

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
JANUARY 26, 2012**

A regular meeting of the Board of Trustees was held on Thursday, January 26, 2012 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 10:09 a.m.

Trustees Present

Leon Jukowski, Mayor
John Naglick, Secretary
Craig Storum, Chairman

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Lon Britton (*by phone*)
Jeff Colby, Retiree
Fred Joiner, Retiree

Trustees Absent

Brian Lee, Vice Chairman (*excused*)
Matthew Nye (*excused*)

AGENDA CHANGES

Ms. Zimmermann distributed additional information to be included in the agenda. This included retirement applications for firefighters Bryan Aranosian, Donald Claeys, Michael Hilborn, Carl Holcomb, William Reyes and Nels Olsen; a final benefit calculation for police retiree Darryl Cosby and date changes for fire retirement applicants Jeff Nye, Dion Wade, Brad Riggs and Carl Holcomb to be added to the consent agenda. The following was added to New Business: cash flow rebalancing; Executive Orders regarding Retirement Ordinance changes for GERS and PFRS regarding staff and police trustee election results.

CONSENT AGENDA

- A. Minutes of Regular Meeting – December 1, 2011
- B. Minutes of Special Meeting – January 11, 2012
- C. Communications:
 - 1. Correspondence from PFRS Re: Cessation of Securities Lending
 - 2. Correspondence from PFRS / GERS Re: Michigan Pension Tax Withholding
 - 3. Correspondence from American Realty Re: Newsletter
 - 4. Correspondence from Artio Global Re: Newsletters / Update
 - 5. Correspondence from Garcia Hamilton Re: Newsletter
 - 6. Correspondence from Loomis Sayles Re: Dan Thelen's Departure
 - 7. Correspondence from Metropolitan Real Estate Re: Partner Capital Statements
 - 8. Correspondence from Mesirov MFIRE Re: Partner Capital Statement
 - 9. Correspondence from WHV Re: Newsletter
 - 10. Conference Information:
 - a. NCPERS 2012 Legislative Conference – Feb. 5-7, 2012
- D. Financial Reports:

1. Financial Reports –November & December 2011
 2. Securities Lending- October & November, 2011
 3. Accounts Payable – December 2011 & January 2012
 4. Due To / Due From \$161.33
- E. Capital Calls:
- F. Death Audit
- G. Remove from the Rolls:
1. Inis Slater (deceased 12-02-11)
- H. Application for Service Retirement:
- | | | |
|--------------------------|--------------------|--------|
| 1. Darryl Fowlkes – PFFU | 25 years, 2 months | Age 53 |
| 2. Antonio Macias - PFFU | 23 years, 0 months | Age 41 |
| 3. Jeffrey Nye – PFFU | 23 years, 0 months | Age 42 |
| 4. Louis Rainge – PFFU | 23 years, 0 months | Age 47 |
| 5. Bradley Riggs – PFFU | 25 years, 0 months | Age 44 |
| 6. Dion Wade – PFFU | 24 years, 7 months | Age 43 |
| 7. Bryan C. Aranosian | 23 years, 0 months | Age 41 |
| 8. Michael Hilborn | 23 years, 0 months | Age 49 |
| 9. Donald Claeys | 23 years, 0 months | Age 47 |
| 10. Donald Holcomb | 23 years, 0 months | Age 48 |
| 11. William Reyes | 24 years, 1 month | Age 49 |
| 12. Nels Olsen | 23 years, 0 months | Age 48 |
- I. Application for Deferred Retirement
- J. Application for Disability Retirement
- K. Final Benefit Calculations:
- | | | |
|-----------------|-------|------------|
| 1. Darryl Cosby | #2599 | \$4,334.54 |
|-----------------|-------|------------|
- L. Application for Refund of Accumulated Contributions
- | | |
|-------------------------|------------|
| 1. Kyle Linenger - PFFU | \$2,747.21 |
|-------------------------|------------|
- M. Disability Re-Examination
- N. Request for Change of Retirement Effective Date
1. Darryl Fowlkes
 2. Jeff Nye
 3. Dion Wade
 4. Brad Riggs
 5. Carl Holcomb

Chairman Storum noted that member Kyle Linenger has elected to withdraw his contributions. He questioned whether he was notified that if he withdraws his contributions that he is not eligible to be vested under the partial plan termination. He recommended pulling this out of the consent agenda and notifying the member of his options.

