

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, November 18, 2008 at 1:00 p.m. in the New Committee-of-the-Whole Room, 3rd Floor, City Council Chambers, at City Hall, with the following in attendance:

TRUSTEES & ALTERNATES Douglas Bingaman – Acting Chairperson, Denise Bingaman, Mary Bland, Robert Erlenbeck, John Erwin, Ehren Gonzales (2:22 p.m. – 4:10 p.m.), Janice Kehoe, Michelle Kirkwood, Mark Stratman, Cass Wisniewski

ABSENT Darryl Buchanan, Kerry Nelson

ALSO PRESENT I'Lanta Robbins, Assistant City Attorney/Attorney for Retirement Board
Suzi Bye, Retirement Supervisor
Julie Sadler, Recording Secretary
Ivory Day, Gray & Company
Christopher Kuhn, Gray & Company
David Kausch, Gabriel, Roeder, Smith & Co.
Brian Murphy, Gabriel, Roeder, Smith & Co.
Michael VanOverbeke, Special Counsel

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Acting Chair Douglas Bingaman called the meeting to order at 1:07 p.m.

3. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

Donald Phillips, President of United Retired Government Employees (URGE), asked why the Board had not responded to his letter requesting the appointment of Mary Bland to fill the vacancy left by the death of John Balsar.

James Maxwell, a work-related duty disability retiree from the Fire Department, stated that he received a letter, dated October 22nd, regarding the recalculation of his duty disability pension. It stated that, because of working at another job, his workers' compensation status had been rescinded. However, he has a court order from January of 2005, which was upheld in July of 2006 after the City appealed the decision, stating that he must be maintained on workers' compensation status until further ordered. He had worked in the

Fire Department as a firefighter and the contract states that he is disabled if he is unable to work as a firefighter. In his current position, he works as a consultant for insurance companies. The letter from the Retirement Office revokes all of his workers' compensation benefits, including pay (which is currently offset by his insurance job pay), medical care and additional service credits for his pension when he attains the age of 55. His duty disability was due to a shoulder injury sustained in the line of duty. He remains physically unable to work as a firefighter. He has had four operations, with a shoulder replacement pending. Due to his pre-existing shoulder condition, his current employer required that he sign a waiver of any rights to health care or lost wages. Mr. Maxwell referred to the City Ordinance Section 35-29(a): "Upon termination of a firefighter member's workers' compensation period, if any, arising on account of his City employment, or his attainment of age 55 years, whichever occurs first, he shall be given service credit for the period he was in receipt of workers' compensation and at that time his straight life disability pension shall be recomputed to include such additional service credit." Mr. Maxwell stated that he is unable to find any ordinance language stating that, if he is employed at another company or making money on the side, his pension would be recalculated, even though he was disabled as a firefighter. He has been on Workers' Compensation for six years and four months. This new ruling represents a hardship to him and his family and does not appear to him to be legal, when compared to the Ordinance language, contract language, and two court orders.

Chairman Bingaman asked Mr. Maxwell to further address his issues with Suzi Bye and Robert Erlenbeck in the Retirement Office. He also referred the matter to the Professional Services Committee. Mr. Bingaman told Mr. Maxwell that he could address the Board again, at their next meeting, if his issues were not resolved.

Susan Jarema, a recent retiree from the 68th District Court, stated that in 2001-02 she purchased prior governmental time, which transferred 5 years and 1 month of time she had worked within the Michigan Public School Employees Retirement System to the City of Flint Retirement System. On July 30, 2008, she applied for retirement. On October 1st, when she had not received any pension payments, she contacted Ms. Bye and was told that her pension calculations had not been completed in time for the September Board Meeting, but would be presented in October. She then received a letter from the City dated October 14th, regarding the prior time that she had purchased, and indicating that the City would not accept the payment calculations that were made at that time. She was given three options: 1) pay the recalculated additional amount; 2) transfer the 5 years, 1 month into 6 months of service credit, based upon their revised calculations; or 3) forfeit all prior purchased time and receive a monetary refund of the amount she paid. She again talked with Ms. Bye and requested further information, which was provided. She was also told that she needed to select one of the three options by Friday, November 21, or her time would be automatically converted to the six-month service credit, with a small refund. Ms. Jarema stated her position that she purchased the time in good faith at the exact amount she was told to pay. Now that more than six years have passed since the

purchase, she believes it was an implied contract and, as such, the six years to dispute it have now passed and the City has an obligation to honor the original transaction. Her request of the Board is to be given a postponement for her decision and to be placed on the agenda for next month's meeting for discussion, with no change regarding her purchase of time until she obtains a decision from the Board.

Chairman Bingaman stated that he would entertain a motion to put Susan Jarema on next month's Professional Services Committee agenda and to give her a stay until a Board decision is made.

A motion was made by Mary Bland, and supported by Janice Kehoe, to suspend Susan Jarema's requirement to make a decision by November 21st, refer her issues to the Professional Services Committee, and then to the Board for discussion at the next meeting, with her information to be included in the Board members' December agenda packets for review.

