

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 17, 2011**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:43 a.m.

ROLL CALL

Members Present: Crawford, Flack, Hastie, Heusel, Monroe, Rogers
Members Absent: Clark, Nerdrum, Powers
Staff Present: Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
David Diephuis, City Resident

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- E Additional item for Executive Session: Kaiser Tax Issue
- G-6 Legal Report: PA 314 Amendments, Securities Litigation Updates

It was **moved** by Crawford and **seconded** by Hastie to approve the agenda as revised.

Approved as revised

B. APPROVAL OF MINUTES

B-1 October 20, 2011 Regular Board Meeting Minutes

Mr. Monroe requested a minor correction to the Charter amendment discussion (F-3).

It was **moved** by Monroe and **seconded** by Crawford to approve the October 20, 2011 Board Meeting minutes as revised.

Approved as revised

C. CONSENT AGENDA

It was **moved** by Crawford and **seconded** by Hastie to approve the following Consent Agenda as submitted:

C-1 Reciprocal Retirement Act – Service Credit

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees acknowledges that, effective July 14, 1969, the City of Ann Arbor adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, to provide for the preservation and continuity of retirement system service credit for public employees who transfer their employment between units of government, and

WHEREAS, the Board acknowledges that a member may use service credit with another governmental unit to meet the eligibility service requirements of the Retirement System, upon satisfaction of the conditions set forth in the Reciprocal Retirement Act, and

WHEREAS, the Board is in receipt of requests to have service credit acquired in other governmental unit retirement systems recognized for purposes of receiving benefits from the Retirement System, therefore be it

RESOLVED, that the Board of Trustees hereby certifies that the following member(s) of the Retirement System have submitted the requisite documentation for the recognition of reciprocal retirement credit:

| Name | Classification | Reciprocal Service Credit | Prior Reciprocal Retirement Unit |
|-------------------------|-----------------------|----------------------------------|---|
| Gloria Alexander | General | 19 years | Jackson County Michigan |
| Derek Wiseley | Fire | 2 years, 7 months | Village of Dexter |

RESOLVED, that the Board of Trustees notes that pursuant to the Reciprocal Retirement Act, said reciprocal retirement credit may only be used for purposes of meeting the retirement eligibility requirements of the Retirement System and that retirement benefits will be based upon actual service rendered to the City and shall be made payable consistent with the City Charter, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended), and further

RESOLVED, that a copy of this resolution shall be provided to the appropriate City and Union representatives and interested parties.

C-2 EDRO Certification: Lori Lee Pelzel v. Jeffrey Scott Pelzel

WHEREAS, the Board is in receipt of a Eligible Domestic Relations Order dated October 3, 2011, wherein Lori Lee Pelzel, the Alternate Payee, is awarded certain rights to the benefits of Jeffrey Scott Pelzel, the Participant, and

WHEREAS, the Alternate Payee is entitled to claim a portion of the Participant's retirement benefit which is subject to the Alternate Payee filing an application for same, and

WHEREAS, the payments from the plan to the Alternate Payee shall begin when the Participant commences benefits from the Retirement System, and

WHEREAS, the Board's policy is to require that the cost for the actuary's calculations are to be borne by the parties to the domestic relations proceedings, and the order provides that the Participant and the Alternate Payee shall share any and all additional costs for actuarial services, and that the Alternate Payee's share of those costs shall be in proportion to her share of the Participant's retirement allowance, and

WHEREAS, said matter had been discussed with legal counsel who has opined that the applicable terms of said court order are consistent with the provisions of the Retirement System and applicable law including Public Act 46 of 1991 (MCLA 38.1701) as amended, therefore be it

RESOLVED, that the Board acknowledges receipt of said court order, will pay pension benefits consistent with said order subject to an application being filed by the Participant seeking payment, and further

RESOLVED, that upon application of either the Alternate Payee or the Participant this file be forwarded to the Board's actuary for calculation of the benefits, and further

RESOLVED, that a copy of this resolution be immediately attached as the top sheet of the pension file and other appropriate records be kept for the Retirement System relative to this matter, and

RESOLVED, that copies of this resolution be sent to Jeffrey Scott Pelzel, the Participant; Lori Lee Pelzel, the Alternate Payee, and the Board's actuary.

