

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
September 16, 2010**

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

ROLL CALL

Members Present: Clark, Crawford, Flack, Fraser, Kaur, Monroe, Nerdrum, Sylvester
Members Absent: Hescheles
Staff Present: Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
David Diephuis, City Resident

AUDIENCE COMMENTS

Mr. Diephuis thanked the Board for the recent response to his FOIA request, stating it was very helpful and he looks forward to the Board's meetings on September 21st. Ms. Sylvester thanked Mr. Diephuis for his continued interest in the Retirement System.

A. APPROVAL OF REVISED AGENDA

Mr. Powell noted that the agenda has been revised as follows:

- D-3 Pension Gold Hosting Schedule – Strikeout Version added to agenda
- D-4 Resolution to Hire Buck Consultants as the Retirement System's Actuary
- E-1 Legal memorandum added to agenda
- F-5 Audit Committee minutes – September 14, 2010

It was **moved** by Nerdrum and **seconded** by Clark to approve the agenda as revised.

Approved

B. APPROVAL OF MINUTES

B-1 August 19, 2010 Regular Board Meeting Minutes

It was **moved** by Fraser and **seconded** by Flack to approve the August 19, 2010 Board Meeting minutes as revised.

Approved

C. CONSENT AGENDA

It was **moved** by Crawford and **seconded** by Flack to approve the following consent agenda:

C-1 EDRO Resolution – Katie Jo Schantz v. James R. Schantz

WHEREAS, the Board of Trustees is in receipt of a Qualified Domestic Relations Order dated July 13, 2010, wherein Katie Jo Schantz, the alternate payee, is awarded certain rights to the benefits of James R. Schantz, the participant, and

WHEREAS, the alternate payee is entitled to claim a portion of the participant's retirement benefit which is to be paid as soon as administratively feasible, 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 applicable, therefore be it

RESOLVED, that the Board of Trustees acknowledges receipt of said court order and will pay pension benefits consistent with said order as soon as administratively feasible, 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 James R. Schantz, the participant, and, Katie Jo Schantz, the alternate payee.

Consent agenda approved

D. ACTION ITEMS

D-1 Benefit Package for the New Executive Director

Ms. Sylvester stated that at its last meeting the Hiring Committee discussed the benefit package for the new Executive Director and after discussion, the Committee decided to recommend to the Board that the new Director be an employee of the Board on contract, using the non-union benefit structure provided by the City. Mr. VanOverbeke stated that generally, depending on the size of the system, most cities provide their benefits to Administrators and Directors in this manner, and the City would be reimbursed for the cost of the healthcare, benefits, and payroll processing. Mr. Powell stated that the City's Ordinance indicates that the Board is able to hire the person as a Board employee and they would have the same pension benefits, and the City would decide if it will provide the healthcare and payroll services. Mr. Fraser stated that the City has a precedent in several areas, such as the DDA, where those employees are technically employees of the Downtown Development Authority but they are run through the City's payroll system, and he has no issue with continuing this process with the Retirement System.

It was **moved** by Nerdrum and **seconded** by Monroe to allow the Executive Director to be an employee to the Board of Trustees under contract using the non-union benefit structure from the City.

Approved

D-2 Contract Extension for Temporary Executive Director Position

The Board discussed a suitable time frame for extending the contract for Mr. Powell until a new Executive Director is hired, and it was decided that the contract should be extended to 90 days with the understanding that if the new Director is available prior to that time that Mr. Powell's services will be ended.

It was **moved** by Fraser and **seconded** by Clark to extend the current contract for the Temporary Executive Director position to 90 days with the understanding that if the new Director is available prior to that time that Mr. Powell's services will be ended.

Approved

D-3 Pension Gold Hosting Schedule/contract Renewal for January 1, 2011-December 31, 2013

Mr. Powell stated that Pension Gold is the administrator and host for the software that coordinates the System's pension contributions. The current contract ends on December 31, 2010 and Levi, Ray and Shoup have proposed a new contract indicating a hosting increase as follows: \$7000.08

