

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
AUGUST 23, 2012**

A regular meeting of the Board of Trustees was held on Thursday, August 23, 2012 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 10:59 a.m.

**Trustees Present**

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

**Others Present**

Denise Jones, Rodwan  
Chris Kuhn, Gray & Company  
Laurance O. Gray, Gray & Company  
Matthew Henzi, Sullivan, Ward, Asher & Patton  
Ellen Zimmermann, Retirement Administrator  
Jane Arndt, M-Administrative Assistant

**Trustees Absent**

Matthew Nye (*excused*)

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**AGENDA CHANGES**

**CONSENT AGENDA**

- A. Minutes of Special Meeting – May 23, 2012
- B. Minutes of Regular Meeting – July 26, 2012
- C. Communications:
  - 1. Correspondence from Metropolitan Real Estate Fund VII Re: July 2012 Newsletter
  - 2. Correspondence from Franklin Templeton Re: Performance Summary July 2012
  - 3. Correspondence from WHV International Re: Q2 Attribution & Commentary
  - 4. Conference Information:
    - a. 2012 Public Safety Employees Pension & Benefits Conference – NCPERS  
October 7-12, 2012
- D. Financial Reports:
  - 1. Financial Reports – July 2012
  - 2. Accounts Payable – August 2012
- E. Capital Calls: None
- F. Remove from the Rolls:
- G. Final Benefit Calculations:

1. John Widdis – PFFU	#2655	\$5,352.01
2. Mark Perkins – PFFU	#2658	3,679.27

Chairman Storum asked about Albert Wedge under Removed from the Rolls. It was determined that Mr. Wedge was a member of the General Employees' Retirement System and he would be removed from the Consent Agenda.

**RESOLUTION 12-071** By Britton, Supported by Naglick  
Resolved, That the consent agenda be approved as amended.

Yeas: 4 - Nays: 0

## **CONSULTANTS**

### **Re: Gray & Company – Q2 Performance Review**

Mr. Kuhn told the Board that this Fund is more conservatively invested with a higher allocation to fixed income than the VEBA. They had better performance than the VEBA Fund but performance was still negative and trailed the policy index. Active managers are not keeping pace. Munder is the only exception down -4.18% versus the benchmark at -4.93%.

Trustee Britton questioned the Munder benchmark and asked if they are using the S&P Mid Cap based on the June, 2012 meeting.

Mr. Kuhn referred to page six under section two which includes both benchmarks. They are addressing both issues. They want to perform the asset liability work first before making any changes.

Trustee Britton also asked if only having performance number for three quarters for Mesirow and Metropolitan are driving down their one-year numbers.

Both international equity managers were slightly ahead of the benchmark. Wentworth, Hauser & Violich outperformed in a bad environment. Thornburg remained close to the benchmark. Thornburg's one year return was trailing the benchmark but WHV was slightly ahead.

He reviewed the fixed income performance. Franklin Templeton was not funded for a full quarter so there are no performance numbers.

Garcia Hamilton out performed slightly. Their duration is longer than the benchmark and more on the credit side which helped with the lower interest rates. This is the one-year date for Garcia Hamilton in the portfolio.

They are trying to get a better benchmark for Artio High Yield. Currently, all the benchmarks are U.S. based. One-third of Artio's portfolio is in international. They are looking to put together a customized benchmark. Year-to-date Artio is up 7%.

Trustee Britton pointed out Artio's one-year performance numbers.

Mr. Kuhn stated that Artio has a much different strategy than other high yield managers. Peritus Asset Management in the GERS Fund is a lower high yield manager with their average holdings in CCC to BB rated bonds. Artio is more BB rated. Peritus is also U.S. based. Peritus was up .82% versus the benchmark at 1.83%. When spreads widen the equity markets sell off and high

yield struggles. Last year Peritus was up 3.49% versus the benchmark at 6.5%. Their three-year performance was 17%.

Mr. Gray noted that Peritus has a high quality junk bond portfolio and they use the same type of attribution for the benchmark.

Chairman Storum stated that is why they invested in Artio because they are a high quality junk bond manager.

Mr. Kuhn told the Board that the Goode Stable Value portfolio transition is done. Half of the assets will go into cash to pay for benefits and the other half will be split between Garcia Hamilton and Northern Trust Intermediate Government/Credit Index Fund.

American Realty Advisors had a good quarter and were slightly ahead of the benchmark. He indicated that the ODCE Index is a better benchmark comparison and is located under Tab 3. It is a fairer comparison. All core real estate managers' three-year performance trail the benchmark.

