

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

A regular meeting of the Board of Trustees was held on Thursday, April 26, 2012 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 9:18 a.m.

Trustees Present

Lon Britton (*by phone*)
Leon Jukowski, Mayor
John Naglick, Secretary
Matthew Nye
Craig Storum, Chairman

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant

AGENDA CHANGES

CONSENT AGENDA

- A. Minutes of Regular Meeting – March 22, 2012
- B. Communications:
 - 1. Correspondence from Metropolitan Re: UBTI
 - 2. Correspondence from American Realty Re: Conflict of Interest Policy
 - 3. Conference Information:
 - a. GMI Ratings’ 2012 Public Funds Forum – September 4-6, 2012
 - b. Washington Legislative Update – IFEBP – May 7-8, 2012
 - c. Public Employees Benefits Update – IFEBP – June 18, 2012
 - d. Program for Advanced Trustee Study – NCPERS – July 30 – August 1 2012
- C. Financial Reports:
 - 1. Financial Reports – March 2012
 - 2. Accounts Payable – April 2012
- D. Capital Calls:
- E. Death Audit
- F. Remove from the Rolls:
 - 1. Irene Martin (deceased 04-05-12)
 - 2. Beatrice Mitchell (deceased 02-29-12)
- G. Application for Service Retirement:
- H. Application for Deferred Retirement
- I. Application for Disability Retirement
- J. Final Benefit Calculations:

1. James Courtney	#2597	\$4,593.26
2. Michael Dougherty	#2607	3,786.95
3. (Charles) Loretta Herring	#702563	3,291.42

4. Jeffrey Hohendorf	#2575	2,147.08
5. Anthony Krepps	#1914	2,319.34 (\$2,485.82)
6. Norman Lee	#2305	3,168.29
7. Magdalena Martinez	#2242	3,449.81
K. Application for Refund of Accumulated Contributions		
L. Disability Re-Examination		
M. Request for Change of Retirement Effective Date		

RESOLUTION 12-028 By Britton, Supported by Naglick
Resolved, That the consent agenda be approved.

Yeas: 5 - Nays: 0

Chairman Storum and Ms. Zimmermann both indicated that they would like to attend the GMI Ratings' 2012 Public Funds Forum held in Park City, Utah on September 4-6, 2012.

Ms. Zimmermann indicated that it is a securities litigation conference and that an increasing portion of her job is working with securities litigation. The conference is sponsored by one of the System's security litigation firms, Robbins Geller.

RESOLUTION 12-029 By Britton, Supported by Naglick
Resolved, That the Board approve Chairman Storum's and Ms. Zimmermann's attendance at the GMI Ratings' Public Funds Forum being held in Park City, Utah on September 4-6, 2012.

Yeas: 5 – Nays: 0

Trustee Nye indicated that he is considering attending The Program for Advanced Trustee Study being held at Harvard Law School on July 30, 2012 through August 1, 2012. He stated that he decides to attend he will ask for the Board's approval to attend at the next meeting.

He questioned whether this conference would be over someone's head with his level of knowledge.

Mr. Kuhn said that it is a good conference and attendees get and bring back a lot of knowledge from this conference.

Ms. Arndt indicated that she would check into the hotel availability.

Chairman Storum commented on the final benefit calculations included in the agenda packet.

CONSULTANTS

Re: Gray & Company

Mr. Kuhn reviewed the flash report as of March 31, 2012. This Fund did not perform quite as well as the VEBA Fund due to the more conservative equity/fixed income mix. The

performance numbers for real estate were not available. Real estate should have done well and should add to the Fund's performance.

Quarterly, most managers were on track and slightly ahead of the benchmark with the portfolio up around 2%.

He indicated that the Board is looking to replace the Northern Trust Index Accounts and that he will bring the search materials to the next meeting.

He told the Board that the Goode Stable Value Fund is starting to wind down. Gray & Company likes stable value because it is liked fixed income but you buy insurance to protect the investment. They are not seeing a lot of movement in stable value. There was a ruling that defined benefit plans can no longer invest assets in stable value.

Trustee Britton asked who determines whether assets can be invested in stable value.

Mr. Kuhn indicated that it is part of the IRS regulations for defined benefit plans.

Funds were never withdrawn from that manager because they could not be reinvested. Stable value is like a dinosaur and now it is hard to find insurance wrappers. If they unwind the fund now there will be a capital gain. They wanted to let the Board know before August. They plan to look for a replacement starting in June.

