

**CITY OF PONTIAC, MICHIGAN
POLICE AND FIRE RETIREMENT SYSTEM
JUNE 28, 2012**

A regular meeting of the Board of Trustees was held on Thursday, June 28, 2012 at the City Council Conference Room, Second Level, City Hall, Pontiac, Michigan. The meeting was called to order at 10:20 a.m.

Trustees Present

Lon Britton
Leon Jukowski, Mayor
John Naglick, Secretary (*arrived at 11:18 a.m.*)
Craig Storum, Chairman

Others Present

Matthew Henzi, Sullivan, Ward, Asher & Patton
Chris Kuhn, Gray & Company
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant
Neill Dennis

Trustees Absent

Matthew Nye (*excused*)

AGENDA CHANGES

Ms. Zimmermann asked that the accounts payables due to / due from additions for the second quarter of 2012 be added to the consent agenda.

Chairman Storum requested that the Board move Neill Dennis up on the agenda.

MAP Letter

Mr. Dennis indicated that he received a letter regarding the final average salary (FAS) and the increased multiplier dated June 15, 2012. He worked on the PPOA contracts with the first two Emergency Managers, Fred Leeb and Michael Stampfler.

From what he interpreted the letter stated that a member would have to retire by December 31, 2012 in order to be eligible for the increased multiplier. That interpretation is totally wrong. The language regarding the contract date was used in multiple sections to identify which contract it pertained to. He indicated that the section in the contract regarding the pension contributions uses the same language.

He stated that the language was written into the language that pertained to the contributions made to the Retirement System. If the Retirement Board's interpretation was correct, when the contract expired contributions to the Retirement System would be discontinued.

Trustee Britton confirmed that Mr. Dennis's argument is that this contract applies to the members who were covered under this contract not just those who retired during the contract period.

He also told Mr. Dennis that the Retirement System tried to get clarification from both MAP and PPOA.

Ms. Zimmermann stated that she tried to get hold of Jason Teelander and David Wheatcroft to clarify the contract language.

Trustee Britton also confirmed that this benefit applies to anyone who retires starting on October 4, 2010 going forward.

Mr. Dennis agreed and noted that the benefit only applies if the Retirement Fund is actuarially over funded. He offered to provide the Board with a copy of the Contract Termination Agreement.

Chairman Storum stated that he would like to know which actuarial study will apply to retiring members since they normally run eight months behind.

Mr. Dennis also indicated that the City used the increased multiplier to compensate active PPOA members in lieu of a pay raise.

Trustee Britton stated that he would like to refer this issue to legal for final resolution. Ms. Zimmermann and Mr. Henzi will contact Mr. Dennis if they need additional information.

RESOLUTION 12-048 By Britton, Supported by Jukowski
Resolved, That the Board direct legal counsel to review the information and provide a legal opinion.

Mr. Dennis left at 10:32 a.m.

CONSENT AGENDA

- A. Minutes of Regular Meeting – May 31, 2012
- B. Communications:
 - 1. Correspondence from Artio Re: May 2012 Newsletter
 - 2. Correspondence from Loomis Sayles Re: Counterparty Procedures
 - 3. Correspondence from Metropolitan Re: Investor Letter
- C. Financial Reports:
 - 1. Financial Reports – May 2012
 - 2. Accounts Payable – June 2012
- D. Capital Calls:
 - 1. Metropolitan VI \$221,000
 - 2. Metropolitan VI – Distribution (221,000)
 - 3. Metropolitan VII 35,000
- E. Inter-Fund Due From \$162,764.32
- F. Remove from the Rolls:
 - 1. Patrick Duggan (deceased 06-01-12)
 - 2. Lawrence LaBair (deceased 05-18-12): survivor benefit of \$885.97/mo to Mildred LaBair
 - 3. Robert Mielke (deceased 06/11/12): survivor benefit of \$1,325.55/mo to Elizabeth Mielke
- G. Final Benefit Calculations:

	1. Kelly O'Brien – PFFU	#2617	\$3,587.03
	2. Richard Elzerman – PPOA	#2626	1,344.44
H.	EDRO		
	1. Valard Gross		

Chairman Storum questioned why retiree Michael Dougherty was given an additional year of service credit in error.