He reviewed the market values from August 17, 2012. The Fund is up \$14 million from the end of the second quarter at \$222 million to \$236 million. The S&P is near their four-year high with double digit numbers but it does not feel that way. Some days investors are so scared they sell which is when you see a huge decline in the market.

Trustee Britton agreed with Mr. Kuhn and said that he does not understand why the market has been down the last two days.

Mr. Kuhn said that the market has pushed up but there are lower volumes. A lot of selling would create a sharp decline. The added performance may not be there at the end of the quarter.

Trustee Britton asked if the assets from Goode will be invested more conservatively.

Mr. Kuhn indicated that the Goode assets will be allocated to the cash account, to the Garcia Hamilton portfolio and the Northern Trust Index Fund.

Chairman Storum confirmed that the assets are being conservatively invested.

Mr. Gray stated that Bill Gross recently apologized for his bad investment advice regarding bonds. Investors were going into MLP's, Master Limited Partnerships, the product du jour. Volatility will continue, especially with computerized trading. Approximately, \$171 billion came out of the marketplace and went into bonds. The active money is in institutional funds and they are seeing upcoming volume.

Mr. Kuhn said that the Fund is currently under allocated to equities and over in cash by design. The Fund just completed a rebalancing which increased cash.

Ms. Zimmermann indicated that the benefits are running \$1 million per month.

Trustee Naglick asked if GERS benefits run \$2 million per month.

Ms. Zimmermann stated that the GERS benefits run \$1.3 million per month.

Mr. Kuhn said that they ran the same large cap equity allocation review exercise for the Pension Fund as they did for the VEBA. This will allow the Board to see how the equities are weighted and what the managers are buying.

LS Investments reduced the top twenty-three names by one-half.

He reviewed the large cap index returns by calendar year from 1990 through 2011. During the 1990's the larger names performed best with S&P 500 annualized performance returns for the decade at 18.21%. The reverse was true for the 2000's with annualized performance returns at -0.95%.

He compared the total returns for the past five years ending on March 31, 2012 for the various strategies including the S&P 500, the 50% Russell 1000 Growth/50% Russell 1000 Value; the equally weighted S&P 500 and their equally weighted Bias 1 strategy. The overweight to the top fifty names deemphasized the bottom four hundred and fifty names.

Trustee Britton asked what kind of break in fees the System would receive from LS Investments versus Northern Trust.

Mr. Kuhn stated that LS Investments would be a little more expensive, but the advantage would be the equally weighted long-term strategy. If you put all three of these bases together the Fund should see better performance. Having a cap weighted strategy could be a concern.

There was discussion regarding the equally weighted strategy versus the normal index strategy.

Trustee Britton said that he would be willing to move the assets to LS Investments because he is not happy with Northern Trust if there is not a big price difference.

Mr. Gray stated that he sat down with Kevin Yousif of LS Investments.

Ms. Zimmermann asked what percentage of the System's assets would be allocated to LS Investments.

Chairman Storum said that he would like to have LS Investments in for a presentation before making a decision based on the amount of assets.

Trustee Britton recommended that the Board hold a special meeting.

Mr. Kuhn said that they would like to conduct the asset liability study before moving the assets and recommended tabling the issue. He will get back with Ms. Zimmermann with a date.

Trustee Britton noted there is a Liability Driven Investment Conference being held on September 20, 2012 in Chicago and on September 27, 2012 in New York.

Ms. Zimmermann indicated that the September, 2012 Board meeting is scheduled for the 27th.

**Re: Rodwan Consulting – Revised Supplemental Actuarial Valuation Report (Second Revision)**

Ms. Jones provided the highlights of the revised supplemental valuation report from March 1, 2012.

Based on the revision there were thirty-six new inactive vested members. This report also excluded the contributions receivable from the City.

Excluding the contribution receivable from last year and the elimination of active members, the ratio of the funding value of accrued assets to accrued liabilities decreased to 96.6%. This is still a good funded ratio versus other funds. The contribution receivables were reported to be \$1,407,741.

The increase of thirty-six vested inactive members increased the total to one hundred sixty-one. The average pension for inactive vested members is \$16,000 versus \$34,000 for retired members.

The System's actuarial accrued liabilities were \$248,335,145 versus the funding value of accrued assets of \$239,781,316 leaving an unfunded actuarial accrued liability of \$8,553,829. The total contribution amount was computed to be \$901,797 including interest with a twenty year level dollar amortization.

