leaving 200 sector specific stocks to analyze. The team then determines which stocks to include in the portfolio.

The Boston Company has a large talent pool to pull from with a lot of experienced people in the Boston area. The old team came in as a team and left as a team. They were a “silo” and did their own quantitative work. They would not accept input from outside of the team. The new quantitative guy has a PhD from Harvard and is very good. He will be tweaking the model and they will have better people executing it.

Mr. Kuhn recommended keeping Boston Company instead of going through the search and due diligence processes. He indicated that The Boston Company was a very complementary manager to the other international equity manager due to their strategy (quantative, no large sector or country bets). He suggested that the Board give the new team a chance. Regardless of what team was in place in 2007 you would have received the same results.

*Trustee Cochran left at 9:48 a.m.*

There was discussion regarding their performance and funding level. Mr. Kuhn reported that they are fully funded and their third quarter performance was down 3/4% with both teams involved in the portfolio management. The fourth quarter will be the first period to evaluate the new team’s stand-alone performance. He also said that approximately 20% to 25% of the names have been tweaked by the new team.

*Trustee Cochran returned at 9:50 a.m.*

<u>DDJ Ownership Change</u>
Mr. Kuhn reported that they received correspondence from fixed income high yield manager DDJ Capital stating that there will be a change in ownership with one partner leaving. The other partner will be purchasing the shares. This does not affect the management of the portfolio.

**Re: Real Estate/Metropolitan Replacement Update**
Mr. Kuhn discussed the commingling of the principals’ assets in the structured fund and how they feel that would preclude them as a fiduciary. They take the stand that as an investment advisor they are acting as a fiduciary. It is also difficult for them to sign off on each state’s statutes. They had issue with indemnification laws that could change tomorrow and they would have to comply with those changes going forward.

Ms. Billings referred to her memorandum. She said that Public Act 314 does not require that Metropolitan acknowledge it is a fiduciary. She said that their legal counsel said they specifically structured the fund to avoid being a fiduciary. She said that the Board has done their due diligence and if they feel comfortable with their consultant’s recommendation, they can determine whether to move forward with the investment. She added that it would be an added layer of security to have them acknowledge their fiduciary status. She has researched the fiduciary issue and cannot find any information that substantiates that as a co-investor they are precluded from being a fiduciary.

She described some of the provisions of the agreement. They would not change the capital call requirement from five business days to ten business days. They are not subject to the fiduciary provisions under ERISA. They did agree to the FOIA provision and asked that the Retirement

Office provide advance notice for any request under FOIA. Their indemnification agreement indemnifies them for negligence; they would not be indemnified for gross negligence but that is a very high standard to meet. It is important for the Board to both understand the contract and the length of the contract. The contract jurisdiction is under the state of Delaware. She understands that when dealing with a trust agreement that jurisdiction is handled under one state. The venue for legal action for limited partners in the state of Michigan will be the U.S. Federal Courts in the state of New York.

Mr. Gray said that he likes the space and the manager and he is not trying to time the market in this space. Better managers are less flexible and it is difficult to massage the trust contracts. Long-term the space will do well. Nine out of ten times you will run into the same issue with the better quality managers. As the investment consultant he has signed off as a fiduciary and accepts the responsibility for all assets of the plan. He said that it goes back to the trustees and whether they are comfortable with the space and the market.

Chairman Storum asked if this is unique to real estate. Mr. Gray said that this is the standard in the alternative world. The Board has seen this before with Guggenheim. This is different than traditional asset classes and as the plan grows in alternative asset classes it will see this going forward.

Trustee Lee felt comfortable with the investment. Mr. Gray said that Metropolitan is registered under the SEC as an investment advisor and they feel they are a fiduciary. Ms. Billings said that under Public Act 314 they do not believe they would be considered a fiduciary.

Mr. Gray asked whether Ms. Billings was comfortable with the contract language. Ms. Billings said that she is not comfortable with the indemnification provision.

Chairman Storum said that Mr. Gray has done a lot of research and that Metropolitan is a reputable manager with large clients and a good experience level. Compared to the CAPROC investment this seems like a responsible amount of risk to take. Mr. Gray said that because this is a longer lock-up period you want a best of breed manager.

Chairman Storum asked what the amount of the investment would be. Mr. Gray said $7 million to $8 million. Chairman Storum asked if this is within the basket clause. Mr. Kuhn said that it is not included in the basket clause; Mr. Gray stating that direct real estate is excluded.

