

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREE PREFUNDED
GROUP HEALTH & INSURANCE PLAN
“VEBA MINUTES”
JANUARY 26, 2012**

Trustees Present

Leon Jukowski, Mayor
John Naglick, Secretary
Craig Storum

Trustees Absent

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

Others Present

Sandra Rodwan, Rodwan Consulting
Denise Jones, Rodwan Consulting
Matthew Henzi, Sullivan, Ward (*arrived at 9:22 a.m.*)
Chris Kuhn, Gray & Company (*arrived at 9:23 a.m.*)
Ellen Zimmermann, Retirement Administrator
Jane Arndt, Retirement M-Admin Assistant
Retiree, Fred Joiner
Retiree, Jeff Colby

The meeting was called to order at 9:08 a.m.

AGENDA CHANGES

Ms. Zimmermann distributed copies of the Executive Orders regarding retiree healthcare which also includes the letters from the State. She informed the Board that the retiree life insurance benefit has been reinstated at no cost to the retirees by the Emergency Manager.

CONSENT AGENDA

- A. Approval of Regular Meeting Minutes: December 1, 2011
- B. Approval of Special Meeting Minutes: December 13, 2011
- C. Financial Reports
 - 1. Consolidated Statement of Changes – November & December 2011
 - 2. Accounts Payable:
 - a. Gray & Company 2,500.00
 - b. Sullivan Ward 1,905.00
- D. Correspondence: Newsletters

RESOLUTION 12-001 By Naglick, Supported by Storum
Resolved, That consent agenda for January 26, 2012 be approved.

Yeas: 3 – Nays: 0

TRUSTEE/COMMITTEE STAFF REPORTS

CONSULTANTS

Re: Rodwan Consulting – Actuarial Valuation 2010

Ms. Rodwan introduced herself and Ms. Jones to the Board. She is presenting the valuation report as of December 31, 2010. The data was valid at that time.

Trustee Naglick indicated that as soon as this valuation report is delivered the Board will need the valuation as of December 31, 2011 in order to determine the contribution

Trustee Storum indicated that the Emergency Manager has stopped paying the contributions on a bi-weekly basis. They will need this information more timely going forward due to the changes related to the transition.

The data is provided by the Retirement Office for retired and active participants. They used an assumed investment return rate of 7.5%. The medical care inflation assumption was an annual increase of 10% decreasing in 0.5% increments over the next twelve years to the ultimate 4% assumption.

The funding value of assets was computed to be \$34.8 million and the market value of assets reported was \$32.8 million which is approximately \$2 million less.

There were 121 active employees versus 138 the prior year. Active participant payroll was \$6,667,866.00 versus \$7,405,796 the prior year. There were 209 retirees in 2010 compared to 177 in 2009. There were 23 inactive vested participants.

Trustee Naglick indicated that the number of retirees have increased since that time.

Ms. Rodwan noted that she will need the updated data that goes with the healthcare provisions that are covered in the Executive Orders.

Trustee Storum stated that he would like to get his hands on a copy of the cost study used for the reduced healthcare coverage.

Ms. Rodwan indicated that there is no experience with the reduced healthcare coverage.

Trustee Naglick stated that there has been a change in the plan for retirees.

The actuarial accrued liabilities as of December 31, 2010 for active participants were \$20.4 million; \$4.9 million for vested inactive members and \$58.0 million for retirees and beneficiaries totaling \$83.4 million in accrued liabilities up \$2.5 million from 2009. Current valuation assets are \$34.8 million with unfunded actuarial accrued liabilities of \$48.6 million (versus \$54.5 million in 2009) with a funded ratio of 41.7%. There were fewer active employees but an increase in assets.

She reviewed the annual required contribution as of December 31, 2008. The normal cost is 20.35% with an unfunded actuarial accrued liability of 38.37% which is amortized over thirty years which is the maximum reporting period that can be used per GASB. The amortization payments are computed to maintain a level percent of payroll. The total computed contribution rate is 58.72% versus 59.16% last year. The annual required contribution for fiscal year 2012/2013 is \$3,915,371 versus \$4,381,269 the prior year.

Trustee Naglick confirmed that the cost to provide healthcare is \$83 million with assets of \$34.8 million. The Trust is short \$48 million. He questioned the effect with no future active payroll.

Ms. Rodwan noted that if there are no employees there will be no normal cost.

