

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM

BOARD OF TRUSTEES REGULAR MEETING

A regular meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on Tuesday, June 20, 2006 at 1:00 p.m. in the Committee-of-the-Whole Room, 3rd Floor, City Council Chambers, at City Hall, with the following in attendance:

TRUSTEES & ALTERNATES Daniel Hall – Chairperson, Peter Dobrzeniecki, Robert Erlenbeck, Ehren Gonzales, Janice Kehoe, Sandra Kidd, Donald Phillips, Robert Rosenberger, Georgia Steinhoff, Scott Sutter, Cass Wisniewski

ABSENT Douglas Bingaman, Peggy Cook, Amy Lindman, Kerry Nelson

ALSO PRESENT Suzi Bye, Retirement Supervisor
Ivory Day, Jr., Consultant, Gray & Company
Gwelda Swilley-Burke, Consultant, Gray & Company
I'Lanta Robbins, Assistant City Attorney/Attorney for the Retirement Board
Trachelle Young, City Attorney/Attorney for the Retirement Board
Harland Abraham, Vice President, Northern Trust
David Fitchett, Client Service Representative, Northern Trust
Grant Johnsey, Senior Transition Management Specialist, Northern Trust

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Chairman Daniel Hall called the meeting to order at 1:03 p.m.

2. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

There were no members of the public present who wished to address the Board.

3. HEARINGS REGARDING PENSION CALCULATION ERRORS

Chairman Hall stated that the hearings for Sandra Stearns, Debbie Cherwinski, William O. Kelly III and Kay Tereau were postponed and would be rescheduled at a later date. Attorney Trachelle Young stated that the hearings were postponed at the request of Gregory Gibbs, the plaintiffs' attorney. As part of the discovery phase, he requested copies of documents from the City, including minutes of City Council and Retirement Board Meetings dating back as far as 1994. Attorney Gibbs asked for a minimum of

seven days to review the documents prior to any hearings. Attorney Young stated that all requested documents were provided by the City to Attorney Gibbs on or before Friday, June 16. Ms. Young stated that, procedurally, she wants to ensure that the plaintiffs and their attorney have all of the information they need so that they can question anyone they desire and have a full and fair hearing. Attorney Gibbs has indicated that he and the plaintiffs will be unavailable for the hearings to be rescheduled until the week of July 17.

Attorney Young noted that she will prepare a packet of information for each board member prior to the hearings, outlining how the hearings should proceed, what the standards are, what findings the Board has to make, etc. She also stated that all pension payments would be issued unchanged on July 1st, pursuant to the court order.

A discussion followed regarding rescheduling the hearings. The next regular board meeting date of July 18 was discussed; however, Georgia Steinhoff stated that she would be out of town that week. Chairman Hall informed Attorney Gibbs that a hearing date would be determined and he would be notified.

4. APPROVAL OF THE MAY 16, 2006 REGULAR BOARD MEETING MINUTES

It was moved by Robert Rosenberger, and supported by Robert Erlenbeck, to approve the minutes of the May 16, 2006, Regular Board Meeting.

Upon being put to a vote, the motion carried unanimously.

5. APPLICATIONS FOR VOLUNTARY RETIREMENT

**Larry Frasier
HMC/1603**

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 60,410.19 |
| Accumulated Contributions: | 29,111.73 |
| DRET: | 34,041.59 |
| Effective Date of Retirement | 04/27/2006 |
| Service: 26 Years, 10 Months | |

The retiree elected the Option B w/pop-up in the amount of \$ 2,607.63.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Larry Frasier be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option B w/pop-up in the amount of \$2,607.63, for as long as he lives.

Charlotte Gibson

HMC/Exempt

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 90,417.14 |
| Accumulated Contributions: | 40,129.37 |
| DRET: | 47,578.55 |
| Effective Date of Retirement | 04/28/2006 |
| Service: 31 Years, 5 Months | |

The retiree elected the Option Straight Life in the amount of \$ 4,778.30.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Charlotte Gibson be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life in the amount of \$4,778.30, for as long as she lives.

Frederick Henige

HMC/1603

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 73,207.88 |
| Accumulated Contributions: | 28,175.64 |
| DRET: | 40,582.05 |
| Effective Date of Retirement | 05/22/2006 |
| Service: 25 Years, 0 Months | |

The retiree elected the Option Straight Life in the amount of \$ 3,477.38.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Frederick Henige be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life in the amount of \$3,477.38 for as long as he lives.

