

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JUNE 27, 2012**

A regular meeting of the Board of Trustees was held on Wednesday, June 27, 2012 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:36 p.m.

TRUSTEES PRESENT

Shirley Barnett
Koné Bowman (*arrived at 2:17 p.m.*)
Robert Giddings
Charlie Harrison, chairman
Leon Jukowski, Mayor
Phyllis Long
John Naglick, Secretary
Sheryl Stubblefield

OTHERS PRESENT

Cynthia Billings, Sullivan, Ward, Asher & Patton
Sandy Rodwan, Rodwan Consulting
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M- Administrative Assistant

TRUSTEES ABSENT

Tuesday Redmond (*excused*)
Patrice Waterman (*excused*)
Kevin Williams (*excused*)

PUBLIC DISCUSSION/UNION REPRESENTATIVES

Chairman Harrison congratulated those who took the time to run in the GERS Trustee elections. He told the Board that Shirley Barnett won the Retiree Trustee election and Robert Giddings won the Hospital Trustee election. He said that Trustee Barnett has been keeping him in line for a long while. He welcomed Trustee Giddings back to the Board.

Retiree, Linda Watson asked why the breakdown for accounts payables is no longer on the agenda.

Ms. Zimmermann explained that the Board resolved to do it on a spread sheet instead of listing individual invoices.

Ms. Billings indicated that what is in the packet is subject to FOIA.

Ms. Watson questioned why the Board changed the format and now it is not readily available.

Trustee Stubblefield stated that it came up during a meeting and the Board decided that they do not need fifteen individual copies of the invoices included in the agenda packet with most being monthly invoices.

After discussion, the Board determined that Ms. Watson would be provided the spreadsheet without having to submit a FOIA.

AGENDA CHANGES

Ms. Zimmermann distributed a copy of the flash report as of May 31, 2012. She informed the Board that there will not be a representative present from Gray & Company. A new flash report will be provided at the next meeting. She asked that the flash report be added under Consultants.

She also distributed various correspondences including a letter from Larry Marshall and asked that it be added under elections for discussion. Retirement applications for Patricia Lake, Heather Webb and Donnie Benion were added to the consent agenda along with accounts payables due to/due from for the second quarter of 2012 totaling \$1,075.15. A copy of a MOU from PPMA was added under communications.

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: May 30, 2012

B. Communications

1. Correspondence from AMBS Re: June 2012 Newsletter
2. Correspondence from Ambassador Re: June 2012 Newsletter
3. Correspondence from Artio Global Re: May 2012 Newsletter
4. Correspondence from Gray Emerging Managers Large Cap Re: April Performance
5. Correspondence from Gray Michigan Large Cap Re: April Performance
6. Correspondence from Loomis Sayles Re: Derivatives Counterparty Risk
7. Correspondence from Northpointe Re: May 2012 Performance
8. Correspondence from OakBrook Re: May 2012 Portfolio Summary
9. Correspondence from PPMA Re: MOU

C. Financial Reports

1. Financial Reports – May 2012
2. Capital Calls:
 - a. Mesirrow Distribution \$100,000
 - a. GrayCo Alternative Partners 163,043
3. Accounts Payable – June 2012
4. Postage Expense \$4,144.64
5. Inter-system Due From Other Funds \$37,261.99

D. Retirements, Refunds, Final Calculations, Re-Examinations

1. Remove from the Rolls:
2. Application for Service Retirement:
 - a. Kirjathous Pryor – Local 2002 22 years, 7 months Age 65
 - b. David Lee – Local 2002 30 years, 7 months Age 50
 - c. Bruce Deschere – NOMC 3 years, 8 months Age 61
 - d. Patricia Lake – PPMA 14 years, 8 months Age 50
 - e. Heather Webb – PPMA 7 years, 8 months Age 46
 - f. Donnie Benion 8 years, 2 months Age 60 (Off Deferred)
3. Final Benefit Calculations:

a. Sandra Turner	#2481	\$ 90.18
b. Bruce Deschere	#2693	622.38
c. Brigida Cantu	#2683	249.82

RESOLUTION 12-052 By Barnett, Supported by Long
 Resolved, That the Board approve the consent agenda for June 27, 2012 as amended.

