

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREE PREFUNDED
GROUP HEALTH & INSURANCE PLAN
“VEBA MINUTES”
OCTOBER 25, 2012**

Trustees Present

Lon Britton
Leon Jukowski, Mayor (*arr. At 8:47 a.m.*)
John Naglick, Secretary
Matthew Nye, Chairman

Others Present

Chris Kuhn, Gray & Company
Matthew Henzi, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Gerald O’Dean, Retiree (*arrived at 8:51 a.m.*)

Trustees Absent

Craig Storum (*absent*)

The meeting was called to order at 8:38 a.m.

AGENDA CHANGES

CONSENT AGENDA

- A. Approval of Regular Meeting Minutes: September 27, 2012
- B. Financial Reports
 - 1. Consolidated Statement of Changes – September, 2012
 - 2. Accounts Payable:
 - a. Bradford Marzec \$ 7,559.28
 - b. Gray & Company 1,250.00
 - c. Sullivan Ward Asher & Patton 14,840.00
- C. Correspondence:
 - 1. Correspondence from Bradford & Marzec Re: Investment Outlook & Portfolio Strategy Oct. 2012
 - 2. Correspondence from Rhumblin Re: Monthly Performance Report September 2012

RESOLUTION 12-050 By Britton, Supported by Naglick
Resolved, That consent agenda for September 27, 2012 be approved.

Yeas: 3 – Nays: 0

TRUSTEES/COMMITTEES/STAFF REPORTS

Trustee Britton reported that the Personnel Committee has wrapped up its business.

Trustee Naglick said that he had to defend Trustee Britton during the GERS Board meeting. That Board is disappointed with what happened with BeneSys. They feel that the Police & Fire Board just ran off and hired BeneSys. Chairman Harrison was involved in every step along the way.

Chairman Nye asked why the GERS Board is concerned with decisions made by the Police & Fire Board.

Trustee Naglick stated that he told them that these are two separate Boards and that they are allowed to administer their plan the way they want. If you listened to Trustee Giddings the process to move to BeneSys was done the entire wrong way.

Trustee Britton told the Trustees that the Police & Fire Board has always been the forward thinking Board. They were the first to have their own legal counsel.

CONSULTANTS

Re: Gray & Company

Mr. Kuhn distributed the Fund's flash report as of September 30, 2012 and the market values as of October 22, 2012.

He explained that in 2011 there was a sell-off during the summer. This year the sell-off occurred earlier.

Broadview had a rough second quarter. They did not participate in the up market. Their performance since inception at 24.68% versus the benchmark at 30.93% is reason for concern. Their performance for this quarter is 4.5% but they are keeping an eye on them.

The investment assets allocated to Rhumblin have been transitioned to LS Investments. There are a few assets left in Rhumblin that will be swept over.

Trustee Britton asked if there is a reason why Broadview has underperformed.

Mr. Kuhn stated that there has been no significant event that could explain the underperformance. They have been in the portfolio for approximately two years. He recommended bring them in to discuss their underperformance.

Re: Sullivan, Ward, Asher & Patton

Mr. Henzi reported that the retiree healthcare case is currently pending before Judge Shalina Kumar of the Oakland County Circuit Court.

IRS Request for Form 990

Mr. Henzi reported that this issue is still pending.

Gerald O'Dean arrived at 8:51 a.m.

Third Party Administrator

Mr. Henzi reported that he has received the BeneSys contract. He has had several conversations with Chuck Wytrychowski who will be personally handling the account. He has reviewed the contract. The price is the same as the quote and the terms are generally acceptable. He forwarded a copy of the Retirement Ordinance and Trust Agreement to Mr. Wytrychowski.

Ms. Zimmermann was concerned whether access should be granted to the data before the contract is signed.

Trustee Naglick indicated that Ms. Zimmermann is correct and the contract should be signed prior to releasing the data.

RESOLUTION 12-051 By Britton, Supported by Naglick

Resolved, That the Board authorize the Chairman or Secretary to sign the BeneSys Contract and authorize Trustee Naglick to take action in between meetings.