Michelle Marshke

City/Sgts

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 54,325.08 |
| Accumulated Contributions: | 41,194.57 |
| DRET: | 11,989.24 |
| Effective Date of Retirement | 05/01/2006 |
| Service: 23 Years, 3 Months | |

The retiree elected the Option A in the amount of \$ 2,699.19.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Michelle Marshke be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option A in the amount of \$2,699.19, for as long as she lives.

**Leslie Wizauer
HMC/Exempt**

| | |
|------------------------------|---------------|
| Final Average Compensation: | \$ 193,112.84 |
| Accumulated Contributions: | 53,648.28 |
| DRET: | 82,505.33 |
| Effective Date of Retirement | 03/28/2006 |
| Service: 28 Years, 11 Months | |

The retiree elected the Option Straight Life in the amount of \$ 9,803.17.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Leslie Wizauer be approved and the Treasurer of the City of Flint Employees' Retirement System be authorized and directed to pay a monthly pension under the Option Straight Life in the amount of \$9,803.17, for as long as she lives.

It was moved by Georgia Steinhoff, and supported by Robert Rosenberger, to approve the Applications for Voluntary Retirement for Larry Frasier, Charlotte Gibson, Frederick Henige, Michelle Marshke, and Leslie Wizauer.

Upon being put to a vote, the motion carried unanimously.

6. APPLICATIONS FOR DEFERRED RETIREMENT

**Kari Mackey-Zink
Fire/911**

| | |
|------------------------------|--------------|
| Final Average Compensation: | \$ 54,622.40 |
| Accumulated Contributions: | 14,314.94 |
| DRET: | 36,937.96 |
| Effective Date of Retirement | 04/29/2006 |
| Service: 22 Years, 8 Months | |

The retiree will elect an Option prior to 09/01/2006.

It was moved by Georgia Steinhoff, and supported by Ehren Gonzales, to approve the Application for Deferred Retirement for Kari Mackey-Zink.

Upon being put to a vote, the motion carried unanimously.

7. OPTIONS PICKED BY DEFERRED & DISABILITY RETIREMENTS
(for information only)

| | |
|-------------------|---------------------------------|
| Don Domick/Hurley | Option B \$372.94 |
| Todd Burch/City | Option Straight Life \$2,058.51 |

8. UPCOMING CONFERENCES *(Placed on file in the Retirement Office)*

8.1 Chicago GSB, The Director's Consortium, August 23-25, 2006, Chicago, IL.

A motion was made by Georgia Steinhoff, and supported by Ehren Gonzales, to add the stated Conferences to the list of authorized conferences.

Upon being put to a vote, the motion carried unanimously.

9. COMMUNICATIONS RECEIVED *(All items were placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' packets also)*

- 9.1 Asset Services Company, Capital Perspectives, Second Quarter 2006.
- 9.2 Intercontinental Real Estate Corp., Letter to Daniel Hall re: Distribution, June 8, 2006.
- 9.3 Retirement Review Summaries, May 17, 2006. *(Enclosed)*
- 9.4 AFSCME Local #1799, Letter to Daniel Hall re: Defined Contribution, May 22, 2006. *(Enclosed)*
- 9.5 Hurley Medical Center, Letter to Retirement Board re: Glynis Rice, May 19, 2006. *(Enclosed)*
- 9.6 Kathleen Robinson, Letter to Retirement Board re: Disability Re-evaluation, June 7, 2006. *(Enclosed)*
- 9.7 CRA Fund, The Community Investor, Spring 2006.

- 9.8 Alliance Bernstein, Home-Country Bias: Where Traditional Asset Allocation Falls Short, April 2006.
- 9.9 Memo to the Board of Trustees from Trachelle C. Young, re: Board Vacancy, June 9, 2006. (*Enclosed*)
- 9.10 Memo to the Board of Trustees from Trachelle C. Young, re: Conflict of Interest, Donald Phillips, June 12, 2006. (*Enclosed*)
- 9.11 ICON Advisers, Inc., Investment Policy Acceptance Form and Letter, May 18, 2006.
- 9.12 Letter to Daniel Hall from Kay Tereau re: Request for Hearing, May 26, 2006. (*Enclosed*)
- 9.13 Letter to Daniel Hall from Sandra Stearns re: Request for Hearing, May 26, 2006. (*Enclosed*)
- 9.14 Letter to Daniel Hall from Debbie Cherwinski re: Request for Hearing, May 26, 2006. (*Enclosed*)
- 9.15 Gabriel, Roeder, Smith & Co., Letter to Robert Erlenbeck re: Recovery of Overpayments – Kay Tereau, June 12, 2006.
- 9.16 Gabriel, Roeder, Smith & Co., Letter to Robert Erlenbeck re: Recovery of Overpayments – Sandra Stearns, June 7, 2006.
- 9.17 Gabriel, Roeder, Smith & Co., Letter to Robert Erlenbeck re: Recovery of Overpayments – William Kelly, June 7, 2006.
- 9.18 Gabriel, Roeder, Smith & Co., Letter to Robert Erlenbeck re: Recovery of Overpayments – Debbie Cherwinski, June 7, 2006.