She indicated that they are using a five-year smoothing method. The Board may want to use the market value of assets which adds volatility but is a more accurate reflection of the assets in the Plan. A funded ratio of 96.6% is good but it is a closed plan.

Trustee Naglick noted that the Fund's current market value of assets at \$236.8 million is closer to the accrued liabilities.

Trustee Britton said that he would hate to move to the market value. If the Board changes the reporting, the Fund is a moving target.

Chairman Storum also noted that the Board needs to firm up the numbers. Some members may take the buyout which could change the numbers later.

**RESOLUTION 12-072** By Britton, Supported by Naglick

Resolved, That the Board receive and file the Revised Supplemental Actuarial Valuation Report as presented.

Yeas: 4 – Nays: 0

Trustee Naglick indicated that the City has not funded the 2011 or 2012 contributions. It questioned whether it would be better suggest the City fund the contributions at \$900,000 each year going forward. It would make sense to make that accommodation to take the pressure off contributions going forward.

Mr. Henzi stated that the \$900,000 figure could change.

Trustee Naglick questioned whether the City could get a contribution holiday for 2011 and 2012.

Mr. Henzi said that one prior misconception made by Mr. Schimmel's predecessor was that he felt if GERS was overfunded he would not have to make any contributions. There is a big difference between being 150% funded versus 103% funded. He recommended to the Board that they not let the City off the hook. The \$900,000 funded contributions could decrease overtime. If the System collects the \$2 million in past-due contributions, the contributions for fiscal year 2014 and 2015 would go down once the Fund reaches a 100% funding status.

Ms. Jones confirmed that the contribution amount could decrease if the past due contributions were collected.

Trustee Britton said if the Board lets the City off the hook for the 2011 and 2012 contributions, the Emergency Manager might just say that he does not have the money to write the next check. The System was set up with trusts to cover itself.

Chairman Storum said that if the Fund gets the money the City will pay less going forward.

Trustee Britton said that both Boards are trying to reduce the City's liability.

Trustee Naglick also indicated that if a number of the inactive vested members take the buyout it would also decrease liability. He asked if there were other ways to change the liability going forward.

Mr. Henzi stated that he has only seen one community forgive contributions and that was twelve years ago. That issue still comes up at every meeting by trustees who regret it.

*Ms. Jones left at 11:59 a.m.*

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## **REPORTS**

**Re: Chairman** - None

**Re: Secretary** - None

**Re: Trustees/Committees**

Trustee Britton stated that the Personnel Committee discussion will be conducted during the closed session.

**Re: Administrator**

Final Benefit Calculations

Ms. Zimmermann referred to a copy of an email from Ms. Munson under the Reports Section of the Agenda Packet regarding final benefit calculation processing. There are four files left from 2011 that are waiting for paperwork from Human Resources and the remainder retired in 2012.

FOIA Request

Ms. Zimmermann told the Board that she received a FOIA request from a legal firm in Washington, D.D. that was forwarded onto legal counsel.

Proposed MAPERS Bylaws

Ms. Zimmermann referred to the draft of the proposed MAPERS Bylaws for the trustees' information.

Miscellaneous Articles

Ms. Zimmermann reported that there are articles for the Board's reading pleasure.

*Mr. Kuhn and Mr. Gray left at 12:00 p.m.*

**Re: Legal**

Partial Plan Termination

Mr. Henzi reported that he sent a letter with the proposed Retirement Ordinance amendment to the Emergency Manager's Attorney. The amendment would allow any member who withdrew their contributions from the System the ability to reimburse the withdrawn contributions. Public Act 4 was suspended on August 8, 2012 so the Emergency Manager does not have the authority to amend the Retirement Ordinance. On November 6, 2012 the people will vote to continue under the current Emergency Manager Law or restore Public Act 4. The City Council will have to approve an amendment to the Retirement Ordinance. Once the Ordinance is amended the Board can get the ball rolling on offering the incentive plan to inactive deferred members.

Trustee Naglick asked if it would make more sense to survey the members first.

Chairman Storum said that most members will not read a survey and the Board would not get an accurate read of who is interested in the buyout. These members need to be made aware that they are being allowed to redeposit the withdrawn contributions. The most important part of this is reducing the System's liability.

Trustee Britton indicated that it will reduce the liability for both the Pension Fund and the VEBA Fund.

Mr. Henzi will work with Ms. Zimmermann to determine how many members are affected.

Ms. Zimmermann stated that once they have identified how many members there are based on the partial plan termination, she would like to create estimates so they know what their choices are based on if they repay their contributions what their benefit would be at age fifty or what their amount they would receive if they withdraw their contributions.