**RESOLUTION 08-004** By Cochran, Supported by Lee
Resolved, That the Board approve to retain Metropolitan Real Estate investment.

Yeas: 3 – Nays: 1 (Trustee Miller)

Mr. Gray asked if all the questions or concerns were addressed. As a co-fiduciary they try to bring the best managers to the Board. Trustee Miller said that he likes the space but was uncomfortable with all the requirements. Trustee Cochran said that he is comfortable in the space and feels they need to go with the best out there.

*Meeting break at 10:15 a.m.*
*Meeting resumed at 10:33 a.m.*

**REPORTS**

**Re: Chairman** - None

**Re: Secretary –** None

**Re: Trustees**

**Re: Staff**

Actuarial Transition
Ms. Zimmermann reported that she spoke with Sandra Rodwan and when they have taken over other clients of GRS they could get everything they needed to move forward from the Retirement Office. They will continue with the software contract but will shop around to see if their prices for the software and to maintain it become exorbitant. She assured the Board that there should not be a problem with transition. She requested that the Chairman and Secretary sign the new contract.

Retirement Coordinator Departure
Ms. Zimmermann advised the Board that Melissa Tetmeyer, the Retirement Coordinator, has been taking classes in the health care field to become an echo technician. She is planning to leave sometime in April and would potentially work part-time after her departure in order to train her replacement. She wanted to inform the Board in order to get the process moving. Chairman Storum addressed the issue of how the upcoming layoffs could affect the process of finding someone to perform the job with the appropriate skill set. Ms. Zimmermann was directed to begin the process to replace Ms. Tetmeyer.

**Re: Legal**

United Rentals
Ms. Billings reported that the settlement continues to be negotiated.

Jarden Securities
Ms. Billings reported that both sides continue to pursue discovery, depositions and document requests.

Maxim Integrated Products
Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

Fossil, Inc.
Ms. Billings reported that the Defendant's Motion to Dismiss is still pending.

Tempur-Pedic International, Inc.

Ms. Billings reported that the Defendants' Motion to Dismiss is still pending.

CAPROC, LLC Sale of Crosspointe Plaza
Ms. Billings reported that CAPROC has sold the Crosspointe Plaza property located in Raleigh, North Carolina. Pursuant to the terms of the settlement agreement the profit from the sale of the property will be split 60%/40% between the retirement systems and CAPROC. The net proceeds of the sale were $2,051,732.84. The Pontiac retirement funds will receive 60% of the net proceeds with the Police and Fire Retirement System's share totaling $685,689.11. These proceeds will be applied to the next principal payment.

The 40% distribution to CAPROC can be used for anticipated operating expenses and tenant improvements. They requested that prior to CAPROC providing the paperwork to substantiate these expenses they would leave 50% of their allocation in escrow. The paperwork for operating expenses has been received and validated with Sullivan Ward finding no reason to hold the monies.

Trustee Miller asked how they could have operating expenses on the current building. Ms. Billings explained that the proceeds of their distribution are to be used for tenant improvements for the Northern Trust Plaza project.

Chairman Storum asked if they are still holding the One Michigan property. Ms. Billings said they are but it is up for sale.

**RESOLUTION 08-005** By Lee, Supported by Cochran
Resolved, That the Board ratify the sale of the Crosspointe Plaza property.

Yeas: 4 – Nays: 0

Chairman Storum asked if Ms. Billings was able to ascertain if CAPROC has held their annual meeting. She said that according to the bylaws the annual meeting is to be held in March each year. Chairman Storum said that before the dispute CAPROC was holding quarterly meetings. It does not seem that they have had a meeting for the past two years.

Surviving Spouse/Minor Child Benefit Correspondence
Ms. Billings explained that there has been a benefit inquiry whether a surviving spouse who is receiving 50% benefit is eligible to receive an additional 10% increase in her monthly benefit as the custodian for a minor child. The ordinance defines a minor child as children of blood or adopted children under the age of eighteen. The spouse has custody but Ms. Billings has just received the custody agreement.

There was discussion regarding the inquiry. It was discussed whether the minor child, as the grandchild of the surviving spouse, is a blood relative. The minor child has lived almost its entire life with the custodian. Ms. Billings was directed to further research this issue.

