

**CITY OF PONTIAC  
POLICE AND FIRE RETIREE PREFUNDED  
GROUP HEALTH & INSURANCE PLAN  
BOARD OF TRUSTEES VEBA MEETING MINUTES  
AUGUST 28, 2014**

**Trustees Present**

Matt Nye, Chairman  
Nevrus Nazarko, Secretary  
Lon Britton  
Deirdre Waterman, Mayor (Arrives 9:13)

**Others Present**

Matt Henzi, Sullivan, Ward, Asher & Patton  
Chris Kuhn, Gray & Company  
Liz Edwards, BeneSys, Inc.  
Beth Bialy, Plante & Moran  
Manju Patnaik, Plante & Moran

**Trustees Absent**

Craig Storum

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*Chairman Nye declared that a quorum was present and called the meeting to order at 8:50 a.m.*

**AGENDA CHANGES**

A. Plante & Moran

Ms. Bialy reviewed the Audit Letter for the period ending December 31, 2013. She discussed the Letter and some of the items it contained. She noted that there are no new policies that need adoption. She noted that the actuarial valuation has historically assumed a 7.5% annual return, and advised that we need to use a lower rate of return. The auditors assume a 5% return which gives a bigger liability. She also noted that an actuarial valuation must be completed every other year for a plan this size, but it is prudent to prepare one every year. She also asked if Rodwan could run the report at a 3% annual return, for the sake of comparison.

Ms. Patnaik then reviewed the Auditors Report in greater detail. The Auditors Opinion notes that the financial statements present the Plan's position in accordance with generally accepted accounting principles. The Fund had a net increase of \$6 million for the year. She reviewed Plan contributions, health benefits paid, and Fund structure. She reviewed the Fund's asset allocation and investment results, and the Statement of the Trust Net Position and Changes in Net Position as of December 31, 2013. She then reviewed the Notes to the Financial Statements. It is recommended that \$4 million be put in the Fund to keep it sufficiently funded.

Attorney Henzi commented that if the actuary prepares two estimates and one "what if" estimate, that these should be included in the auditor's footnotes as well. Trustee Nazarko commented that pricing and benefits have changed much due to the Affordable Care Act which puts pressure on the actuary to do valuations. Trustee Britton agrees with Trustee Nazarko. If the auditor relies on the actuary's figures then that is okay, but he does not want the Board to lose sight of what the benefits

were. Ms. Bialy commented is a liability possible/probable/estimatable? She will talk to the actuary for information for the next audit.

Ms. Patnaik reviewed the funding progress table over the last six years. There was one dip in March 2012. The Plan is now approximately 30% funded. Trustee Nazarko commented that we need to have the actuary get the valuation completed faster so that the auditor can get truer results. Ms. Bialy stated that the actuary may say that "we're waiting for the audit." Chairman Nye asked which do you usually see first? Ms. Bialy replied that usually they wait for the audit but they do not need to. But here, our asset listing is solid and they should be able to rely on it. Trustee Nazarko commented that there have been issues with the actuary's numbers. Attorney Henzi noted that it started a few years ago when the City failed to pay its actuarial required contribution for the Police and Fire Retirement System and PF VEBA for fiscal year ending June 30, 2011. The Retirement System and PF VEBA filed suit and litigation ensued over the City's obligation for the next three fiscal years. Further, a partial plan termination occurred when the City outsourced police and fire services on July 31, 2011, and February 1, 2012, respectively. As a result of the litigation and the partial plan termination, the Board requested follow up reports and requested that time was of the essence. The Board did not feel that it was received as timely as it would have hoped. Trustee Waterman commented that the fact that Trustee Nazarko is skeptical of the actuary's numbers is a large concern. Attorney Henzi noted that they did prepare a good presentation on August 27 for the GERS Board, but Police and Fire is unique and he feels is not getting a sufficient response. Mr. Kuhn noted that errors in reports are recurring trends and often need to be redone.

*Chairman Nye suspended the meeting at 9:25 a.m. to accommodate the schedule of Ms. Bialy and Ms. Patnaik so they could present the Pension Audit Report to the Trustees. The meeting reconvened at 9:55 a.m.*

## **CONSENT AGENDA**

- A. Approval of Regular Meeting Minutes: July 31, 2014
- B. Financial Reports
  - 1. Financial Reports – June 30, 2014
  - 2. Bills for Ratification – August, 2014

**RESOLUTION 14-051** By Britton, Supported by Nazarko  
Resolved, That the Consent Agenda for August 28, 2014, be approved.