Trustee Jukowski said that the default position would be that if they withdraw their contributions they will not receive a benefit.

The question was asked, what would happen if a vested person ignored the information and if it would change their status.

Ms. Zimmermann stated that an inactive vested member would have to redeposit the withdrawn contributions or they will not receive a benefit. She suggested that legal research the issue with regard to the IRS regulations.

Mr. Henzi gave an example of a member with six years of service credit that knew they would never vest so they withdrew their contributions. The Board will have to limit the time period for a member to redeposit contributions or for members who would receive a small benefit to apply for the buyout.

Chairman Storum said that this is a lot of work based on a hypothetical.

Mr. Henzi stated that the Board would not want to send out the information without a vehicle to process the requests.

**RESOLUTION 12-073** By Jukowski, Supported by Britton  
Resolved, That the Board authorize the Administrator to take the proposed Retirement Ordinance amendment to the City Council for approval.

Yeas: 4 – Nays: 0

Ms. Zimmermann asked that the Board move forward and approve an actuarial valuation report to define the liability associated with doubling the amount of a member's contributions for buyout purposes.

**RESOLUTION 12-074** By Britton, Supported by Jukowski  
Resolved, That the Board authorize the Administrator to request an actuarial cost study to determine the liability to the System associated with matching a member's contribution for buyout purposes.

Yeas: 4 – Nays: 0

There was Board discussion regarding using registered mail and the number of mailings.

Mr. Henzi noted that the member will be required to submit a written response whichever way they decide.

Trustee Britton felt that the member's paperwork should be notarized.

#### Request for Reinstatement of Health Insurance Policies – Refer to PF VEBA Meeting

##### LaJuan Craft Grievance

Ms. Zimmermann stated that she met with Larry Marshall and with legal counsel from Sullivan Ward. The grievance has moved to the third step and arbitration is scheduled in October, 2012.

Chairman Storum questioned whether the System has to go through arbitration.

Trustee Naglick indicated that they agreed to arbitration.

Ms. Zimmermann indicated that the Systems agreed to abide by the contract and it is recorded in the minutes.

Mr. Henzi indicated that the System is bound by the Collective Bargaining Agreement. Even though Ms. Billings drew up the Successor Agreement and it was not signed, the System cannot say it is not bound by these terms, at least before the signature was refused. The issue is not about the person being a union employee. The issue is whether the System has to hold the job for one year. They explained that under FMLA the employer does not have to hold the position for one year.

Chairman Storum and Trustee Britton questioned why the System has to abide by the contract when the union's representative refused to sign the Successor Agreement. They would like the issue of the contract brought up at arbitration.

Trustee Britton indicated that he would like the contract to be the number one issue.

Chairman Storum asked how much it costs to go to arbitration.

Trustee Britton indicated that the System has already agreed to go to arbitration.

##### Electronic Meeting/House Bill 5335

Mr. Henzi reported that the bill was amended and passed by the Michigan House of Representatives. There is nothing new to report. He will keep the trustees' updated in reference to this matter.

##### CAP Commercial Mortgage – Tax (Carryover)

Mr. Henzi reported that this is a carryover item. There is nothing new to report.

##### Amendment to Public Act 314/Senate Bill 797

Mr. Henzi reported that the amendment to Public Act 314 was passed by the Michigan Senate and is currently in legislative analysis in the Michigan House of Representatives. They expect it to be passed in September, 2012.

Robbins Geller Second Quarter Portfolio Monitoring Report

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

Hagens Berman Second Quarter Portfolio Monitoring Report

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

Miscellaneous Articles

- *GASB Article Regarding DB Plans: Governmental Accounting Standards Board Issues Revised Pension Accounting and Financial Reporting Standards*
- *PERiScope: Setting the Discount Rate for Valuing Pension Liabilities*
- *Oakland Press: Pontiac Back in Court over Pension Fund, Insurance Trust Debts and Pontiac Retiree Benefit Cuts Draw Two Lawsuits*

Mr. Henzi indicated that the article from the Oakland Press was written by Dustin Blitchok of the Oakland Press.

Defined Benefit Plan – Correspondence with IRS

Mr. Henzi reported that this is for the trustees' information. He should have a response by the next meeting.

Nossaman LLP – FOIA Request

Mr. Henzi reported that he requested a ten-day extension to allow Ms. Zimmermann time to respond.