Ms. Zimmermann stated that she has voiced this concern in the past based on the number of police officers that withdrew their contributions without knowing that they would be fully vested based on the partial plan termination. She indicated that language is on the current form and if the board wishes, a separate form can be created. She asked about those who withdrew contributions unaware that they were vested; will they be able to re-deposit?

Mr. Henzi said that it would be only fair to allow these members to reimburse these monies to the System in order to obtain the benefit. These employees made the withdrawal never knowing that they would qualify. He feels that the Board should allow for this extreme remedy.

Chairman Storum recommended that legal counsel draft language that would allow these members to reimburse the System if they qualify for the partial plan termination.

RESOLUTION 12-001 By Naglick, Supported by Jukowski
Resolved, That the consent agenda be approved as amended

Yeas: 3 - Nays: 0

Ms. Zimmermann reported that the new Michigan pension tax withholding forms were sent out to the members and processed. She commended Ms. Munson and Ms. Arndt for their efforts.

Chairman Storum thanked the staff for their hard work.

CONSULTANTS

Re: Rodwan Consulting – 2010 Actuarial Valuation

Ms. Rodwan stated that the purpose of the valuation is to compute the liabilities associated with benefits to be paid on behalf of the members of the Systems and to assess the financial position of the Fund.

As of December 31, 2010 the accrued liabilities of the System were \$244.9 million. The smoothed funding value of assets was declined to \$253.9 million from \$259.2 million in 2009. The market value increased \$12 million from \$227.1 million in 2009 to \$239 million in 2010.

The Retirement System experience was less favorable than expected based on the long-term assumptions. This was due to the rate of investment income on the smoothed funding value of assets at 4.32% versus the 7.5% assumed rate of return.

The participant data indicated that there were a total of 121 plan participants in 2010 compared to 138 in 2009. The active member payroll declined from \$7.4 million in 2009 to \$6.7 million in 2010.

There were 421 retirees and beneficiaries with annual pensions of \$14.1 million compared to 407 in 2009 at \$13.5 million.

Vested inactive members remained the same as the prior year.

She described the computed normal cost which is what is needed to fund the current year's service liabilities. All the groups other than police command had a temporary funding credit. The total employer contribution rate for police rank & file was computed to be 0.00% which includes a temporary funding credit of 61.32%. For fire group, the total employer contribution rate was 27.76% or \$1,132,191 which included a temporary funding credit of 0.17%. The

contribution rate for police command was computed to be 92.47% or \$931,940.00 and the total employer contribution amount for non-union management was computed to be \$117,417.00.

She explained that the excess of valuation assets over accrued liabilities in the Police Rank & File and Fire were amortized as a level percent of payroll over 20 years to produce the temporary funding credit.

Chairman Storum asked if the fire chiefs are included in fire or in non-union. Ms. Zimmermann explained that the fire chiefs are included in fire. They are given the option and most choose Fire benefits rather than non-union benefits since the benefits are better.

Chairman Storum questioned if the money is coming from fire or from non-union and whether legally it should come from the Fund.

Ms. Rodwan stated that the valuation looks at this as one plan, not separate contributions or assets. The result would be smaller contributions for the City.

The actuarial accrued liabilities as of December 31, 2010 were \$244.9 million versus \$243.2 million as of December 31, 2009. Assets allocated to funding were \$253.8 million versus \$259.2 million. The unfunded actuarial accrued liabilities were down from 2009 at \$15.9 million to \$8.9 million. The current recommended City contribution is 32.72% or \$2,181,548 for fiscal year beginning July 1, 2012.

She reviewed the history of assets and accrued liabilities. The current funded ratio is 103.7%. If you divide the assets by the liabilities using the market valuation the System has a funding ratio of 98%.

The funded percentages by division were 133.8% for police rank and file and 100.1% for fire.

She reviewed the comments and conclusions. She also reviewed a table showing the actuarial accrued liability for retirees and the recommended transfers to be made to the retiree reserves to insure that the retiree liability is 100% funded. The following amounts would be transferred from the employer reserves to the retiree reserves by division: fire \$5,797,250.00; non-union chiefs \$134,713.00; police command \$4,314,748.00 and police rank and file \$755,633.00.