A motion was made by Robert Rosenberger, and supported by Ehren Gonzales, to receive the Communications and place them on file.

Discussion followed. It was noted that Item #9.4 would be discussed under DB/DC. Item #s 9.5 and 9.6 will be discussed under Professional Services.

Upon being put to a vote, the motion carried unanimously.

10. COMMUNICATIONS SENT *(All documents have been placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' agenda packets also.)*

- 10.1 Letter to The Northern Trust Company re Transfer for June 1, 2006 Pension Payroll, May 16, 2006.
- 10.2 Letter to The Northern Trust Company re Letter of Direction & Wire Transfer Instructions for Fisher Investment Trust, May 30, 2006.
- 10.3 Letter to The Northern Trust Company re Letter of Direction & Wire Transfer Instructions for LSV Asset Management, May 30, 2006.
- 10.4 Letter to Larry Langer, Gabriel, Roeder, Smith & Company, re FERS to MERS Transfer – Disclosure of Data, May 31, 2006 (Enclosed).
- 10.5 Northern Trust Client Instruction Authentication Procedure, naming Robert Erlenbeck, Suzi Bye and Robert Rosenberger, signed May 25, 2006.

A motion was made by Georgia Steinhoff, and supported by Robert Rosenberger, to approve the Communications Sent and place them on file.

Upon being put to a vote, the motion carried unanimously.

11. REPORTS RECEIVED *(All items were placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' packets also)*

- 11.1 Fidelity Investments, Monthly Investment Update as of May 31, 2006.
- 11.2 Fidelity Investments, Capital Contribution, May 31, 2006.
- 11.3 Fidelity Investments, Capital Contribution, May 15, 2006.
- 11.4 Lynch, Jones & Ryan, Trading Summary as of April 30, 2006.
- 11.5 Magna Securities, Commission Recapture Report as of April 30, 2006.
- 11.6 State Street Global Advisors, Account Summary as of April 30, 2006.
- 11.7 State Street Global Advisors, Appraisal Report as of May 31, 2006.
- 11.8 Globeflex Capital, Performance Update as of March 31, 2006.

- 11.9 Skyline Asset Management, Small Cap Value as of March 31, 2006.
- 11.10 Northern Trust Reports – April 2006 (Enclosed)
- 11.11 Retirement Fund Employee/Employer Contributions (Enclosed)

A motion was made by Georgia Steinhoff, and supported by Ehren Gonzales, to receive the Reports and place them on file.

Upon being put to a vote, the motion carried unanimously.

12. STATISTICAL REPORT OF BENEFITS *(for informational purposes only)*

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|--------------------|---------------|---------------|---------------|
| Number Retired | 3,002 | 3,032 | 3,027 |
| Annualized Payroll | \$ 62,627,143 | \$ 64,198,389 | \$ 64,578,695 |

13. APPROVAL OF THE JULY 1, 2006 PENSION PAYROLL TRANSFER

Chairman Daniel Hall reported that a transfer of \$4,988,100.00 is needed for the payment of the July 1st, 2006 pension payroll, with funds to be taken from the Northern Trust Flint-Drawdown Account #26-19617. Chairman Hall asked Ivory Day for a monthly balance update on the Northern Trust drawdown account. Mr. Day stated that the balance, as of June 14, was \$46,033,310.

A motion to approve the transfer of \$4,988,100.00 for payment of the July 1st, 2006 pension payroll, from the Northern Trust Flint - Drawdown Account #26-19617 to Citizens Bank, was made by Georgia Steinhoff, and supported by Ehren Gonzales.

Upon being put to a vote, the motion carried unanimously.

