

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
MARCH 22, 2012**

A regular meeting of the Board of Trustees was held on Thursday, March 22, 2012 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 10:36 a.m.

Trustees Present

Lon Britton (*by phone*)
Leon Jukowski, Mayor
John Naglick, Secretary
Craig Storum, Chairman

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Bob Hubbard, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Fred Joiner, Retiree

Trustees Absent

Matthew Nye (*excused*)

AGENDA CHANGES

Trustee Britton recommended that the investment consultant from Gray & Company be moved to the front of the agenda.

CONSENT AGENDA

- A. Minutes of Regular Meeting – February 23, 2012
- B. Communications:
 - 1. Correspondence from Artio Global Re: Newsletter
 - 2. Correspondence from NCPERS Re: Fiduciary Insurance Update
 - 3. Conference Information:
 - a. MAPERS Spring Conference – May 20-22, 2012
 - b. Washington Legislative Update – IFEBP – May 7-8, 2012
- C. Financial Reports:
 - 1. Financial Reports - February 2012
 - 2. Accounts Payable – March 2012
- D. Capital Calls:
 - 1. Metropolitan RE Fund VI Distribution \$63,845
 - 2. Metropolitan RE Fund VII \$30,000
- E. Death Audit
- F. Remove from the Rolls:
- G. Application for Service Retirement:
- H. Application for Deferred Retirement
- I. Application for Disability Retirement
- J. Final Benefit Calculations:
 - 1. Magdalena Martinez #2242 \$3,486.34 (converted to service)

- K. Application for Refund of Accumulated Contributions
- L. Disability Re-Examination
- M. Request for Change of Retirement Effective Date

RESOLUTION 12-018 By Britton, Supported by Naglick
Resolved, That the consent agenda be approved.

Yeas: 4 - Nays: 0

CONSULTANTS

Re: Gray & Company – Total Fund Review

Mr. Hubbard reviewed the Fund's policy allocation and expectations. The long-term contribution to return is 8.34% which is a reasonable long-term assumption. He indicated that equities represent 64% of the portfolio not 70%.

The System has a well-rounded fixed income portfolio. Northern Trust is a passive manager and they would recommend reducing that allocation. Franklin Templeton will be incorporated into the portfolio soon. They are a good manager and offer good opportunities globally.

Trustee Naglick questioned whether both Boards have eliminated securities lending. He also asked if only the GERS Board sued Northern Trust over the securities lending losses. Based on Northern Trust's countersuit he questioned whether the Board should still be doing business with them.

Ms. Zimmermann confirmed that the securities lending losses have already been realized.

Trustee Naglick felt that the Board has a complicated relationship with Northern Trust and should break ties.

Mr. Hubbard stated that it is up to the Board. There are plenty of index funds on the investment side.

Trustee Britton confirmed that Northern Trust is still the Fund's custodian and asked why.

Ms. Zimmermann indicated that Ms. Billings previously told the Board at one point that they should stay with Northern Trust at the beginning of the litigation. She also indicated that transitioning to a new custodian is a big administrative issue and it would have to be coordinated with the GERS System.

Trustee Britton felt it was important to formulate the Board's intent especially with the third party claim. They need to know that the custodian position is being bid out.

Mr. Henzi indicated that legally speaking it was best to stay with the custodian bank if the losses had not been recognized and it would have been easier to get the money back. However, since

the losses were already booked, there is no litigation strategy that would impede the replacement of the custodian bank.

Mr. Hubbard told the Board that Gray & Company has a custodian bank RFI on their shelf. He also expressed that the Board can always look for options on the investment side and stay with them for the day-to-day operations if they are doing a good job on the custodial side.

Trustee Naglick asked if the Retirement Office is having any cooperation issues with Northern Trust.

Ms. Zimmermann stated that the lawsuit has not affected the day-to-day operations.

RESOLUTION 12-019 By Naglick, Supported by Britton
Resolved, That the Board direct the investment consultant to conduct a search to replace the Northern Trust Index Fund under the fixed income allocation.

Yeas: 4 – Nays: 0

Mr. Hubbard said that they will bring the Board's options to the next meeting.

The Franklin Templeton investment will be funded from the Northern Trust Index Fund.

Artio High Yield is an active fundamental manager.