Actuarial Services Agreement

Ms. Billings said she has reviewed the proposed actuarial services agreement and has found it to be in a legally accepted format and recommends that it be accepted on the part of the fund.

<u>IRS Determination Letter Program for Qualified Plans</u>
Ms. Billings said that the filing session has opened for the fund to file the IRS Determination Letter for Qualified Plans. There are a number of benefits obtaining the IRS seal of approval. Some investments will only accept money from qualified plans. She asked that the Board make a motion to file the plan with the IRS.

Chairman Storum asked if this has to be done every time they open the filing session. Ms. Billing said that technically it is not necessary but there are advantages filing the plan with the IRS. She also explained that the IRS has changed the program to a five-year rolling cycle.

**RESOLUTION 08-006** By Lee, Supported by Cochran
Resolved, That the Board approve filing plan documents in the IRS Determination Program for Qualified Plans.

Yeas: 4 – Nays: 0

<u>American Stable Value LLC</u>
Ms. Billings reported that she has reviewed the amended operating agreement that was modified to reflect the new name of the Fund and for compliance with the United States Patriot Act. The name of the investment has changed from American Stable Value Fund, LLC to American Core Realty Fund, LLC. It was also amended to allow the manager to modify the adoption agreement for prospective members in the future.

**RESOLUTION 08-007** By Lee, Supported by Cochran
Resolved, That the Board approve the amended Operating Agreement with American Core Realty Fund, LLC.

Yeas: 4 – Nays: 0

<u>Recoupment of Benefit Overpayment</u>
Ms. Billings referred to the overpayment information included in the agenda packet. She recommended to the Board that the benefit overpayments be recouped. She suggested that the repayment be made either in a lump sum or the member can be given a limited period of time to repay the obligation.

Chairman Storum asked if the different overpayment amounts were based on the fact that the members had been drawing their benefits for different periods of time.

Ms. Zimmermann explained that the payroll department included lump sum holiday pay in the longevity calculation. Some of the members affected have been receiving a pension benefit since 2002 which would make their repayment higher than other members. The amounts should not cause a hardship.

Trustee Miller questioned why the Retirement Office was not aware of the error and whether they had access to the information. He felt that having access to the correct information would prohibit this issue from occurring in the future. He was concerned that the auditors did not catch the error. Ms. Zimmermann explained that they had a meeting with Payroll to insure that there had not been any other payroll changes that the Retirement Office was not aware of and to insure no other changes will occur without notification. The problem occurred when the Payroll Division changed a pay code in the City's payroll system without informing Retirement.

Trustees Miller and Lee agreed that the members should be allowed to repay the benefit overpayment over a period of time or in a lump sum. Chairman Storum asked that members be allowed choose to make the repayment over time or deducted in a lump sum from their COLA.

**RESOLUTION 08-008** By Lee, Supported by Cochran
Resolved, That the Board approve the Retirement Office to recoup benefit overpayments and extend repayment options to those members affected.

Yeas: 4 – Nays: 0

Metropolitan Real Estate Equity Management LLC
Refer to Consultants

Fiduciary Liability Renewal Application
Ms. Billings recommended that the Board approve the Fiduciary Liability Renewal Application.

**RESOLUTION 08-009** By Storum, Supported by Lee
Resolved, That the Board execute the Fiduciary Liability Renewal Application.

Yeas: 4 – Nays: 0

COLA Issue
Ms. Billings reported that there is a COLA issue that needs to be addressed by the Board. A Police and Fire Supervisor passed away on November 9, 2007 three days prior to the date his COLA benefit was issued. The amount of the check was approximately $6,000.00. The check was processed and deposited into the member's account after his death. After notification that the member was deceased the COLA benefit was pulled out of the checking account. In the past, the COLA benefit has only paid if the member is alive on the date of issue. If there was a beneficiary the COLA benefit would continue. However, the estate is disputing why they have to return the entire benefit versus the portion of the payment that accrued after the member's death.

The collective bargaining agreement dated December 31, 1987 language states that longevity is paid pro rata, however, it does not speak to the issue of the COLA benefit whether the benefit is paid pro rata. She believes that this benefit may be accrued benefit and therefore protected under the Michigan Constitution.

Chairman Storum questioned whether the COLA benefit is paid to the General Employees Retirement System on a monthly basis. Ms. Zimmermann explained that only non-union retirees receive the benefit monthly.