Yeas: 7 – Nays: 0

CONSULTANTS

Re: Gray & Company – Flash Report as of May 31, 2012
 The Trustees accepted the Flash Report for informational purposes.

Re: Rodwan Consulting – Annual Actuarial Valuation December 31, 2011
 Ms. Rodwan explained that the actuarial valuation takes a snapshot of the assets and accrued liabilities of the System as of December 31, 2011. The accrued liabilities of the Retirement System were computed to be \$249.7 million with a funding value of accrued assets at \$383.4 million. The ratio of the funding value of accrued assets to accrued liabilities was 153.5%.

The market value of assets decreased from \$419.9 million in 2010 to \$395.3 million in 2011. The smoothed valuation assets were \$383.3 million in 2011 versus \$399.5 million in 2010. This was due to less favorable investment returns.

They use the smoothed market value of assets for the purpose of the valuation to spread the gains and losses either realized or unrealized over five years and is built into the liability calculation. The smoothed valuation assets decreased \$16 million versus last year and the market value of assets decreased \$24 million. The difference between the smoothed and market value of assets was only \$12 million which was less than last year at \$20 million.

Chairman Harrison commented that the new GASB rules are requiring using the market value versus the smoothing value.

Trustee Giddings confirmed that the losses in 2008 are still measured in the valuation.

Chairman Harrison asked about the cause and effect of there being a smaller gap between the market value and the smoothed value.

Ms. Rodwan indicated that every year the Fund is recognizing more of the losses from 2008.

Ms. Billings stated that because the current market value of assets is better than the smoothed value it is better for funding and for the City. As of May 31, 2012 the market value was \$400 million.

Trustee Giddings commented on the large decrease of active members in the System.

Ms. Billings told the Board that a number of employees will be vested under the partial plan termination. The number will jump again. When they looked at the number of layoffs they determined that in 2010 the System suffered a 20% reduction in work force due to laid off members. Those members will be vested for a benefit based on their years of service credit.

Chairman Harrison asked what changes will be coming up.

Ms. Billings stated that according to the new GASB rules the liability for financial reporting will be calculated using the market value of the Fund and assumptions required by GASB. The liability for determining the employer contributions will stay the same. There will be two different funding levels using the market value of assets versus the smoothing value of assets.

Trustee Jukowski left at 2:00 p.m.

Ms. Rodwan indicated that the deferred members will appear on the financial statement report under the unfunded actuarial accrued liabilities.

Ms. Billings indicated that Beth Bialy from Plante Moran confirmed that there will be no impact on the actuarial reports for determining the required employer contributions.

Trustee Giddings asked if the new partially vested members will have an impact on the System.

Mr. Rodwan indicated that there will be a small impact on the System.

Ms. Zimmermann stated that she has a draft of the audit report but she has not had the time to fully review it. Technically, it needs to be filed with the State by June 30, 2012. Her intention is to finish her review before that date.

Trustee Giddings asked if this information will be included in the audit.

Ms. Zimmermann confirmed that the information will be included in the audit report along with a disclosure on the City's financial status.

Ms. Rodwan stated that the overall experience of the System during 2011 was less than favorable. The recognized investment income on the smoothed value of assess was 1.36% versus the 7.5% assumed rate.

There were no benefit provision changes or changes in assumptions or methods used for the valuation.

As of December 31, 2011, the participant data indicated that the number of active members was 87 versus 207 in 2010 with an active member payroll of \$3.9 million versus \$9.4 million. The number of retirees increased to 1,118 from 1,112 in 2010. There are currently six retirees over the age of ninety. The vested inactive members increased from 187 to 230 in 2011. These are members who are no longer actively employed. Annual pensions also increased for this group approximately \$1 million.