Garcia Hamilton is producing great returns. They are an active fixed income manager with shorter duration.

Chairman Storum asked about reducing the size of the allocation to stable value based on the holding interest rates.

Ms. Zimmermann told the Board that there are restrictions on stable value investments. Once the money is taken out it cannot be put back in.

Mr. Hubbard confirmed that there are restrictions on public plans allocating assets to stable value.

High yield and global fixed income are positioned to add returns and will offset stable value.

They feel that the portfolio is in a good situation as it is. Changes to Public Act 314 could induce some opportunities or changes.

The majority of the equity allocation is invested in Northern Trust. Both Munder and Loomis are good skilled manager and long-term are doing an outstanding job across the board.

They like international equity manager Wentworth, Hauser & Violich. Their performance depends on the volatility of the energy market. Richard Hirayama has the ability to pick trends.

Thornburg is a fundamental stock picker.

They are bullish on real estate especially opportunistic and value added managers like Metropolitan and Mesriow. American Realty is a core conservative real estate manager. Mesriow and Metropolitan are value added managers. If your manager understands the market they can pick up great properties in the commercial space. There are a lot of opportunities for a skilled manager to produce long-term performance.

They recommend continuing to review alternative investments for the portfolio especially if there are changes to Public Act 314.

He reviewed the flash report as of February 29, 2012. The total plan value was \$234 million which are the preliminary unaudited numbers.

There was question regarding a transaction to Northern Trust that was indicated as a distribution but was coded as income.

Ms. Zimmermann explained that it was the write off of the CAPROC mortgage of \$2.4 million. Ms. Munson has removed it but it taken the custodian some time

They will return with the passive search information next month. The Franklin Templeton investment should be funded. They will continue to watch Public Act 314 for investment opportunities.

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees - None

Re: Administrator

Retirement Staff Payroll

Ms. Zimmermann reported that at the last meeting it was determined that Trustee Naglick would continue to review the Retirement staff payroll as an internal control. The process for him to review payroll each pay period is in place.

GERS Personnel Committee

Ms. Zimmermann reported that at the GERS meeting, without any prior notice, Chairman Harrison announced that Trustee Waterman will convene a Personnel Committee. She was to appoint two trustees. The purpose of the meeting was not provided.

She recommended that the Police & Fire Board be part of that meeting. Trustee Waterman indicated that they would not hold anything up waiting for this Board. One Board cannot take action without the other Board. She felt that someone needs to represent this Board in any discussion of retirement staff issues.

Chairman Storum indicated that he is on the Personnel Committee. He would be willing to contact Trustee Waterman.

Trustee Naglick indicated that he would like to volunteer for the Personnel Committee.

Chairman Storum asked if there are any personnel issues.

There was discussion regarding personnel issues in the Retirement Office.

Trustee Jukowski noted that he believes in the chain of command.

Chairman Storum stated that he will also broach the issue of the custodian bank when meeting with the GERS Personnel Committee.

Ms. Zimmermann told the Board that the most commonly used custodian banks are large financial institutions, such as State Street, Bank of New York Mellon and Northern Trust.

Re: Legal

James Tate – Application for Duty Disability

Mr. Henzi thanked Trustee Britton for his assistance and the email with the information needed to request Officer Tate's call logs. He received a fairly prompt response.

He reviewed the call logs which indicated that Officer Tate worked from December 3, 2009 through December 7, 2009 and had December 8, 2009 and December 9, 2009 off. The employer report of injury showed that Officer Tate called in sick on December 10, 2009. On December 11, 2009 Officer Tate was hospitalized.

Officer Tate's Workman's Compensation application was denied because it was not deemed duty or work related.

He indicated that the medical records leave the causation as well as the onset of the medical event open. He anticipated that the providing physicians would not likely opine on the cause of the event due to the length of time that has passed.

His partner Officer Threlkheld stated that Officer Tate complained of a headache and may have left early on December 8, 2009. Officer Tate may have been scheduled to work on December 11, 2009 and called in sick which was the date he suffered the stroke. Officer Threlkheld stated that Officer Tate hit his head and did suffer a head injury while in pursuit of a suspect in the days leading up to the stroke.

Mr. Henzi explained that the Trustees have the sole authority to decide whether the disability is duty related. Factors to consider include that this was a sudden, unexplained condition. Also, the Workman's Compensation Bureau denied the claim.

