

**CITY OF PONTIAC, MICHIGAN  
POLICE AND FIRE RETIREE PREFUNDED  
GROUP HEALTH & INSURANCE PLAN  
“VEBA MINUTES”  
MARCH 22, 2012**

**Trustees Present**

Lon Britton (*by phone*)  
Leon Jukowski, Mayor  
John Naglick  
Matthew Nye, Vice Chair  
Craig Storum

**Others Present**

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

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*The meeting was called to order at 8:37 a.m.*

**AGENDA CHANGES** - None

**CONSENT AGENDA**

- A. Approval of Regular Meeting Minutes: February 23, 2012
- B. Financial Reports
  - 1. Consolidated Statement of Changes – February 2012
  - 2. Accounts Payable:
    - a. Gray & Company 1,250.00
- C. Correspondence:
  - 1. Correspondence from Bradford & Marzec Re: Newsletter
  - 2. Correspondence from Pluscios Re: Newsletter
  - 3. Correspondence from Rhumblin Re: Monthly Performance

**RESOLUTION 12-009** By Jukowski, Supported by Britton  
Resolved, That consent agenda for March 22, 2012 be approved.

Yeas: 5 – Nays: 0

**TRUSTEE/COMMITTEE STAFF REPORTS** - None

**CONSULTANTS**

**Re: Gray & Company – Total Fund Review**

Mr. Hubbard told the Board that Mr. Kuhn was unable to attend the meeting because he had to attend a funeral.

Economic growth over the next couple of years will be moderate at best. China and the emerging markets will provide the best prospects. The sovereign debt crisis in Europe will rely on government assistance. The challenges to solving the crisis are high unemployment rates, energy costs and governments carrying more debt than growth.

He reviewed the government debt by country chart. For many countries debt is rising faster than GDP growth. Most European projections point toward resolving the debt crisis by 2014. Nothing is being done in the U.S. to get the debt crisis under control especially during an election year.

Japan is the surprise with projections of tremendous increasing debt. They expect that there will be more downgrades and debt issues across the globe.

The U.S. is still fragile, emerging from the recession. The Stimulus helped some but not much. The Fed is targeting the housing market. But the big issue stunting economic recovery is unemployment. Projections show no substantial job growth going forward.

One hedge manager feels that the sovereign debt crisis has played out in Europe; Greece will default and leave the Eurozone. Germany has the most powerful currency but no one will be able to afford it so they will have to continue to help. Everything following some

Japan still has poor domestic consumption and relies on exports.

Growth favors the emerging countries that are exporters of natural resources and consumer products. They will have the best opportunities.

Inflation versus deflation is a tug of war. In the end expectations are that the fixed income market will see low to moderate performance well below the 3% level in 2011. There is no easy way to know what will happen.

Interest rates will eventually rise but not in 2012 or 2013. There will be relatively low returns. An increase in interest rates could create 0% or negative returns. You want your manager to look at there positions in the space and manage duration.

International fixed income markets are a good area for performance going forward. The Board recently hired a manager.

The U.S. equity markets have seen a tremendous discount to historical valuation measures. The price to earnings ratio has been very interesting. The P/E ratio is continuing to fall with historic discounts while dividends continue to go up. Market performance will be volatile. Large cap is more stable. Earnings strength will be a sign of a recovery.

There are investment opportunities in the emerging market area. There is still significant uncertainty and volatility. The valuations are well below historical measures. If reversion occurs it will drive overall performance.

Trustee Naglick asked if Apple is considered a U.S. equity.

Mr. Hubbard said that it would depend on which equity manager holds Apple and their philosophy. They have a concern that sometimes there is too much exposure to Apple in the portfolio and whether it will sit on the growth side. It can be rationally held by a global manager.

They feel that there are a lot of great opportunities in real estate. However, you have to hire the right manager in the space and they need to understand the opportunity sets.

Hedge funds are interesting. Normally they lead the way in a volatile market with 2011 being the exception. No one could hide from the problems during the third quarter. They feel that hedge funds have their place.

Trustee Nye asked if they have met their asset allocation to hedge funds.

Trustee Britton confirmed that the hedge fund performance table is gross of fees.

Mr. Hubbard indicated that they like private equity. Buyouts have come back and some secondary managers that can produce higher yields going forward. There is a lot of value in smaller to mid market managers. But there is inherent risk. They like exposure to the hedge fund and real estate with regard to risk.

He summarized their portfolio strategies going forward. They would explore more opportunities in real estate and direct lending. Direct lending is a great area with fixed-income-like volatility but higher-than-fixed-income performance.

He explained the policy allocations and expectations for the VEBA Fund going forward with regard to cash, fixed income and equities. They are looking at the long-term assumption going fifteen to twenty years out. Over the long-term, the Fund should see an 8.62% return based on the current asset allocation. Fixed income will not hit the short-term perspective.

He described the managers and their risk exposure.

Bradford & Marzec is a core fixed income manager with an intermediate duration of three to five years.

Rhumblin is more of a pure form of passive management.

Broadview is more of a value oriented small to mid cap equity manager.

Dodge & Cox is the international equity manager with a large to mid cap focus and some exposure to the emerging markets.

