

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREMENT SYSTEM  
SEPTEMBER 23, 2010**

A regular meeting of the Board of Trustees was held on Thursday, September 23, 2010 at the Shrine Room, Main Level, City Hall, Pontiac, Michigan. The meeting was called to order at 9:05 a.m.

**TRUSTEES PRESENT**

Mayor, Leon Jukowski  
Brian Lee, Vice Chairman  
John Naglick, Secretary  
Matthew Nye  
Craig Storum, Chairman

**OTHERS PRESENT**

Cynthia Billings, Sullivan, Ward, Asher & Patton, P.C.  
Chris Kuhn, Gray & Company  
Ellen Zimmermann, Retirement Systems Administrator  
Jane Arndt, M-Administrative Assistant  
Lon Britton, Retiree

---

**AGENDA CHANGES**

Ms. Zimmermann requested that five final benefit calculations be added to the agenda. She distributed final pension benefit calculations for the following members:

Jeffrey Colby	#2523	\$4,092.28
Richard Downs	#2520	3,472.20
Stephen Fritz	#2518	4,427.46
David Lee	#2515	3,255.26
Bryan Stoddard	#2510	3,942.45

**RESOLUTION 10-056** By Lee, Supported by Nye

Resolved, That the Board approve the addition of five final benefit calculations to the Consent Agenda.

Yeas: 5 – Nays: 0

**CONSENT AGENDA**

- A. Minutes of Regular Meeting: August 26, 2010
- B. Communications:
  - 1. Correspondence from Sullivan Ward Re: JoJu Rimal Lease
  - 2. Correspondence from NCPERS Re: September 2010 Newsletter
  - 3. Correspondence from Metropolitan Real Estate Re: August Investor Letter
  - 4. Correspondence Re: IRR Public Fund Boards Forum – December 11-14, 2010
- C. Financial Reports:
  - 1. Financial Reports – August 2010
  - 2. Securities Lending – July 2010
  - 3. Accounts Payable – September 2010

- D. Application for Retirement
  - 1. Kevin Owens – PFFU 23 years, 7 months Age 49 (early out)
  - 2. Jeffrey Smith – PPSA 25 years, 0 months Age 48
- E. Final Benefit Calculations
- F. Disability Re-Examinations:
  - 1. Christopher Young

**RESOLUTION 10-057** By Lee, Supported by Nye  
 Resolved, That the consent agenda be approved.

Yeas: 5 - Nays: 0

**CONSULTANTS**

**Re: Re: Gray & Company**

Mr. Kuhn distributed an update of the Fund’s market value as of September 21, 2010. The market has been a roller coaster ride but the performance has done well. At the end of June total market value was \$216 million and as of September 21, 2010 it was \$229 million.

Cash was raised at the end of August to pay the monthly benefit payments, COLA payments and estimated draw downs for real estate investments in Metropolitan and Mesirow.

Fund of Funds Real Estate

At the last meeting he asked Ms. Billings to review a list of real estate managers to determine whether they fall under the real estate allocation or under the basket clause.

He received an email from Penn Square stating that their fund has not commenced and they are still in the process of finalizing the fund’s documents. They could bring in this manager with the expectation that the fund will open, add to the Metropolitan allocation, or bring in three managers.

Trustee Nye asked if the System has any affiliation with Penn Square. Mr. Kuhn said that the System does not have an affiliation.

The current list of managers coming in to present to the Board are Morgan Stanley, Metropolitan, Portfolio Advisors and Penn Square.

Chairman Storum said that at the last meeting they discussed increasing the investment to Metropolitan.

Trustees Lee and Nye said they would be comfortable increasing the Metropolitan investment.

Mr. Kuhn said that three of the trustees on the Board have spent time with Metropolitan. He suggested that the Board bring Metropolitan in to bring everyone up to speed. Metropolitan will be winding down funding at the end of the year.

**RESOLUTION 10-058** By Lee, Supported by Naglick

Resolved, That the Board would bring in Metropolitan to present their real estate fund of funds investment.

Yeas: 5 – Nays: 0

---

**REPORTS**

**Re: Chairman** – None

**Re: Secretary** - None

**Re: Trustees**

Trustee Lee asked if the Police Department is dissolved whether everyone would become vested. Ms. Billings said that the vesting of all members would have to be collectively bargained. Trustee Lee asked what would happen if only a portion of the Department was dissolved.