14. FERS TO MERS TRANSITION

Chairman Daniel Hall stated that Cass Wisniewski, who is not present, was to report on the status of MERS providing wire transfer information to allow for the initial wire transfer of \$15.7 million. Chairman Hall noted that a letter had been sent to Gabriel, Roeder, Smith & Company regarding the exchange of information.

A discussion followed regarding the FERS to MERS transition. MERS informed Cass Wisniewski that they wanted the entire amount of money to be transferred at once, in cash (reference Item #10.10 from the May meeting). Chairman Hall stated that there has been no report received regarding the exchange of information between the FERS and MERS actuaries at Gabriel, Roeder, Smith & Company (GRS). As a result, the total amount to be transferred to MERS is unknown. The Board previously approved four installments of approximately \$15.7 million each for the transfer to MERS. The City Council has approved the initial transfer of \$15.7 million, which is in a holding account at Northern Trust. That amount could be transferred to MERS as soon as they provide the wire transfer instructions, which have been requested from MERS for several months.

15. GENERAL CITY ELECTION

Robert Erlenbeck reported that the General City Election has been posted and, to date, three petitions have been obtained from the Retirement Office. One has now been submitted, with the necessary signatures, for consideration. The deadline for submission of the petitions is June 30, in order to be on the primary ballot.

16. INVESTMENT COMMITTEE REPORT

Chairman Hall stated that no Investment Committee meeting has occurred. However, Northern Trust representatives are present to give a report to the Board on the recent transitioning and rebalancing of the Fund that was authorized by the Board, based on the recommendations of Ivory Day at Gray and Company.

David Fitchett, Northern Trust Client Service Representative, and Grant Johnsey, Northern Trust Senior Transition Management Specialist, reported to the Board on the status of Northern's transition management services for the recent restructuring of the Fund. This transition included the funding of four new managers, a reallocation of the fund assets, funding of the first transfer for the FERS to MERS transition and a new drawdown account for pension payroll. This transition included liquidating fixed income assets and equity rebalancing. They noted that the transition needed to be managed in such a way as to minimize loss in market value, minimize trading costs, manage risk and total portfolio movement, and manage the timing of each part of the transition carefully for the results required, in an efficient and time-sensitive manner. Both cost and risk implications on the performance of the funds were carefully considered in the transition. Northern is now also providing transparent reporting of the costs. As fully accountable fiduciaries of the plan during the transition, they were the short-term fund managers to effect the transition as set forth by the Board in conjunction with the plan that Gray & Company helped develop.

The Board was given a Transition Management Report, which included sections on Fixed Income and Equity Post Trade Analysis, a Transition Performance Report, Cost Analysis, Transition Report, Trade and Transfer Details. About 15 managers/accounts were affected and the Northern staff was able to coordinate all transactions among the various parties while minimizing the trading costs. They also worked very closely with Ivory Day, at Gray and Company, to ensure that the transition was done in accordance with his outline. With savings in the equities trades of \$374,236, and the fixed income trades of \$448,000, there was a significant savings to the Plan as a result of Northern's transition management.

Chairman Hall expressed his appreciation to Northern Trust for the excellent manner in which this restructuring was conducted, noting that even the managers who lost FERS funds were kept fully informed and expressed their appreciation to him for the professional manner in which the transition was conducted by Northern. Chairman Hall also expressed his appreciation to Gray & Company, particularly Ivory Day, for their recommendations and assistance with the restructuring.

Chairman Daniel Hall noted that the funds from the self-insurance account at State Street (approximately \$730,000) have been transitioned to a cash account at Northern and Northern needed authorization to create a separate account entitled "self-insurance fund" and direction to invest the funds. Also, State Street must be officially terminated. Discussion followed. Robert Erlenbeck stated that he could work with the Professional Services Committee on a proposal requesting quotes from insurance companies for liability insurance at various levels of coverage. If the Professional Services Committee decided that insurance coverage should be purchased, their recommendation would be presented to the Board.

A motion was made by Georgia Steinhoff, and supported by Ehren Gonzales, that the "Self-Insurance Account" be terminated at SSgA, with proper notification to SSgA, and that an account be opened at Northern Trust entitled "Self-Insurance Fund."

Upon being put to a vote, the motion carried unanimously.