Discussion followed. Chairman Bingaman noted that there have been similar cases in which the amount charged for the purchase of time was found to be too low and the calculations were corrected, with the money for purchasing service credits refunded, rather than additional monies being paid. Mr. Erlenbeck noted that, in order to ensure no interruption was made to Ms. Jarema's pension, she is receiving a pension based on service credits that do not include those in dispute. If the Board decides that the time is allowable, or additional monies are paid, the pension will be increased retroactively. This insures that there is no overpayment and a pension is paid while issues are being resolved.

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

Eddie Holmes, from Hurley Medical Center, addressed the Board regarding the denial of his application for disability retirement. He stated that he has a very bad knee and, although the doctors state that he is able to work, he must be on narcotic pain medication, which Hurley will not allow him to take if he comes back to work.

Discussion followed. It was noted that Agenda Communication #10.9 concerns Mr. Holmes and will be discussed later in the agenda. Mr. Erlenbeck stated that, after the denial of Mr. Holmes' disability retirement request, the Retirement Office sent a letter to Hurley to determine whether or not a job was available for Mr. Holmes. In the past, when the Board has denied a disability retirement based upon the medical director's recommendation, if the City or Hurley could not accommodate the individual, then they were granted a disability retirement. However, a letter of response was received from Hurley indicating that they do have a job available for him.

4. APPROVAL OF THE SEPTEMBER 23, 2008 REGULAR BOARD MEETING MINUTES

A motion was made by Cass Wisniewski, and supported by Robert Erlenbeck, to approve the minutes of the September 23, 2008 Regular Board Meeting.

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

5. APPLICATIONS FOR VOLUNTARY RETIREMENT

LaVaughn McCoy / HMC/Exempt

Final Average Compensation:	\$ 58,933.19
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement	09/21/2008

Service: 28 Years, 8 Months

The retiree elected the Option Straight Life in the amount of \$1,776.58.

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for LaVaughn McCoy 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 \$1,776.58, for as long as he lives.

Jennifer Sims / HMC/1603

Final Average Compensation:	\$ 32,581.22
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement	10/19/2008

Service: 19 Years, 2 Months

The retiree elected Option Straight Life in the amount of \$656.69

RESOLVED, that the Service, Final Average Compensation, Accumulated Contributions and Effective Date of Retirement for Jennifer Sims 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 \$656.69, for as long as she lives.

A motion was made by Cass Wisniewski, and supported by Mary Bland, to approve the Applications for Voluntary Retirement for the following persons (with monthly pensions as noted):

LaVaughn McCoy – Option Straight Life - \$1,776.58

Jennifer Sims – Option Straight Life - \$656.69

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

6. APPLICATIONS FOR DEFERRED RETIREMENTS

Deborah Banks / HMC/Exempt

Final Average Compensation:	\$ 87,115.38
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement:	03/01/2007
Service: 29 Years, 2 Months	

The retiree will elect an Option prior to 12/01/2013.

Delores Johnson / HMC/Exempt

Final Average Compensation:	\$ 61,851.57
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement:	10/14/2006
Service: 24 Years, 4 Months	

The retiree will elect an Option prior to 04/01/2020.

Karen Kowalko / HMC/Exempt

Final Average Compensation:	\$ 63,838.71
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement:	10/22/2006
Service: 20 Years, 7 Months	

The retiree will elect an Option prior to 03/01/2018.

Carol Skowronski / HMC/Exempt

Final Average Compensation:	\$ 92,553.03
Accumulated Contributions:	.00
DRET:	.00
Effective Date of Retirement:	10/14/2007
Service: 20 Years, 3 Months	

The retiree will elect an Option prior to 11/01/2016.

A motion was made by Cass Wisniewski, and supported by Mary Bland, to approve the Applications for Deferred Retirements for Deborah Banks, Delores Johnson, Karen Kowalko, and Carol Skowronski.

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

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

Laurie Breithaupt/HMC/RN Option Straight Life \$833.52
File Audit – FAC \$45,207.60 Retirement Date: 09-20-1995

Walterean Patrick/HMC/1603 Option Straight Life \$646.63
File Audit – FAC \$25,545.96 Retirement Date: 02-12-2000

Tamara Savage/HMC/Exempt Option Straight Life \$1,390.25
File Audit – FAC \$86,058.21 Retirement Date: 06-30-1997

Debra Shaw/HMC/Exempt Option Straight Life \$1,080.91
File Audit – FAC \$57,385.28 Retirement Date: 01-10-2003

8. **APPROVAL OF PENSIONS PREVIOUSLY REPORTED**

Nicola Beccia/HMC/Exempt Will pick option prior to 3-1-2010
File Audit – FAC \$79,743.12
Original \$76,312.25 Retirement Date: Aug 31, 2006
Revised to include additional HMC payroll information

Anshell Cole/HMC/1603 Will pick up prior to 2-1-2014
File Audit – FAC \$37,908.17
Original \$37,424.33 Retirement Date: Nov 04, 2006
Revised to include additional HMC payroll information

Louis Hinman/1799 Option B w/pop-up \$2,913.03
File Audit – FAC \$57,915.53 Original \$2,899.11
Original \$57,638.68 Retirement Date: Sept 06,

2003

Pension Underpayment \$ 881.77
Revised due to submission of DRO, redeposit, & FAC

Steven Miller/1799 Option B w/pop-up \$2,755.14
File Audit – FAC \$56,982.31 Original \$2,780.01
Original \$56,747.98 Retirement Date: July 08,

2004

Pension Overpayment \$ 1,287.63
Revised due to submission of DRO, correct multiplier, & FAC

Sheri Rawlings/HMC/Exempt

Will pick option prior to 6/1/2027

File Audit – FAC \$71,701.39

Original \$70,779.39

Retirement Date: Sept 27, 2006

Revised to include additional HMC payroll information

A motion was made by Cass Wisniewski, and supported by Janice Kehoe, to approve the revisions to the pensions previously reported for Nicola Beccia, Anshell Cole, Louis Hinman, Steven Miller, and Sheri Rawlings.