Trustee Naglick questioned whether the Board should wait or take the money now based on the current interest rates.

Mr. Kuhn asked that the Board give him one more meeting to tie the two pieces Northern Trust and Goode Stable Value together.

Trustee Britton asked what strategies Gray & Company are looking at.

Mr. Kuhn said that they are looking at some fixed income options. There is also the possibility that the basket clause could be expanded as an amendment to Act 314 in the legislature. As a firm they are neutral to positive on equities and negative on fixed income. They do like international fixed income.

Chairman Storum asked if he has any ideas on when the vote on the changes to Public Act 314 will be held.

Mr. Kuhn said that it should be voted on at the end of the summer.

Trustee Nye asked what will change.

Mr. Kuhn said that the basket clause will increase from 5% to 15%.

The updated market values indicate that \$9 million will come from Northern Trust to fund Franklin Templeton.

Chairman Storum asked when the Franklin Templeton investment will be funded.

Mr. Kuhn reported that the funds will be transferred to Franklin Templeton on April 27, 2012.

Franklin Templeton is a global fixed income strategy. Europe is on the same cycle as the United States but the emerging markets are on other cycles so there is more yield to be had.

Trustee Britton asked if the emerging market countries are sovereigns.

Mr. Kuhn said yes, also a small amount of high yield. There are no allocations of Portugal, Italy, Greece or Spain in their fund. They are targeting June for replacement.

Gray & Company acts as an outsource CIO for some small funds. They let Gray & Company run their fund. They use Franklin Templeton in these other accounts.

Trustee Britton asked if the Board is seeking to stop business with Northern Trust. He asked if World Asset Management is in their universe.

Mr. Kuhn confirmed that WAM is in their universe. He did indicate that they have always done a good job but there has been some turnover and client service issues. Bob Kay and Kevin Yousif have left the firm. Kevin Yousif went to LS Investments working with their high net worth clients. The Board could look at LS Investments as well.

Trustee Nye asked if the changes could be wrapped up by July.

Mr. Kuhn said that the index search should be done in May and finalists presentations in June.

He indicated that it is customary for the trustees to play a round of golf after the MAPERS Conference ends. He asked that those trustees interested please let him know. They should be done before the dinner scheduled at 6:30 p.m.

Trustee Britton said that he likes how four or five questions are sent to the managers in advance. Gray & Company does a good job of keeping the Board up-to-date. He feels this format will help the Board to gain more insight.

Mr. Kuhn said that he needs to do a better job of reeling in the managers who speak too long.

It was determined that the Board would table the replacement of the custodian.

Mr. Kuhn said that he will assist but the transition to a new custodian would all fall on Ms. Zimmermann and staff.

REPORTS

Re: Chairman - None

Re: Secretary

Trustee Naglick indicated that Trustee Waterman of the City of Pontiac General Employees' Retirement System Board excused him from the Personnel Committee meeting saying it was a small issue that she would not identify. He is concerned about sharing a precious resource with only three people. Discussion followed.

Ms. Zimmermann indicated that Trustee Waterman asked for information but she has not met with her.

Trustee Naglick said that he sees a lot of different interests between the two Boards. He asked Ms. Zimmermann at the GERS meeting whether she needs any temporary help.

Trustee Jukowski said that this is typical. The Board is not equipped to run day to day operations. If there is a problem in personnel you start with Ms. Zimmermann and not second guess her.

Ms. Zimmermann indicated that she was going to discuss this under her staff report.

Chairman Storum said that the Police & Fire System can have their own Personnel Sub Committee examine how to deal with staff. He asked if Trustee Britton could take his place.

Trustee Naglick said that the Board should talk up in Mt. Pleasant.

Ms. Zimmermann indicated that she will not be going to MAPERS but she will be at the Manager Review meeting.

Trustee Britton said that he concurs with the other trustees and that the department head has to be held responsible.

Trustee Jukowski said that they had the same issue at the Housing Commission. All the board members tried to be the boss.

Trustee Britton said that this is a difficult issue for Ms. Zimmermann.

Trustee Nye stated that the sooner it gets resolved the better.

Trustee Jukowski stated that he and Trustee Naglick need to address the issue at the GERS meeting.

Chairman Storum told the Board that he asked Trustee Waterman about the issue and she would not answer.

Trustee Naglick indicated that it is important to secure the staff.