Yeas: 4 – Nays: 0

Trustees Britton and Naglick met with Mr. Wytrychowski and he is confident that they will be ready to go in two months.

Mr. Henzi stated that the contract was written for the private sector and provides for a level of fiduciary responsibility under ERISA which is greater than that in the public sector. It is better for the System if BeneSys wants to heighten their fiduciary standard.

Retiree, Gerry O’Dean stated that he was once the President of the Firefighters Union. He asked about the hiring of a third party administrator.

Trustee Britton stated that they are hiring a TPA in the private sector to manage the Funds. It will be more cost effective to have them administer the benefit funds. The administrator was hired under the direction of this Board.

He has worked with these folks when he was a money manager. BeneSys is one of the premier benefit administration companies in Michigan. They have three or four offices across the United States.

Instead of getting a paycheck processed by ADP you will receive a check from BeneSys. They have their own in house payroll system. You will also only get one W-2. There will also be someone dedicated to talk with you. They have a complete soup to nuts benefits solution. They also have a website to conduct business.

Mr. O’Dean asked if any of the retirees are aware of this change. He comes in every November and changes his withholding. It is not going to be as handy as it has been in the past.

Trustee Britton explained that there will be a physical office to visit. There may be a bump or two but overall the service should be better.

He added that if something were to happen to the current Retirement Administrator there will be a succession plan in place.

Mr. O’Dean asked if this was done as a cost savings measure.

Trustee Britton stated that it will be cost neutral.

Mr. O'Dean said that the retirees should have been notified.

Trustee Britton stated that the retirees will be notified.

Mr. O'Dean indicated that the retirees will be notified after the fact.

Trustee Naglick stated that the minutes are posted on the System's website.

Mr. O'Dean asked how long the Board has been looking at this issue.

Trustee Britton stated that they put together a committee to look into moving to a third party administrator.

Trustee Britton stated that currently there is no disaster recovery plan in place for the Retirement Office. The new company would also provide upgraded information technology and backup.

He also mentioned that the City is asking \$3,000.00 per month for the office space occupied by the Retirement Office. They would like the Retirement Office to move out of City Hall because they would like the office space.

Mr. O'Dean asked if BeneSys administers benefits for any other Police & Fire Retirement Systems or public funds in the state.

Trustee Britton indicated that this will be the first public pension plan BeneSys will administer. This Fund always has been cutting edge. There could be some bumps along the way but it is a good step forward for the retirees.

Mr. O'Dean stated that he would like a report of how much money the Fund saves.

Chairman Nye told Mr. O'Dean that he should have read the minutes back to June, 2012 so he was aware of what has transpired regarding this issue. The committee did their homework.

Mr. O'Dean said that he believes only 5% to 7% of the retired fire members are aware of this change.

Mr. Henzi stated that Mr. O'Dean makes a good point. This is a three-year contract and BeneSys should provide an annual report and state of the transition for comparison purposes. It should include transition problems, benefit issues and a cost analysis after the first year.

Chairman Nye confirmed that BeneSys can supply that information.

Mr. Henzi stated that BeneSys can provide a report with a list of financials and associated costs for administrative services after the first year.

Mr. O'Dean left at 9:07 a.m.

Mr. Henzi stated that this could be a self-examination for the Board once the lawsuit is settled and the Fund collects the money off the tax rolls.

They need a strategic plan on whether they should meet each month with no active members and possible buyouts of the younger members.

Trustee Britton told the Board that he invited Mr. Wytrychowski to the December 6, 2012 meeting to see how it works. He questioned if the contract has been signed and whether it is appropriate for him to sit in during the closed session.

Mr. Henzi stated that it would be okay as long as the contract has been signed.

Trustee Britton asked if the meetings going forward should be at City Hall of BeneSys. BeneSys has wireless capability and the Board could take advantage of their facility. He will be out of town from January through May and will not be physically in attendance at the meetings.