The total normal cost is 19.87% of active member payroll if contributions were required annually. There was an increase from last year's total normal cost of 18.62%.

The funding credit (excess of assets over liabilities) was sufficient so the excess was applied.

The actuarial accrued liabilities were \$249,739,988 with assets allocated to funding at \$383,349,729 which leaves an excess of \$133,609,741.

Trustee Giddings asked if a discount is applied.

Trustee Naglick asked if a lower rate of return other than the 7.5% should be used.

Ms. Rodwan stated that the Board could adopt a lower investment rate of return.

Trustee Naglick asked how long it will be until the City is required to make contributions.

Chairman Harrison indicated that the City has not made significant contributions for approximately sixteen years.

Trustee Giddings noted that the last time the City made any contributions was in 2003. This was when the hospital pool was added to the City's pool which allowed the City to take advantage of the hospital's funding.

Ms. Rodwan provided a breakdown of the System's unfunded accrued liability. This included benefit payments of \$219.2 million; vested terminated member liability of \$16.1 million; value of expected future benefit payments of \$20.3 million; for a total of \$249.7 million. Present value of assets is \$383.3 million with an unfunded accrued liability of (\$133.6 million) and a funding position of 153.5%.

Trustee Giddings asked if contributions can be made even if they are not required.

Ms. Rodwan provided a comparison of the history of assets and accrued liabilities. She indicated that funding value decreased which is expected as the excess is used.

Chairman Harrison asked if the drastic number of active employees going into retirement status will cause the funding ratio to slide down over the next couple of years.

Ms. Rodwan stated that the 2008 losses and the 2011 losses of \$22.2 million or 8% of the accrued liabilities will have to flow through. Gains will include pay cuts and less employee liability. The funding level will decrease. It will also be a challenge for the Fund to earn 7.5%.

Comment three is their recommendation to transfer \$15.2 million from the reserve for employer contribution into the reserve for retired benefit payments so the assets allocated equal 100% of the retiree liability as of December 31, 2011.

Ms. Zimmermann told the Board that this transfer should be adopted when they adopt the valuation.

Ms. Rodwan reviewed the actuarial assumptions. The assumed investment rate is 7.5%. Some funds are still using an 8% investment return rate.

They use the 1983 Group Annuity Mortality Table. There have been amendments indicating that men are living longer. This mortality table overstates the life expectancy especially for women. This is the table commonly used by the Internal Revenue Service. The RP2000 may have better recognition. The Board may want to update it.

Trustee Bowman arrived at 2:17 p.m.

She described the funding value of assets. She indicated that the realized and unrealized gains and losses are spread over a five-year period. The total investment income was a negative \$13 million with a phased in recognition of \$2.6 million that will be included during the next five-years. The investment income for 2008 was a negative \$28.7 million will be included for one more year. Once that drops off it will help the Fund meet the 7.5% investment return.

The average number of retirees and annual pensions have remained stable over the last several years. The average pension is \$17,279.00.

The total number of retirees equaled 1,118. There are currently twenty-nine retirees over the age of ninety versus thirty-four the previous year.

The average retirement age increased to 47.2 years with 11.6 years of service and an annual pay of \$45,617.00. There are currently only 87 actives and only 10 have more than twenty years of service.

There are currently 230 deferred vested members.

Trustee Stubblefield asked why there are a number of deferred members who are over the age of sixty.

Ms. Rodwan indicated that you have to apply in order to receive a benefit.

Ms. Billings stated that based on the IRS rules a person has to take a minimum distribution upon attaining age seventy and one-half.

Trustee Naglick asked based on the small number of active employees whether the City could buy an insurance contract to cover their benefits.

Trustee Giddings stated that the only one that makes out would be the insurance company.

Trustee Naglick felt it would be a way to de-risk the Fund.