Officer Tate may have been successful in his workman's comp claim had he provided that information that he had suffered injuries during a recent pursuit while on call. There was nothing in his medical records or history that suggested he suffered from a pre-existing condition which could have caused the stroke.

He feels that this issue has been going on for sometime and now is the time to make a decision because the investigation of this matter will likely yield no additional information. The Board needs a definitive vote if they approve a duty-related benefit. This will probably be the last duty disability case that comes before the Board.

Chairman Storum said that he would like to see the full Board vote on this issue. This case is similar to another case when a member was injured during their shift. It was determined to be duty related.

Officer Tate did not have any history of high blood pressure so it is his opinion that this was duty related.

Trustee Jukowski concurred. The medical records and statements support that it was duty related.

Trustee Britton stated that he concurs but he has been wrestling with this issue due to the lack of documentation. Officer Tate's father had a history of stroke. However, there is a lot of stress being a police officer. It seems that the position of the Board is to give Officer Tate the benefit. It has been a struggle to find out what happened.

RESOLUTION 12-020 By Britton, Supported by Jukowski
Resolved, That the Board approve the duty disability retirement for James Tate.

Yeas: 4 – Nays: 0

Partial Termination

Mr. Henzi provided an update on the partial termination. He met with both Ms. Zimmermann and Ms. Billings to review the layoff lists from 2008 through 2011. They determined that these members are vested and their assets should be frozen as of the time vesting occurs. They learned that the layoffs initially started in 2005 and that there has been a systemic downsizing since then. They need to determine when the plan reached the 20% decline. He thought that there might be zero to two layoffs per year but they layoffs began in earnest in 2005 with thirty-seven; in 2006 there were sixteen and in 2007 there were a handful. The separation began with dramatic layoffs and early retirements from 2009 through 2010. He feels that members may be vested back to 2005.

He indicated that this will only include members of the Police & Fire Retirement System. They need to determine when the 20% threshold was met.

Trustee Britton asked what the 20% threshold is.

Mr. Henzi stated that according to IRS requirements if there is a 20% reduction in the plan all members are vested. It can also be attributed to a systemic downsizing but that will take a little more research.

Trustee Britton questioned whether that includes members with one year of service credit.

Mr. Henzi stated that according to the policy the only reason the member did not vest was due to the downsizing. One year of service credit equals one year of benefit.

Trustee Britton stated that somewhere down the road this will cause a huge administration issue for the staff. He questioned whether the System can offer some sort of buyout to have those members with one or two years of vesting to go away.

Ms. Zimmermann indicated that the General System had looked into giving hospital members a one time payment of \$1,000.00 instead of a smaller monthly benefit.

She also said that there is still the issue with the contributions that were withdrawn because now those members could be vested. She asked that the Board determine a process of redeposit.

Trustee Britton asked what a reasonable time period would be to pay back the contributions. Members with only one or two years of service credit will not have a realistic benefit thirty years from now.

He suggested that Ms. Zimmermann come back with information on how it was done in the General System.

Ms. Zimmermann stated that the General System has not made contributions for many years.

Chairman Storum said that the payout would have to be different for every member based on their service credit.

Trustee Britton recommended that the System match the member's contributions.

Trustee Naglick expressed his concern and felt that any buyouts or payoffs should be run by the actuary before going forward.

Chairman Storum agreed and stated that it is better to protect the System down the road.

Trustee Britton felt that Mr. Henzi could write language that was binding with regard to retirement benefit buyouts.

Mr. Henzi stated that he and Ms. Zimmermann will put together a proposal on how the members can repay their contributions and the timeline for the repayment.

RESOLUTION 12-021 By Britton, Supported by Naglick

Resolved, That the Board direct the Retirement Administrator and legal counsel to prepare a proposal including a timeline for the repayment of members' withdrawn contributions.

Yeas: 4 – Nays: 0

Franklin Templeton Global Bond Plus Investment – To be removed

MAP Cost Study

Mr. Henzi reported that there are two different opinions with regard to the interpretation of who is eligible for the 3% multiplier benefit.

Ms. Zimmermann stated that at the time the benefit was negotiated the members were not aware that the department would be dissolving. Had they known they would have included deferred members in the original language.