She provided a review of the benefit provisions and the actuarial assumptions used for the valuation.

The asset summary was showed an investment gain of \$9.2 million based on the smoothing value of assets. She noted that the phased in recognition of investments had a \$16.2 million loss in 2008. This loss will take a few more years before it comes off the books. The recognized rate of return was 4.32% with an estimated market rate of return of 12.82%.

The historical schedule of pensions being paid noted that in 1985 annual pension cost was \$3,293,297.00 with an average pension of \$16,803.00 compared to 2010 with annual pension cost of \$14,134,721.00 and the average pension at \$33,574.00.

As of December 31, 2010 there were 379 retired members and survivors with three members over ninety-five.

The group averages indicated an active member attained age of 41.4 years, 14.6 years of credited service and annual salaries of \$69,559.00.

RESOLUTION 12-002 By Naglick, Supported by Jukowski
Resolved, That the Board approve to accept and receive the 2010 actuarial valuation as presented.

Yeas: 3 – Nays: 0

Chairman Storum questioned whether the cost study for the fire early outs.

Ms. Rodwan indicated that the significant changes in the demographics will result in significant contribution changes.

Chairman Storum noted that there was a police early out in 2011 and questioned whether the 4% increase from last year was due to the early out. He feels that the early outs being provided to police and fire cost the System more money. He asked whether it is appropriate to amortize these costs over twenty years with no payroll contributions.

Denise Jones indicated that the 2012 valuation should be based on this new information and the 2011 valuation will reflect the changes.

Ms. Rodwan said that the dollar amount is assumed as a level percent of payroll. It is computed as a percentage of payroll as well as a dollar amount. It would represent inflation.

Chairman Storum stated that there will be a lot of members who are drawing their pension before their twenty years are up. He questioned whether it is correct to amortize those amounts.

Ms. Jones stated that because the new plan will not have any new members they will change the funding process and use the aggregate method. The dollar amount will determine the appropriate amortization method. The Board can determine the reasonable amortization.

Trustee Naglick asked what they would recommend for an amortization schedule.

Ms. Rodwan and Mr. Henzi stated that the normal amortization schedule is thirty years.

Re: Gray & Company

Mr. Kuhn reviewed a flash report of the Fund's performance as of December 31, 2011. The total Fund was up 6% for the quarter. There was no policy index calculated and the real estate performance numbers from December were not available. This Fund outperformed the VEBA for the year.

Active managers outperformed for the year.

Mid cap manager Munder Capital underperformed the benchmark -1.58% versus -0.37% for the period.

Small cap manager Loomis Sayles outperformed the benchmark during the quarter 17.23% versus 15.97%.

He noted that international equity managers Wentworth, Hauser & Violich and Thornburg reported performance a little behind the benchmark for the quarter.

Fixed income manager Garcia Hamilton outperformed the benchmark during the current month 1.75% versus 0.78% and 1.51% versus 0.84% for the quarter ending December 31, 2011.

High yield manager Artio's performance versus the benchmark for the quarter was 5.04% versus 6.18%.

Stable value manager Goode reported performance in line with the benchmark at 0.19% versus 0.20%.

He noted that the asset allocation is not too far off target. There is a little underweight to fixed income but there is little yield and they are expecting less than favorable returns in that asset class.

The assets for the benefit payments will come from the Russell 1000 Growth Index and the Lehman Brothers Intermediate Government/Credit Index Fund.

Lon Britton asked about the CAPROC line item and whether it is a receivable.

Mr. Kuhn stated that the mortgage on the Baldwin Road property was being carried for \$2 million. In 2010 the Board determined that it would not get paid off so they brought in CBRE to market the property. It was reduced to 0 on the asset allocation and there is currently \$200,000.00 sitting in cash.

Trustee Naglick stated that the current offer on the property is for cash and would stop the property from going to an absolute auction.

Mr. Kuhn said that the equity markets are doing well with values up \$4 million which included the January, 2012 benefit payments. They are seeing some improvement in the economic data with mixed company earnings statements. Those who feared there would be a recession now do not believe it will happen. The market is reacting accordingly.

Ms. Rodwan & Ms. Jones left at 10:48 a.m.

