

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREE PREFUNDED  
GROUP HEALTH & INSURANCE PLAN  
“VEBA MINUTES”  
SEPTEMBER 27, 2012**

**Trustees Present**

Lon Britton (By Phone)  
Leon Jukowski, Mayor  
John Naglick, Secretary  
Matthew Nye, Chairman  
Craig Storum

**Others Present**

Chris Kuhn, Gray & Company  
Laurance Gray, Gray & Company  
Matthew Henzi, Sullivan, Ward, Asher & Patton  
Ellen Zimmermann, Retirement Administrator  
Jane Arndt, M-Administrative Assistant  
Walter Moore, Retiree (*arrived at 9:24 a.m.*)

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*The meeting was called to order at 8:43 a.m.*

**AGENDA CHANGES**

The Board determined that they would move Gray & Company up on the agenda to provide their reports for both Police & Fire VEBA and the Police & Fire Retirement System.

**CONSENT AGENDA**

- A. Approval of Regular Meeting Minutes: August 23, 2012
- B. Financial Reports
  - 1. Consolidated Statement of Changes – August, 2012
  - 2. Accounts Payable:
    - a. Broadview \$ 8,795.41
    - b. Gray & Company 1,250.00
    - c. Rodwan Consulting 17,500.00
- C. Correspondence:
  - 1. Correspondence from Bradford & Marzec Re: Investment Outlook & Portfolio Summary
  - 2. Correspondence from Pluscios Re: Unaudited Account Statement – June 2012

**RESOLUTION 12-045** By Storum, Supported by Naglick  
Resolved, That consent agenda for September 27, 2012 be approved.

Yeas: 5 – Nays: 0

**CONSULTANTS**

**Re: Gray & Company**

**Police & Fire VEBA**

Police & Fire VEBA Minutes  
September 27, 2012

Mr. Gray provided an overview of the flash report. The Total Plan value was \$28.4 million as of August 31, 2012. As of September 21, 2012 the Plan value was \$29.2 million due to an uptick in the market. Year-to-date performance is 7.91% with one-year returns of 8.17%.

There has been a lot of volatility throughout the year but August was a good month.

Mr. Kuhn said that the System's portfolio has stayed relatively close to its targets.

The funding for LS Investments will be done within a week. The assets will be transferred from Rhumblin. The new equally weighted index fund will allocate thirty percent of the investment assets to the top fifty names with a 2% position in each name. The remaining seventy percent of the assets will be equally allocated to the remaining four hundred and fifty names in the index.

Due to the delay in their reporting criteria, Pluscios cannot report their quarterly or current monthly performance numbers. Their year-to-date performance is 4.43%.

He questioned whether the Fund had reimbursed the City for the current retiree healthcare costs.

Ms. Zimmermann reported that the Fund has paid the City all the monies owed.

Mr. Gray asked the Board if they had any questions specific to a manager or the macro-economic environment.

#### Police & Fire Retirement System

The Total Plan value as of August 31, 2012 was \$226.3 million; as of September 21, 2012 it was \$230.8 million and as of June 30, 2012 it was \$222.1 million.

The volatility has played out and the market is way ahead so they anticipate a pullback of 5% to 7%. There are still concerns regarding the fiscal cliff and the elections. They do not expect corporate earnings to come in strong. Managers will do what they can to add performance.

The Total Fund reported quarter-to-date performance of 2.71% and year-to-date performance of 8.31%.

The Northern Trust Indexes are tracking the benchmark well at 2.80% versus 2.69% and 2.24% versus 2.17%.

Mid cap manager Munder reported good numbers and risk adjusted returns. The manager has performed well since inception.

Small cap manager Loomis Sayles reported weak returns for the current month but has been the darling of the portfolio.

International equity managers Wentworth, Hauser & Violich and Thornburg underperformed for the period but they do not have long-term concerns for these managers.

Fixed income is an interesting area with QE III and interest rate increases down the road. Some economists are saying that Ben Bernanke is deliberately stoking debt levels to make the economy look better.

High yield manager Artio's year-to-date performance is 10.48% versus 10.44%.

Goode Stable Value's year-to-date performance was 1.78% versus 1.10%.

Mr. Kuhn reported that Goode Stable Value is no longer in the portfolio.

Mr. Gray indicated that real estate is trading upward even in residential properties. They are feeling good about performance in opportunistic and value added. They are making good investments with the dry powder.

Mr. Kuhn noted that the portfolio is close to the target allocation and that the portfolio was just rebalanced in August, 2012.

Mr. Gray stated that they would like to wait to complete the liability study for the portfolio until they get the September performance numbers.

Chairman Nye confirmed that there was no urgency in obtaining the study.

