

CITY OF FLINT EMPLOYEES' RETIREMENT SYSTEM
Board of Trustees Regular Meeting Minutes
Tuesday, September 20, 2011

A regular meeting of the Board of Trustees of the City of Flint Employees' Retirement System was held on **Tuesday, September 20, 2011**, at 1:00 p.m. in the Committee-of-the-Whole Room, 3rd Floor, City Council Chambers, at City Hall.

TRUSTEES & ALTERNATES Douglas Bingaman – Chair (1:23); Denise Bingaman, Bryan Bond, Debra Bridges, Robert Erlenbeck, Maryann Malloy, Sheldon Neeley (2:55), Mark Stratman, Michael Townsend, Cass Wisniewski

ABSENT Mary Bland, Gregory Eason, Duane Kelley, Scott Kincaid, Mark Kovach, Sherry Murphy, Patricia Ramirez

ALSO PRESENT Harland Abraham, Northern Trust (Custodial Bank)
Ivory Day, Gray & Company (Consultant)
David Kausch, Gabriel, Roeder, Smith & Co. (Actuary)
I'Lanta Robbins, Assistant City Attorney/Attorney for Retirement Board
Suzi Bye, Retirement & Benefits Manager
Julie Sadler, Staff Assistant to FERS

1. CHAIRPERSON CALLS THE MEETING TO ORDER

Acting Vice Chair Michael Townsend called the meeting to order at 1:14 p.m.

2. ROLL CALL (Attendance)

Roll was called and members were present or absent as recorded above.

3. MEMBERS OF THE PUBLIC WISHING TO ADDRESS THE BOARD

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

4. APPROVAL OF AGENDA

A Motion was made by Robert Erlenbeck, supported by Cass Wisniewski, to approve the agenda as presented at the meeting. The motion carried unanimously.

5. APPOINTMENT OF PERMANENT BOARD CHAIR & VICE CHAIR

After discussion, a motion was made to table the appointment of a permanent Chair and Vice Chair by Robert Erlenbeck, supported by Debra Bridges. The motion carried unanimously.

6. APPROVAL OF MINUTES – August 16, 2011 - Regular Board Meeting

A Motion was made by Robert Erlenbeck, supported by Debra Bridges, to approve the minutes of the August 16, 2011 Regular Board Meeting, as written. The motion carried unanimously.

7. APPROVAL OF APPLICATIONS FOR VOLUNTARY RETIREMENT – None

8. APPROVAL OF APPLICATIONS FOR DEFERRED RETIREMENT – See Attached

A Motion to Approve the Application for Deferred Retirement for Kathleen Robinson was made by Mark Stratman and supported by Robert Erlenbeck. The motion carried unanimously.

9. APPROVAL OF DISABILITY PENSIONS – None

10. APPROVAL OF CHANGES TO PENSIONS PREVIOUSLY REPORTED – See Attached

A Motion was made by Robert Erlenbeck, supported by Mark Stratman to approve revisions to the Pensions Previously Reported for Alvin J. Hare and Philip D. Snyder. The motion carried unanimously.

11. APPROVAL OF OPTIONS PICKED BY DEFERRED RETIREMENTS – See Attached

A Motion to Approve the Options Picked by Deferred Retirees Wendy Anderson, Othello Mitchell-Gray and Jo A. Thorn-Joyce was made by Robert Erlenbeck and supported by Bryan Bond. The motion carried unanimously.

12. INFORMATIONAL CHANGES TO PENSIONS – See Attached

A change to the pension of Alvin Hare was noted.

Acting Chair Douglas Bingaman arrived at 1:23 p.m. and began chairing the meeting.

13. UPCOMING CONFERENCES

(Placed on file in the Secretary's office and available for Board review.)

13.1 57th Annual Employee Benefits Conference, October 29-November 2, 2011, New Orleans.

14. COMMUNICATIONS RECEIVED *(Placed on file in the Secretary's office and available for Board review or copy may be requested; *if noted, copy included with Agenda.)*

14.1 **Internal Revenue Service**, Letter re: Determination Letter Application Initial Review completed/File forwarded for Final Evaluation by Quality Assurance Staff, August 29, 2011.

14.2 **VanOverbeke, Michaud & Timmony**, Invoice for legal services regarding IRS Qualified Plan Determination Letter through June 30, 2011 - \$6578.25 & \$1000.00 US Treasury Fee.