17. GRAY & COMPANY

Consultant Ivory Day presented and reviewed an updated rebalancing schedule showing the most recent asset allocation, after the transitions have been completed. He noted that the Fund is now maintaining an asset allocation that is very close to what the Board had adopted for the Plan over the long term. Mr. Day stated that the purpose of the rebalancing was the allocation of funds to asset classes, rather than to specific investment managers. Over 90% of the Fund's return comes from the asset allocation, as opposed to manager selection or manager structure. Once an asset allocation/rebalancing is done, the Fund is

unlikely to become more than 5% out of balance in any asset class, either over or under the target, because the markets naturally make adjustments. However, when there is an infusion of new monies or an outlay of monies from the Fund, a rebalancing might be necessary. Discussion followed.

Dave Fitchett, from Northern Trust, noted that there is a target of \$30,000,000 to be moved into the drawdown account every six months, with approximately \$5,000,000 being paid out on a monthly basis for pension payroll. He noted that an additional allocation to real estate investments was also planned during the rebalancing; however, those additional funds are currently in the drawdown account, to allow exposure to the market, until it is decided whether to hire a new real estate manager or make further allocations to the current managers. Discussion followed. Chairman Hall noted that it would be best to leave those funds in the drawdown account at this time, as there will be additional monies needed for the MERS transition. It was also noted that, as of June 14th, the balance in the drawdown account was \$46 million.

Mr. Day stated that, in the original asset allocation plan as adopted by the Trustees, Gray had recommended an increase in assets in the real estate category. However, the manager selections were prioritized; i.e., first, the international manager search, then international equity managers, small cap managers, followed by the other asset classes. The inter-national, international equity and small cap managers have now been funded as part of the rebalancing. The next step is to move on to the other asset classes, beginning with real estate. The current real estate managers are invested in closed-end funds, which are not open to new monies. His recommendation is that, at some point in the future, additional monies be invested into an open-end real estate fund to allow for diversification in real estate investments and greater liquidity. Discussion followed.

Chairman Hall stated that, since Cass Wisniewski has joined the meeting, he would like to reopen discussions of MERS issues (Agenda Item #14).

Cass Wisniewski stated that MERS asked their actuary at Gabriel Roeder (GRS) to perform an actuarial study and he is not aware that any report has yet been released. MERS wanted to know how much liability they would be taking on before they accepted any funds from FERS. At the Board's approval, a letter was sent to Larry Langer at GRS from the Fund indicating that he could exchange information with the MERS' GRS actuary.

Chairman Hall stated that MERS has been informed that \$15.7 million is available to be transferred to them; however, they have not provided the wiring instructions, as requested. He stated that it is the Board's desire to make the initial transfer prior to the completion of the MERS actuarial study. Discussion followed.

Chairman Hall noted that, when the study is completed by MERS, if the two actuarial studies disagreed, the Board would need to evaluate the reasons for the difference. Chairman Hall asked Cass Wisniewski to inform the MERS representative that the Board would like to be contacted regarding the information needed for the transfer.

Chairman Hall stated that the Joint Agreement Concerning the Transfer of Data, Assets and Liabilities from Hurley to MERS, which was reviewed at the last meeting, would not be finalized until after the actuarial valuations are completed. Full agreement is needed between FERS, MERS and the actuaries before the final information can be presented to the City Council. Chairman Hall also noted that, for several months, he has been asking that meetings be held with MERS, attorneys from MERS, FERS and Hurley, and a Committee of Board members.

Concerns were also expressed regarding the Ordinance changes that must be approved by City Council. Attorney Young has indicated that she is ready to write the Ordinance language for City Council approval, as soon as all information is available.

18. FINANCE COMMITTEE

Chairman Hall stated that the Committee is concerned about the costs of the MERS transfer.

19. PROFESSIONAL SERVICES COMMITTEE REPORT

Committee Chair Georgia Steinhoff stated that a meeting has not been held since the last Board Meeting. She noted that Communications #9.5 & #9.6 are letters to the Board referencing two individuals who had applied for disability retirement and were found not to be disabled. She recommends that the Board follow past practice that, if someone has been denied a disability retirement and they request an appeal or reconsideration, a letter is directed to them asking them whether anything has changed in their condition since the time of their disability application. If so, they need to provide the Risk & Benefits Office with that information so it can be forwarded to Dr. Roth for reconsideration.