She sent memos to the concerned parties regarding the terms of the contract and which members would be eligible for the 3% multiplier benefit when they begin to draw their retirement during the years the contract is valid. According to these terms any member that retires outside the terms of the contract does not receive the additional benefit.

Trustee Britton felt that the language is pretty clear. If a member retired during the terms of the contract from 2007 through 2012 they were entitled to the 3% multiplier if the Fund was overfunded. He indicated that if it applied to deferred members going forward they should have put that language in the contract.

Mr. Henzi stated that the Board should be focusing on the contract language for that year. It should be determined on a case by case basis.

Trustee Britton questioned if the member's COLA would be higher if the System is overfunded based on the contribution or funding rate.

Mr. Schimmel arrived at 11:37 a.m.

Ms. Zimmermann's asked for the Board's direction.

Mr. Schimmel and Trustee Jukowski left at 11:38 a.m.

The Board directed Ms. Zimmermann to put the information in writing for review.

Trustee Jukowski returned at 11:39 a.m.

RESOLUTION 12-022 By Britton, Supported by Naglick

Resolved, That the Board direct the Retirement Administrator to write and clarify the 3% multiplier language to insure that it is clear that the benefit is intended for members who retire during the years the contract was valid pending Board review.

Yeas: 4 – Nays: 0

Ms. Zimmermann indicated that she will run the language past Mr. Henzi.

Hiring Retirement System Office Staff

Mr. Henzi reported that this is a carryover item. There is still the SAEA Union issue.

Robbins Geller Portfolio Monitoring Report – 3rd Quarter 2011

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

The NAPPA Report – February 2012

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

Renewal Application for Fiduciary Liability Insurance

Mr. Henzi referred to the application for the renewal of the fiduciary liability insurance that was forwarded to the insurance company.

Health Care Reform – Reporting Health Care Coverage on Employees' W-2s

Mr. Henzi reported that Ms. Munson brought this to his attention. There is a new mandate from the IRS that requires municipal employers to report the cost of healthcare coverage on the employee's W-2. There may be an exception for employers with less than 250 employees. He will further review the issue.

Electronic Meeting/iPad Use Policy

Ms. Zimmermann indicated that a couple of the iPads were delivered.

Mr. Henzi reported that according to the Open Meetings Act call-ins are acceptable. The Lake Orion School Board was recently criticized for putting a computer with the trustee's face where he would normally sit.

Mr. Henzi asked the Board if they want something similar to a laptop policy for the iPads. The Trustees may want to assert a policy including terms providing that they are for work only, cannot leave the premises and need to be signed out.

Trustee Jukowski stated that it is important to note that they are the property of the System. They should not be used for personal texting since they are owned by the System. However, they need to leave the premises since the real benefit is being able to review the agenda materials prior to the meeting.

Trustee Britton felt that they need to be portable. A one-page policy indicating their usage and only ethical and moral materials should be viewed and that the member is responsible for the iPad's security.

Trustee Naglick agreed.

Mr. Henzi indicated that the trustee/staff should sign the agreement and both keep a copy. The policy should also indicate that the iPads are subject to FOIA.

Articles

Mr. Henzi reported that these articles are for the trustees' information.

- *New Pension Tax Surprises Retirees, Creates Confusion*
- *Know Your Role: Am I a "Settlor" or a "Fiduciary"*

Mr. Henzi complimented Ms. Zimmermann and her staff for their response to members with regard to the new State pension tax. They were very knowledgeable and helpful.

RESOLUTION 12-023 By Nye, Supported by Naglick

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

Roll Call:

Trustee Britton – Yea

Trustee Naglick - Yea

Trustee Jukowski – Yea

The Board moved to closed session at 11:46 a.m.

The Board returned from closed session at 12:09 p.m.

Trustee Jukowski left at 12:09 p.m.

Re: Union Representatives – None

Trustee Britton asked if there is a specific spot on the agenda for retired and deferred members.

Chairman Storum indicated that he acknowledges those in attendance and whether they would like to address the Board.