Approved

D. ACTION ITEMS

D-1 Certification of Jeremy Flack, Fire Member Trustee

It was **moved** by Crawford and **seconded** by Hastie to acknowledge receipt of the certification notice for Jeremy Flack and recognize Mr. Flack's renewed term on the Board of Trustees as January 1, 2012 – December 31, 2014.

Approved

D-2 GTS Transition Management

Mr. Hastie presented Meketa Investment Group's transition proposal from GTS that was reviewed at the November IPC meeting, and Meketa believes that the first stage may be an appropriate transaction for GTS to manage. Mr. Hastie reviewed the transition process and how GTS would conduct the transfers.

It was **moved** by Hastie and **seconded** by Monroe to utilize GTS Transition Management's services to manage "Stage 1" of the process to conduct the In-Kind Transfers and Open Market Tradings in relation to the recent asset allocation and rebalancing strategy approved by the Board of Trustees in October 2011.

Approved

E. EXECUTIVE SESSION – Disability Application/Medical Report & Retiree Appeal

It was **moved** by Crawford and **seconded** by Hastie to convene an Executive Session for the purpose of discussing a disability retirement application and medical report, as well as a retiree appeal regarding the correction of a basis recovery error.

Approved

Roll call vote:

| | | |
|----------------|--------------|------------------|
| Clark – Absent | Hastie – Yes | Nerdrum - Absent |
| Crawford - Yes | Heusel – Yes | Powers - Absent |
| Flack – Yes | Monroe - Yes | Rogers - Yes |

Executive session time: 9:03 a.m. – 9:36 a.m.

It was **moved** by Crawford and **seconded** by Monroe to acknowledge receipt of the Medical Report from Eugene Rontal, MD dated October 24, 2011 with regards to disability applicant Nina Lunsford, noting that the doctor did not find that the member was mentally or physically totally incapacitated

for duty in the service of the City in the same or similar position that the member holds at the time of the disability application, the Board of Trustees thereby denying the application for disability retirement, but further noting that upon the approval of the applicant, the Board will forward a copy of the medical report to the City's Human Resources Director for their review in light of the nature of the disability and the current job description. Should the Board of Trustees receive any further communication from the City that the applicant does not meet the requirements for the job classification, then the Board would reconsider this matter.

Approved

It was **moved** by Hastie and **seconded** by Crawford that with regards to the Kurt Kaiser matter, the calculations from the Board's Actuary did not come in until late in the month, and accordingly the Board will extend the deadline date for Mr. Kaiser to submit the requested paperwork to December 10, 2011, noting however that the numbers in the calculations would not be extended beyond the November 30, 2011 deadline date.

Approved

F. DISCUSSION ITEMS

F-1 State of Michigan Taxation of Pensions

Ms. Walker stated that Staff has recently received from the State of Michigan a Withholding Guide instructing plan administrators of what to do to facilitate the newly-enacted State income tax on public pensions. Ms. Walker briefly reviewed the Withholding Certificate for Michigan Pension or Annuity Payments form and withholding requirements, noting that this information has also been posted on the System's website. Ms. Walker stated that the form will be distributed to every retiree for completion, and if it is not returned back to the Retirement Office, then staff will be obligated to withhold the taxes accordingly. Ms. Walker stated that staff is still working out the details with Northern Trust as to how to notify the retirees and beneficiaries, and noted that Northern Trust will be performing the calculations.

G. REPORTS

G-1 Executive Report – November 17, 2011

Poverty Increase

The 2011 Poverty Increase has been calculated and updated benefits plus retros for approx 110 individuals will be input for the 12-1-2011 payment cycle. Staff indicated that there may be errors in the 2009 poverty benefit change which was reversed in 2010. A spreadsheet was prepared, on which the ED requested more detail before implementing changes.

Michigan Pension Tax

The State of Michigan has released information and instructions on withholding tax for Michigan pensions for 1-1-2012. All pensioners with birthdates 1946 or later will be solicited by mail for an election on the new form MI W-4P. In the absence of a completed MI W-4P, claiming exemptions from withholding, plan administrators are required to withhold at the statutory rate of 4.35%. The new form and explanations are now on the CAAERS website.

The Retirement System is also required to complete a registration with the State of Michigan tax authorities nominating a payroll processing firm. Northern Trust is reviewing the registration process in conjunction with staff to assure it is not duplicative of the registration they already have on file for Ann Arbor.

Also, the City of Ann Arbor has been advised of an additional withholding tax for benefit for other qualified adults. Staff will further discuss the details and requirements with Kelly Beck the week of the 14th.