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

REVISED PER JUDGE YUILLE RULING

Tony Golden/1799

File Audit – FAC \$70,473.04

Original \$71,161.59

Pension Overpayment \$ 11,466.62

Option Straight Life \$3,523.65

Original - \$3,429.85

Retirement Date – Jan 13, 2001

David Plewes/1799

File Audit – FAC \$73,994.36

Original \$73,573.02

Pension Underpayment \$ 1,872.27

Option C w/pop up \$3,512.17

Original - \$3,492.17

Retirement Date – Jan 13, 2001

Barry Saunders/Police Sgt

File Audit – FAC \$94,984.78

Original \$94,115.96

Pension Underpayment \$ 3,335.92

Option C \$4,102.81

Original - \$4,065.28

Retirement Date – Jan 13, 2001

The approval of the three pensions revised per the Judge Yuille ruling were postponed for further discussion under Legal Counsel Updates.

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

9.1 Information Management Network, The 13th Annual Super Bowl of Indexing, December 7-10, 2008, Phoenix, AZ.

9.2 Trustee Educational Conferences, The 9th Annual Fire & Police Academy, January 18-21, 2009, Fort Myers Beach, FL.

9.3 UNC, The 9th Annual Mid-Sized Retirement & Pension Plan Management Conference, January 25-28, 2009, Orlando, FL.

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

10.1 JP Morgan Asset Management, The OPEB Challenge, Newsletter, October, 2008.

10.2 NCPERS, The Monitor, Newsletter, September 2008.

10.3 Northern Trust, Point of View, Newsletter, October 2008.

10.4 Northern Trust Global Investments, Strategy, Newsletter, November 2008.

10.5 Allegiant, Letter to FERS re: Form ADV, October 24, 2008.

10.6 Northern Trust, Letter to FERS re: Securities Lending Cash Collateral Investment Activities, November 7, 2008. *(Enclosed)*

10.7 Memo to Suzi Bye from I'lanta Robbins re: Legal Opinion on DRO's, October 17, 2008. *(Enclosed)*

10.8 Gabe, Quinn & Seymour, Letter to Robert Erlenbeck re: Tyania Hall, October 16, 2008. *(Enclosed)*

10.9 Letter to FERS from Eddie Holmes re: Disability Retirement, October 20, 2008. *(Enclosed)*

10.10 Giarmarco, Mullins & Horton, P.C., Letter to I'lanta Robbins re: Daniel Coffield & Daniel George, November 6, 2008. *(Enclosed)*

10.11 Gabriel, Roeder, Smith & Co., Letter to FERS re: Experience Study, September 2, 2008. *(Enclosed)*

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

11.1 Letter to Northern Trust from Douglas Bingaman re: November 1, 2008 Pension Transfer, September 23, 2008.

11.2 FERS, Letter to Miles Gadola re: Deferred Retirement, September 30, 2008.

11.3 FERS, Letter to Harland Abraham re: Rebalance Portfolio, October 24, 2008.

- 11.4 FERS, Letter to Wentworth, Hauser re: Rebalance Portfolio, October 24, 2008.
- 11.5 FERS, Letter to JP Morgan re: Rebalance Portfolio, October 24, 2008.
- 11.6 FERS, Letter to Piedmont Investments re: Rebalance Portfolio, October 24, 2008.
- 11.7 FERS, Letter to JP Morgan re: Rebalance Portfolio, November 6, 2008.
- 11.8 FERS, Letter to Money Managers re: Authorized Signers, October 21, 2008.
- 11.9 FERS, General Information, Money Managers & Consultants, Board of Trustees, November 2008. (*Enclosed*)
- 11.10 FERS, Transition Services Agreement with Northern Trust, October 21, 2008.
- 11.11 FERS, Letter to Philip Seymour re: Tyania Hall, October 3, 2008. (*Enclosed*)
- 11.12 FERS, Letter to JP Morgan re: Drawdown Account, November 11, 2008.
- 11.13 FERS, Letter to Northern Trust re: Drawdown Account, November 11, 2008.
- 12. REPORTS RECEIVED** (*All items were placed on file in the Retirement Office; if noted, a copy was enclosed in the Board Members' agenda packets also.*)
- 12.1 LJR Recapture Services, Trading Summary, August 31, 2008.
- 12.2 LJR Recapture Services, Trading Summary, September 30, 2008.
- 12.3 Magna Securities, Commission Recapture Report, September 30, 2008.
- 12.4 GLOBALT Investments, Quarterly Review, Newsletter, 3rd Quarter 2008.
- 12.5 GLOBALT Investments, Investment Summary, 3rd Quarter 2008.
- 12.6 Wellington Management, Investment Review, 3rd Quarter 2008.
- 12.7 Fisher Investments, Market Commentary, 3rd Quarter 2008.
- 12.8 Piedmont Investment Advisors, Portfolio Appraisal, 3rd Quarter 2008.
- 12.9 Dodge & Cox, Investment Report, 3rd Quarter 2008.