Trustee Naglick asked if \$3.9 million would be the required City contribution.

Ms. Zimmermann stated that would be the contribution rate for that particular year.

Trustee Storum indicated that even if there are no active participants, the City does not lose the required 20% in contributions.

Ms. Rodwan agreed that even though there are no employees the contributions will have to be transferred for vested or accrued liabilities.

Trustee Naglick asked that Ms. Rodwan provide a recap for Mr. Henzi regarding the contributions due to the City's inability to make the contributions and the ongoing litigation.

Ms. Rodwan noted that the liability as of December 31, 2010 was \$58 million.

Trustee Naglick stated that Judge Bowman will require the accurate information.

Ms. Rodwan reviewed the funding policy for the Trust as it relates to the level percent of payroll and the expected fifty year solvency based on the assumptions. However, this is no longer relevant if there is no increasing payroll. The contributions would have been 45% of payroll.

Trustee Storum asked if the fifty year period was recommended when the Trust was established or if it should have been looked at as a lifetime period.

Ms. Rodwan indicated that would have been more reasonable or doable for contributions. The fifty year period is pretty standard if the Trust is being funded. The accounting standard allows for a maximum amortization period of thirty years for the unfunded liability.

She provided information showing the actuarial accrued liabilities based on a 5% investment return assumption. The total actuarial accrued liability would be \$115 million versus \$83 million using the 7.5% return assumption. The unfunded actuarial accrued liability would be \$80 million versus \$48 million. The total computed contribution rate would be 84.94% versus 58% and the required dollar contribution would be \$5.6 million versus \$3.9 million.

Over the long-term a 5% inflation rate is more reasonable if the Trust is not being funded. Some auditors recommend nothing over 4%.

She summarized the benefit provisions per division. This Trust covers retired members of the Police & Fire Retirement System who retired on or after August 22, 1996.

She reviewed the assumptions used and noted that there were no changes.

As of December 31, 2009 the market value of the Trust was \$26.7 million. Total revenues were \$8.6 million with expenditures (to cover insurance premiums paid on behalf of retirees and administration expenses) of \$2.4 million. The market value as of December 31, 2010 was \$32.8 million.

She reviewed the funding value of assets. She noted that the value of assets is always moving toward the market with smoothing. The market value of assets as of December 31, 2010 was \$26.7 million with valuation assets of \$32.3 million. Expected income using the 7.5% valuation rate was \$2.4 million with an investment gain of \$2.3 million. The recognized rate of return was 3.45% versus 7.5% as assumed. The estimated market rate of return was 17.59%.

She provided a summary of the funding value of assets as of December 31, 2010. The smoothed market value was computed to be \$34.8 million. They are moving toward the market in order to avoid market swings. Expected income was \$2.4 million versus net contributions were \$3.7 million (\$2.8 million the prior year).

She reviewed the participant data. There were 209 retirees up from 177 in 2009.

She described the age and service distribution for active members. As of December 31, 2010 the group average was 38.7 years with 12.6 years of service credit with annual salaries of \$55,106.00.

As of December 31, 2010 there were twenty-three inactive vested participants.

RESOLUTION 12-002 By Naglick, Supported by Jukowski
Resolved, That the Board approve to receive and file the 2010 Actuarial Report as presented.

Yeas: 3 – Nays: 0

Re: Sullivan, Ward, Asher & Patton

IRS Request for Form 990

Mr. Henzi reported that the IRS request for Form 990 is still pending.

UNFINISHED BUSINESS

Re: Non Payment of Contributions

Mr. Henzi indicated that in the closed session they will discuss the lawsuit against the City. Currently, the City owes contributions in the amount of \$824,000.00 to Police & Fire Retirement System and the VEBA Trust of \$3.34 million.

Trustee Naglick said it would be beneficial if there was an immediate turn around of the next valuation. This would help determine the City's liability. Knowing the contribution amount the City is required to pay will change the forecast which will affect the valuation report.

Ms. Rodwan acknowledged that if the City makes their contribution payment it would affect the assets and the unfunded actuarial accrued liability.

Mr. Henzi stated that if the contributions were recouped on the summer tax rolls they could be booked on the next report.

Trustee Naglick said that the contributions must be computed to determine how much the City contributes.