Ms. Rodwan noted that the auto companies are doing that. She would be interested in seeing the assumptions.

RESOLUTION 12-053 By Bowman, Supported by Naglick

Resolved, That the Board approve the Actuarial Valuation Report as presented and approve the transfer of \$15,221,479 from the reserve for employer contributions to the reserve for retired benefit payments.

Yeas: 7 – Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees

Trustee Naglick reported that the Personnel Committee including himself, Trustee Barnett and Trustee Lon Britton from the Police & Fire Retirement System met earlier. He would like to discuss the details of the meeting during closed session as it concerns confidential, personal information.

Re: Administrator

GASB Rules Article

Ms. Zimmermann reported that there is an article regarding the new GASB rules included under the Reports section of the agenda packet.

Teamsters 214 Contract

Ms. Zimmermann reported that there is also a full copy of the newly enacted Teamster's Contract included in the section for their information. There were no significant retirement changes.

Decreasing Active Employee Agenda Issue

Ms. Zimmermann reported that there are very few active employees left at the City and the contracts are expiring. Disability income earned income is based on the current earnings for the position from with a member was retired.

She would like the Board to think about whether they want to use the Consumer Price Index (CPI) or another contract going forward to determine disability earnings income.

Election Certification

Ms. Zimmermann reported that the election certification is included in the agenda packet.

Deferred Member Annual Statement

Ms. Zimmermann reported that the annual deferred member statements were mailed out on June 15, 2012.

EVIP

The EVIP state revenue sharing requirements calls for retirees to pay 20% of their healthcare or the hard cap whichever is less along with reducing the pension multiplier to 1.5 times and only applying 240 hours of accrued time. There has been a lot of opposition to the changes so they have eliminated the change to the multiplier but have kept the 20% healthcare co-pay in place.

An Executive Order will be issued regarding the elimination of the multiplier requirement

Trustee Bowman asked what will happen if the Emergency Manager Law Public Act 4 is repealed. He also questioned how that will affect the changes that have been made.

Trustee Naglick said that the change in place will remain and it will only affect changes going forward.

Ms. Billings confirmed that is also her understanding if the law is repealed.

Trustee Naglick stated that it does not impact contracts or Executive Orders that are in place. He hopes that the Executive Order regarding the multiplier is issued quickly.

Re: Legal

Mesirow Financial Private Equity Partnership Fund IV

Ms. Billings reported that there is a non-discrimination issue with the contract and it should be wrapped up within the next few days. There was suppose to be a closing on June 29, 2012 but she has been advised that will not happen. They will let her know about the closing date.

FOIA Request

There has not been a response to compile the information or regarding the cost. A deposit would have to be provided.

Rodney Graves Overpayment

Ms. Billings reported that Rodney Graves is a disability retiree who has been retired for approximately seven years and it was discovered that there was a clerical error and he has been overpaid \$31.31 per month for the past eighty-two months.

Discussion followed by the trustees.

Ms. Billings informed the Board that the Retirement Office is finding a lot of issues and this will not be the last time they have to address a situation like this. They have fiduciary duty to correct the error going forward.

Ms. Zimmermann indicated that there was a large back log of finals that needed to be processed. The longer the people sit waiting for their final to be completed the more time they could potentially be overpaid.

In August, 2012, she made a list of the finals that needed to be processed. When she did an assessment in March, 2012 the number had doubled. We are working our way forward and are processing the oldest files first. This should not be such a big problem with people who have been retired for a lot less time. She was not aware that the problem was this large.

Trustee Stubblefield asked what the difference is between an estimate and a final.

Ms. Zimmermann stated that the difference is that their benefit is based on an estimate of their service credit and earnings. There have been issues with service credit. She thanked Ms. Long for promptly supplying the PAS Forms and needed information.

Retiree, Pam Britton stated that she appreciates the situation. But if someone owes money to the Retirement System you have a duty and obligation to collect. You have to ask the member to contact the Retirement Office and make arrangements to pay back the overpayment.