- 12.10 Intercontinental Real Estate Corp., Investment Review, 3rd Quarter 2008.
- 12.11 Keeley Asset Management, Investment Review, 3rd Quarter 2008.
- 12.12 LSV Asset Management, Investment Report, 3rd Quarter 2008.
- 12.13 ICON Advisors, Quarterly Statement, 3rd Quarter 2008.
- 12.14 Northern Trust, Valuation Statement for LSV, October 2008. (*Enclosed*)
- 12.15 CB Richard Ellis Investors, Global REIT Market Perspectives, 3rd Quarter 2008.
- 12.16 Northern Trust Reports – September 2008. (*Enclosed*)
- 12.17 Retirement Fund Employee/Employer Contributions. (*Enclosed*)
- 12.18 Hurley Employer/Employee Contributions FY 2008. (*Enclosed*)

A motion was made by Cass Wisniewski, and supported by Mary Bland, to receive the information/documents listed under Agenda Items #9, #10, #11, and #12, and place all documents on file.

Discussion followed – it was noted that #10.7 and #10.9 will be discussed under Legal Updates and/or Professional Services.

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

2. APPOINTMENT OF BOARD CHAIR & VICE CHAIR

A motion was made by Robert Erlenbeck, and supported by Mary Bland, to table the appointments of a permanent Board Chair and Vice Chair.

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

13. GRAY & COMPANY

Ivory Day and Christopher Kuhn distributed and reviewed the following reports:
Executive Summary for Period Ending 9/30/08
Quarterly Performance Report for 3rd Quarter ended 9/30/08
Rebalancing Schedule

It was noted that the rebalancing schedule includes a potential \$68 million transfer to MERS; however, with current market value and percentage adjustments, the figure will be substantially less. Due to the 2008 markets, the Fund balance shows a loss of \$200+ million, with some of the decrease due to the payment of benefits. The market overall has lost trillions of dollars. The Board and Consultants discussed the market environment/volatility and overall fund performance. When asked when the System's losses might be recovered, the Consultants replied that it would take more than a few months, but recommended that the Fund Trustees "stay the course" because sound investment principles are still at work and most of the investments will be held for the long term. Although the market performance has been alarming, there is nothing that could have been done by the Trustees to prevent it. Mr. Day also noted that FERS' managers are doing what they were hired to do, in a very extreme market environment. In the long-term, FERS' asset allocation should do well. The numbers used to set the asset allocation cover a 30-40 year investment horizon, in order to match up with FERS' actuarial return assumptions. Looking at the very long term, with an asset allocation set for 8% minimum returns, Mr. Day believes those returns will be achieved over time.

Chairman Bingaman asked Mr. Day about ICON and their offer of a "due diligence" trip. Mr. Day stated that he recently met with ICON representatives and they presented a new hedge-fund type product that they are offering their clients. The current funds invested with ICON are performing as expected and there are no issues with FERS' investments with ICON, which have been in place since 2002 and are reviewed quarterly. Therefore, since he performs "due diligence" with the money managers on a regular basis as part of his contract with FERS, Mr. Day did not believe it was necessary for Board Members to travel for that purpose. Mr. Day also noted that he would not recommend hedge funds for the FERS' plan; in fact, the current Investment Policy does not allow for them.

14. APPROVAL OF THE DECEMBER 1, 2008 PENSION PAYROLL TRANSFER

Chairman Douglas Bingaman reported that a transfer of \$4,943,700 was needed for the payment of the **December 1st, 2008 pension payroll**, with funds to be taken from the Northern Trust Flint-Drawdown Account #26-19617. The balance in the Northern Trust drawdown account, as of November 17, 2008, was \$17,009,509.

A motion to approve the transfer of \$4,943,700 for payment of the December 1st, 2008 pension payroll, from the Northern Trust Flint - Drawdown Account #26-19617 to Citizens Bank, was made by Cass Wisniewski, and supported by Mary Bland.

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

15. GABRIEL ROEDER SMITH & CO – ACTUARIAL ISSUES

David Kausch presented the GRS actuarial report dated November 14th, 2008, regarding the **FERS to MERS transfer calculations**. These calculations are based on the most recent valuation information available, which is the June 30, 2007 actuarial valuation, as adopted by the Retirement Board in October. There are currently seven active union groups at Hurley Medical Center, that have opted to switch their retirement benefits to MERS, and an Agreement has been signed by all parties as to how that transfer will occur. The objective of this step in the transfer process is to determine a percent of the HMC assets to be transferred, per a formula stipulated as part of the Agreement.

In the formula, using the market value as of 6/30/07, the retirees and deferred members would be fully funded and are not included in the calculations. From the assets available for active employees, that asset pool is split between active employees who are staying in FERS and those transferring to MERS. The actives who have chosen to transfer represent slightly more than 50% of the active employees; therefore, slightly more than 50% of the assets attributed to active Hurley employees are to be transferred to MERS. That amount represents approximately 18.4% of the total market value of Hurley assets, the percentage that will ultimately be transferred to MERS.