Ms. Billings said that this has only occurred one other time. The Board can make the decision to set precedence or go with past practice. However, the estate would have a strong argument that the benefit was protected if this went before the Court.

Trustee Lee agreed that the member had earned the accrued benefit and the estate should receive his COLA benefit pro rata to the date of the member's death.

**RESOLUTION 08-010** By Lee, Supported by Miller
Resolved, That the Board create a single policy statement stating that a member's estate is entitled to the amount of the COLA benefit pro rata to the date of the member's death.

Yeas: 4 – Nays: 0

**Re: Union Representatives** - None

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**NEW BUSINESS**

**Re: Semi-Annual Rebalancing**
Ms. Zimmermann requested that the Board approve the semi-annual rebalancing.

**RESOLUTION 08-011** By Lee, Supported by Cochran
Resolved, That the Board of Trustees approve the transfer of $2,340,000 from the Oppenheimer account and $2,335,000 from the Northern Trust fixed index account to the Cash Manager account for the payment of benefits and operating expenses. In addition, the Board approves the transfer of $280,655 from Munder Capital to Northern Trust R1000 Growth account; the transfer of $388,765 from Munder Capital to Loomis Sayles and the transfer of $161,591 from Munder Capital to Wentworth, Hauser and Violich in order to rebalance the portfolio within the existing constraints as recommended by the consultant.

Yeas: 4 – Nays: 0

**Re: Appolson EDRO**
Ms. Billings said that correspondence was received from a member who is concerned with the amount of his annuity withdrawal. It was approximately $2,000.00 less than he anticipated. He said he was not provided any information that stated the amount of his annuity withdrawal would be reduced due to the EDRO.

Ms. Billings explained that the actuary did not initially provide the information to send to the member with the breakdown of his annuity withdrawal. His divorce was final on March 28, 1996. The EDRO awarded 50% of the retirement to the ex-spouse and the Retirement Office has to abide by the terms of that order. The benefit cannot increase the cost to the retirement system. Contributions totaling $500.00 were paid in prior to 1989 and could be withdrawn without reducing the monthly benefit. However, 50% of the remaining contributions paid in from 1989 through 1996 have to stay in the fund in order to fund the monthly benefit for the ex-spouse. This 50% reduced the amount of the annuity withdrawal paid to the member.

Ms. Zimmermann explained that the problem arose when the EDRO Summary received from GRS did not include the information that addressed the contributions. It is a complicated issue and the preliminary information provided to the member did not include all the EDRO detail. GRS did eventually revise the summary.

Chairman Storum said that the member's biggest concern was that he did not understand how the EDRO would affect his annuity. He thought he could withdraw his annuity and take a reduced pension benefit. Ms. Zimmermann said that the member cannot withdraw monies that fund the benefit.

Ms. Billings was directed to send letter to the member to clarify the issue including a revised copy of the actuary's summary report.

**Re: Custody of Minor Child –** Tabled (Refer to Legal Report)

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**UNFINISHED BUSINESS**

**Re: American Realty Draw (December)**
Ms. Zimmermann requested that the Board approve the final draw down request from American Core Realty Fund, LLC for $2,500,000. The funds will be transferred from the International Equity Manager Wentworth, Hauser and Violich.

**RESOLUTION 08-012** By Lee, Supported by Miller
Resolved, that the Board ratify the transfer of $2,500,000 from Wentworth, Hauser and Violich to American Core Realty Fund, LLC to complete the funding of the investment.

Yeas: 4 – Nays: 0

**Re: Longevity Calculations –** Refer to Staff Report

**Re: Actuarial Transition –**Refer to Staff Report

<u>Gray & Co. Staff Change</u>
Mr. Gray reported that Andrea Stewart will be leaving on February 15, 2008. Her husband has taken a job with the FDIC in Ft. Lauderdale. He assured the Board that there will not be an interruption in service. They had previously hired staff in anticipation of promoting Ms. Stewart.

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## SCHEDULING OF NEXT MEETING

Regular Meeting on February 28, 2008 at 9:00 a.m., in the Shrine Room, City Hall, Pontiac, Michigan.

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## ADJOURNMENT

**RESOLUTION 08-013** By Cochran, Supported by Miller
Resolved, That the meeting be adjourned at 11:22 a.m.

Yeas: 4 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the Police and Fire Retirement System held on January 24, 2008.

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Raymond Cochran, Secretary
*As recorded by Jane Arndt*