Ms. Zimmermann explained that the Retirement Systems have different effective dates for disability retirements which can be confusing. General Employees' Retirement System members' effective date is their application date and Police & Fire Retirement System members' effective date is when the Board approves their disability retirement. Mr. Dougherty's retirement was setup using his application date instead of the date the Board's approved his disability retirement.

RESOLUTION 12-049 By Britton, Supported by Jukowski
Resolved, That the consent agenda be approved as amended.

Yeas: 3 - Nays: 0

CONSULTANTS

Re: Gray & Company

Mr. Kuhn reviewed the flash report dated May 31, 2012. This Fund performed a little better than the VEBA due to the higher fixed income allocation but there was a lot of red ink in equities. Year-to-date performance is 3.12%.

Mr. Kuhn noted that this will be the new Gray & Company format going forward.

The Board is currently looking to make some changes in the fixed income portfolio.

The fixed income review will provide the Board with some insight in the event interest rates rise and impact the bonds in their portfolio.

He reviewed the fixed income portfolio which represents approximately 36% of the Fund with a 23% allocation to core/intermediate fixed income. Goode Stable Value is coming to a close and the Board needs to find a home for that allocation.

Historically when rates increase you had yield to offset the reduction in principal, which is what happened in the 1970's. Today this is much less cushion due to the low yields.

He described four fixed income performance scenarios: no change in yields; a 100 basis point increase across the yield curve; a 200 basis point increase across the yield curve and a 300 basis point increase across the yield curve.

Mr. Kuhn provided performance estimates for the fixed income portfolio for all four scenarios, assuming a 12-month period for income and yield changes. The no change scenario would see total returns around 3.27%. An upward shift of 100 basis points in interest rates caused returns to decrease to 0.45%; an upward shift of 200 basis points caused returns to decrease to -2.36%. An upward shift of 300 basis points in interest rates caused returns to decrease to -5.18% which includes a loss of 9.72% in the portfolio's principal. Under the 300 basis point shift yield shift, the fixed income portfolio would suffer losses of approximately \$4 million.

He reviewed various portfolio mixes and how each would protect the portfolio based on historical returns. The 40% fixed income and 60% equities mix most resembles the current Police & Fire portfolio.

During the 1970's a 300 basis point shift upward in the yield curve never occurred. The capital market assumptions showed what would happen with the portfolio if expected returns for fixed income were -3%. This is a good stress test for the portfolio.

He described the simulated one-year and two-year returns based on various portfolio mixes along with the standard deviation. They know that fixed income and equities will trail. The need to meet the 7.5% policy index target puts a lot of pressure on the portfolio.

There will be more emphasis on the fixed income returns in a rising rate environment. He showed the target allocation by fixed income strategy with core fixed income representing 63.9% of the fixed income portfolio. The current fixed income allocation is 36% of the total portfolio with high yield representing 2%.

Gray & Company is recommending that the Goode Stable Value portfolio be transferred to the Garcia Hamilton fixed income portfolio as a temporary solution. Upon completion of the asset and liability review a more permanent solution will be recommended. He asked if Ms. Zimmermann had been contacted by Rodwan Consulting regarding the payment authorization to supply Gray & Company the requested data they will need to complete their study.

Ms. Zimmermann stated that this is a follow up to last month's fifty year cash flow projections. It will cost approximately \$1,300.00 and asked the Board to authorize the study.

RESOLUTION 12-050 By Britton, Supported by Jukowski

Resolved, That the Board authorize Rodwan Consulting to complete a fifty-year cash flow projection study.

Yeas: 3 – Nays: 0

Chairman Storum asked about the asset and liability study.

Mr. Kuhn stated that the liability study will determine what would be needed for the next eight years of payroll and with the rest of the portfolio invested could mean that the Board would be more comfortable with the risk. It would also include the short-term liability for the next one to five years; five to ten years and ten to twenty years which could help with structuring the

portfolio. It could assist in determining the risk of the total portfolio. The rates should remain low through 2014. This would give the Board time to work through the information and make a decision before interest rates rise.

The Board has scheduled a special meeting for July 27, 2012 at 9:00 a.m. to review the liability study.

Trustee Britton asked if the Goode Stable Value allocation needs to be moved by August 1, 2012.

Mr. Kuhn stated that he will speak with Bruce Goode and verify how the fund is being liquidated. He believes it will be going into cash unless there are some securities or if it is going into the Garcia Hamilton portfolio.