Pluscious is a hedge fund of funds manager. This is the best way to gain access and have some exposure to fund managers that cover all aspects of the market.

They would recommend continuing to look at adding alternative investments to the portfolio especially if Public Act 314 is revised.

Trustee Nye indicated that at the last meeting there was discussion whether there are too many active managers in a fund of this size.

Mr. Hubbard told the Board that they would recommend an active fixed income manager.

Rhumblin is basically a passive manager.

Broadview is an active manager with a small to mid cap focus. This investment area needs and requires a lot of research. If you find a manager whose performance stays above the index net of fees it is worth having an active manager.

He noted that the comparison of an active manager to the index does not include the fees for the index. It is not a strict manager fee to index comparison.

Dodge & Cox is an international equity index fund.

Hedge fund managers are only active managers.

Trustee Naglick indicated that this Fund will never grow assets because as soon as the City makes their \$3 million payment of contributions it is paid back out to cover healthcare benefits. The Police & Fire Funds are currently in a fight with the Courts to collect the contributions through a consent judgment. He questioned whether the extra liquidity would come from fixed income.

Mr. Hubbard stated that Gray & Company hired an actuary last fall. The actuary will help them determine liability streams to insure the maturity of issues.

Trustee Naglick stated that there are no longer any active members so this money has to protect their benefits. The Emergency Manager is pushing for the 2011 actuarial report.

Trustee Nye asked for an update regarding the actuarial report.

Ms. Zimmermann stated that they are still waiting for information from Human Resources/Risk Management. She has made several requests. She suggested that the Mayor and Trustee Naglick express the urgency of the issue to Human Resources.

Mr. Hubbard stated that Fund performance is up 8% for the first two months of 2012.

Trustee Naglick asked if the assets to pay for healthcare benefits will be taken from fixed income.

Mr. Hubbard indicated that they would have to take a close look before making that determination.

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

**RESOLUTION 12-010** 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 9:13 a.m.*

*The Board returned from closed session at 9:43 a.m.*

**RESOLUTION 12-011** By Storum, Supported by Naglick  
Resolved, That the Board approve the closed session minutes for February 23, 2012.

Yeas: 5 – Nays: 0

**RESOLUTION 12-012** By Jukowski, 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: 5 – Nays: 0

IRS Request for Form 990

Mr. Henzi reported that they received a response from the IRS which indicated that IRS Form 990 has to be filed and the VEBA’s tax exempt status was revoked. He provided a detailed follow-up letter which included the reasons why they disagree including the information that was provided for the General VEBA when that Fund received its tax exempt status in 2004.

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**UNFINISHED BUSINESS**

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

**Re: Contribution Invoices July – December 2011** - Refer to Legal (Closed Session)

**Re: Request for HR Quotes for Healthcare**

Ms. Zimmermann reported that Human Resources responded to the Board’s request to identify cost savings based on changes in healthcare benefits. The information provided came from Meadowbrook.

Trustee Naglick indicated that the Emergency Manager consolidated approximately 83 healthcare plans into one.

Trustee Storum asked if the information in the document includes the estimated savings based on the current plan.

Trustee Naglick stated that the City-widen savings are estimated to be \$5.8 million. This is the document that Meadowbrook provided for the City to give to the State for their approval to make the changes in healthcare benefits.

Trustee Storum stated that it appears that the prior and current Emergency Manager sent a letter to Humana asking them to provide a plan that would save 30% in healthcare costs. So the Fund should see a 30% savings in their costs.

Trustee Naglick agreed with Trustee Storum's costs savings assessment.

Trustee Storum asked which healthcare plan is the current plan.

Trustee Naglick indicated that the first page depicts the estimated savings.

Trustee Storum stated that the additional documentation includes fourteen plans.

Trustee Naglick indicated that these were all the plan choices provided by Humana. Now that the City is consolidated into one plan the Emergency Manager is going to shop the benefit coverage to more providers.

Trustee Storum confirmed that by going to Plan 12 it should cost will be .7394 of the previous plan.

Ms. Zimmermann indicated that it seems to be the cost percentage of the prior plan.

Trustee Storum confirmed that because the City is self insured the Humana plan design has shifted the cost to the retirees and active members.

Trustee Naglick indicated that the self insured piece now costs less. It is more apparent on the General side. When a member retired they would be put into whatever healthcare plan they were in on that date. Having one plan offers better opportunities to shop. There will be some guesswork.

Trustee Nye asked at what point the Board should step in to stop cost shifts to retirees.

Trustee Jukowski stated that the Emergency Manager could always come back for another bite of the apple.

Trustee Naglick stated that the Emergency Manager could go to the State with a plan to save more money going forward. As trustees the savings will be good for the Fund.

Trustee Storum felt that as fiduciaries they have the responsibility to secure funds and to protect benefits.

Trustee Jukowski questioned whether the union negotiated for retirees under the PFFU contract.

Trustee Naglick indicated that the Emergency Manager went to the unions and they would not negotiate for the retirees. At that point, he could have gone to the State and under Section 19a of Public Act 4 eliminated healthcare benefits for retirees.