14.3 **American Realty Advisors**, Capital Call on October 3, 2011 - \$1,120,000, September 16, 2011.

15. COMMUNICATIONS SENT *(Placed on file in the Secretary's office and available for Board review or copy may be requested; *if noted, copy included with Agenda.)*

15.1 Douglas Bingaman & Michael Townsend, Letter to Northern Trust re: September 1 Pension Payroll Transfer, August 16, 2011.

15.2 Douglas Bingaman & Michael Townsend, Letter to Northern Trust re: Open account for American Core Realty Fund, August 29, 2011.

16. REPORTS RECEIVED *(Placed on file in the Secretary's office and available for Board review or copy may be requested; *if noted, copy included with Agenda.)*

16.1 **American Realty Advisors**, Research Newsletter - Third Quarter 2011.

16.2 **BNY ConvergeX Group Recapture Services**, Plan Summary Report January 1 - July 31, 2011.

- 16.3 **CB Richard Ellis Investors**, CBRE Strategic Partners III Financial Statements-June 30, 2011.
- 16.4 **Dodge & Cox**, Form ADV Part 2B Brochure Supplement (July 31, 2011) & Privacy Notice.
- 16.5 **Fisher Investments**, FERS Foreign Equity Fund Second Quarter 2011 Report.
- 16.6 **Intercontinental Real Estate Corp.**, Investment Fund III Report for June 30, 2011 Quarter.
- 16.7 **Keeley Asset Management Corp.** Form ADV Parts 2A & 2B, August 19, 2011.
- 16.8 **Piedmont Investment Advisors**, FERS Monthly Reports for July 31, 2011.
- 16.9 **PNC Institutional Investments**, FERS Account Performance - 2nd Quarter 2011.
- 16.10 **Wentworth, Hauser & Violich**, FERS Appraisal & Asset Statements for July 2011.

A motion was made by Robert Erlenbeck, supported by Michael Townsend, to receive and place on file all documents listed in Agenda Item #s 13, 14, 15, 16. (Certain items were discussed where appropriate in the Agenda.) Motion carried unanimously.

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

	<u>2009</u>	<u>2010</u>	<u>2011 YTD</u>
Number Retired	2,849	2,880	2,883
Payroll	\$64,959,885	\$63,205,866	\$48,351,495

18. GRAY & COMPANY – CONSULTANT’S REPORT/RECOMMENDATIONS - Ivory Day

- ◆ **Schedule of Asset Classes, Manager Allocation & Re-Balancing** - Ivory Day presented and reviewed. Discussion followed.
- ◆ **Market Update/Issues** - Discussion.
- ◆ **Investment Policy Amendment - Bond Ratings** - Mr. Day noted that no amendment is necessary to FERS' Investment Policy due to the downgrade of U.S. Treasury securities, since there are no specific references in the policy to the quality of U.S. Treasury Securities. A message will be sent to the affected money managers.
- ◆ **Proxy Voting** - Mr. Day will be contacting certain money managers for further information for his report to be presented in a more uniform format, if possible.

- ◆ **New Real Estate Managers** – Status report & discussion of real estate market.
 - **Mayfield Gentry** - contract pending raising of capital
 - **American Realty Advisors** - \$8,000,000 Investment
 - Capital Calls: \$4,800,000 - 6/28/11 & \$1,120,000 - 10/3/11

19. APPROVAL OF THE OCTOBER 1, 2011 PENSION PAYROLL TRANSFER

A motion was made by Debra Bridges, and supported by Cass Wisniewski, to approve a transfer of \$5,251,200 for payment of the October 1, 2011 pension payroll (total estimated payroll - \$5,247,178), from the Northern Trust Flint – Drawdown Account #26-19617 to Citizens Bank. The motion carried unanimously.

20. ACTUARIAL ISSUES PENDING - Presentation by David Kausch, Gabriel, Roeder, Smith & Co., & Board Discussion

- ◆ **Fiscal Year 2010 Actuarial Valuation** - The Actuary has received the information from the City. During discussion of the preliminary review, Mr. Kausch noted that the target date for presenting the final report will be the November Board Meeting. The preliminary report was distributed to the Board.