due on or before January 1, 2011; \$9,000.00 due on or before January 1, 2012; and \$11,364.00 due on or before January 1, 2013. Mr. VanOverbeke stated that he has a concern that this is a three-year commitment with no right to termination other than for cost in that three-year period, and the Board would have to be really comfortable with the fee structure when committing to it. Mr. VanOverbeke stated that he would like to see at this point that the Board has the ability to get out of the agreement other than for cost, and without a termination fee. Ms. Nerdrum stated that in section 6.2 under Warranties, there is no guarantee that the program is error-free and yet the Board has no recourse other than a 2% refund of 'nothing'. Ms. Nerdrum also stated that in section 7.4 under Limits of Liability there doesn't seem to be adequate protection. The Board discussed the fee increase and other concerns and decided that this item be postponed until the next Board meeting so that Mr. Powell can obtain other hosting bids and so that Mr. VanOverbeke has time to negotiate the proposed contract language. Mr. Powell noted that he doesn't believe he will receive a lower bid, but agrees that the language should be adjusted, and overall the staff is very happy with the program and the service from LRS. Ms. Nerdrum suggested that staff look into finding out if a specification document exists, which should be maintained by the System. Mr. Powell stated that he will contact the I.T. staff regarding the document.

Item postponed until October 21, 2010

D-4 Resolution to Hire Buck Consultants as the Retirement System's Actuary

Ms. Nerdrum stated that the Audit Committee met on September 14, 2010 to hear finalist presentations from three actuarial firms per the recent RFP that was issued on June 1, 2010, and after discussion, the Committee unanimously decided to change actuaries from GRS to Buck Consultants per the following resolution:

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, the Board of Trustees has an approved RFP Policy which requires that actuarial services go out for a RFP at a minimum of six years on a rotating basis, and

WHEREAS, the Board issued a RFP for actuarial services on April 16, 2010, and

WHEREAS, the following four actuarial firms responded to the RFP: Gabriel, Roeder Smith & Co., Buck Consultants, Milliman, and EFI Actuaries, and

WHEREAS, the Board at its June 17, 2010 Regular meeting approved a finalist presentation with Gabriel, Roeder Smith & Co., Buck Consultants, and EFI Actuaries, and,

WHEREAS, On September 14, 2010 a finalist presentation was held with Gabriel, Roeder Smith & Co., Buck Consultants, and EFI Actuaries, and

WHEREAS, after reviewing the RFPs and holding the final presentation, the Audit Committee is recommending that the Board hire Buck Consultants as the Retirement System's actuary, so be it

RESOLVED, that the Board of Trustees authorizes the hiring of Buck Consultants as the Retirement System's actuary after successful contractual negotiations with the Board's Legal Counsel for Board approval and a due diligence visit by Trustees and/or staff.

Ms. Sylvester asked Mr. VanOverbeke if there are concerns with the System's actuary not having a large presence in Michigan, and Mr. VanOverbeke stated that from an actuarial perspective, there are no state laws that govern how an actuarial report should be put together, and the key is that they should represent public plans so that they have a great familiarity with GASB rather than any concerns on a state law basis. The fact that they don't have a lot of depth in their office with regards to a Michigan client base is a non-issue. Ms. Sylvester reminded the Board that the System's representative from Buck Consultants would be Larry Langer, who used to work for Gabriel, Roeder, Smith & Company for ten years.

It was **moved** by Flack and **seconded** by Crawford to recommend approval of the above resolution to hire Buck Consultants as the System's new actuarial consultant contingent on a due diligence site visit and legal review of the client contract.

Approved

E. DISCUSSION ITEMS

E-1 Request for Military Service Time – John Elkins

Ms. Kaur stated that she was concerned that the correspondence from Mr. VanOverbeke which was included on the revised agenda may contradict the attorney-client privilege. Mr. VanOverbeke stated that in this instance it does not, and it is simply a memorandum stating what USERRA provides, it is more informational and does not refer to any individual. There is no conclusion in the memorandum, and he is very comfortable with having the correspondence be included in the packet. Mr. VanOverbeke stated that when he feels that there is a communication that needs to be subject to the attorney-client privilege, he will always indicate "Attorney-Client Privilege" across the top of the document.

Mr. VanOverbeke stated that an informal request was received through Ms. Refalo from Mr. Elkins asking for information regarding obtaining service credit after being called to military service and discharged, and will be returning back to work very soon. Mr. VanOverbeke stated there are two types of military service that the Board should recognize; prior military service (pre-employment) which can be purchased, and there is intervening military service whereby an individual is working for the employer and called into active duty and then comes back to employment. There is a Federal law that applies which is called the Uniformed Services Employment and Reemployment Rights Act (USERRA) which does allow and provide for the ability for someone who is called to active duty upon reemployment to get credit for that active military service, and is mandatory for all systems. One of the conditions is that the person must come back to employment within 90 days of discharge, or they will not be granted the service credit.