Question from AAPOA Member

An AAPOA active member has questioned the calculation of FAC for police members hired between 1982 and 1989, specifically stating that he does not agree with the exclusion of fees and other items that are taxable income but not pensionable (cell phone reimbursement, group term life imputed income, etc) and also stating that he believes all sick, vacation, personal leave banks should be rolled into the FAC. The individual may attend the November board meeting. Staff has assembled a sample of prior retirement and results indicate that the calculations have been consistently performed according to Ordinance, and contract provisions as previously interpreted, i.e. exclusion of fees and non-earnings type taxable income and no roll in of banks after 1982.

K. Kaiser Tax Matter

An analysis has been received from the actuary regarding Kurt Kaiser, and Mr. Kaiser will receive a letter this week advising him of the amounts of his pension if he accepts the Board's offer.

G-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2011

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2011 to the Board of Trustees:

| | |
|---|----------------------|
| 10/31/2011 Asset Value (Preliminary) | \$392,400,799 |
| 9/30/2011 Asset Value (Audited by Northern) | \$377,959,034 |
| Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i> | \$2,815,723 |
| Percent Gain <Loss> | 0.7% |
| November 16, 2011 Asset Value | \$394,042,266 |

G-3 Investment Policy Committee Minutes: November 1, 2011

Following are the Investment Policy Committee minutes from the meeting convened at 3:04 p.m. on November 1, 2011:

Member(s) Present: Flack (via conf call 3:15-5:18), Hastie, Monroe
 Member(s) Absent: Clark
 Other Trustees Present: None
 Staff Present: Kluczynski, Walker
 Others Present: Henry Jaung, Meketa Investment Group
 Ted Urban, Meketa Investment Group
 Steve Malinowski & Chris Carmody, GTS
 Michael VanDam, City Retiree
 David Diephuis, City Resident

GTS ADVISORS PRESENTATION: PROPOSAL FOR THE UPCOMING TRANSITIONS

Mr. Malinowski and Mr. Carmody presented a proposal for the upcoming asset allocation transitions, stating that they have been retained to provide independent brokerage consulting

services to the System since November 2007, and in the past four years have coordinated and implemented three individual assignments representing nine individual portfolios with an aggregate trade value of \$200,288,706. GTS has been working closely with Meketa Investment Group to identify the lowest cost implementation of Meketa's proposed changes to the current investment portfolio which are intended to fund the emerging markets allocation, rebalance from small and mid cap equity to large cap U.S. equity, and consolidate the System's passive investments. The rebalancing will be performed in three stages in November 2011, January 2012, and March 2012. GTS further reviewed the proposal and the transition process in more detail before departing the meeting.

During Committee discussion, it was determined that the members concur with a majority of the proposal, and indicated that funding the recent emerging markets managers should not be included in the GTS transition process, and that portion should be handled by Meketa and retirement staff. Mr. Jaung stated that he will draft a memorandum which will lay out the revised transition process, have the members review the memorandum, and then send it to GTS to see if they will concur with the Committee's changes. The Committee agreed.

3rd QUARTER INVESTMENT REVIEW

As of September 30, 2011, the Retirement System was valued at \$368.8 million, about \$45.8 million less than June 30, 2011. The System declined 11.3% for the quarter, but advanced 0.5% for the trailing twelve months, net of fees.

BANK LOAN MANAGER SEARCH

Mr. Jaung briefly reviewed Meketa's bank loan manager search document which provided a history and educational report on bank loans, as well as information on the various managers that they have researched in this field. Meketa recommends bringing three of the managers in for interviews at the next IPC meeting on December 6, 2011. The Committee agreed, recognizing that the entire Committee, as well as other interested Board members, should be present for a recap of this report before the interviews begin on that day. The Committee decided that a 45 minute review will be conducted prior to the bank loan manager interviews on December 6th.

It was moved by Monroe and seconded by Hastie to bring in three of the bank loan managers as recommended by Meketa Investment Group at the next IPC meeting on December 6, 2011.

Approved

ARTICLE: "STATE STREET FEE INCIDENT PROMPTING CLOSER EYE ON TRANSITION MANAGEMENT"

Received and filed.

ADJOURNMENT

The meeting was adjourned at 5:50 p.m.