Trustee Nye questioned whether it is the Board's fiduciary responsibility to step in.

Trustee Jukowski said that if the law reverts back to Public Act 72 the Emergency Manager will not have the authority to cancel contracts.

Trustee Storum asked if, during the formation of the Trust, it was intended to protect the benefit levels of the retirees. He requested that legal counsel look into the issue.

Mr. Henzi stated that the unions did not say they would negotiate on behalf of the retirees because if they had taken on that collective bargaining task they could have inadvertently changed the benefits for retirees.

He also addressed the issue of the Emergency Manager changing the healthcare benefits. He stated that VEBA benefits are protected under the State Constitution, according to language in the trust. However, there is prior precedent on this issue. The Michigan Supreme Court previously analyzed a case in which a group of retirees file suit because their co-pays and benefits were changed after they retired. They filed a lawsuit against that City stating that they should be able to keep the same benefits they had when they left. The Court ruled for the City in that case.

*Ms. Arndt left at 10:03 a.m.*

There was discussion whether the trustees have a fiduciary role when the retirees have a complaint about benefits or if the VEBA has a role.

*Ms. Arndt returned at 10:04 a.m.*

If benefits are contrary to what was intended can they go to the Courts? If the Emergency Manager revoked the benefits the retirees may have to take it to Court or would it be the Board's role.

Trustee Jukowski questioned whether the benefits cost is 20% or if there is a hard cap under the state law.

Ms. Zimmermann indicated that it is either 20% or a hard cap.

Trustee Nye felt that it was the Board's job to make sure there are funds available to cover benefits going forward.

Trustee Jukowski questioned other than union busting what is an alternative solution. If you cannot change benefits you could lose them. The question is what you are willing to give up so everyone has a benefit going forward.

Trustee Naglick stated that Michael Stampfler wanted to declare bankruptcy which is why he was relieved by the State. If they would have allowed him to declare bankruptcy it would have stopped benefits for everyone.

Trustee Jukowski told the Board that he sits in the Council meetings and some Council members still want the City to declare bankruptcy. He feels the retirees and unions would be worse off.

Trustee Storum indicated that no one wants to question what has been done. He just wants to make sure the questions are answered based on a legal standpoint. When he asked for the quotes he thought there would be competitive bidding. He only sees one bid.

Trustee Naglick indicated that no one would look at bidding the City with eighty-seven plans.

Trustee Storum stated that when the former Human Resources Director went to Humana we were suppose to see \$3 million in cost savings per year but costs increased.

Ms. Zimmermann noted that healthcare costs increased 17%.

**RESOLUTION 12-013** By Storum, Supported by Naglick  
Resolved, That the Chair send a letter to Human Resources asking to see competitive bids.

Yeas: 5 – Nays: 0

Trustee Naglick stated that there is a real need for the actuarial report. The Emergency Manager wants to protect the benefit.

Trustee Jukowski stated that he wants to make sure that the City and the benefits are sustainable.

Trustee Nye stated that the trustees are charged with protecting the funds and the benefits.

Trustee Britton asked Mr. Henzi to define the responsibilities of the VEBA Trustees with regard to the Trust and the Retirement Ordinance. He would like more information beyond which benefits are being constitutionally protected and provided to members who are vested. There has to be something more with regard to the VEBA Trustees' capabilities and responsibilities.

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## **NEW BUSINESS**

### **Re: Healthcare Claims Reimbursement Request**

Ms. Zimmermann reported that the 2011 fourth quarter healthcare claims total \$778,320.06. She receives a spreadsheet analysis from Risk Management which includes the actual claims by individual. She verifies approximately 60% to 70% of the medical, dental and prescription drug claims.

Trustee Storum asked that he be reminded of what the stop/loss payment is for.

Trustee Naglick stated that the stop/loss covers any claim costs that exceed \$95,000.00 per person for a plan year.

Ms. Zimmermann indicated that the stop/loss payment is for the period of October, November and December 2011.

*Trustee Nye left at 10:18 a.m.*

Trustee Naglick told the Board that if they were in a fully insured plan there would not be a need for a stop/loss plan. However, it will be difficult to become fully insured because the population of our members (based on their age) is not attractive to healthcare providers.

There was discussion regarding the 30% reduction in costs to the VEBA.

**RESOLUTION 12-014** By Naglick, Supported by Storum  
Resolved, That the Board reimburse the City \$778,320.06 for healthcare claims for the period October, November and December 2011.

Yeas: 4 – Nays: 0

Trustee Britton said that he finds there is a fundamental problem reimbursing someone that is not reimbursing them. He does realize that the City signed the Consent Agreement.

Trustee Jukowski indicated that the City cooperated to provide alternative funding and the Fund would have the money if it was not for Judge Leo Bowman.

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

Regular Meeting – April 26, 2012 – City Council Conference Room, Second Level, City Hall @ 8:30 a.m.

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#### **ADJOURNMENT**

**RESOLUTION 12-015** By Naglick, Supported by Jukowski  
Further Resolved, That the meeting be adjourned at 10:23 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 March 22, 2012.

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John Naglick, Secretary  
*As recorded by Jane Arndt*