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees - None

Re: Administrator

Retirement Office Staff Insurance

Ms. Zimmermann explained that the insurance benefits for the staff will be effective February 1, 2012. They are also required to carry workman's compensation insurance. She indicated that the chart with the coverage is included for the Board's review.

Form 945 Annual Payroll Report

Ms. Zimmermann reported that the Annual Payroll Report Form 945 was filed on January 13, 2012.

1099R Distribution

Ms. Zimmermann reported that the 1099R's were mailed to the retirees on January 13, 2012.

City Payroll Transition

Ms. Zimmermann reported that the City is moving to ADP from their legacy payroll system. She has been working with the City to insure that the Retirement Office staff has access to data from both system so they can continue to process calculations.

Trustee Naglick asked which healthcare company will be supplying the Retirement Office staff's insurance coverage.

Ms. Zimmermann indicated that the insurance carrier will be United Healthcare.

Re: Legal

James Tate – Application for Duty Disability

Mr. Henzi noted that he would like to discuss this issue in closed session due to the nature of this matter. He indicated that Mr. Tate has applied for a duty related disability.

Partial Termination

Mr. Henzi thanked Ms. Zimmermann, Trustee Jukowski and Trustee Naglick for assisting in getting a copy of the layoff list. It would be helpful to receive a complete list with the date of termination and whether the member withdrew their contributions. Every member from the Police & Fire Retirement System that was laid off would potentially be vested.

Franklin Templeton Global Bond Plus Investment

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Mr. Henzi reported that the investment contract has not been finalized.

MAP Cost Study

Mr. Henzi referred to correspondence confirming that the Police Union has agreed to pay for the cost study.

Ms. Zimmermann noted that the union has paid for the study, however, she has a number of questions with regard to the contract. She needs clarification on who is eligible and when the benefit is effective. The contract indicates that when the System is overfunded, members who retire will receive an increase in FAC. She needs to know whether this includes all retirees. She is not sure who negotiated this benefit or how to get clarification.

Trustee Naglick questioned who needs to know.

Ms. Zimmermann stated that she needs clarification in order to implement the new retirement factor benefit.

Trustee Jukowski suggested going to the Emergency Manager.

Mr. Henzi questioned whether the date the contract was signed would be the trigger date.

Ms. Zimmermann stated she will continue follow up on this.

Hiring Retirement System Office Staff

Mr. Henzi referred to a copy of the Recognition and Assumption Agreement between the Pension Systems and SAEA. It was written by Gordon Gregory. The agreement would allow the two Systems to honor the union agreement as the employers.

Ms. Zimmermann indicated that Ms. Billings tabled the approval of the agreement at the GERS meeting to allow Larry Marshall to discuss it with Mr. Gregory. Ms. Billings told the GERS Board that the agreement could be done retroactively.

There was discussion regarding the agreement.

Mr. Henzi noted that there should be no issues moving forward. The Executive Orders striking the language in the Retirement Ordinance with regard to City Council approval is all set.

Chairman Storum confirmed that the language in the GERS Ordinance was also changed.

CAP Mortgage LLC

Mr. Henzi reported that Fram, LLC has agreed to buy the Baldwin Road property for \$360,000.00. At the previous meeting the Board authorized Trustee Naglick to sign the purchase agreement documents. He asked that the Board ratify Trustee Naglick's signature on the purchase agreement dated January 11, 2012.

RESOLUTION 12-003 By Jukowski, Supported by Naglick

Resolved, That the Board ratify the Secretary's signature on the Baldwin Road property Sale and Purchase Agreement dated January 11, 2012.

Yeas: 3 – Nays: 0

Senate Bill No. 797 Proposed Changes to Public Act 314

He has drafted a letter to State Senator James Marleau asking him to support the proposed amendments to Public Act 314. He asked the Board to authorize the Chairman to sign the letter to Senator Marleau.

RESOLUTION 12-004 By Naglick, Supported by Jukowski
Resolved, That the Board authorize the Chairman to sign the letter to State Senator James Marleau in support of the proposed amendments to Public Act 314.

Yeas: 3 – Nays: 0

Portfolio Monitoring Agreements – Hagens Berman and RGRD

Mr. Henzi reported that this is for the trustees' information. Chairman Storum signed the contract for monitoring counsel Hagens Berman and RGRD at the last meeting.

Bernstein Litowitz The Advocate for Institutional Investors

Mr. Henzi reported that this is for the trustees' information.