The next steps, per the agreement, are: 1) Determine the market value of Hurley's assets that are to be used to calculate the amount of the transfer by applying the 18.4% as of a certain date to be set by the Board. 2) Upon the Board's receipt of the GRS calculations, a 90-day period begins wherein the Board must establish an actual transfer date, the date by which the Board will agree to transfer the necessary investments into a transition account. 3) Effectuate the transfer to MERS over the following 30-day period as the transferred investments are liquidated, in order to transfer cash to MERS.

Q&A/Discussion:

Liability Issues – After this transaction occurs, the Medical Center will have employees in both FERS and MERS, with contribution requirements for both. Annual actuarial reports for both FERS and MERS will set the contribution rates from Hurley for each retirement system, which will ultimately correct underfunding issues on each side. The liability for the individuals is transferred along with the assets. Hurley's funding ratio for active employees is approximately 52%. Also, the market value has suffered this year and the actual transfer amount is likely to be closer to \$44 million than the \$68 million as of June 30, 2007. In the agreement, it is noted that retirees are to be fully funded. With the current market conditions, it is possible that when Hurley's market value is determined and the transfer is made, the amount remaining with FERS may be less than the retiree liability. If that objective is not met, any shortfall will have to be made up in the future with employer contributions.

Impact on the FERS System – Attorney VanOverbeke stated that Hurley has an ongoing obligation to fund 100% of the retirement benefits for their retirees. The City's assets will not be harmed, because there are separate accounting and separate actuarial calculations for each side. The City will not be required to make up any shortfall of funding on the Hurley side.

Future Transfers – The FERS to MERS agreements also provide for a selection process whereby previous retirees can opt to transfer to MERS. Does the agreement require 100% funding for those individuals? Attorney VanOverbeke replied that the transfer amounts for those retirees would also be subject to market value adjustments. Even if there was no transfer to MERS, the 2008 markets have caused the retiree liability to be less than fully funded.

Transfer Amount – Attorney VanOverbeke noted that the market value of Hurley's assets, which was \$371 million on 6/30/07, will be calculated on a set date, with a transfer date within the next 90 days. Two things will affect the market value calculation for that set date: 1) the markets; 2) contributions and/or payments out, that have occurred since 6/30/07. The adjustments to the asset value will be made, and the 18.4% will be applied, and that amount of assets will be placed into the transition account. Once those assets are liquidated, the amount transferred to MERS could be more or less, depending on the market, than the value of the assets transferred to the transition account.

Additional Transfers – Attorney VanOverbeke also noted that the next phase of the MERS transfer will involve giving the Hurley retirees and non-union employees a choice whether to transfer to MERS. After that election process, similar calculations and procedures will be followed, with appropriate adjustments for market value at that time.

Initial Transfer/Transition Date – Mr. Kausch noted that the Board needs to set a transfer date within the next 90 days, set up a transition account, and effectuate the transfer to MERS within 30 days after the transfer to the transition account. The Consultant and Transition Manager will work on the logistics of choosing and selling the assets. In choosing a transition date, remember that the actuaries must work with staff to gather all data regarding benefit payments, contributions made and refunded, and investments for the four divisions – General, Police, Fire, Hurley - in order to calculate the market value of Hurley's assets as close to the transfer date as possible. Once all data is received from staff, GRS intends to perform the necessary calculations within a 24-hour period to obtain the most current Hurley market value possible on the transfer date.

The Board discussed various factors in selecting a transfer date, including the time of year, allowing time for market factors, rebalancing the portfolio, etc. It was agreed that December 31st would be a good date as a "cut-off," allowing staff to obtain bank and investment statements and provide data to GRS prior to the actual transfer date.

Attorney VanOverbeke noted that the securities must be moved into the transition account on the transfer date, with 30 days to liquidate and transfer to MERS. The full value in securities to be ultimately transferred to MERS must be shown to be in the transition account on the transfer date. All the costs of the transition, the costs of selling the securities, the market impact, etc., is not to be born by the Plan, but by that account in the transition process; i.e., whatever is left in the transition account after liquidation is the amount to be transferred to MERS. All data would be provided to the actuary by staff for 6/30/07 to 12/31/08 (if that is the date the Board chooses), to determine the Hurley market value at that point in time. GRS already has asset value information as of 6/30/08.

David Kausch noted that some of the initial calculations as of 6/30/08 have been made, but not audited. The percentage of Hurley's assets could be calculated as of any date the Board chooses. Any shortfalls to either side would be made up in contributions later on.

Ivory Day stated that he would determine, from the rebalancing schedule, the amounts to be liquidated from each money manager once the market value amount is known. Then Northern, as Transition Manager, would work with the money managers to determine which specific securities should be transferred. Attorney VanOverbeke noted that a transition manager manages a liquidation over time to minimize the effect on market costs.

Mr. Day said that no funds would come from real estate investments, due to the lack of liquidity. Discussion followed. Attorney VanOverbeke stated that, since not everyone from Hurley is transferring to MERS, actuarial valuations will allow for any shortfalls in FERS to be made up by future contributions from Hurley.