Trustee Britton asked about the high yield allocation in the portfolio. He confirmed that high yield represents 2% of the total fixed income portfolio of 36%.

Chairman Storum questioned whether the Board is safe doing nothing at this point.

Mr. Kuhn indicated that the Fund would be safe doing nothing or the assets could be moved into Garcia Hamilton or Northern Trust.

Trustee Britton felt that a decision needs to be made before the next meeting on what to do with the \$18 million from Goode Stable Value. He felt it should be moved into cash.

RESOLUTION 12-051 By Britton, Supported by Jukowski
Resolved, That the Board direct Gray & Company to move the Goode Stable Value liquidated assets into the cash account.

Yeas: 3 – Nays: 0

Mr. Kuhn indicated that they were concerned that Garcia Hamilton would have 20% of the total portfolio asset allocation if the Goode Stable Value allocation was moved into their portfolio.

Trustee Britton stated that he likes absolute return products but he is not sure if it makes sense.

Ms. Zimmermann noted that there could be issues with Public Act 314.

Mr. Kuhn stated that it sounds like the changes to Public Act 314 will go through.

Chairman Storum stated that he would like to wait and review the liability study at the July meeting before the Board jumps the gun and makes changes to the asset allocation.

Mr. Kuhn indicted that alternative investments do not model well in the asset allocation process because their return patterns understate their true risk; this is partly due to the monthly or quarterly valuation procedures. The same is true with other alternative investments which do not

quantify. Those strategies are equity oriented and they like to error on the side of the standard deviation of equities. They can model those strategies but it would not change the equity fixed income model. He can provide more information when the updates are available.

He also indicated that the Board should hold off adopting the Investment Policy Statement until after the asset liability study.

REPORTS

Re: Chairman

Chairman Storum stated that he would like to award bonuses to the staff by calculating Ms. Craft's salary and distributing it to those who have been doing the work. He felt that another Personnel Subcommittee meeting should be scheduled to discuss his proposal.

Re: Secretary - None

Re: Trustees/Committees

Trustee Britton stated that the System's Personnel/Relocation Subcommittee met with Trustee Barnett and Trustee Naglick who represented the General Employees' Retirement System. Trustee Bowman was suppose to sit in for Trustee Waterman but he was not given the correct time for the meeting.

They discussed the relocation issue for the Retirement Office. It is difficult to serve two masters and there is a need for the office to separate from the City's Administration. There are a few options. The Retirement Office can say where it is and pay \$3,000.00 per month. An office can be rented but that is not the best solution. It would require renting office space, getting equipment, hiring an HR function to provide staffing and succession planning. There are issues with planning for member access, parking, providing a backup plan and a virtual office. He has struggled putting a cost to that.

He has also looked at third party administrators like BeneSys which would administer the benefits for the Retirement System and the VEBA. They have all the facilities, meeting rooms and will come in and administer your plan. However, they do not have experience in public retirement plans like the current staff. The current staff could move to Troy and be employed by BeneSys but the Board would remain in charge.

He suggested having BeneSys into the next meeting. It is a cleaner and easier way to go. There needs to be a succession plan in place. He can go deeper into exploring office space but he would like to hear what they have to say.

The General System may not want to leave City Hall. He recommended that they be invited to attend the meeting. They may not want BeneSys to siphon off the staff and may want to go their own way. He does not want to hurt them.

RESOLUTION 12-052 By Britton, Supported by Jukowski

Resolved, That the Board approve to have BeneSys come into the next meeting to make a presentation.

Yeas: 3 – Nays: 0

There was discussion regarding how much it would cost for the Police & Fire System to have their own staff and that it would cost more for them to go out on their own. There could also be questions from the staff. There was also a concern on who would set the structure.

Mr. Henzi stated that he is familiar with BeneSys. The transition would be seamless and there is a tendency for things to run better and could be the better way.

He has worked with them daily. They primarily deal with private sector funds and do a great job. You can tailor the contract whichever way you want. They could lift out the current staff and provide the same compensation plan they are getting now.

Trustee Jukowski questioned whether there would be any cost savings.

Trustee Naglick arrived at 11:18 a.m.

Trustee Britton indicated that the Board is discussing having BeneSys come into a meeting to discuss providing the plan administration versus having our own office setup.