Re: Trustees - None

Re: Administrator

Executive Order S-183

Ms. Zimmermann distributed copies of Executive Order S-183. In order to hit a number of targets to receive State revenue sharing money, the Emergency Manager is changing the pension multiplier to 1.5% and capping the amount of accrued leave at 240 hours.

Mr. Henzi said that they contacted the Department of Treasury regarding these changes. He explained that these changes are going forward and that, by way of example, an employee with fifteen years of service credit will now have two elements to their FAC. The first fifteen years will be calculated using the old multiplier and their service credit going forward will be calculated using the new multiplier.

When the law was enacted the legislature likely never considered this and did not include guidance in the legislation. The Treasury Dept. stated it will disseminate the FAQ later this week. All the cities around the State need guidance going forward and require access to the FAQ. The FAQ has been drafted but Andy Dillon and others are reviewing the document before it is sent out.

Mr. Henzi said that no PFRS members or retirement staff would be affected since the ordinance clearly states it only applies to city employees.

Ms. Zimmermann questioned whether deferred members would go out under the old terms.

Mr. Henzi said that the City is filling holes on the Governor's checklist.

Goode Stable Value – Refer to Consultant

Disability Re-Exam – Scott Wedge

Ms. Zimmermann reported that she is working on the disability re-exam for Scott Wedge. It is normally scheduled this time of year and he flies into Michigan for his appointment.

Retirement Staff

Ms. Zimmermann reported that Ms. Craft has been off since March 20, 2012. In August, 2011 she was also on a leave of absence. At that time she did an assessment of what work was done and what needed to be completed by Ms. Craft. She recently performed another assessment and the back log has increased. Numerous errors have been discovered.

Re: Legal

RESOLUTION 12-030 By Jukowski, Supported by Britton

Resolved, That the Board move to closed session to discuss pending litigation.

Yeas: 5 – Nays: 0

The Board moved to closed session at 10:00 a.m.

Trustee Nye left at 10:47 a.m.

The Board returned from closed session at 11:31 a.m.

RESOLUTION 12-031 By Jukowski, Supported by Britton
Resolved, That the Board approve the closed session minutes from March 22, 2012.

Yeas: 4 – Nays: 0

RESOLUTION 12-032 By Britton, Supported by Naglick
Resolved, That the Board authorize the Administrator to take action deemed prudent in the office specifically in reference to the backlog and problems discussed today.

Yeas: 4 – Nays: 0

Partial Termination

Mr. Henzi provided an update on the partial termination. He referred to a chart detailing the layoffs beginning in 2005. The Fire Department took the largest hit and based on the chart all Fire members would become vested as of February 1, 2012.

Trustee Naglick asked if there are any ramifications for Sandy Rodwan.

Mr. Henzi said that the Police Department began downsizing in earnest in 2005. There were no layoffs in 2009 only early retirements offered by the new Emergency Manager. Police members would be vested based on their last day of service. Those laid off in 2005 would be vested as of 2005. On the date the Police Department terminated there was only one non-vested police officer.

Trustee Naglick left at 11:36 a.m.

Trustee Britton expressed his confusion with the numbers. He questioned how only one non-vested member was laid off in 2011 when vested members were laid off.

Ms. Zimmermann stated that the information comes from payroll and there may have been seniority issues that were adjusted for layoffs.

Chairman Storum recommended checking the members' service credit.

Trustee Naglick returned at 11:38 a.m.

Trustee Jukowski confirmed that when the threshold hits a 20% reduction there is a partial termination.

He asked what the starting number of police officers was since at one time there were 175 officers. He asked how Mr. Henzi arrived at the 20% reduction.

Mr. Henzi said that from 2008 through 2011 the 20% reduction was reached in 2010. Certainly, in 2011 there would have been a 20% reduction according to the IRS ruling when the Police Department was transitioned to Oakland County. However, there was a systematic downsizing that started in 2005. When there is a slow systematic downsizing it is fair to go back to when it began.

Trustee Jukowski asked if the Police Department would have hired 20 guys in 2010 would it have changed the results.

Mr. Henzi stated that it could have changed the result, however there were no new police hired only callbacks. There is an allowance for demographic changes.

The second point is what happens with the members who withdrew their contributions not knowing that they could be vested. Ms. Zimmermann has drafted a policy for the Board's review. The idea of buying some of the members out is a good idea and permissible. It will require a change to the Retirement Ordinance.

If the Board decides to do this it is another task for the Retirement Office. It will require identifying the members, sending notices and obtaining Sandy Rodwan's assistance.