G-4 Administrative Policy Committee Minutes – No Report

G-5 Audit Committee Minutes – No Report

G-6 Legal Report - Senate Bill 797 (Public Act 314 Amendments) & Securities Litigation Updates

Mr. VanOverbeke provided a summary of recent amendments to Senate Bill 797 (Public Act 314), and updated the Board on the status of two securities litigation cases with Sunoco Products and Barnes & Noble.

It was **moved** by Crawford and **seconded** by Hastie to acknowledge receipt of a copy of Senate Bill 797 and its review by legal counsel; the Board further supports the Bill for consideration and enactment and recommends that a document showing the Board's acknowledgement and support be forwarded to the local representatives and State Senator.

Approved

H. INFORMATION

H-1 Communications Memorandum

The Communications Memorandum was received and filed.

H-2 December Planning Calendar

The December Planning Calendar was received and filed.

H-3 Record of Paid Invoices

The following invoices have been paid since the last Board meeting.

| | PAYEE | AMOUNT | DESCRIPTION |
|----|-------------------------------|------------------|---|
| 1 | Coverall North America, Inc. | 140.00 | Office Cleaning Services for November 2011 |
| 2 | AT&T | 134.26 | Monthly Long-Distance Telephone Service |
| 3 | Allstar Alarm, LLC | 90.00 | 3 Months Central Station Monitoring (Nov-January) |
| 4 | City of Ann Arbor | 44.10 | Municipal Code Supplement/Update |
| 5 | Staples Business Advantage | 93.09 | Miscellaneous office supplies |
| 6 | Abraham & Gaffney, P.C. | 2,800.00 | Final billing for year-end fieldwork for FY 6/30/2011 |
| 7 | Fifth Third Bank/Maple Office | 1,065.00 | Condo association dues (March-May 2011) |
| 8 | Bradford & Marzec, Inc. | 41,830.31 | Investment Mgmt. Fees – 7/1/11 – 9/30/11 |
| 9 | David Monroe | 339.48 | Reimbursement for 2011 Fall MAPERS Conference |
| 10 | Comcast | 76.22 | Monthly Cable Fee |
| 11 | Hesselbring Clark | 23.94 | Monthly copier cost per copy |
| 12 | Meketa Investment Group | 8,750.00 | Investment Consultant Retainer - October 2011 |
| 13 | Staples Business Advantage | 99.99 | Miscellaneous office supplies |
| 14 | AT&T | 53.49 | Monthly Toll-Free Telephone Service |
| 15 | Fifth Third Bank/Maple Office | 2,130.00 | Condo association dues (June-November 2011) |
| | TOTAL | 57,669.88 | |

H-4 Retirement Report

The following employee(s) have completed their paperwork for retirement:

| Name | Type of Retirement | Effective Date | Group | Years of Service | Service Area |
|-------------|---------------------------|-----------------------|--------------|-------------------------|---------------------|
|-------------|---------------------------|-----------------------|--------------|-------------------------|---------------------|

| | | | | | |
|-------------------------|---------------------|------------|---------|--|----------------------------|
| Carolyn Lovell | Age & Service | 11/5/2011 | General | 26 years, 8.5 months | Safety Services / Police |
| Edwin Dziubinski | Age & Service | 11/15/2011 | Fire | 25 years, 9 months <i>(4 years military service credit)</i> | Safety Services / Fire |
| Leonette Bowen | Early/Age & Service | 12/1/2011 | General | 22 years, 3 months | Community Services / Parks |

H-5 2012 Annual Board Retreat Confirmation & Topics for Discussion

Ms. Walker presented the following list of topics for the Annual Board Retreat being held on Friday, March 30, 2012:

- Customer Service Philosophy
- Review Charter Regarding Committees and Responsibilities
- Retirement System Mission Statement
- Public Act 314 Amendments
- Transition Managers / Process
- Actuarial items:
 - How can we achieve 100% funding?
 - Current trends in the public sector, including plan design, funding status, methods and assumptions and legislative updates
 - Updates on Retiree health care in light of health care reform
 - Amortization period and the affect on our projected funding

H-6 Bradford & Marzec, Inc. Correspondence: "Statement Regarding MF Global"

Correspondence received and filed.

I. TRUSTEE COMMENTS - None

J. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Heusel to adjourn the meeting at 10:57 a.m.
Meeting adjourned at 10:57 a.m.

**Nancy R. Walker, Executive Director
City of Ann Arbor Employees' Retirement System**