Hurley contributions – Mr. Kausch stated that Hurley's lack of employer contributions may cause their percentage of the total market value to go down, once the calculations are made from 6/30/07 forward. Attorney VanOverbeke recommended that 12/31/08 be the date at which to calculate the fund value and percentage of Hurley assets. He also recommended a transfer date of mid-January. This would allow the Board to be presented with a formal recommendation on the final calculation methodology at the December Meeting for their review and adoption. The Ordinance change will go before City Council in December also, now that the required actuarial calculations have been received by the Board. Discussion followed.

A motion was made by Robert Erlenbeck, and supported by Ehren Gonzales, that the transition date be established as Friday, January 16th, 2009 to move securities into the transition account at Northern Trust, for the FERS to MERS transfer, for those Hurley employees that are affected.

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

File Issues - Robert Erlenbeck noted that a meeting was recently held with representatives of Hurley, MERS, legal counsel, etc., with one of the major issues under discussion being the ownership of the files for those active employees who will be transferring to MERS. It was discussed that, if the Board had no problems or issues, all of the cards and files in the Retirement Office for those affected individuals (from a list that would be provided by Hurley Medical Center) would be taken from the office and turned over to Hurley. Hurley would be required to sign a document taking responsibility for those files, which would no longer be the responsibility of the Retirement System. As part of the transfer of those files, there is a responsibility to review them for redeposits and any other information which could affect an individual's service credits. Hurley would likely need to hire staff for the review. Mr. Erlenbeck asked for input from the Board and Legal Counsel and noted the need to establish a transfer date for those files. Discussion followed.

Attorney VanOverbeke noted that MERS has expressed their concerns about receiving information for individuals who may have terminated employment, become re-employed, redeposited contributions, had adjustments to their service credits, etc. Historically, an individual from Hurley had their service credit history reviewed only when they retired. Until then, the data was kept in the files for actuarial purposes. The files are not audited until an individual applies for retirement and the final numbers are calculated. MERS has requested a roster of service credit purchases and redeposits. Mr. VanOverbeke does not recommend that City staff be committed to review and audit the thousands of files involved; rather, that the files be turned over to Hurley and they can retain staff to review and audit the information and Hurley would be responsible for the data and the numbers. From a legal perspective, Hurley is still a public entity, the Freedom of Information Act governs these files, and the Board should not have to be concerned about them. However, he recommended that a document be signed by Hurley acknowledging receipt of those records and taking responsibility for them, releasing the City and the Retirement System from any further responsibility.

Attorney VanOverbeke also noted that the parties agreed that a delegated individual from Hurley could come to the City and be educated by Retirement System staff for an hour or so to learn what is in the files, what the information means, what should be reviewed, etc. This seems appropriate because Hurley will likely have to retain or assign someone who is not familiar with those files.

Mr. Erlenbeck stated that Hurley would likely want the files as soon as possible, since they must be reviewed. If the Board has no issue with turning over the files, they will begin pulling the files as soon as the list is received from Hurley. Once Hurley signs for them, the files would become their property.

Attorney VanOverbeke stated that, since the union employees collectively bargained for the transfer to MERS, the contract prevails and governs all terms of their employment and they cannot return to FERS. For the non-union employees and retirees who individually make that election, there will be a release and waiver form indicating that they have been advised, and fully understand, that they have the ability to consult outside advisors, but the City will have no further liability. The City should never need a copy of these files.

Mr. Erlenbeck noted that this transfer is Phase One of a two phase process. After the files for the union groups are transferred, there will be an open enrollment period for retirees and current exempts to choose to move to FERS. That will involve the transfer of another group of files. When an employee is hired, a file is created in the Retirement Office. They currently have about 3000 active Hurley employee files and several thousand files for retirees. There are about 1300 files to be transferred for Phase One.

Attorney VanOverbeke stated that the Board should formally acknowledge receipt of the **November 14th, 2008 correspondence from GRS** regarding the FERS transfer valuation and the presentation of the information by the Actuary, also directing that copies be forwarded to City Council, Hurley, and the other parties involved. He also noted that the Board will need to formally authorize the transfer to MERS and the rebalancing, once the details are presented. Discussion followed.

A motion was made by Ehren Gonzales, and supported by Cass Wisniewski, to receive the November 14th, 2008 Transfer Valuation from the Actuary regarding the FERS to MERS transfer, and the presentation by the Actuary, with copies of the valuation to be sent to all parties involved, including City Council, Hurley, etc.

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

A motion was made by Robert Erlenbeck, and supported by Mary Bland, that all Hurley employee files that are affected by the FERS to MERS transition be turned over to Hurley Medical Center, upon the execution of a legal document accepting receipt and liability.

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

Mr. Erlenbeck stated that he wanted to discuss two other actuarial issues – the proposal submitted for the **defined contribution conversion** and the current **retirement calculation program** that is using 1971 mortality tables.

Mr. Erlenbeck stated that, while preparing for the **defined contribution** transfer for City #1600 and #1799 employees, an issue arose regarding the different actuarial tables being used. Actuarial Service Company, the company that was hired to develop the methodology (previously submitted to, and approved by, the Board) uses mortality tables from 1994. The retirement program used in the Retirement Office (which was developed by GRS and has been in use since 1994) uses 1971 mortality tables. When the defined benefit to defined contribution process was started, the methodology was submitted to GRS for review and, at that time, they indicated that the assumptions and the methodology were reasonable. ICMA, the administrator for the DC conversion, is questioning the City's use of the 1971 mortality tables.