The NAPPA Report – November/December 2011

Mr. Henzi reported that this is for the trustees' information.

RESOLUTION 12-005 By Nye, Supported by Naglick
Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Jukowski – Yea

Trustee Nye - Yea

Trustee Naglick – Yea

Chairman Storum - Yea

The Board moved to closed session at 11:09 a.m.

The Board returned from closed session at 12:30 p.m.

Re: Union Representatives - None

NEW BUSINESS

Re: Executive Orders Re: Retiree Healthcare

Ms. Zimmermann noted that she included copies of the Executive Orders regarding retiree healthcare in the packet for the trustees' information.

Re: Police Trustee Election Results

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Ms. Zimmermann distributed the results of the Police Trustee election held on January 24, 2011 to the Board. She asked that the Board certify the election results.

RESOLUTION 12-006 By Naglick, Supported by Jukowski

Whereas, a General Election for the Police Trustee to the Board was conducted on January 24, 2012, and

Whereas, the official results of the election have been determined,

Resolved, that the official election results are hereby certified by the Board of Trustees.

Certified Elected Police Trustee
Lon Britton

Yeas: 3 – Nays: 0

Re: Cash Flow Rebalancing

Ms. Zimmermann requested that the Board approve the cash flow rebalancing plan as recommended by the investment consultant.

RESOLUTION 12-007 By Naglick, Supported by Jukowski

Resolved, That the Board approve the transfer of \$4,000,000.00 from the Northern Trust Russell 1000 Growth Index Fund and \$3,000,000.00 from Northern Trust LB Intermediate Government/Corporate Fund to fund benefits and operations for the next six months.

Yeas: 3 – Nays: 0

UNFINISHED BUSINESS

Re: Non Payment of City Contributions – Refer to Legal (Closed Session)

Re: Ordinance Amendment – Professional & Clerical – Refer to Legal

Re: Actuarial Cost Study MAP – Refer to Legal

Re: Rules & Regulations Revision

Ms. Zimmermann reviewed the revisions to the Rules & Regulations with the Board stating that the election process has been changed to allow balloting by mail since there are no more active members, and to allow telephonic meeting attendance.

Section 12 Oath of Office under Article 2 has been amended to read as follows:

“Such oath shall be subscribed by the person making it, and acknowledged before the Administrator or to the Administrator telephonically.”

Subsection G Swearing In, under Section 14 Election Procedures under Article 4 has been amended to read as follows:

“On or before the June Board of Trustees meeting immediately following the general election, the Administrator will administer an oath of office to the newly-elected trustee in person or telephonically. A sample oath is attached (Figure XI).”

RESOLUTION 12-008 By Naglick, Supported by Jukowski
Resolved, That the Board approve the amendments to the Rules & Regulations.

Yeas: 3 – Nays: 0

Re: James Tate – Application for Duty Disability – Refer to Legal (Closed Session)

Re: CBRE Update – Refer to Legal

Re: Staff Health Insurance

Ms. Zimmermann reported that she has obtained health insurance for the Retirement Office staff.

Re: Separation of Payroll

Ms. Zimmermann informed the Board that the new payroll is effective February 1, 2012.

Re: Partial Plan Termination – Refer to Legal

Newly elected trustee Lon Britton proposed that the trustees catch up with the 21st century. He recently attended a meeting where Trustee Nye asked the Board to consider purchasing laptops. He would recommend that each trustee, the Administrator and necessary staff have an I-Pad 2. The cost would be approximately \$2,700.00 to the System.

He has his own and would not need one. He feels that the meetings would be more efficient and that the cost would be made up in short order by eliminating paper and postage. The equipment would be the property of the Retirement System.

Trustee Jukowski noted that he also has his own I-Pad.

RESOLUTION 12-009 By Naglick, Supported by Jukowski
Resolved, That the Board approve the purchase of the appropriate equipment in order to run the meetings electronically.

Yeas: 3 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, January 26, 2012 – City Council Conference Room, Second Level,
City Hall @ 9:00 am

ADJOURNMENT

RESOLUTION 12-010 By Naglick, Supported by Jukowski
Resolved, That the meeting be adjourned at 12:39 p.m.

Yeas: 3 – 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 26, 2012.

John Naglick, Secretary
As recorded by Jane Arndt