Ms. Zimmermann stated that if a member is overpaid for three years they are normally offered three years to repay the System or the information can be sent to the actuary to determine a lifetime reduction.

Trustee Naglick left at 2:56 p.m.

The Board determined that they would send a letter to Mr. Graves giving the choice to pay back the overpayment based on an actuarial formula for his lifetime, in a lump sum or deduct the money over an eighty-two month period.

RESOLUTION 12-054 By Bowman, Supported by Stubblefield
Resolved, That the Board direct the administrator to send a letter to Mr. Graves providing his overpayment reimbursement options as has been done with other retirees.

Yeas: 6 – Nays: 0

Request for Retroactive Payment – Donnie Benion

Ms. Billings reported that Mr. Benion is asking for a retroactive benefit beginning in January, 2012. He stated that he was not contacted by the office to come in and submit his application for retirement when he was eligible. Deferred vested members are eligible to begin collecting their retirement benefit the month after they make application. This situation is different from the other members who were approved for a retroactive benefit because those members were not given the correct information.

Trustee Barnett stated that there were two nurses denied their back pay when they failed to apply for the benefit when they became eligible.

The Board denied Mr. Benion's request for retroactive pay and directed Ms. Zimmermann to advise him of their decision.

Robbins Geller Portfolio Monitoring Report Fourth Quarter 2011

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

Pre-Tax Dollars to Fund Health Care Benefit

Ms. Billings told the Board that she has been looking into whether there is anyway that the GERS members could have their healthcare premiums paid on a pre-tax basis from their monthly pension benefit. She cannot find a way. Public safety officers can use up to \$3,000 per month on a pre-tax basis under the HELPS Act.

As an employee there are a number of options for funding retiree healthcare on a pre-tax basis. Retirees could have a tax deduction if their premiums total 7.5% of their adjusted gross income when filing their taxes. However, this threshold is being raised to 10% at the end of the year.

GASB Approves New Public Pension Accounting Rules

Ms. Billings reported that this is for the trustees' information. The new GASB rules become effective for financial statements for periods beginning after June 15, 2013 for municipalities and for fiscal years beginning after June 15, 2014 for retirement plans.

UNFINISHED BUSINESS

Re: Partial Plan Termination

Ms. Zimmermann stated that there is a process and she is coming up with a list. She started with the Police & Fire Retirement System because the actuary requires the information for a supplemental valuation. She should have the list completed by the next meeting.

Re: Rent/Overhead

Ms. Zimmermann reported that there is still no contract and they are paying month to month. The Board will want to look at what is feasible.

Trustee Naglick commented on the explanation of payment.

Chairman Harrison stated that the Board is continuing to look at the situation.

Re: Larry Balowski – Refer to Legal (Closed Session)

Re: Trustee Elections

Ms. Zimmermann reported that Larry Marshall is requesting a list of addresses for the Member Trustee Election mailing.

Ms. Billings stated that in 2008 the Michigan Supreme Court ruled that providing home addresses is an invasion of privacy and not required under FOIA. Prior to 2008 the court ruled that the information could be released.

Re: Service Credit Question – Graves (Refer to Legal)

Re: Request for Retro Pay – Benion (Refer to Legal)

NEW BUSINESS

Re: Ervin Overpayment

Ms. Zimmermann reported that retiree Janet Ervin also received a retirement benefit overpayment. This was one of the oldest final retirement benefit calculation that had not been processed. She wanted to keep the Board informed of these situations. Ms. Ervin has agreed to repay the overpayment and selected her repayment option.

Re: Oberoi Complaint

Ms. Zimmermann reported that Madhu Oberoi has filed a complaint because her final retirement calculation has not been processed. She explained that Ms. Oberoi's final benefit calculation should be processed by the end of the summer.

Re: Turner Overpayment

Ms. Zimmermann reported that retiree Sandra Turner was overpaid approximately \$196.00. She has been provided a repayment plan.