2010 Valuation Data Summary & Assumptions Review:

- The summary shows updated census data, which had last been provided as of June 30, 2008. The census data determines who is benefiting from the Plan and who is paying into the Plan, giving a history of the past and an indication of the future plan costs.
- The FERS to MERS transfers have significantly decreased Hurley's membership figures.
- All active member groups have seen a decline in headcount and a decline in active payroll (from \$89.6 million to \$65.0 million in two years).
- General, Police and Hurley experienced more retirements than expected.
- The average age and service increased for General, Police and Hurley.
- The net result is expected to be significantly higher contribution rates, especially for Police.
- The demographic assumptions (i.e., retirement, withdrawal, disability, mortality rates, etc.) need to be reviewed and updated. GRS can make these changes based on recent and historical gains and losses and incorporate them into the 2010 valuation, with Board approval.
- GRS can provide alternative economic assumptions for the Board and Consultant to review and select.
- The number of retirees as of June 30, 2010 was 2,886, with an annualized retirement

payroll of \$63,594,635.

- The number of active (working) members as of June 30, 2010 was 1,299 with a valuation payroll of \$65,005,146 (in 1999 there were 3,948 active members with a payroll of \$165,430,000).
- GRS recommends lowering the rate of return from 8% and changing the funding policy from amortizing unfunded liability over 30 years rolling to 30 years fixed.
- The current cash flow position is negative - more is being paid out than is being paid in, requiring gradual increases in employer contributions.
- Consultant Ivory Day noted that the return assumptions are based on the history of the asset classes. He will review and bring recommendations to the Board at the October meeting.

◆ **GASB Proposed Changes to Pension Accounting and Financial Reporting Requirements**

The Government Accounting Standards Board (GASB) has proposed significant changes to governmental financial reporting requirements for pensions, including showing unfunded pension obligations (i.e., "net pension liability") as a balance sheet liability on the basic financial statements, based on the market value of assets, and changing the way pension expenses are recognized. Mr. Kausch presented and reviewed the *GRS Insight for July 2011* which outlines GASB's proposed changes to pension accounting and financial reporting. These changes, and other factors discussed earlier in conjunction with the actuarial valuation, are likely to require substantial increases in pension contributions. There are also additional funding rules and reporting requirements for retirement systems being written at the State level. Discussion followed. It was noted that retirement systems are required to be audited; however, the audit can be done in conjunction with the governmental unit's annual audit.

◆ **FERS/MERS Transfer Procedures**

In addition to the two initial asset transfers (active members of the seven bargaining units that elected to transfer to MERS and the active exempts, deferred, and retirees who made a one-time irrevocable election to transfer), there are individuals transferring out of #1603 and active status transferring into positions that would necessitate transferring their pensions from FERS to MERS. A procedure is needed to facilitate those transfers. The GRS proposal is outlined in a letter to the Board from GRS dated September 20, 2011, which was distributed and discussed with the Board. The original agreement noted that, in regards to future transfers, the intent was to fully fund retirees when they transfer to MERS. This can be done within the annual valuation - one time calculations to authorize transfers to MERS for those members. Mr. Kausch recommended that the member contribution balance be fully funded. Mr. Wisniewski noted that there are 30-40 active employees who have transferred into groups under MERS and are now waiting for their member contributions to be transferred to MERS. Attorney I'Lanta Robbins will review GRS' recommended procedures and comment next month.

◆ **GRS Software Services Agreement with FERS**

A proposed Software Services Agreement was reviewed with the Board. The current software for calculating pensions is outdated. The proposal also includes an additional data module that houses the valuation data and coordinates with the payroll. This would allow for more timely valuations. Denise Bingaman and Suzi Bye went to the GRS office for a demonstration recently and they indicated that they were very impressed with the capabilities of the proposed software, which would help staff substantially with calculations, administration and the valuation process. The fee for the new software and installation would be \$32,000-36,000. Mr. Erlenbeck noted that the Board had previously approved purchasing this software at a cost not to exceed \$29,000, but the project was postponed. The licensing includes updating as needed, once the "major overhaul" of the software takes place.

A motion was made by Robert Erlenbeck, supported by Cass Wisniewski, to approve the proposed Software Services Agreement between Gabriel Roeder Smith & Company and FERS for an amount not to exceed \$36,000 and move forward with the implementation of the proposed software project. The motion carried unanimously.