Robert Erlenbeck noted that there are issues that need to be addressed regarding these requests: 1) How much additional information should be required for a reevaluation? 2) How often can these individuals request reconsideration? For example, Glynis Rice, from Hurley, has been evaluated twice by Dr. Roth. Initially, there was an issue in regards to her employment status and the doctor had done the evaluation before that issue was discovered. Afterwards, through workers' compensation, she resolved her employment status and again requested an evaluation. Dr. Roth received up-to-date records and reevaluated her and still found that she was not disabled. The referenced letter regarding

Ms. Rice does not indicate any change in her condition. Hurley wrote the letter on her behalf, indicating that they do not have a place for her to work given her current condition, and requesting that the Board reconsider her case. The City of Flint previously had an employee that was found not disabled by Dr. Roth and a letter was submitted to the Human Resources Director to determine whether or not, within that person's restrictions, there were any jobs available. Since there weren't any jobs, the person was granted a disability retirement. The question in Ms. Rice's case is that Dr. Roth indicated there wasn't a necessity for restrictions if the person received proper treatment and took the appropriate medications. Does the Board want to consider Hurley's position that there is no job available within the restrictions, although there were no restrictions listed? They have only indicated that she is disabled. Discussion followed. It was noted that Ms. Rice is in #1603 and she is not working. She has a workers' compensation settlement which made her an employee retroactively to allow her to re-apply for a disability retirement. Chairman Hall referred these issues to the Professional Services Committee for recommendations to the Board at the next meeting.

The Board discussed the recalculations for pension errors and overpayments. Mr. Erlenbeck stated that, when the errors occurred, an individual could retire from start to finish within the control and scope of one individual in one department. The process has now been split: The application originates in the Retirement Office and it is finalized in the Finance Department. Finance staff audits the records and signs off and they set up the payments. This is a checks-and-balances process that was not in place previously. Now there are at least two people independently reviewing the records, which allows a much greater opportunity to catch errors. In this process, if an individual has the ability to purchase time or has certain multipliers or settlement agreements, all backup documents; i.e., city ordinance sections, union contract sections, settlement agreements, etc. that deal specifically with that individual's retirement are included in their retirement folder. That was not done previously. In the past, there might not be any supporting documentation and further research would be necessary. Now all supporting documentation indicating their multipliers, settlement agreements for purchase of time, etc. is kept in each retiree's file.

Mr. Erlenbeck also noted that the audit process is ongoing. There is a list of accounts that they plan to audit because of potentially problematic issues. After those are checked, they will begin randomly auditing others. It is likely that there will be more errors found and brought to the Board. He noted that, as a result of problems that happened with the purchase of time, numerous records were reviewed and problems were found with many of them. Due to staffing issues, they did not have the ability or the staffing levels to perform in-depth audits until recently. In response to a question about hiring a third party to assist with the audit, Mr. Erlenbeck responded that the issues involved are so complex that the process of training, providing documentation, teaching the various situations and issues to look for, becoming familiar with all of the substantiating documentation, etc. could slow down the process even further, as there is a very long learning curve to be

able to audit these files accurately. Peter Dobrzeniecki noted that, with all of the microfiche and other old reports that have to be found and reviewed, it takes about four hours to perform a complete recalculation and audit of a file.

Robert Erlenbeck also stated that there will be random audits of all retirement files (City and Hurley). At this time, they are reviewing files in which they discovered problems while the files were under review for other reasons. One major area of concern is the early retirement windows at the City. They have completed their audit of the four that are scheduled for hearings, five files are in the process of a thorough review, and there is a priority list of about 20 others. So far they have found errors in almost every file.

Retirement Supervisor Suzi Bye said that, in order to do a proper review, a file is pulled, the calculations are done “from scratch” and then compared to the previous calculations. If there are discrepancies, they try to determine why. The reason could be a settlement agreement or contract provision they were unaware of. Then Finance audits the files again. Mr. Erlenbeck noted that they conduct an extensive search to determine if any backup documents exist in support of the original retirement calculations, by contacting the offices of the City Clerk, Labor Relations, even the retirees themselves. He stated that they do not arbitrarily decide there’s a problem; if they believe there’s a problem, they have the documentation to back it up

Mr. Erlenbeck stated that, in the case of the pension error involving a settlement agreement that should not have been included in that individual’s pension, there were about eight individuals involved in the same settlement agreement. Some of them had the funds included in their pensions (part of FAC) and some didn’t; some had calculations showing it as included, but it wasn’t part of the payments. All of those individuals’ pensions are under review. The settlement agreement is very clear that it was not to be included for retirement purposes.