Mr. Kuhn noted that they just received the information from Rodwan Consulting a couple of weeks ago.

Chairman Nye asked where the assets from the Goode Stable Value investment went.

Mr. Kuhn stated that half the assets were allocated to the cash account to pay for benefits, COLA and expenses. The remaining assets were split between Garcia Hamilton and the Northern Trust Intermediate Fixed Income Index Fund.

Garcia Hamilton's allocation went from \$37 million to \$42 million and the Northern Trust Index Fund went from \$13 million to \$17 million.

Ms. Zimmermann indicated that the benefit payments total \$1.1 million each month. The cash account has enough assets to pay for six months of benefit payments and COLA.

Mr. Kuhn added that the cash account also holds assets that were factored in for capital calls from Mesirow and Metropolitan.

He also noted that proposed changes to Public Act 314 could increase the basket clause so the Fund could make additional investments to real estate. When the House goes back in session it will get pushed through.

*Mr. Gray, Mr. Kuhn and Mr. Henzi left at 8:50 a.m.*

## **TRUSTEE/COMMITTEE STAFF REPORTS**

### Committees - BeneSys

Trustee Naglick indicated that Trustee Britton placed a call to BeneSys. At the GERS Board Meeting Trustee Waterman delivered their Personnel Committee Report to the Board. They recommended that the System keep the existing staff knowing fully that this Board will follow through.

There was discussion regarding what the quote would be without GERS going along.

Trustee Britton called BeneSys and the cost will be approximately \$120,000.00 or \$10,000.00 per month. They will be sending the new quote in writing.

The General Employees' Retirement System will not be going in the same direction as this System.

Chairman Nye commented that this is much cheaper.

Trustee Storum asked what the System is currently paying.

Trustee Naglick stated that based on the cost analysis the \$120,000.00 is in the same ballpark or 30% of the \$400,000.00.

Trustee Jukowski asked if that number included the City rent.

Ms. Zimmermann said that she would have to check.

Chairman Nye asked if this System would be bringing the staff.

Trustee Naglick indicated that it appears that Ms. Zimmermann and staff will be staying with GERS.

Chairman Nye asked who is on the GERS Personnel Committee.

Trustee Naglick stated that the committee includes himself, Trustee Waterman, Trustee Bowman and Trustee Williams.

Chairman Nye said that the only thing left for the Board is to make a decision on whether to move forward.

Trustee Britton added that the System does need written confirmation from BeneSys. Given what they would do for that number. He is not sure what more needs to be done. He recommended that the Board direct Mr. Henzi to work on a contract effective October 1, 2012.

The transition timetable is flexible but he would like to start the transition by January 1, 2013. That way there will only be one set of W-2's. The personnel landscape has changed but it does not make sense to delay.

Trustee Naglick said that there is more clarity now with regard to the BeneSys contract. He will call Darris and ask for a contract.

**Re: Staff**

VEBA Checking Account

Ms. Zimmermann reported that the checking account has been established for the VEBA Fund with a two signature policy for transactions. Currently the Police & Fire checking account only has a one signature policy.

Ms. Zimmermann told the Board that while working on the Letter of Direction to transition the assets from Rhumblin to LS Investments, Comerica raised the question regarding the signature policy.

Trustee Naglick stated that a two signature policy protects Ms. Zimmermann.

Chairman Storum felt that a double signature policy was appropriate.

The Board determined that they would like both checking accounts to have a two signature policy.

Healthcare Deductions from Pension Checks

There was discussion whether the deductions coming out of the pension checks for retiree healthcare are being put in the VEBA.

Trustee Naglick stated that there was \$57,000.00 deducted in July for retiree healthcare that needs to be repaid to the VEBA Fund.

Ms. Zimmermann questioned whether Mr. Kuhn had left. She indicated that she needed to discuss the setup of the account for LS Investments with regard to shifting assets and amounts coming in. She needs to know whether the amounts coming in will continue to be split between two managers: currently it is split between Rhumblin and Bradford Marzec.

**RESOLUTION 12-046** By Storum, Supported by Jukowski

Resolved, that the Board authorizes the Administrator to change the direction of incoming funds from Rhumblin to LS Investments.

Yeas: 5 – Nays: 0

*Ms. Zimmermann left at 9:13 a.m.*

*Mr. Henzi returned at 9:15 a.m.*

**Re: Sullivan, Ward, Asher & Patton**

Mr. Henzi reported that the retiree healthcare case is currently with the Judge.

IRS Request for Form 990

Mr. Henzi reported that this issue is still pending.

Executive Order 224

Mr. Henzi reported that correspondence was sent to the Emergency Manager's attorney requesting confirmation in writing that Executive Order 224 would be amended to provide that married retirees shall pay a single premium cost for both medical and dental coverage.