NEW BUSINESS

Re: Employee Withholding Issue

Ms. Zimmermann reported that the City moved to ADP for their payroll system and the Retirement Office is no longer has access to the reports like they did in Banner. There use to be a way to prioritize deductions. ADP does not have a way to prioritize deductions so there may not be enough net funds left to take the contributions out. Some members have not had the appropriate amount held out of payroll for their contributions but this amount has been included in the final average calculation (FAC). She asked if the Board wants to approve that the contributions not be withheld.

Chairman Storum questioned whether this could cause actuarial issues.

Trustee Naglick questioned which members this applies to.

Ms. Zimmermann indicated that this includes the Fire members who have not received their final payout.

Trustee Naglick thought that by now those members would be all settled up.

Ms. Zimmermann asked if the Board wants to approve not withholding the contributions. If they disapprove, the applicable wages will not be included in the FAC. There may be a way to process manual checks for these members.

Chairman Storum indicated that he would be in favor of not withholding the contributions.

Trustee Britton noted that this could be a slippery slope and asked if there is an offset. Some members have eighteen or twenty years and their contributions are accruing interest until they retire. He felt that there needs to be consistency.

Chairman Storum agreed that there should be no changes.

Ms. Zimmermann indicated that employee contributions will still be withheld and the Retirement System will bill the member if necessary.

Trustee Jukowski returned at 12:19 p.m.

RESOLUTION 12-024 BY Britton, Supported by Naglick

Resolved, That the Board continue to withhold employee contributions and, if necessary, bill the member for these contributions if were not withheld from their final payout.

Yeas: 4 – Nays: 0

RESOLUTION 12-025 By Jukowski, Supported by Britton

Resolved, That the Board approved the closed session minutes from February 22, 2012

Yeas: 4 – Nays: 0

RESOLUTION 12-026 By Naglick, Supported by Britton

Resolved, That the Board instruct legal counsel to file an immediate appeal if the Judge's ruling warrants and take all necessary actions to seek sanctions against Elbert Hatchett and/or his clients for filing a frivolous lawsuit against the Retirement Board.

Yeas: 4 – Nays: 0

UNFINISHED BUSINESS

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

Re: Actuarial Cost Study MAP – Refer to Legal

Re: James Tate – Application for Duty Disability – Refer to Legal

Re: Partial Plan Termination – Refer to Legal

Re: Electronic Meetings

Trustee Britton indicated that the iPads only have 3G capability and that it does not stream very well. He asked if the City has wifi capability and that there could be an additional cost.

Trustee Naglick and Trustee Jukowski both indicated that they have tried to get Sarcom to make the building wifi capable. They will pursue wifi capability for Retirement Board meetings.

Re: Rent / Overhead

Trustee Naglick indicated that previously the occupancy cost was based on the payroll cost allocation which totaled \$42,000.00 per year or \$3,500.00 per month. The Emergency Manager has proposed charging the same \$3,500.00 per month occupancy cost.

He is also looking to relocate the office by July 1, 2012 to the Human Resources area. The current location is not the right place

Chairman Storum asked what the current rent is for an office in the Riker Building.

Trustee Jukowski said that higher end office space is going for \$21.00 to \$22.00 per square foot in Pontiac.

Trustee Naglick indicated that the Retirement Office would require a full service office similar to the Americenter located at Woodward Avenue and Square Lake Road. Mr. Hubbard told the GERS Board that they currently pay \$1,200.00 per month for an 8 foot by 8 foot office. If the Retirement Office relocated outside of City Hall there would be additional charges for internet access and IT assistance.

Mr. Henzi stated that \$3,500.00 is an approximate cost for a suite of offices in a building similar to the Americenter but there are additional considerations. For instance, tenants are required to book a conference room for a certain period of time and would have to leave when their time was up.

Chairman Storum stated that the last accounting included City services that were no longer provided including legal and administrative costs.

There was Board discussion regarding the total square footage and an associated reasonable cost.

Trustee Naglick indicated that no bills have been sent to the System since their separation from the City.

Trustee Britton proposed that Trustee Jukowski research the issue and return with a recommendation to the Board based on his real estate experience.

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, April 26, 2012 – City Council Conference Room, Second Level, City Hall @ 9:00 am

ADJOURNMENT

RESOLUTION 12-027 By Naglick, Supported by Jukowski
Resolved, That the meeting be adjourned at 12:27 p.m.

Yeas: 4 – 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 March 22, 2012.

John Naglick, Secretary
As recorded by Jane Arndt