Ms. Billings said that anyone with ten years of service credit would be vested. They may be able to use reciprocal time toward their vesting. Ms. Zimmermann said that members would have to work for another governmental for a period of thirty months in order to apply that time toward their vesting requirements.

Ms. Billings indicated that under Federal Law, if the Fund is terminated everyone would be vested.

Trustee Nye asked if members who were not vested would have their contributions reimbursed. Ms. Billings said they would be reimbursed. Chairman Storum said that when the hospital went private, all the employees became vested and that they have representation on the GERS Board. Ms. Zimmermann said that when the hospital was privatized everyone was vested as part of the agreement. Ms. Billings said that the union could retain the Board position.

Trustee Lee said that there are a group of members slated for layoffs who are close to reaching the ten year vesting requirement. He questioned what happens to them if the Police Department is dissolved and they are so close to being vested.

Ms. Zimmermann said that they are entitled to a benefit under the reciprocal act if they go to the County. The County has a defined contribution plan and she believes the members may be able to rollover their contributions using a trustee to trustee transfer.

Trustee Lee asked if they could buy additional time for vesting. He asked if that could be researched.

**Re: Administrator**

### TCP Global Investment Management

Ms. Zimmermann distributed a communication from TCP Global regarding two new hires to their firm.

### Trustee Reimbursement Policy

Ms. Zimmermann distributed an updated copy of the Trustee Reimbursement Policy for the trustee's information.

### Joel Felt Correspondence

Ms. Zimmermann distributed correspondence received from retiree Joel Felt regarding his benefit calculation when he converted from his disability retirement to a regular retirement. She indicated that she did not have a lot of time to review Mr. Felt's concerns before the meeting.

He maintains that he is eligible to receive a 5% bonus for his time as a dispatcher in his Final Average Salary and a 3% bump based on the current contract. Ms. Craft explained to him that he is subject to the contract that was in place when he originally went out. She has no information on the 5% dispatcher bonus.

Chairman Storum asked if the new contract uses a calculation of 78% of the Final Average Salary (FAS).

Trustee Lee explained that the formula using 78% of the FAS the System's funding has to be over 100% at the end of the prior fiscal year. The 3% bump was put into the new contract but it has not been ratified. This contract was put in place by the former Emergency Financial Manager, Fred Leeb. When the new EFM, Michael Stampfler arrived he stopped the contract.

Chairman Storum confirmed that the new contract has not been ratified and there are no changes to date.

### Contribution Reimbursements

Ms. Zimmermann indicated that the contributions from the City will now be done by check. Chairman Storum asked if they will still be processed biweekly.

Trustee Naglick said that the contributions will be processed based on what is required by law.

Chairman Storum suggested that legal counsel and the actuary should review the issue.

Ms. Billings stated that she would have to look at the Retirement Ordinance to see if there is a requirement to pay weekly or monthly. She explained that there is no state law requirement on the timing of contributions other than contributions for the normal cost must be made during the year benefits are earned along with a portion of the unfunded liability. The timing of contributions could affect the valuation of the Fund and the assumptions used by the actuary in setting the required contribution rates.

Ms. Zimmermann explained the actuary is currently using an assumption that the contributions are being received biweekly. If the City changes their reimbursement to the end of the year the calculation will change.

Trustee Naglick said that he will find out what the City intends to do.

Trustee Nye asked how it was handled in the past. Ms. Zimmermann said that the contributions were paid biweekly with payroll. The Fund has not received any contributions since July based on an Executive Order.

Trustee Naglick said that Mr. Stampfler is trying to get a handle on the City's expenses.

## **Re: Legal**

### Northern Trust

Ms. Billings reported that they joined the lawsuit with BLBG filing a consolidated complaint. Northern Trust filed a Motion to Dismiss arguing that there were no losses.

### Almost Family, Inc. Securities Litigation

Ms. Billings reported that the General Employees Retirement System has joined the litigation with this System. The Motion for lead plaintiff status is currently pending.

### Fossil, Inc.

Ms. Billings reported that under advisement of the Court, limited discovery is proceeding.

### UBS/AG Securities Class Action

Ms. Billings reported that the hearing on the Defendants' Motion to Dismiss has not been set. They will continue to advise the Board with respect to this matter.

### Airgas Securities Litigation

Ms. Billings reported that there is nothing new to report and they will continue to update the Board with respect to this matter.