David Kausch (GRS) responded that there are two assumptions involved - the mortality rates and the interest rate of return. When a member retires, the first benefit to be calculated is a monthly "straight life" annuity, paid over the retiree's lifetime. The mortality rates and interest rate are factors used for calculating alternate forms of payment; i.e., any form of joint & survivor benefits. The actuarial calculations would then take into account the life expectancies of the retiree and beneficiary, the present pension value, projected interest rates, etc. and decide on the amount of monthly benefit. The more recent mortality tables reflect longer life expectancies, which could slightly increase benefits. Both sets of mortality tables reflect reasonable assumptions. If the Ordinance/Plan Document does not define actuarial equivalence, then the set of assumptions is discretionary and the Board can change/update and adopt new ones. GRS recommends that the mortality assumptions be reviewed as part of a retirement system's experience study, which should be done every 5-10 years. Currently, the 1994 tables are used for the annual actuarial reports. GRS recommends that systems have a specific definition of "actuarial equivalency" in their plan document, with a review every 5-10 years. He also noted that changing actuarial tables to something more current would be prudent.

Discussion followed. Mr. Erlenbeck stated that, if an updated retirement calculation program is going to be purchased, the Board needs to decide which mortality tables should be incorporated. GRS has submitted a proposal (a copy was in the agenda packets) for a new program, with various options available.

Chairman Bingaman referred the issue to Legal Counsel to review and determine whether or not the actuarial equivalency issue is (or should be) addressed in the Ordinance.

In response to a question from the Chair, Mr. Kausch reported that GRS is finalizing a **contract** for providing **actuarial services** to the Board.

Mr. Erlenbeck provided an update for the **MinuteMaster** and **Social Security Death Check Program**, noting that an engagement letter for both services with GRS has been signed, and the Social Security program has already been utilized. Staff is currently copying and compiling the documents that must be sent to GRS to be incorporated into the new MinuteMaster. Discussion followed.

The GRS representatives left the meeting.

17. LEGAL COUNSEL UPDATES

Chairman Bingaman noted that the Board would address #17, Legal Counsel Updates, next in the meeting.

Attorney I'Lanta Robbins stated that the three revised pensions on the agenda due to the **Claude Miller lawsuit** were separated for further review during Legal Updates. She requested a closed session regarding the Claude Miller case, for the purposes of discussing pending litigation, as an open session would have a detrimental effect on litigation strategy in the matter.

A motion was made by Cass Wisniewski, and supported by Robert Erlenbeck, to go into Executive Session.

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

The Board moved into closed session to discuss Claude Miller litigation issues.

A motion was made by John Erwin, and supported by Ehren Gonzales, to move out of closed session.

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

Ehren Gonzales left the meeting at 4:10 p.m.

Discussion followed regarding the three revised pensions, per Judge Yuille, that were postponed earlier in the agenda.

A motion was made by Mary Bland, and supported by Janice Kehoe, to table approval of the recalculations for Tony Golden, to allow staff time to further review the actual days he worked in a month, and to table David Plewes, to allow staff to make a correction for the duplicate time (still allowing the five "free" years), and bring the recalculations to the Board at the December meeting.

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

A motion was made by John Erwin, and supported by Robert Erlenbeck, to approve the revised calculations for the pension of Barry Saunders.

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

Attorney I'Lanta Robbins reported on other pending legal issues not previously discussed:

- ◆ **Status of Hearings for Pension Calculation Errors – Judge Farrah** (Tereau, Cherwinski, Kelly) – Briefs have been submitted by the attorneys for the plaintiffs. The briefs question Board procedures and whether the errors found were actual changes in record, based on the Ordinance language. Ms. Robbins has filed a response, and the Judge has set a tentative hearing date for mid-December for oral arguments. Ms. Robbins noted that he may issue a written opinion.
- ◆ **Burns/Wiggins/Doerr – Pending hearing dates** – Stayed pending the outcome of the other hearings.
- ◆ **Overpayment/Underpayment Policy** – The policy was approved at the October Board Meeting and has been sent to the Actuary (GRS) for review. Attorney Robbins drafted the letters to be sent to each overpaid retiree, explaining their issues and options pursuant to the guidelines.
- ◆ **FAC Calculation Policy** – She is currently working on a draft, with input from staff, and has also discussed various issues with Attorney Michael VanOverbeke.
- ◆ **Elimination of Job/Definition of Permanent/Rescinded Retirements** – The staff has expressed concerns about employees recently granted the early retirement incentive, due to a job elimination which may not be permanent, because of ambiguous union contract language for #1600 and #1799. The City would have to address this issue with the Union, in order to clarify the language.
- ◆ **Domestic Relations Orders** – Her opinion regarding DRO issues, specifically the election for pop-up, was in the agenda packets.