Chairman Bingaman recessed for a break at 2:43 p.m.

Chairman Bingaman called the meeting back to order at 2:50 p.m.

21. LEGAL COUNSEL UPDATES – I'Lanta Robbins, Attorney

- ◆ **Take Two Interactive Lawsuit – Securities Fraud Loss \$176,505 –Settlement pending**
- ◆ **Capital BidCo - Referred to the Finance/Investment Committee.**
- ◆ **Pension Calculation Errors Lawsuits – Hearings pending/to be scheduled**
 - **Sheila Burns** (5 “free” years in FAC) - November 15 Hearing Date
 - **William O. Kelly III** (FAC issues)
 - **Gregory Doerr** (FAC issues)
 - **Susan Jarema** (purchase of time)
- ◆ **FAC Calculation Policy – Draft will be resubmitted to the Retirement Office for review**
- ◆ **Records Retention Policy - Recommended by Attorney Michael VanOverbeke**

Ms. Robbins reported that the attorneys have agreed that the proposed Policy and State requirements do not mandate the reporting of historical documents that no longer exist or cannot be found, even if they are mentioned in the policy. The Board and staff will be required to follow the policy's record retention requirements from the date of adoption.

Attorney Robbins recommended Board approval of the policy. She noted that Attorney VanOverbeke can be authorized to file the policy with the State. Discussion/comments. **A motion was made by Michael Townsend, supported by Robert Erlenbeck, to adopt the Records Retention Policy as recommended by the attorneys. The motion carried unanimously.**

22. PROFESSIONAL SERVICES COMMITTEE

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

- ◆ **Pension System Budget/Revenues/Expenditures/Administrative Costs** - Referred to Finance Committee.
- ◆ **Cost Saving Measures**
 - **Pension Advice Mailing** - Retirees are continuing to sign up for online access and elimination of paper advice statements.
 - **Debit Cards, Direct Deposit, etc.** - Retirees are signing up for elimination of checks.
 - **Pension payroll deductions & costs to administer** - A letter will be sent.
 - **Retirement Self-Service Website** www.cityofflint.com/finance/Retirement/retirement.asp

The Committee will be investigating the fee schedules of other Retirement systems; i.e., charges for various activities and services.

- ◆ **Flint Housing Commission 2003 Job Eliminations - Deferred Retirees - Errors Found**
 - **David Gardin – Purchase of Generic Time**
 - **Ronda Moore - Purchase of Time/Cost of Purchase/Service Credits** - An attorney has contacted Attorney Robbins indicating that he is now representing Ms. Moore.
- ◆ **Election - Retiree Representative - Trustee & Alternate** (three candidates)
 - **Ballot Counting Date - September 27** - Suzi Bye will notify candidates.
 - **Certification of Counters: Dianne Hamm, Keith Roberts, Vicki VanWormer**

A motion was made by Mark Stratman, supported by Sheldon Neeley, to certify Dianne Hamm, Keith Roberts and Vicki Van Wormer as ballot counters for the retiree representative election. The motion carried unanimously.

22.1 DISABILITY RETIREMENT APPLICATIONS OUTSTANDING/PENDING

Reports/Recommendations:

- ◆ **Duty - Responses received from Dr. Roth**

- *Gail Cotter - Police Dept. - Duty Disability*

Dr. Roth's report recommended that a duty disability retirement be granted to Gail Cotter. The Professional Services Committee concurs with his recommendation.

A motion was made by Mark Stratman, supported by Michael Townsend, to concur with Dr. Roth's recommendation that Gail Cotter is totally and permanently disabled and should be granted a duty disability retirement pension. The motion carried unanimously.

- ◆ **Non-Duty - Responses received from Dr. Roth**

- *Mark Gern, Police Dept. - Non-duty Disability*

Dr. Roth's report recommended that a non-duty disability retirement be granted to Mark Gern. The Professional Services Committee concurs with his recommendation.

A motion was made by Mark Stratman, supported by Debra Bridges, to concur with Dr. Roth's recommendation that Mark Gern is totally and permanently disabled and should be granted a non-duty disability retirement pension. The motion carried unanimously.

- ◆ **Outstanding Applications - 3 (2 City, 1 HMC) -** Dr. Roth's office is still waiting for the requested medical records from one individual's physician.

