

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

Trustees Present

Lon Britton
Matthew Nye, Chairman
Leon Jukowski, Mayor
John Naglick, Secretary
Craig Storum

Others Present

Denise Jones, Rodwan Consulting (*arr. at 8:58 a.m.*)
Chris Kuhn, Gray & Company
Matthew Henzi, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant

The meeting was called to order at 8:39 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Approval of Regular Meeting Minutes: June 27, 2012
- B. Financial Reports
 - 1. Consolidated Statement of Changes – June, 2012
 - 2. Accounts Payable:
 - a. Gray & Company 1,250.00
 - b. Sullivan Ward 7,582.00
- C. Correspondence:
 - 1. Correspondence from Bradford & Marzec Re: Portfolio Summary 05/13/12
 - 2. Correspondence from Rhumblin Re: Monthly Performance Report from June 2012

RESOLUTION 12-029 By Storum, Supported by Naglick
Resolved, That consent agenda for July 26, 2012 be approved.

Yeas: 4 – Nays: 0

TRUSTEE/COMMITTEE STAFF REPORTS

Ms. Zimmermann reported that the HELPS letter was mailed out to the retirees.

Ms. Arndt indicated that she had fielded a number of calls from retirees who did not understand the letter and required further explanation.

CONSULTANTS

Re: Gray & Company – Equally Weighted S&P 500 Update

Mr. Kuhn explained that June saw a rebound in performance, but April and May were not kind. Year-to-date performance is 5.46% due to good first quarter returns. During the second quarter some of the strong performance of the first quarter was given back. This is a lot like last summer with one-year performance at -1.76%.

Rhumblin's performance was in line with the benchmark.

Broadview was behind the benchmark for the month and quarter. They have seen a lot of managers in the small cap space not keeping pace during the quarter which will detract from their longer-term performance.

On a relative basis this was not a good quarter and most managers were behind the policy index. They will bring the full performance report to the next meeting.

The Fund's total value as of July 24, 2012 was \$28.3 million. He indicated that the asset allocation is very close to the target but is a little overweight to equities. No rebalancing is needed.

Trustee Nye asked if Mr. Kuhn noted any red flags from the managers.

Mr. Kuhn said that they did not feel there were any red flags. They are currently working on the attribution points. The performance is in the normal range for these managers

He provided an update of the RhumbLine portfolio. When they asked Rhumblin about changing the index strategy weighting they indicated that the minimum management fee would be increased to \$20,000.00 or 20 basis points on \$10 million, which is a little high. LS Investments stated that they would put together the requested index strategy for a minimum fee of \$10,000.00 and 10 basis points which is half of Rhumblin's fee.

Chairman Nye asked if they are currently charging the maximum.

Mr. Kuhn said that Rhumblin has not changed or raised the fees.

He also explained that Gray & Company has worked with Kevin Yousif of LS Investments in the past when he worked for World Asset Management which was an investment arm of Comerica.

Chairman Nye recommended that the manager be brought in to present their strategy.

Trustee Britton is confident that LS Investments is a quality company and he would speak to their quality. He does not need them to come in and present their strategy. He would move the money to LS Investments without sitting through a presentation.

Trustee Storum asked if LS Investments is currently managing this strategy.

Mr. Kuhn said that this would be a new strategy for them. However, Rhumblin did not have an equally-weighted strategy before. He said that the manager has to have the system to trade stocks and qualified people. It comes down to the fees.

RESOLUTION 12-030 By Storum, Supported by Britton

Resolved, That the Board based on last month's strategy review and recommendation approves to retain Equity Index Manager LS Investments pending contract review.

Yeas: 5 – Nays: 0

Re: Sullivan, Ward, Asher & Patton

IRS Request for Form 990

Mr. Henzi reported that they received a reply from the IRS. They have been asked to file a Form 1023. They are currently preparing the paperwork. This should complete the process. It is very frustrating working with the IRS because there is no one to call to resolve issues.

Request for Reinstatement of Health Insurance Policies

Mr. Henzi reported that last month the Board received a letter submitted by Craig and Judy Storum. Trustee Storum was questioning why his insurance coverage was canceled and he was put on his wife's plan.

Mr. Henzi stated that he sent a letter to the City's attorney, Steve Hitchcock, requesting that Mr. Storum's insurance be reinstated. Mr. Hitchcock said that he is working on a resolution that should apply to all married couples. He will get back with him in writing. Mr. Henzi questioned whether the Storum's should be put into the VEBA. He also requested that each spouse have their own policy.

Chairman Nye asked why each person cannot have their own policy.

Trustee Naglick explained that the City is self insured and that the insurance company charges a minimum administration fee for each individual plan. The City saves money by combining married couples into one plan. If each spouse has their own plan the City is charged two administration fees.