Mr. Erlenbeck further stated that, in the case of Hurley employees, there has been an ongoing problem with Hurley not providing copies of contracts. The Retirement office now has a full set of current Hurley contracts. In the past, however, there was a certain amount of reliance on Hurley staff for making determinations about pension calculations. Hurley staff is now required to provide proof documents for additional benefits to be included in retirement calculations; i.e., settlement agreements, union contracts, Ordinance language, etc. A very thorough knowledge of the Retirement Ordinance is necessary for performing pension calculations. He stated that all errors found in the audit would be corrected and reported to the Board, including some that have been found in the retirees’ favor.

Discussion followed. Janice Kehoe stated that the Human Resources Department at Hurley does not respond to inquiries regarding service credits from their employees, but refers those inquiries to the City staff.

Chairman Hall stated that the Minute Master in-house options are under review.

20. LEGAL COUNSEL UPDATES

Attorney I'Lanta Robbins stated that the court order has not been entered to finalize the Claude Miller case.

Regarding the Take Two Interactive class-action lawsuit, Attorney George Peck has informed the City Attorney's office that he is working with a law firm in New York and joining their class action lawsuit. Attorney Peck had attempted to aggregate the losses this System had with other plaintiffs in order to apply for the lead plaintiff position; however, the Court did not allow that because there were other plaintiffs with greater losses and another class action lawsuit already filed that included more plaintiffs. The FERS loss was insignificant compared to the losses some other funds incurred. This doesn't hurt the case; it just means that FERS did not get the lead plaintiff position. The lawsuit is still in the discovery stage at this time. Attorney Peck stated that he should have a report for the Board at the August meeting.

Regarding the Board vacancies (reference Agenda Item #9.9), Attorney Trachelle Young has issued a legal opinion based on the Ordinance. She stated that the Ordinance is clear that, if a vacancy occurs, a designated individual would fill that seat by appointment. Therefore, it doesn't matter whether a trustee or alternate position is at issue, the City Administrator fills that specific vacancy by appointment. Attorney Young believes that the Ordinance is very clear and any other action would be in violation of the Ordinance.

21. RETIREMENT ORDINANCE REVISION COMMITTEE

Per Chairman Daniel Hall, the Committee is waiting for information from the attorneys before they can meet to discuss the language for the FERS to MERS ordinance revision.

22. DB/DC CONVERSION

Chairman Daniel Hall recognized Daugherty Johnson, President of AFSCME #1799, as present at the meeting and stated that he sent a letter (Agenda Item #9.4) to the Board expressing the Union's concerns and requests regarding the DB/DC conversion. Robert Erlenbeck stated that officials from both #1799 and #1600 have indicated their desire to

meet with the Actuary in order to review the various components of the DB/DC conversion. The Unions previously made a request of City Administration for authorization to meet with Larry Langer; however, the Administration referred them to the Board of Trustees, since Larry Langer is the Actuary for FERS. The referenced letter is their formal request to the Board for approval for the Unions to meet with Larry Langer to discuss the assumptions, methodologies, formulas, etc.

Discussion followed. It was noted that the assets transferred for the conversion would no longer be under the Board's control. Mr. Erlenbeck stated that the Ordinance and the union contracts for #1600 and #1799 have provisions for the defined contribution pension program, with new employees (exempts, #1600 and #1799) immediately becoming part of the defined contribution plan. The actuarial calculations are for the optional transfer for current employees in those groups to allow them to switch from the defined benefit to the defined contribution plan, which will be offered in a window for the #1600 and #1799 bargaining units, followed by a window for the exempt employees. The Police and Fire contracts, at this time, have no provisions within their contracts for a defined contribution plan. Peter Dobrzeniecki noted that the City is offering to pay for the actuarial calculations for the DC plan; however, if the Board would feel more comfortable having GRS working for them on this project, he has no objection. Chairman Hall referred the Union officials to the DB/DC Committee.

23. OTHER BOARD BUSINESS

Chairman Daniel Hall noted that there would be information regarding managerial changes at InterContinental in the next agenda packets; those changes do not affect the FERS account.

24. ADJOURNED

There being no further business to discuss, it was moved by Georgia Steinhoff, and supported by Robert Rosenberger, to adjourn the meeting at 2:57 p.m.

Upon being put to a vote, the motion carried unanimously.

Respectfully submitted,

Peter Dobrzeniecki, Secretary