Chairman Storum questioned whether this would be an interest carrying note and would the members be required to payback the contributions with interest. The longer the member waits the more interest is accrued.

Trustee Jukowski left at 11:47 a.m.

There was discussion regarding the process and specifics of the buyouts and redeposits.

Ms. Zimmermann said that the buyouts could be based on a certain number of years as with the draft letter. There was also the question of the what interest rate to charge. The current rate is 7.5% and the Board has the authority to change the rate.

Trustee Britton asked if the buyouts should be limited to members with less than five years.

Chairman Storum said that he is more in favor of offering the buyout to anyone who was not vested at the time of separation.

Trustee Jukowski returned at 11:50 a.m.

Mr. Henzi stated that he looked at the Ordinance and it needs to be amended for the money coming into the System.

Ms. Zimmermann indicated that the Ordinance currently allows for redeposit of contributions.

Trustee Naglick left at 11:51 a.m.

Chairman Storum questioned whether it only applies to active members.

Trustee Britton asked if an additional amount should be offered to those members for not coming back.

Chairman Storum said that you would have to make that offer to all members to be consistent.

Trustee Britton said he was looking for a way to eliminate additional work and money long-term.

Ms. Zimmermann indicated that a cost study would be needed.

Trustee Britton did not feel a cost study would be warranted.

Trustee Naglick returned at 11:54 a.m.

Trustee Jukowski stated that if a member is terminated and comes back on payroll how is the present value determined without a cost study. He questioned what number would be used as a payback.

Trustee Britton said that he was prepared to double the member's contribution amount.

Chairman Storum said that if the employees were paying 8% and their benefit is 18% to 20% the System would be offering less than the future value.

Ms. Zimmermann stated that the GERS Board is held to the same cost study requirement when there is a change in benefit.

Mr. Henzi stated that he believes a cost study is required and he will discuss the issue with Ms. Rodwan.

Trustee Britton again questioned why a cost study is needed.

Ms. Zimmermann explained that it is required by law under Public Act 314.

She indicated that at the time of the Police Department separation there were 45 non-vested members. She will also verify that vested members did not take their contributions.

Chairman Storum felt that if the member was vested they were already given the option of leaving their contributions in the System.

Mr. Henzi said that they would have to determine the member's intent on withdrawing their contributions.

Franklin Templeton Global Bond Plus Investment

Mr. Henzi reported that all the signatures were obtained and the transition is scheduled for April 27, 2012.

Hiring Retirement System Office Staff

Mr. Henzi reported that the SAEA issue is still pending.

Renewal Application for Fiduciary Liability Insurance

Mr. Henzi reported that this is the same policy with the same endorsement and a deletion of the waiver of recourse. He indicated that the deductible has increased from \$10,000.00 to \$25,000.00. He feels this increase was due to the Hawkins' and Northern Trust litigation.

Trustee Britton asked how long the System has had the insurance.

Chairman Storum said they have had fiduciary liability insurance for the past six to seven years.

Trustee Britton asked if the System has recouped the premiums to date. He feels it is a waste of the System's money.

Chairman Storum indicated that he likes the personal coverage for the trustees.

Mr. Henzi said that the insurance was important during the Northern Trust litigation.

Trustee Britton asked if the Board could assert governmental immunity.

Mr. Henzi said that the Hawkins litigation did not recoup the \$25,000.00 deductible.

Chairman Storum asked what would happen if someone else sued the Board for discrimination.

Trustee Britton said that the premium is \$30,000.00 per year with a \$25,000.00 deductible and a \$2 million cap. He felt that it would be less costly for the System if the Board was self insured.

Trustee Jukowski said that he would vote to indemnify the Board and questioned whether it is viable for the Board to be self insured.

He asked if there are any situations that would leave the Board vulnerable. When he was representing the City if an officer was sued it could leave the cop on the hook. He asked if there is anything hypothetically that could preclude Board indemnification.

Mr. Henzi gave an example of Board insider trading which could preclude indemnification.

Trustee Britton stated that the problem with insurance policies is that there are escape clauses.

Mr. Henzi said that if a trustee lies the insurer could allege coverage with reservation of rights which could result in a denial of the claim.

Trustee Jukowski said that he is more concerned with allegations where he would personally have to hire an attorney. He does not feel he should have to pick up that cost especially where there is a pre-establishment of guilt.

Mr. Henzi indicated that the Board could provide the defense.