Chairman Storum suggested that the Board compare the cost associated with how the plan is administered now. Having our own office would require a lot of work. He asked how much of the furniture belongs to the Retirement Office and what belongs to the City.

Ms. Zimmermann explained that most of the furniture is hand me downs from the City and that the City also owns the filing cabinet system which houses the retiree files.

It was determined that without an HR function and as the employer the System could run into some liability issues.

Chairman Storum questioned whether a third party company would be impersonal and not attentive to the members' needs. You could lose a lot.

Trustee Naglick indicated that the Carpenters & Millwrights did a review of BeneSys and hired them. Their world is largely Taft Hartley plans. They keep the books and records.

Ms. Arndt expressed her concern whether the System could maintain enough work for all three employees and that she did not want to lose her job. She also indicated that many of the members live in close proximity to City Hall in Pontiac and like to stop by the office to return paperwork or discuss issues. They could find this difficult if the office moved to Troy, Michigan. She felt that some of the personal touch could be lost if the staff became part of BeneSys.

Re: Administrator

MAP Letter

Ms. Zimmermann reported that the MAP Letter was sent out on June 5, 2012.

Deferred Member Statement

Ms. Zimmermann reported that the Deferred Member Statements were mailed out on June 15, 2015.

EVIP – FAC and Multiplier Changes

Ms. Zimmermann reported that there was a lot of pushback at the state level regarding the change in retirement benefits. The State has changed the mandate indicating that if the members pay 20% of their healthcare cost or the hard cap, whichever applies and the FAC and multiplier will remain the same.

Trustee Naglick suggested that Ms. Zimmermann remind Joseph Sobota and Lou Schimmel that an Executive Order is needed.

Chairman Storum confirmed that the FAC and multiplier will remain the same.

Re: Legal

Partial Plan Termination

Mr. Henzi reported that he and Ms. Zimmermann are still working on this issue. The policy needs to be amended for deferred vested.

Ms. Zimmermann stated that she has been working on the data for the supplemental valuation. Rodwan should be beginning the process.

She is comfortable with the listing and will be putting the information into the database. She noted that the Board had discussed buying members out but were waiting for the valuation.

Mr. Henzi stated that the letter could go out telling members that they have the option to redeposit the contributions within one year.

Ms. Zimmermann recommended that Mr. Henzi verify whether members can redeposit before sending out the letter.

Mr. Henzi noted that the Retirement Ordinance would have to be amended.

Ms. Zimmermann stated that the Retirement Ordinance states that an active employee can redeposit contributions in a lump sum payment after completing three years of service. She suggested that a letter informing members they are vested for a benefit could be sent out but not to the members who need to redeposit their contributions. Once the Retirement Ordinance is amended the letter could be sent to that group.

Mr. Henzi said that a draft of the letter will be brought to the next meeting.

There were questions regarding the list distributed by Ms. Zimmermann. She explained that some of the members would be receiving a very small monthly benefit and may be interested in receiving a lump sum payout.

Chairman Storum recommended that the letter be sent out once the list is finalized and the Retirement Ordinance is amended.

Fiduciary Liability Insurance

Mr. Henzi reported that the invoice for the fiduciary liability insurance has been paid. The Board determined that they would renew the policy through June 1, 2013.

Electronic Meetings/House Bill 5335

Mr. Henzi reported that there have been no updates to this item since the last meeting.

Prejin Ltd. FOIA

Mr. Henzi reported that the FOIA request was denied and a letter was sent to the individual. The request is asking the System to create a document that does not exist. The System is not required to create a document under the State of Michigan's FOIA.

FOIA Request John Lappe

Mr. Henzi reported that the FOIA request was denied and a letter was sent to the individual. The request asked for a list of all active members broken down by employer. The individual is not a Michigan resident so the State of Michigan's FOIA is not applicable. Mr. Lappe is also asking the System to compile data which is not required under the State of Michigan's FOIA.

CAP Commercial Mortgage – Final Distribution

Mr. Henzi reported that the System will keep the LLC open in the event that Lyon Investment Group wins the tax appeal so the monies can be refunded to CAP LLC. He told the Board that tax appeals can go on for a long time.

Robbins Geller Portfolio Monitoring Report

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

IRS Request for Information on DB Plan

Mr. Henzi reported that Ms. Billings sent a response to the IRS based on their request for additional information dated June 13, 2012. She provided a copy of the favorable Letter of Determination for the Police & Fire Retirement System issued by the IRS on February 16, 2011.