Trustee Storum also indicated that his dental and vision insurance was canceled last year and he was never notified or received a letter.

Trustee Naglick stated that he does not know why that happened.

Trustee Storum said that he has the same issue with this coverage.

Trustee Naglick told the Board that an Executive Order was issued by the Emergency Manager to put married couples on one plan.

Mr. Henzi stated that he will also note that this also applies to Trustee Storum's dental coverage.

Denise Jones arrived at 8:58 a.m.

Request for Payment of Annual Contributions

Mr. Henzi stated that he sent a letter demanding payment of the 2012 annual contributions. The Emergency Manager came right out and said that he is not going to pay.

Trustee Naglick said that these contributions are not the same as the ones that were due on June 30, 2011. He questioned whether the bills calculated on the 2009 actuarial report are correct or whether they are based on old out-dated data. He stated that the City will question an invoice based on older data since there were less actives.

Trustee Jukowski and Trustee Naglick indicated that they would abstain from voting on this issue.

Trustee Britton asked when the 2011 VEBA Actuarial Valuation Report will be completed.

Ms. Jones told the Board that the Valuation Report is currently in the review process.

Trustee Naglick said that there have been big plan changes since the last valuation.

Ms. Zimmermann asked if the contributions are based as a percentage or an amount.

Trustee Naglick discussed the valuation changes and issues. He said that the City has changed the retirees' deductibles and co-pays which is favorable to the Fund. The first quarter invoice from the City was for \$750,000.00 but the second quarter invoice for \$400,000.00 reflected these changes.

Trustee Storum said that once the retirees' prevail in their lawsuit against the City this will not be valid.

Trustee Britton indicated that this is a serious issue whether to vote on filing a lawsuit and that the trustees have gotten off issue.

RESOLUTION 12-031 By Britton, Supported by Storum

Resolved, That the Board authorize legal counsel to file a lawsuit for payment of the 2012 annual contributions.

Yeas: 3 – Nays: 0
Abs: 2 (Jukowski, Naglick)

Chairman Nye questioned whether the amount due is negotiable.

Mr. Henzi said that the City could come back and say we owe you \$2.4 million versus the \$4 million indicated by Rodwan.

RESOLUTION 12-032 By Britton, Supported by Storum

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

Yeas: 5 – Nays: 0

*The Board moved to closed session at 9:09 a.m.
Ms. Arndt, Ms. Jones & Mr. Kuhn left at 9:09 a.m.
The Board returned from closed session at 10:08 a.m.*

UNFINISHED BUSINESS

Re: Non Payment of Contributions – Fiscal Year 2011

Trustee Naglick asked about the status of the contributions for fiscal year 2011.

Mr. Henzi indicated that the trial started in May, 2011 with Judge Bowman. Briefs have been filed but there has been no opinion issued. The trial date was set for November 26, 2012 but he contacted the Court and that date was reset to no date. They are still waiting for the Court's opinion.

Chairman Nye asked what will happen if Judge Bowman is not re-elected.

Mr. Henzi indicated that Judge Bowman's cases would be reassigned to a new judge or he would make his decision before leaving the bench.

Trustee Naglick told the Board that they have been sending reimbursement checks to those who paid the tax increase before the injunction. This has helped the City in cleaning up the tax rolls.

Re: Contribution Invoices July – December 2011– Refer to Legal (Closed Session)

Re: Tax Exempt Status – Refer to Legal

NEW BUSINESS

Re: Q1 2012 Healthcare Reimbursement Request

Ms. Zimmermann told the Board that she has not reviewed the numbers from the spreadsheet provided by Risk Management.

Trustee Storum said that he has questions regarding the optical claim numbers since the City is no longer paying for vision coverage.

Trustee Naglick stated that the actual claims were paid through January 31, 2012. The plan design changed effective February 1, 2012.

Trustee Storum said that he would like to see the Fund save the cost of a trial and litigation paying the City the difference between the reimbursement and the contributions they owe.

Chairman Nye said that he agrees with Trustee Storum but is concerned that the City would cease healthcare benefits for the retirees.

Trustee Britton recommended that this issue be tabled.

Trustee Naglick stated that this puts him and the City in a difficult situation because he has been directed to collect the payment by August 31, 2012.

RESOLUTION 12-033 By Britton, Supported by Storum
Resolved, That the Board table the issue regarding reimbursement of healthcare premiums for the first quarter of 2012.

Yeas: 3 – Nays 1 (Naglick)
Abs: 1 (Jukowski)

SCHEDULING OF NEXT MEETING & ADJOURNMENT

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

ADJOURNMENT

RESOLUTION 12-034 By Jukowski, Supported by Naglick
Further Resolved, That the meeting be adjourned at 10:27 a.m.

Yeas: 5 – 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 July 26, 2012.

John Naglick, Secretary
As recorded by Jane Arndt