Ms. Arndt asked if the Retirement Administrator would be covered.

Ms. Zimmermann said that indemnification was added to the Retirement Ordinance.

Mr. Henzi said that there was a recent change in the GERS Ordinance. Historically, there have not been any claims like the Hawkins claim.

Trustee Britton asked if Mr. Henzi could review the policy. He noted that insurance companies do not like to pay claims.

Trustee Naglick stated that it may be more difficult to amend the Ordinance going forward.

Chairman Storum said that he just wants to make sure that he does not have to take money out of his pocket to defend himself.

Mr. Henzi asked if the Board would like to continue the insurance for one month while he reviews the policy.

RESOLUTION 12-033 By Jukowski, Supported by Britton

Resolved, That the Board approved the continuance of the fiduciary liability insurance for one month while legal counsel reviews the policy per Board discussion.

Yeas: 4 – Nays: 0

Health Care Reform – Reporting Health Care Coverage on Employees' W-2s

Mr. Henzi reported that Ms. Munson brought this to his attention. There is a new mandate from the IRS that requires municipal employers to report the cost of healthcare coverage on the employee's W-2. There currently is an exception for employers with less than 250 employees but that could change.

Electronic Meeting/iPad Use Policy

Mr. Henzi referred to the Trustee iPad Use Policy contained in the Legal Report. He asked that the Board review the policy for approval.

He indicated that the trustee/staff will sign the agreement and both keep a copy when they take possession of the iPad.

RESOLUTION 12-034 By Britton, Supported by Naglick

Resolved, That the Board approve the Trustee iPad Use Policy.

Yeas: 4 – Nays: 0

Robbins Geller Portfolio Monitoring Report – First Quarter 2012

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

Re: Union Representatives – None

NEW BUSINESS

Re: Redeposit Draft Policy - Tabled

Re: BS&A Software Set-up Fee – Tabled

Trustees Britton and Naglick questioned why the System would need access going forward when there are no employees.

Trustee Naglick indicated that Joseph Sabota sent the invoice out prematurely. The City will not transition to that software until early 2013.

UNFINISHED BUSINESS

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

Re: MAP – Draft Letter of Clarification to Members

Ms. Zimmermann requested that the Board approve the draft letter of clarification to MAP members.

RESOLUTION 12-035 By Britton, Supported by Naglick

Resolved, That the Board approve the letter of clarification to MAP members.

Yeas: 4 – Nays: 0

Re: Partial Plan Termination – Refer to Legal

Re: Electronic Meetings – Table

A wi-fi hotspot will be installed for meeting purposes.

Re: Rent / Overhead

Ms. Zimmermann reported that she went out to a website that featured Pontiac office space for lease. The Retirement Office is approximately 800 square feet and the City is asking for more than \$20.00 per square foot to lease the space. Office space in Pontiac is currently going for \$8.00 to \$15.00 per square foot.

Chairman Storum asked if a bill has been received.

Trustee Naglick confirmed that a bill has not been sent. He and the Mayor will speak with Emergency Manager Schimmel. He also indicated that the lease includes full service internet, phone and IT assistance.

Re: Employee Withholding Issue – Contributions Due Letters

Ms. Zimmermann referred to the contribution due letters for the trustees' information. She indicated that the letters were sent out to recently retired members who owed contributions. The City's new payroll system through ADP does not have the capability to prioritize deductions. As a result contributions due from sick and vacation payouts were not properly taken.

Ms. Munson provided a chart of the members who had excess contributions taken out. There were also eight members who did not have enough contributions taken out of their last checks who have amounts due to the System. She indicated that the members are willing to repay their contributions.

Chairman Storum confirmed that the members will pay the money back to the System and will get it back with their finals are processed. He indicated that he wants to be consistent.

RESOLUTION 12-036 By Naglick, Supported by Jukowski

Resolved, That the Board approve the immediate repayment of the excess contributions as indicated.

Yeas: 4 – Nays: 0

Ms. Zimmermann stated that the contributions were not taken from their lump sum amounts. They should get them back pretty quickly.

Ms. Zimmermann indicated that the continuing problem is payroll.

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, May 31, 2012 – City Council Conference Room, Second Level, City Hall @ 9:00 a.m.

ADJOURNMENT

RESOLUTION 12-037 By Naglick, Supported by Jukowski

Resolved, That the meeting be adjourned at 12:30 p.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 April 26, 2012.

John Naglick, Secretary
As recorded by Jane Arndt