Trustee Naglick and Ester Jimenez have helped to determine who is entitled to receive this

*Ms. Zimmermann returned at 9:17 a.m.*

Request for Reinstatement of Retirees' Health Care Premiums to VEBA

Mr. Henzi reported that he asked that the Emergency Manager confirm in writing that the affected married retired members whose insurance coverage was canceled should have their health insurance policies reinstated. They should also receive the price break instead of paying \$300.00 for a two-person policy. He also asked that members be reimbursed for their Medicare deductible where appropriate.

Request for Reimbursement of Retirees' Healthcare Premiums to VEBA

He also indicated that the \$59,000.00 per month deduction from retired members for healthcare and dental premiums should go into the VEBA so the Fund can earn short-term interest. The City will bill the Fund quarterly for the reimbursement of claims. In July, the deductions were paid to the City. Since that time the deductions have been directed into the VEBA.

Trustee Naglick stated that the deduction total is \$57,000.00. Not all Police & Fire retirees are covered under the VEBA. The August checks went out. Ms. Munson will reimburse the City on her normal schedule. August deductions were not transferred to the City. There is just some housekeeping to be done.

Mr. Henzi said that the Emergency Manager confirmed in writing that the single premium cost also applies to dental insurance. When Executive Order 224 was amended it did not include dental coverage.

*Walter Moore arrived at 9:24 a.m.*

Northern Trust – Transfer from Lending to Non-Lending Account

Mr. Henzi reported that the Chairman signed the amendment to the Collective Fund Custody Agreement transferring from a lending to a non-lending account.

**RESOLUTION 12-047** By Storum, Supported by Naglick

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

Yeas: 5 – Nays: 0

*The Board moved to closed session at 9:25 a.m.*  
*Ms. Arndt and Mr. Moore left at 9:25 a.m.*  
*The Board returned from closed session at 10:23 a.m.*  
*Ms. Arndt returned at 10:23 a.m.*

**RESOLUTION 12-048** By Naglick, Supported by Storum  
Resolved, That the Board approve the closed session minutes from August 23, 2012.

Yeas: 5 – Nays: 0

## **UNFINISHED BUSINESS**

**Re: Tax Exempt Status** – Refer to Legal

**Re: Q1 and Q2 2012 Healthcare Reimbursement (Information Only)**

Ms. Zimmermann reported that the \$1.1 million reimbursement to the City for retiree healthcare for the first and second quarters of 2012 was paid timely.

**Re: Opinion and Order** – Refer to Legal (Closed Session)

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## **NEW BUSINESS**

Chairman Nye proposed that the VEBA Fund handle its own healthcare through BeneSys. The City should not care if the Fund runs its own healthcare and the Board can determine how much retirees are going to pay. He asked if the City pays healthcare premiums for vested members.

Trustee Naglick stated that the City would like to hand over the healthcare liability. Especially with the actuarial report indicating that the cost is more than the \$29 million. There is not enough money in the Trust to cover the liability.

Trustee Storum stated that the Board is obligated to find the best coverage for the best price.

Trustee Naglick said that it is worth shopping. The City is self-insured and the current stop loss coverage is \$200,000.00 per family. This group has almost no young people. It is hard to get a quote on a group that is consuming insurance. That is why when they renewed the insurance and went from Humana to Blue Cross, the City's stop loss coverage increased from \$100,000.00 per family to \$200,000.00 per family. BeneSys is the right group to work with if they are shopping the coverage. However, this is a tough group to insure.

Chairman Nye questioned whether there is any advantage for the City to shop for the best cost.

Trustee Naglick stated that it would be an advantage if the Board could take this group to fully insured.

Trustee Storum confirmed that the stop loss only covers \$200,000.00 per year.

Trustee Naglick told the Board that Humana was glad to get rid of the group. Blue Cross had to take them. It is a good idea to shop it to see if the Board can do better.

Trustee Storum recommended that this issue be tabled until the next agenda.

Trustee Britton stated that this is a good idea. However, he recommended that the issue be tabled until after the beginning of the year. It also depends on how the election goes and whether the Healthcare Bill stands or falls.

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### **SCHEDULING OF NEXT MEETING & ADJOURNMENT**

Regular Meeting – October 25, 2012 – City Council Conference Room, Second Level, City Hall  
@ 8:30 a.m.

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### **ADJOURNMENT**

**RESOLUTION 12-049** By Jukowski, Supported by Naglick  
Further Resolved, That the meeting be adjourned at 10:32 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 September 27, 2012.

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John Naglick, Secretary  
*As recorded by Jane Arndt*