Mr. Henzi described the partial plan termination. As of February 1, 2012 all the active employees will be gone. Everyone will become 100% vested based on their day of termination. All police will be vested as of July 31, 2011. He is currently going through all laid off police and fire members back approximately four years. There are a lot more deferred vested members.

Ms. Rodwan asked how their benefits have been affected.

Trustee Naglick noted that the benefits have changed February 1, 2012 for optical, dental, health and disability.

Trustee Storum said that benefits were changed across the board and were not based on years of service.

Mr. Henzi stated that the termination dates will be July 31, 2011 for police members; February 1, 2012 for fire members or the date the other members were laid off.

Re: Reimbursement of Third Quarter Expenses

Ms. Zimmermann provided a copy of the most recent check to the City and a recap of the cumulative VEBA payments to the City. The third quarter reimbursement of healthcare costs to the City was \$764,337.00. Since January, 2008 the Fund has reimbursed the City approximately \$9 million for retiree healthcare costs.

NEW BUSINESS

Re: Request for HR Quotes for Healthcare

Trustee Storum asked if the Board could obtain copies of the quotes Human Resources used for changing the healthcare coverage. When switching healthcare benefits they should have acquired multiple quotes. Since the VEBA is funding these benefits the Board needs to make sure that they are using competitive bids. He asked that the Administrator request the information from Human Resources.

Trustee Naglick said that the City used the illustrative rates. Per Public Act 4, the Emergency Manager put every member in one Humana plan. The City used a self insured forecast to determine costs. The costs were shifted to retiree and active members. They put everyone on one common sense plan in order to obtain experience and get quotes from other companies in the

future. The next step will be to attain a requote and have a forecast to give the companies so there is a projection of savings.

Trustee Storum said that the City should know how much they are saving.

Trustee Naglick stated that he is not saying that the Board should not ask. He noted that they are preserving the VEBA assets longer with the reduced costs.

Trustee Storum said that he is not just referring to just this time, but also a couple of years ago when the City changed to Humana and said that they would be saving \$3 million. Instead, there was a 50% increase in costs. He feels the Board is required to ask for this information.

Trustee Jukowski stated that what Trustee Naglick is saying is that the first step is only a forecast and he is not sure they have the information.

Trustee Storum said that they should have the information in writing from Human Resources with competitive quotes.

Trustee Naglick stated that the City is self insured so they take some big hits. It is better for the VEBA to have a cost effective plan.

Trustee Storum asked that they request the information from Human Resources.

RESOLUTION 12-003 By Jukowski, Supported by Naglick
Resolved, That the Board direct the Administrator to obtain the healthcare quotes, projections and expected timeframe in writing.

Yeas: 3 – Nays: 0

Trustee Storum noted that the Retirement Office staff was able to obtain insurance at a much cheaper cost than the City. He does not understand why the City does not look at fully insured plans.

Re: Gray & Company

Mr. Kuhn distributed copies of the flash report for performance ending December 31, 2011. Pluscios Management has not reported their performance to date so there is no policy index. The total plan was up 7.59% for the quarter.

Equity index manager Rhumblin reported quarter-to-date performance of 12.23% versus the benchmark at 11.81%.

Small cap manager Broadview also returned positive performance of 15.71% versus 14.52%.

The Dodge & Cox International Fund's performance was 4.23% versus the index at 3.33% for the period.

Bradford & Marzac also reported performance above the benchmark at 1.36% versus 1.12%.

Ms. Zimmermann asked Mr. Kuhn at what point will the assets be rebalanced.

Mr. Kuhn said that the assets will be rebalanced toward target allocations as soon as the Fund reimburses the City; this procedure has been used for rebalancing the Fund for several quarters. Based on current market values, Rhumblin and Broadview would be used to reimburse the City. He indicated that the equity allocation is currently over 55%.

Trustee Naglick noted that the City has not billed for the fourth quarter 2011 retiree healthcare costs.

SCHEDULING OF NEXT MEETING & ADJOURNMENT

Regular Meeting – February 23, 2012 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

ADJOURNMENT

RESOLUTION 12-004 By Naglick, Supported by Jukowski
Further Resolved, That the meeting be adjourned at 9:59 a.m.

Yeas: 3 – Nays: 0

I certify that the foregoing are the true minutes of the Police & Fire Retirement Pre-funded Group Health and Insurance Plan “VEBA Trust” on January 26, 2012.

John Naglick, Secretary
As recorded by Jane Arndt