Yeas: 4 – Nays: 0

## **CONSULTANTS**

- A. Gray & Company

Mr. Kuhn reviewed the Fund status as of the quarter ending June 30, 2014. He noted that the S & P 500 Index was up 5%, and that it was a strong quarter for equities. The Fund in total was up 3½% for the quarter, and 5.6% for the six months year to date. The last five years have been under

the new investment scheme which performs better under the investment policy. He noted that one of the strategists at Franklin Templeton was leaving, but that it should not have a major impact. In the Peer Group Ranking, we are in the top 7% of government funds for performance. He thinks the Fund's allocations are okay for now, and no action is required. Trustee Britton commented that Mr. Kuhn has done a great job with the Fund, and hats off and accolades.

There was discussion amongst the Trustees about various items. Chairman Nye commented that the Board had approved the letter to be mailed to retirees with respect to health care contributions at the last meeting, and wondered why we allowed the letter to go out when the Board did not agree with the increase. He still wants to look into it and deal with the problems of it. Trustee Britton stated that his understanding from the last meeting was that City Council had not yet approved the rates. Trustee Waterman stated they were approved at the City Council meeting last week.

Trustee Britton asked what is the hard cap? Trustee Nazarko explained that the Department of Treasury under PA 152 approved two options. If we want to qualify for revenue sharing, we have to adopt a 20% premium contribution rate for employees, or the hard cap of which the City would not pay over \$5,500 / single, \$11,000 / double, or \$15,000 / family. The difference between the Blue Cross Blue Shield premium and these rates are the employees' responsibility. Even though the premiums may not increase that much, the hard cap does.

Trustee Britton commented that the hard cap should not apply to retirees, only active employees. This is retirees' money, not the City's, and these increases are crazy. Trustee Nazarko agrees that the hard cap amount seems high. Trustee Waterman asked if we talked with the City Attorney. Trustee Nazarko believes we did. Attorney Henzi commented that the Emergency Manager issued Executive Orders requiring active employees to pay 20% of the health insurance premium or the hard cap, whichever is higher. The EM issued identical Orders applying this same principal to all retirees. The EM noted that he was not legally required to apply this hard cap rule to retirees but did it as a cost savings measure. Attorney Henzi further commented that, if the VEBA paid the increased premium rate for each retiree, then the VEBA would not be compliant with those Emergency Manager Orders which specifically require each retiree to pay for 20% of the health insurance premium or the hard cap, whichever is higher. The Executive Orders regarding reduction in health care benefits enacted in 2012 also amended dental, vision, and life insurance. These Order served to amend Collective Bargaining Agreements pursuant to Michigan's Emergency Act.

Chairman Nye asked who cares what we pay for the hard cap? He would like to pick up the difference. We are stuck now with GlidePath and annual increases. What is the answer to that? We pay from the Fund for the difference. Trustee Nazarko stated that the Board should not try to change the Order as it is still in litigation. Chairman Nye stated that the Emergency Manager law has no control over the Board, and he agrees with the Mayor. He asked if there were suggestions on how we handle this? Why does the City care how much rates go up? Trustee Waterman stated it only affects the City by how much the rates go up. Trustee Nazarko stated that if the hard cap stays the same, then it doesn't matter. He doesn't think it will matter after litigation. Attorney Henzi stated that there are two lawsuits between the VEBA and the City which are pending in Michigan's Court of Appeals and likely will be for quite a while.

Chairman Nye asked if we can establish a plan for now or next year. He is for breaking away from the City because Blue Cross Blue Shield premiums will always go up. Trustee Waterman stated that the Finance Department is factoring in a 7% per year annual increase. Trustee Nazarko stated costs for one year were \$18 million when the Plan was self-funded. Blue Cross Blue Shield was the only carrier to submit a quote on a fully insured arrangement, as the largest part of the covered population is between the ages of 50 – 65.

Chairman Nye agrees with that, and asked how can we exhaust the system and just pay members out to go out on their own and get coverage. Can we get an actuary to cost this out? Trustee Nazarko thinks it is a legal issue. Attorney Henzi stated that this would need approval from the City, Board of Trustees, City Council, and TAB in order to do this. VEBA member approval is not necessary. Attorney Henzi advised that one negative effect of terminating the VEBA would be the loss of investment return income, which has been very strong lately. Chairman Nye stated he wants to prepare for when we are not making money and have a plan in place to exhaust the system, if necessary. Attorney Henzi stated we will have to look at past history. Chairman Nye stated that no matter what you do, someone will be annoyed; you just need to have a plan.