Re: Owusu-Agyei (Twum) Service Credit Issue

Ms. Zimmermann reported that she was approached by Vida Twum regarding a discussion she had with the Human Resources Director regarding certain people that were entitled to use their temporary time toward their retirement service credit. The interpretation of this issue is not in the contract.

It has been suggested that a cost study is done for all members with temporary time. The Retirement Office tried to determine which members were affected along with requesting the data from payroll.

Vida Twum and Arthur Brown have been given the expectation that a cost study would be done to determine the cost. She wanted to make the Board aware but she wants to make sure that the City is going to pay for the cost study.

Trustee Long said that she has been involved with the Vida Twum issue. She referred to page sixteen of the Teamsters Contract that indicates if an employee is in their position for twelve months they are accorded into the Union and the bargaining group indicates that your seniority goes back to the original hire date. In Banner her service date goes back to March 12, 2001. The language in the contract is not new.

Ms. Zimmermann indicated that there have been numerous discussions regarding the difference between seniority and service credit. Seniority or service date is not recognized in the Retirement Ordinance. She wants to get this resolved.

Ms. Billings stated that there is no question that temporary time is not included in the actuarial valuation and the member would be getting an additional year of service credit.

Trustee Naglick confirmed that in order to fix this issue the Retirement Board would need a cost study.

Trustee Stubblefield questioned if there are more people in the same situation.

Chairman Harrison left at 3:21 p.m.

Ms. Zimmermann stated that the Board has agreed to recognize this credit but a cost study is needed. It is not appropriate for the System to pay for the cost study.

Ms. Billings indicated that based on the contract, Larry Marshall, as the HR director, had the authority and his interpretation was to include temporary time. She recommended that one cost study be done for everyone with temporary time.

Chairman Harrison returned at 3:23 p.m.

Trustee Naglick confirmed that only one cost study would be needed.

Ms. Zimmermann recommended that the cost study should not be done until all the vested members based on the partial plan termination are completed.

Ms. Billings indicated that she would respond to Ms. Twum's letter.

Re: Disability Income Verification – Refer to Administrator

Re: Retirement Coordinator Leave – Refer to Committee Report (Closed Session)

RESOLUTION 12-055 By Bowman, Supported by Naglick
Resolved, That the Board approve the move to closed session to discuss pending litigation including Northern Trust, Onyx, Balowski, Delphi, Lockheed, Health Management Associates, Quest, Walmart, Green Mountain, Sybase and personnel matters.

Roll Call:

Trustee Barnett – yea	Trustee Long - yea
Trustee Bowman – yea	Trustee Naglick - yea
Trustee Giddings – yea	Trustee Stubblefield – yea
Chairman Harrison - yea	

The Board moved to closed session at 3:27 p.m.

Ms. Arndt, Ms. Britton, Ms. Gaffney, Ms. Rodwan and Ms. Woods left at 3:27 p.m.

The Board returned from closed session at 4:22 p.m.

Ms. Arndt returned at 4:22 p.m.

RESOLUTION 12-056 By Naglick, Supported by Williams
Resolved, That the Board direct legal counsel Jacqueline Kelly to send a letter to Ms. Craft stating that her leave was not extended.

Yeas: 7 – Nays: 0

RESOLUTION 12-057 By Naglick, Supported by Williams
Resolved, That the Board approve and direct the Retirement Administrator to hire a temporary employee to fill in the current vacancy in the Retirement Office.

Yeas: 7 – Nays: 0

RESOLUTION 12-058 By Naglick, Supported by Williams
Resolved, That the Board ratify the Chairman's signature on the affidavit for the Delphi securities litigation.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: July 25, 2012 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

RESOLUTION 12-059 By Naglick, Supported by Williams
Resolved, That the meeting be adjourned at 4:26 p.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on June 27, 2012

Secretary, John Naglick
As recorded by Jane Arndt