Charles Rosenberg Request for Change of Address for Lawrence LaBair

Mr. Henzi reported that he sent a letter to Mr. Rosenberg regarding his request to change the mailing address and receive information regarding Mildred LaBair's survivor benefits. He denied Mr. Rosenberg's request because he asked that his authority be granted based on the

LaBair's Joint Living Trust Agreement. He asked that Mr. Rosenberg submit a Durable Power of Attorney which would give him the authority to make changes and/or request information.

Ms. Arndt explained that she spoke with Mr. Rosenberg and had conveyed that information to him. Mr. Rosenberg had indicated that his wife has Power of Attorney over Mr. and Mrs. LaBair. She also reported that Lawrence LaBair recently passed away and that his wife Mildred had submitted her information to receive her survivor benefit to the Retirement Office with the updated change of address.

Trustee Jukowski left at 11:42 a.m.

Articles

- *GASB Approves New Public Pension Accounting Rules* – Benefits Link Newsletter – June 25, 2012

Trustee Jukowski returned at 11:43 a.m.

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

Yeas: 4 – Nays: 0

The Board moved to closed session at 11:43 a.m.

The Board returned from closed session at 12:19 p.m.

RESOLUTION 12-054 By Britton, Supported by Naglick
Resolved, That the Board authorize legal to entertain discussions as discussed during closed session.

Yeas: 4 – Nays: 0

RESOLUTION 12-055 By Naglick, Supported by Britton
Resolved, That the Board approve the closed session minutes from May 31, 2012.

Yeas: 4 – Nays: 0

RESOLUTION 12-056 By Britton, Supported by Naglick
Resolved, That the Board authorize Sullivan Ward to send a letter indicating that the FMLA will not be extended.

Yeas: 4 – Nays: 0

RESOLUTION 12-57 By Britton, Supported by Naglick
Resolved, That the Board rejects the case evaluation award.

Yeas: 4 – Nays: 0

Re: Union Representatives – None

NEW BUSINESS

Re: Disability Income Verification

Ms. Zimmermann reported that disability retirees are allowed to earn income allowable income as contract is approved. She asked if the Board wants to use the last existing contract or the CPI or another adjustment.

Chairman Storum asked if any members have complained. He suggested that the existing contract be used and to revisit this issue in approximately five years.

Re: Retirement Coordinator Leave – Refer to Closed Session

Re: Review of HELPS Memo to Retirees

Ms. Zimmermann referred to the draft of the HELPS memo to the retirees included in the agenda packet.

Trustee Britton indicated that with the dental and medical expenses members will qualify for the deduction.

Ms. Zimmermann indicated that the deduction form will not be included with the letter.

The Board determined that they would exclude the last sentence of the letter before distribution.

Chairman Storum asked if the deduction is taken before the retirement benefit is taxed.

Trustee Britton stated that the \$3,000.00 deduction is taken when you file your income taxes annually.

Trustee Naglick noted that there is not a similar benefit for the GERS members.

RESOLUTION 12-058 By Britton, Supported by Naglick

Resolved, That the Board authorize the Retirement Administrator to amend the HELPS Letter and to send the updated letter to the members.

Yeas: 4 – Nays: 0

UNFINISHED BUSINESS

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

Re: Partial Plan Termination – Refer to Legal

Re: Electronic Meetings

Chairman Storum indicated that he had an issue with the FuzeBox download. He did not have the required password allowing him to download the software.

Trustee Britton offered to work on obtaining the information needed including the contact information for the person at FuzeBox to setup the iPads.

Re: Rent/Overhead – Refer to Trustees/Committees

Re: Letter to Members Regarding Contributions

Ms. Zimmermann reported that this is for the trustees' information.

SCHEDULING OF NEXT MEETING

Regular Meeting – Thursday, July 26, 2012 – City Council Conference Room, Second Level, City Hall @ 9:00 a.m.

Special Meeting – Friday, July 27, 2012 – City Council Conference Room, Second Level @ City Hall 9:00 a.m.

ADJOURNMENT

RESOLUTION 12-059 By Britton, Supported by Jukowski

Resolved, That the meeting be adjourned at 12:30 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 June 28, 2012.

John Naglick, Secretary
As recorded by Jane Arndt