He would like to give Mr. Wytrychowski one of the iPads so they can get Fuzebox up and running by the January, 2013 meeting. He asked if the Board is okay with that. The Board determined that the two remaining iPads would be given to Mr. Wytrychowski in order to get the software loaded and tested for the January, 2013 meeting.

Ms. Zimmermann confirmed that the December, 2012 meeting will be held at City Hall.

Mr. Henzi said that the Board could change the meeting location. BeneSys is willing to come to City Hall.

Partial Plan Termination

Mr. Henzi reported that all that is needed is the City Council's adoption of the Retirement Ordinance amendment allowing members to reimburse withdrawn contributions.

Ms. Zimmermann told the Board that she took this amendment to the City Council but there were only four Councilpersons present and one voted "no" so it did not pass. She noted that she is taking the amendments back to City Council tonight for adoption along with the WRERA amendment.

Worker, Retiree and Employer Recovery Act of 2008 ("WRERA") – Refer to Partial Plan Term

Executive Order 224, List of Married Retirees

Mr. Henzi reported that he had a conversation with Nicole from Meadowbrook. She confirmed that the married couples are covered under the P&F VEBA.

Request for Reimbursement of Retirees' Healthcare Premiums to VEBA

Mr. Henzi reported that the City has confirmed in writing on October 5, 2012 that married participants are allowed to pay the single person premium including dental premiums. The July, 2012 premiums have been paid back to the VEBA.

The reimbursement of Medicare deductibles was denied.

Trustee Naglick indicated that when the City transferred the Medicare Advantage insurance from Humana to Blue Cross the \$150.00 deductible did not transfer. Because Medicare is administered by the government they do not allow the transfer of deductibles from plan to plan. The City did not feel there were enough members to act on.

Mr. Henzi asked what the likelihood is that the members did not incur the \$150.00 deductible.

Trustee Naglick stated that when the plan sponsor changes, the government will not allow the deductible to transfer.

Chairman Nye asked if there are any legal ramifications to prevent the City from transferring the deductible. He also questioned whether it is under the purview of the VEBA to repay the deductible to the retirees.

Mr. Henzi said that he does not believe it is the job of the VEBA to get the money back to the retirees unless there is a determination that the retirees are entitled to this refund according to the terms of the Ordinance or other legal precedent.

Trustee Naglick indicated that this only applies to those members who are Medicare eligible.

Chairman Nye said he would like Mr. Henzi to make sure that this follows the VEBA Trust Document.

Trustee Jukowski asked if Meadowbrook could look into how many members satisfied their deductible.

Mr. Henzi added that the City has also said they will not reinstate insurance policies for married retirees.

Trustee Naglick noted that the amendments did not pass at the last City Council meeting. He questioned whether someone needs to educate the Councilpersons.

Trustee Jukowski stated that it was an anomaly that Councilman Carter decided to vote no.

Mr. Henzi stated that Ms. Zimmermann will get the amendments passed.

Ms. Zimmermann stated that she provided the information for the amendments prior to and during the meeting.

Chairman Nye indicated that he wants to make sure that the Board is doing its due diligence with regard to health insurance coverage.

Mr. Henzi said that each retiree is due his/her own insurance coverage per the collective bargaining agreement (CBA). The City has come back and says they have provided the member with coverage. But now members do not have stacked coverage. He questioned whether the complaint should be amended that married retirees should have their own policies. It is a cut in benefits when they do not have the same coverage.

Chairman Nye asked whether they are mandated to push forward as a Board.

Trustee Jukowski asked if this applies to Trustee Britton.

Trustee Britton stated that it does not apply to him but it applies to the Storums with one member in the P&F System and one in GERS along with the Gackstetters, the Peters' and the Reyes'.

Ms. Zimmermann left at 9:36 a.m.

Trustee Naglick questioned whether having a second policy or stacking policies provide more reimbursement.

Trustee Jukowski asked if there are any unattended consequences that members have lost coverage.

Trustee Naglick said that there is no lost coverage if there is no benefit to stacked coverage.

Mr. Henzi stated that according to the CBA each person should have healthcare coverage.