18. PROFESSIONAL SERVICES COMMITTEE

Robert Erlenbeck reported that the Committee met and discussed the following issues:

- ◆ **Eddie Holmes** – Hurley has indicated they have a job available for him when his doctor releases him to work. The System's Medical Director indicated that he was not totally and permanently disabled. Discussion followed. Attorney Robbins stated that he can petition the Board for a hearing and present any additional medical information at that time. The Board can also obtain input from his doctors, etc.
- ◆ **Retiree File Audits** – A response letter is being drafted to retirees who request an audit of their file. The letter will include a form, for the retiree to sign, indicating that, if the retiree requests a review of the file, everything will be audited.
- ◆ **Meeting Dates** - Beginning in January, the Committee will meet the week after the Board Meeting instead of the week before, as many issues discussed in Committee are referred from the previous Board Meeting. It is hoped that this will allow issues to be brought before the Board in a more timely manner.
- ◆ **Tyania Hall** – Ms. Hall applied for a disability retirement and was found not disabled by the System's Medical Director. It has since been determined that she was never eligible for a disability retirement due to a workers' compensation redemption agreement she signed. She has signed up for a deferred retirement, as she was given additional service credits in her redemption that allowed her to be vested.

19. **FINANCE/INVESTMENT COMMITTEE**

- ◆ **FERS to MERS Transfer** - Finance Chair Douglas Bingaman reported that the Committee met prior to this Board Meeting to discuss the FERs to MERS transfer with representatives from the Custodian, the Actuary and the Consultant.
- ◆ **IRS Tax Determination Letter** – An updated letter is to be filed in January 2009. Attorney I'Lanta Robbins obtained documents from Attorney Habeeb Ghattas regarding previous filings. Special Tax Counsel Meg Hunter worked with the Board on IRS issues previously and Attorney Robbins asked the Board for approval to discuss the issues with Attorney Hunter and possibly have the Board retain her as Special Counsel in order to effectuate this Letter. Discussion followed.

A motion was made by Cass Wisniewski, and supported by Robert Erlenbeck, to authorize Attorney I'Lanta Robbins to contact Tax Attorney Meg Hunter, or another tax attorney at her discretion, and enter into a contract, on behalf of the Board, to prepare the appropriate paperwork required by the IRS.

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

20. RETIREMENT ORDINANCE REVISION COMMITTEE

A Retirement Ordinance Revision Committee (of-the-Whole) Meeting is scheduled to follow the Regular Board Meeting.

21. ORDINANCE REVIEW

A copy of the Ordinance language for the FERS to MERS transfer, which is being submitted to City Council in December, was included in the agenda packets for the Board Members' review and information. It was not discussed.

22. DB/DC CONVERSION

Mr. Erlenbeck noted that ICMA, while preparing documents for meetings with individual employees, raised the issue regarding the different mortality tables being used by the Retirement System and Actuarial Services Company. GRS has stated that both methodologies are reasonable and they see no reason why the project should not continue to move forward. Mr. Erlenbeck will contact ICMA with GRS' response and ask that ICMA continue with the conversion. Since using the same tables should not be a requirement for ICMA to do the comparison, he is hopeful that the conversion will get back on track soon.

23. APPROVAL OF THE 2009 RETIREMENT BOARD CALENDAR

A motion was made by Cass Wisniewski, and supported by Robert Erlenbeck, to approve the schedule of Retirement Board Meetings for calendar year 2009.

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

24. STATISTICAL REPORT OF BENEFITS *(for information only)*

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Number Retired	3,027	3,002	3,035
Annualized Payroll	\$ 64,850,497	\$ 65,084,806	\$ 66,151,541

16. BOARD MEMBER VACANCIES

Attorney Robbins reported that Hurley has not responded to the letters from Peter Dobrzeniecki requesting appointments to fill Board vacancies for Hurley representatives.

Discussion followed regarding the vacancy left by John Balsler.

A motion was made by Janice Kehoe, and supported by Robert Erlenbeck, to appoint Mary Bland to fill the position of Trustee representing the retirees, until the next succeeding election is held.

Discussion followed. Ms. Bland stated that she wished to be the Trustee until the next election, when she is willing to run for that seat again, and she also asked the Board to appoint an Alternate to serve until the next election.

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

25. OTHER BOARD BUSINESS

Mr. Erlenbeck stated, for clarification, that current office procedures require that the files of all new retirees are completely audited as part of the retirement process. This includes a complete review of service, previous purchase of time, etc.

The Board discussed the issue of a pensioner who had chosen the "Ten Year Certain" option; however, both the pensioner and her spouse/beneficiary passed away within six years. Attorney Robbins stated that the Ordinance, Section 35-26, states that, "If there be no such person surviving the retirant, such remaining monthly pension payments shall be paid to the retirant's legal representative." This means that the payments must be made to the retirant's estate, and not the beneficiary's estate. The Staff and the Attorney will attempt to determine the status of the retirant's estate.

Chairman Bingaman noted that he would provide requested budget information to the Board, at the next meeting, regarding staff wages currently being charged to the System.

Ms. Kehoe asked whether James Walker is still with Allegiant, as listed on the new money managers' listing. The Chair asked Julie Sadler to investigate.

26. ADJOURNED

Chairman Bingaman postponed the Retirement Ordinance Revision Committee Meeting until after the next regular board meeting in January.

A motion was made by Robert Erlenbeck, and supported by Cass Wisniewski, to adjourn the meeting at 4:56 p.m.

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

Respectfully submitted,

Douglas Bingaman
Acting Chair