Attorney Henzi stated a concern that one other negative effect of terminating the VEBA may be that distributed funds to retirees may be taxable as income. Trustee Britton commented that as a retiree, he would not agree to it. We would have to look at all options before doing it, since too much can happen. Chairman Nye stated that maybe we could look at getting an-opt out provision for the deferred VEBA individuals. He is concerned that the VEBA is paying off too much now, and the deferred members will not have anything. Trustee Britton stated that he wants to see formal numbers from the City as to what increases from Blue Cross Blue Shield are. Perhaps we do have to break away and find a new policy. Members are unhappy with the increases, and do not understand it, and he does not want the costs to go up without backup.

Trustee Nazarko stated that Human Resources can provide the backup you request to show these. The City approved premiums and contracts, not employee contribution rates. The hard cap versus the premiums should not be an issue of contention. He will bring the hard cap / premiums / differences to the next meeting.

Trustee Britton stated he is still not agreeing to this, and asked why can't the VEBA absorb it? It is the members' money, and the rules are changing again. Ms. Edwards asked what do we do for September 1 then. Open Enrollment is over. Trustee Britton stated we make the changes and we will make any corrections retroactively.

**RESOLUTION 14-052** By Nazarko, Supported by Waterman  
Resolved, That the new amounts be taken out of the members' pension checks until revised by the Board.

Yeas: 3 - Nays: 1 (Britton)

## **REPORTS**

- A. Chairman
- B. Secretary
- C. Trustee Committees
- D. Legal, Attorney's Report, Sullivan, Ward, Asher & Patton, P.C., Matthew Henzi

### **Attorney Report – General Matters:**

Attorney Henzi advised that two lawsuits filed by the VEBA which challenged Executive Orders enacted by the City's Emergency Manager that affect retiree health care remain pending on appeal in the Michigan Court of Appeals.

#### IRS Request for Form 990

Attorney Henzi addressed this issue for the Board in the Attorney Report.

#### Increase in Pontiac Retiree Health Care Insurance Premiums / Letter on Open Enrollment – Exhibit A

Attorney Henzi addressed this issue for the Board in the Attorney Report.

#### Board Election By Declaration

Attorney Henzi addressed this issue for the Board in the Attorney Report.

#### Proposed Amendment to Open Meetings Act Regarding FOIA Requests

Attorney Henzi addressed this issue for the Board in the Attorney Report.

### **RESOLUTION 14-053** By Nye, Supported by Nazarko

Resolved, That the Board move to closed session to discuss pending litigation at 12:35 p.m.

Yeas: 4 - Nays: 0

*The Board moved to closed session at 12:35 p.m.*

*The Board returned from closed session at 12:50 p.m.*

### **RESOLUTION 14-054** By Nazarko, Supported by Britton

Resolved, That the Board approve the July 31, 2014, closed session minutes.

Yeas: 4 – Nays: 0

**RESOLUTION 14-055** By Nazarko, Supported by Britton  
Resolved, That the Board approve action on the items discussed in closed session.

Yeas: 4 – Nays: 0

**UNFINISHED BUSINESS**

A. Trustee Elections

Attorney Henzi addressed this issue for the Board in the Attorney Report..

B. Participant Website

The participant website is in progress. It will take special programming as some documents typically are not contained on private employers' websites.

C. Self-Pay Reconciliation

Ms. Edwards stated that the self-pay reconciliation is in progress.

D. Delta Dental Survey Response

Ms. Edwards stated that not enough individuals responded "Yes" to the dental survey. Trustee Britton stated that if we do offer it, maybe more individuals will jump on. We will contact Delta Dental to see if they will offer it even though we are short by a few individuals.

**NEW BUSINESS**

A. VEBA August 2014 Expenses

The Board reviewed the July invoices received from the City.

**RESOLUTION 14-056** By Nazarko, Supported by Waterman  
Resolved, That payment of the July, 2014, Blue Cross Blue Shield invoices be approved.

Yeas: 4 – Nays: 0

B. City of Pontiac Open Enrollment and Updated Rates

C. Bloomfield Capital Income Fund II Distribution, \$16,828.77

It was noted that Bloomfield Capital Income Fund II did a distribution to the Fund in the amount of \$16,828.77.

**CORRESPONDENCE**

A. August 2014 Open Enrollment Letter to Retirees

B. August 2014 Contribution Explanatory Letter to VEBA Medicare Retirees

**NEXT MEETING DATE:** September 24, 2014

**ADJOURNMENT**

**RESOLUTION 14-057** By Nazarko, Supported by Waterman  
Further Resolved, That the meeting be adjourned at 12:00 p.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 August 28,  
2014.



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Nevrus Nazarko, Secretary  
*As recorded by BeneSys*