22.2 STATUS OF RETIREE SELECTION OF CORRECTION OPTION FOR OVERPAYMENT

- ◆ **David Plewes** (*service credits/FAC*) - *Hearing scheduled October 18th at 9:00 a.m.*

The City's attorney, David Lawson, sent notebooks to the Board, which included his written arguments and hearing brief. Attorney Robbins will provide her written arguments and briefs to the Board prior to the hearing, as will Mr. Plewes' attorney, Habeeb Ghattas.

The Board discussed which Board Members should vote at the hearings, which Attorney Robbins indicated would be decided on a case-by-case basis, depending on the involvement of individual Board members in the relevant pension calculations. Attorney Robbins recommended that Mr. Erlenbeck and Ms. Bingaman should not be involved in Mr. Plewes' hearing process as voting Board Members, due to their involvement in decision-making or review of Mr. Plewes' pension. (They recused themselves.)

Attorney Robbins stated that it is unclear whether URGE was involved in the hiring of Attorney Habeeb Ghattas to represent Mr. Plewes. This needs to be determined prior to the hearing in order to decide whether URGE Board Members should be able to vote. Attorney Robbins noted that the Board should make decisions on who can vote consistent with prior court rulings.

23. FINANCE/INVESTMENT COMMITTEE

Douglas Bingaman reported that the Committee met and discussed the following:

- ◆ **Capital BidCo** - The Lansing Board of Water & Light has decided not to pursue this matter further. The State of Michigan cannot find the request they had made for a review. In order to perform their due diligence, the Committee asked Attorney Robbins to submit another request for a review to the State.
- ◆ **Financial Updates** - None.
- ◆ **Pension System Budget** - Moved from PSC - will be addressed at next meeting.
- ◆ **IRS Tax Determination Letter** – *Pending w/IRS (Ref. Agenda Items #14.1 & #14.2)*
This has been assigned to an IRS investigator and Attorney VanOverbeke is waiting for the final determination. The IRS will require some amendments to the Ordinance at that time.
- ◆ **Private Equity Investments** - *Pending review.*
- ◆ **Independent Audit of FERS** - The Retirement Board has determined that an independent audit should be conducted. The Committee will be finalizing the Request for Proposals (RFP) and a listing of auditors to be contacted.

24. RETIREMENT ORDINANCE REVISION COMMITTEE (of-the-Whole)

- ◆ **Apply IRS Regulations for Beneficiaries** –*Legal, R. Erlenbeck, GRS*
- ◆ **IRS Changes for Tax Determination Letter** - *Pending IRS approval of language recommended/submitted by Attorney Michael VanOverbeke*
- ◆ **Defined Contribution/Defined Benefit Change for Exempts** – *Attorney Robbins drafting final language for submission to City Council*
- ◆ **§35-31/31.1/32/32.1 Firefighters/Police Officers – Death in the Line of Duty / Death Pension Limitations – Surviving Spouses** – Attorney Lanta Robbins, Mark Stratman, Suzi Bye and Robert Erlenbeck will meet to discuss.

25. OTHER BOARD BUSINESS

- ◆ **Pending Michigan Legislation** (*Attachment #25*)
 - ◆ **Public Act 314 (Pension Investment Act), Public Act 345 (Police & Fire Retirement Systems), Public Act 336 (Public Employees Retirement Act)**
- ◆ **Vacancies** (Ord. §35-8 & §35-10)

- ◆ **Alternate for Cass Wisniewski** – *Pending appointment by Hurley President/CEO*

- ◆ **Pending Michigan State Income Tax Changes for Pensions** - *Supreme Court decision pending.*

26. ADJOURNMENT

Upcoming Board Meetings:

Special Board Meeting – Hearing for David Plewes - Tuesday, October 18, 2011, 9:00 a.m.

Regular Board Meeting – Tuesday, October 18, 2011, 1:00 p.m.

Special Board Meeting – Hearing for Sheila Burns - Tuesday, November 15, 2011, 9:00 a.m.

Regular Board Meeting - Tuesday, November 15, 2011, 1:00 p.m.

A motion was made by Mark Stratman, and supported by Sheldon Neeley, to adjourn the meeting at 3:12 p.m. The motion carried unanimously.

Michael A. Townsend
Secretary