Trustee Britton stated that in his opinion the Board should amend the complaint to include that language. It can be used as a bargaining tool in the lawsuit and would protect members in accordance with the VEBA.

Trustee Naglick brought up an interesting point that Trustee Storum's healthcare is reimbursed through the VEBA and his spouse a GERS retiree is also having her coverage reimbursed by the VEBA instead of the City. Ms. Storum's coverage should be reimbursed by the City.

Chairman Nye recommended that Mr. Henzi look into that issue. The Storum's are on the family plan through the end of the year.

Northern Trust – Transfer from Lending to Non-Lending Account

Mr. Henzi reported that the Board previously approved the amended Collective Fund Custody Agreement transferring from a lending to a non-lending account which the Chairman has executed.

In order to complete the process the Board needs to approve and consent to allow Northern Trust to make internal cross trades of securities across their collective and common funds.

Mr. Kuhn explained that Northern Trust will make cross trades or trade securities across their own accounts. These are basically done commission free.

RESOLUTION 12-052 By Britton, Supported by Naglick
Resolved, That the Board authorizes the Chairman to sign the Northern Trust Cross Trading Notice and Consent Agreement.

Yeas: 4 – Nays: 0

RESOLUTION 12-053 By Storum, Supported by Naglick
Resolved, That the Board move to closed session to discuss pending litigation.

Yeas: 5 – Nays: 0

Retiree Healthcare Litigation

Mr. Henzi reported that they have been asked to provide proof of documents including the PPSA Contract, PFFU Contract and witness information. They are required to file these exhibits. This case should never go to trial because the matter will be disposed of by summary disposition motion.

RESOLUTION 12-054 By Jukowski, Supported by Britton
Resolved, That the Board ratify the Chairman's signature on the response to interrogatories.

Yeas: 4 – Nays: 0

UBS Securities Litigation

Mr. Henzi reported that the Judge has dismissed the case in the UBS Securities Litigation. They purchased mortgage backed securities from Dillon Reed, wrote down their losses in 2007. UBS did not similarly write down theirs as they should have and they made statements that were not true with regard to the value of the portfolio. The value of the stocks went down but UBS did not communicate that information right away. Insiders indicated that they had no knowledge.

Robbins Geller has a one hundred page complaint. They would recommend that the Board files a Notice to Appeal.

RESOLUTION 12-055 By Britton, Supported by Jukowski
Resolved, That the Board authorize Robbins Geller to file a Notice of Appeal in the UBS Securities Litigation.

Yeas: 4 – Nays: 0

Whether Deferred Vested Members are Eligible for the PF VEBA

Mr. Henzi reported that in order to qualify for healthcare a member has to have ten years of service credit.

Chairman Nye told the Board that there has been a lot of chatter regarding the buyout and the big issue is whether these newly vested members will be eligible for healthcare.

Trustee Britton stated that vesting has always been ten years. The VEBA needs to stick with the ten year vesting number. Because members have been vested based on the partial plan termination is an unintended circumstance.

Trustee Jukowski confirmed that prior to the partial plan termination a member with nine years of service credit would not be vested. The majority of members who crosses the ten-year line would receive a pension for their time served. Members with ten years of service credit would receive full healthcare the same as members with twenty-five years of service.

Trustee Britton confirmed that members with ten years versus twenty-five years would receive the same healthcare coverage. He explained that at the time this was an easy benefit to negotiate. The VEBA Trust was formed to help with escalating healthcare costs. No one foresaw the transition.

Chairman Nye asked if there is a proration formula for healthcare coverage.

Trustee Jukowski said that members should not have an expectation for healthcare coverage with less than ten years of service credit.

Trustee Britton said that the Board needs to look out for the VEBA. This means they could incur lawsuits.

Chairman Nye said that these members may go after the City. If they are vested based on the partial plan termination why would they not be eligible for a portion of their healthcare.

Trustee Britton indicated that without ten years of service there is no healthcare obligation

Trustee Jukowski said that these members' argument passes the test for litigation.