### IRS Application for Determination Letter

Ms. Billings reported that the matter is currently pending with the Internal Revenue Service and all finals are currently with the Reviewer.

### Correspondence to EFM Regarding Benefit Calculations

Ms. Billings reported that per the Board's direction she drafted correspondence to the current EFM Michael Stampfler regarding the calculation of retirement benefits and final payouts which included correspondence sent to the former EFM Fred Leeb making the same request. She reported that Larry Marshall sent a memo stating that the trustees are required to verify benefits. However, he did not send any backup verifying their calculations. The System needs the detail and correct information to verify and calculate the benefit correctly.

### Sailor Proposed EDRO

Ms. Billings reported that she sent correspondence rejecting the Sailor EDRO. She provided instructions on how to amend the order.

#### Social Security Number Privacy Policy

Ms. Billings reported that the Retirement Office is currently working under the City's Social Security Number Privacy Policy to protect the confidentiality of the members' information. She recommended that the System should have its own policy. She referred to a draft contained in the legal report.

**RESOLUTION 10-059** By Nye, Supported by Lee  
Resolved, That the Board approve the Social Security Privacy Policy.

Yeas: 5 – Nays: 0

#### RMK Update

Ms. Billings reported that she reviewed the RMK contract changes at the Board's August meeting. She indicated that she requested that RMK confirm that they were still agreeable to the Side Letter including lowering the indemnification standard from gross negligence to negligence. They were agreeable to everything but the indemnification. Under Luxemburg Law they cannot enter into a Side Agreement and indemnification is based on a gross negligence standard.

As the Board's legal counsel she tries to negotiate the best contract she can for the System. Because gross negligence is difficult to prove she looks to have negligence language included in the contract. However, under Luxemburg law they may not amend the agreement.

Mr. Kuhn said that the international sleeve of the investment is under Luxemburg law. He is of the opinion that there was a large European investor who wanted the contract under Luxemburg law. He confirmed that the domestic investment agreement accepted the Board's negligence standard.

Trustee Nye asked if this is a deal breaker. Ms. Billings said that it is difficult to prove gross negligence.

Trustee Nye asked if the Board has allocated assets to this investment. Mr. Kuhn said that they have not allocated funds to this investment. The investment is for \$2.5 million split 50/50 in the domestic and international sleeves.

Trustee Nye said he feels this is a deal breaker and asked if there are any other investment managers that can offer this type of investment. As a trustee he feels that the System has to do the right thing.

Ms. Billings said that they would make the legal argument regarding the indemnification. She originally reviewed this contract two years ago. If there are any disputes with the international investment it would be handled in Luxemburg.

Trustee Naglick asked why the Board would enter into this agreement.

Chairman Storum said that they originally approved this investment because of their international investment. He asked if there are any other managers with an international piece.

Mr. Kuhn said he would look into whether there are any managers with an international timber fund that would accept the negligence standard.

Chairman Storum asked if the System is locked into the domestic investment. He believed that the original contract was signed but was later thrown out. He said that the Board entered into this investment because the international side offered greater returns. He confirmed that the investment has not been funded.

The Consultant was directed to research whether there are other timber managers with an international portfolio. Ms. Billings will determine whether the RMK domestic contract was signed.

#### Medicare Reimbursement

Ms. Billings said that she researched the Retirement System reimbursing members for Medicare Part B with the City reimbursing the Retirement System. She said that this amounts to the Retirement System floating an interest free loan to the City and is not legal.

Ms. Zimmermann said that she and Trustee Naglick sat down and discussed this issue. This reimbursement to the members has always been done by the Retirement System as a convenience to the retirees. The City does not have a process or method to do that.

Trustee Naglick said that the City provides interest free compensation to the Retirement Systems' employees. Currently the City's concern is layoff risk and running the risk of a nightmare trying to reimburse the retirees. He questioned the issue with the Retirement System reimbursing the retirees and the City is reimbursing the Retirement System.

Ms. Zimmermann said that Deborah Munson records the reimbursement as a journal entry. Under the General VEBA they would breakdown the changes. We need to come up with a method to resolve this issue. Currently, the City does not have a mechanism to deliver reimbursements to the retirees.

Trustee Naglick asked if the City reimburses the Fund monthly would that be sufficient to get around the interest free loan.

Ms. Zimmermann suggested setting up a separate ADP payroll that and having the City fund the account. The System currently wires funds to an ADP omnibus account.