Worker, Retiree and Employer Recovery Act of 2008 (“WRERA”)

Mr. Henzi reported that currently there is not a provision for a non-spousal beneficiary for a rollover distribution into an IRA. The proposed amendment would change the language that currently only allows a spouse to rollover the distribution into an IRA. The Retirement Ordinance amendment request has to be adopted by City Council before the end of the year.

**RESOLUTION 12-075** By Jukowski, Supported by Britton

Resolved, That the Board direct the Retirement Administrator to take the proposed Retirement Ordinance amendment for WRERA to City Council for adoption.

Yeas: 4 – Nays: 0

Proposed Investment Manager Contract – LS Investments

Mr. Henzi reported that he is currently reviewing the contract.

**RESOLUTION 12-076** By Naglick, Supported by Nye

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

Yeas: 4 – Nays: 0

*The Board moved to closed session at 12:27 p.m.*

*Ms. Arndt left at 12:27 p.m.*

*Trustee Jukowski left at 1:13 p.m.*

*The Board returned from closed session at 1:16 p.m.*

*Ms. Arndt returned at 1:16 p.m.*

**RESOLUTION 12-077** By Britton, Supported by Naglick

Resolved, That the Board approve the closed session minutes from July 26, 2012.

Yeas: 3 – Nays: 0

**RESOLUTION 12-078** By Britton, Supported by Naglick

Resolved, That the Board authorize legal counsel to drop the claim regarding the involuntary deduction.

Yeas: 3 – Nays: 0

**Re: Union Representatives – None**

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## **NEW BUSINESS**

### **Re: Computers**

Ms. Zimmermann told the Board that she requested a quote from Sarcom for new computers. She recently lost three and one half days of work due to hardware failures and blue screen errors. Sarcom provided a quote for four computers with 4 gigabytes of memory and DVD burners for approximately \$2,716.00 and change. With monitors the quote increased to \$3,400.00 or \$3,500.00. The GERS Board agreed to purchase new computers. Sarcom indicated that it would only be a matter of days to procure the new equipment.

Trustee Naglick stated that Trustee Bowman did not want to purchase new monitors.

Ms. Zimmermann stated that she hates losing data.

Trustee Britton questioned why the Retirement Staff would require four computers when there are only three Retirement Office staff members especially if the System is going to a third party administrator.

**RESOLUTION 12-079** By Britton, Supported by Naglick

Resolved, That the Board authorize the purchase of three computers with monitors with a maximum allocation of 30% of \$3,000.00 subject to the GERS Board approval. This System will authorize the purchase of two computers with monitors without GERS Board approval.

Yeas: 3 – Nays: 0

**Re: Executive Order S-224 (Two Retiree Insurance Coverage)**

Chairman Storum asked if there is anything back in writing regarding the premiums.

Mr. Henzi stated that the City glossed over the issue of whether it is required to provide an individual policy for each married retiree. The City did agree that each married retiree should pay an individual premium.

Trustee Naglick said that this is part of former Emergency Manager Stampfler's Executive Order which is part of the case with Kumar.

Mr. Henzi stated that if it is part of S-206 and S-207 it is included.

**Re: Executive Order S-236 (Retiree Healthcare Millage)**

Trustee Naglick indicated they are waiting for ballot language to be approved to put a millage proposal for \$6.5 mills on the election ballot.

He asked if the Board would be willing to consider sending out a flyer to promote the millage. The City is not allowed to spend taxpayer money to advertise issues.

Chairman Storum stated that he is not sure that the VEBA should pay for sending out a flyer.

Mr. Henzi indicated that his first thought is no but he will check.

Ms. Zimmermann indicated that she advised Jan Gaffney who is a member of the CPREA of the proposed ballot issue.

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**UNFINISHED BUSINESS**

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

**Re: Partial Plan Termination** – Refer to Legal

**Re: Electronic Meetings**

The trustees discussed how they were unable to use the iPads during the meeting and that the wireless network shutdown.

**Re: Rent/Overhead**

Trustee Naglick stated that the Emergency manager is currently not charging the Retirement Systems for their services. If the System stays here, he wants some compensation; he thinks it is the right approach.

## **SCHEDULING OF NEXT MEETING**

The Board determined that they would change the start time of the meeting to 10:00 a.m. due to the length of the Police & Fire VEBA meetings.

Regular Meeting – Thursday, September 27, 2012 – City Council Conference Room, Second Level, City Hall @ 10:00 a.m.

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## **ADJOURNMENT**

**RESOLUTION 12-080** By Naglick, Supported by Britton  
Resolved, That the meeting be adjourned at 1:34 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 August 23, 2012.

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John Naglick, Secretary  
*As recorded by Jane Arndt*