He also asked how prorated healthcare would be administered.

Chairman Nye stated that he would like to reach out to the affected members and setup a meeting with legal counsel to answer questions.

Trustee Jukowski believes that the Board needs a policy to address this issue.

Trustee Britton noted that IRS regulations mandate that the members will vest for pension based on the partial plan termination. The Board is only complying with what is required by law. They are not required to provide post-retirement healthcare for those members that did not meet the ten year vesting requirement. Members should have to meet the standards.

Chairman Nye questioned why.

Trustee Britton noted that the ten year vesting requirement is past practice.

Chairman Nye stated that these members did not choose to leave.

Trustee Britton said that the Board is only doing what it has to do. The City could sue the VEBA if they go against the vesting requirement.

Mr. Henzi stated that vesting needs to mean something.

Chairman Nye asked if these members contributed to the VEBA.

Mr. Henzi indicated that the members' only contribution was to the Pension System. The City makes the contributions to the VEBA.

There was discussion whether the Board needs to make a policy resolution.

Mr. Henzi recommended that the Board wait until the next meeting to adopt a policy once he has offered his opinion.

RESOLUTION 12-056 By Naglick, Supported by Jukowski
Resolved, That the Board approve to move to closed session to discuss pending litigation.

Yeas: 4 – Nays: 0

The Board moved to closed session at 10:06 a.m.

Ms. Arndt and Mr. Kuhn left at 10:06 a.m.

The Board returned from closed session at 10:40 a.m.

Ms. Arndt and Mr. Kuhn returned at 10:40 a.m.

RESOLUTION 12-057 By Naglick, Supported by Storum
Resolved, That the Board approve the closed session minutes from September 27, 2012.

Yeas: 4 – Nays: 0

Notice of Eviction

Mr. Henzi reported that there was nothing to file with regard to the Notice to Quit. The document is between the landlord and the tenant. GERS has agreed to pay their share of the rent.

Trustee Naglick told the Board that GERS was issued a separate invoice for rent. The Emergency Manager would still like the Retirement Office to move. He also understands that the Police & Fire System is moving to a third party administrator. An invoice will not be issued to this System.

Trustee Jukowski asked if the entire \$3,000.00 monthly rent will be shifted to GERS when this System moves to the TPA.

Trustee Naglick stated that Trustees Bowman and Giddings are on the Moving Committee and they indicated that they will get busy looking for a new location for the Retirement Office.

UNFINISHED BUSINESS

Re: Tax Exempt Status – Refer to Legal

Re: Transition to TPA – Refer to Legal

NEW BUSINESS

Re: Self-Insured Fund

Chairman Nye asked about the self-insured idea for the Fund.

Trustee Naglick said that he spoke with Mr. Wytrychowski and he thinks it is a good idea and that after the move to the TPA would be a good time to vet the idea for being fully insured.

Re: Deferred Member Buyouts

Chairman Nye asked about the member buyouts. He questioned whether this is being offered to all vested members.

Ms. Zimmermann indicated that the Board had previously authorized a cost study providing each member to receive an amount equal to the amount of their contributions.

Chairman Nye confirmed that this would buy the members out of the pension system.

Ms. Zimmermann indicated that before authorizing this measure it was important to determine the impact to the Retirement System.

Trustee Britton said this should only look at members with less than ten years of service.

Ms. Zimmermann indicated that there was no stipulation that this only applied to members with less than ten years of service credit. The study is looking at all deferred members which could help limit long-term liability for the System based on the Board's discussion.

Trustee Naglick stated that it makes sense to look at all deferred members or anyone who is not in pay status.

SCHEDULING OF NEXT MEETING & ADJOURNMENT

Regular Meeting – December 6, 2012 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

ADJOURNMENT

RESOLUTION 12-058 By Britton, Supported by Jukowski
Further Resolved, That the meeting be adjourned at 10:52 a.m.

Yeas: 4 – 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 October 25, 2012.

John Naglick, Secretary
As recorded by Jane Arndt