Ms. Zimmermann and Trustee Naglick agreed to sit down with the Comptroller to resolve this issue.

#### JoJu Rimal Lease

Ms. Billings indicated that as soon as Messrs. Tompkins and Gray agree on a receiver, a Complaint for foreclosure will be filed for the property managed by JoJu Rimal.

Mr. Kuhn said that he spoke with Larry Gray who has been working with Stuart Tompkins on a proposal for a property manager. He believes that they determined that C.B. Richard Ellis would become the receiver. Ms. Billings will confirm that information.

#### Real Estate Fund of Funds Qualifications Under PA 314

Ms. Billings reported that none of the investment managers are registered under the Investment Advisor Act, however they all appear to qualify as real estate investments under PA 314.

#### Equity Asset Allocation

Mr. Kuhn indicated that at the last meeting the Auditor stated that the System was not in compliance under Public Act 314 based on the percentage of their equity allocation.

Ms. Billings stated that she reviewed the issue and she disagrees with the auditor.

Chairman Storum directed Ms. Billings to send a communication to the auditor stating that the System is in compliance.

**Re: Union Representatives - None**

---

## **NEW BUSINESS**

### **Re: Retirement Office Payroll**

Ms. Zimmermann reported that Michael Stampfler issued a list of action items which included an item regarding the Retirement Office payroll. When introduced at the GERS meeting she sensed some hesitation from the Board. She was contacted by Mr. Stampfler's attorney who would like to sit down and discuss the details.

She also stated that that the Retirement Office has three non-union employees and one union employee. At the GERS meeting Trustee Scott indicated that two unions were looking to move two of the non-union positions to their union which included Ms. Arndt's and Ms. Munson's positions. He had not received anything in writing from the unions in this regard.

Chairman Storum asked if the Board needs to take legal action.

Ms. Billings said that she will look at what it takes to just transfer the payroll. She asked if they are looking at just transferring payroll or if the Board is looking transfer employees from the City to the Retirement System. It was determined that they are just looking to transfer payroll. However, Chairman Storum said that he would like to move in the direction that they will be considered employees of the Retirement System.

---

## **UNFINISHED BUSINESS**

### **Re: Actuarial Studies Update**

Ms. Zimmermann reported that this is for the trustees' information.

Chairman Storum asked what the OPEB Valuation noted on the list was for. Ms. Zimmermann stated that the valuation will determine the liability for the pre-1996 retiree OPEB liability.

Chairman Storum also noted that there are two to three items that are due to be completed in October. He asked if they will be available at the October meeting. Ms. Zimmermann said she will confirm with the actuary.

### **Re: HELPS Letter to Retirees**

Chairman Storum asked if there is anyone who has filed for this benefit. Ms. Zimmermann stated that there are four recent retirees with healthcare deductions who could take advantage of this deduction.

She also indicated that the issue came up that this deduction may have been negotiated as a pre-tax benefit by the City. This is not a pre-tax benefit and any deductions taken can be applied against the retiree's income tax when filing at the end of the year with a maximum of \$3,000.00. She is planning to send a letter to one of the retirees asking if they would act as a test case.

Chairman Storum asked how the monies are being deducted. Ms. Zimmermann said she will check with Ms. Munson but she believes that it is being done as an after tax deduction. The use of the deduction would require a trustee to trustee transfer.

Chairman Storum said that the System should notify Human Resources and Payroll that this is not a pre-tax deduction.

Ms. Zimmermann said that she feels that the communication to Human Resources and/or Payroll should come from Ms. Billings as a legal issue. She questioned whether a communication should be sent out to retirees stating they are eligible to use this deduction for voluntary insurance needs.

Chairman Storum was concerned that if a letter is sent out whether the System is ready to accommodate retirees and if there could be confusion.

Ms. Zimmermann felt that the retirees should know that this option is available. The Retirement Office could be fielding a lot of calls.

### **Re: Disaster Recovery Plan/Actuarial Software Search – Carry Forward**

---

## **SCHEDULING OF NEXT MEETING**

**ADJOURNMENT**

**RESOLUTION 10-060** By Nye, Supported by Lee  
Resolved, That the meeting be adjourned at 10:06 a.m.

Yeas: 5 – 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 September 23, 2010.

---

John Naglick, Secretary  
*As recorded by Jane Arndt*