Mr. VanOverbeke recommended that staff wait until Mr. Elkins comes back to active service and turns in a copy of his DD-214 Form so that a calculation can be performed. The employee must also make the employee contribution that they would have made but for their leaving for active service. The employee then has up to three times their active service up to a maximum of five years to repay that contribution. Mr. VanOverbeke concluded that upon Mr. Elkins' reemployment, he should submit a request for active service along with his discharge papers so we know exactly what the active service was and then it would be appropriate for it to come before the Board for the purpose of military service approval.

F. REPORTS

F-1 Executive Report

The term of Nancy Sylvester, General Representative, will be expiring on December 31, 2010. There are no other Trustee terms expiring this year. The term would be from January 1, 2011-December 31, 2013. Below is the election schedule for the General Representative seat.

- October 1: Election notices will be sent for electronic posting on A2 Central, A2 News, and Ultipro and hard copies will be sent to various departments for posting. The election notice will indicate the deadline for Declarations of Candidacy, which will be 5:00 p.m., November 5, 2010.
- November 5 5:00 p.m. deadline for Declarations of Candidacy.
- November 12 Notices announcing election candidates will be distributed as indicated above.
- November 22: Request General employee listing from the Human Resources Department.
- December 6: Deliver ballots and election materials to City Clerk's office & outlying areas.
- December 8 & 9: Election dates.
- December 16 Board certification of elected candidate followed by a general announcement to all employees via electronic formats.

TERMINATION OF LEE MUNDER CAPITAL

After Lee Munder Capital sold the illiquid securities, a date of September 8, 2010 was set for Lee Munder to cease all trading at the end of that business day. Global Transition Solutions (GTS), the Board's transition manager, is handling all aspects of the transitions. The closing market value on September 9, 2010 for the Lee Munder portfolio was \$19,837,886.97. Based upon the Board's directive, Loomis Sayles Small Cap Value Manager will get an additional \$5,816,343.82. Rhumblin's small cap core product, S&P 600 Small-Cap Index Fund, will receive \$14,021,543.15.

The Board briefly discussed the upcoming Executive Director interviewing schedule, which begins at 11:30 a.m. on Monday, September 20th.

Mr. Powell also made the Board aware of an issue with Transition Imaging, the company that has been scanning various documents for the System. Staff has discovered that their location has changed and they were asked to provide in writing the security status of the new location and to this date no documentation has been received by staff. Mr. Powell stated that staff plans to do a due diligence visit to the new location to make sure it is secure and if it is found that the level of security is not sufficient, staff may recommend that the files be brought back and the relationship be terminated with this company. The Board agreed that the due diligence visit should take place immediately, and staff was directed to visit Transition Imaging directly after this Board meeting.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended August 31, 2010

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended August 31, 2010, to the Board of Trustees:

8/31/2010 Asset Value (Preliminary)	\$358,979,819
7/31/2010 Asset Value (Audited by Northern)	\$362,914,163
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$3,040,807
Percent Gain <Loss>	0.8%
September 15, 2010 Asset Value	\$368,856,506

F-3 Investment Policy Committee Report – No Report

F-4 Administrative Policy Committee Report – No Report

F-5 Audit Committee Report – September 14, 2010

Following are the Audit Committee minutes from the meeting convened at 1:12 p.m. on September 14, 2010:

Committee Members Present: Crawford, Kaur (2:00), Nerdrum, Monroe, Sylvester
Members Absent: None
Other Trustees Present: Clark
Staff Present: Kluczynski, Powell, Refalo
Others Present: David Diephuis, City Resident

ACTUARIAL CONSULTANT PRESENTATIONS

Gabriel, Roeder, Smith & Company
Brad Armstrong, David Kausch, Brian Morris

Presentation summary:

- GRS is nationally recognized
- 70 year history in Michigan
- Southfield office is GRS' Corporate Headquarters
- Over 40 credentialed actuaries nationally, 18 in Southfield
- Expertise in Pension/OPEB, Health Care, Retirement Technology
- Public Sector Focus: All clients in their Southfield office are public sector

The firm inception is 1938. It is 95% employee owned. The vast majority of GRS clients are public employee retirement systems. Over 95% of their revenue is derived from services to public retirement systems. GRS provided actuarial and benefit consulting services to over 800 public sector organizations during fiscal year 2009. GRS has a 63 year working relationship with CAAERS/CAARHCBP. In 1995, GRS merged with Kruse, O' Connor & Ling- a Florida based consulting firm. In 2001, GRS entered into an alliance with Watson Wyatt which allows both firms to explore joint consulting opportunities. As part of the alliance Watson Wyatt retains a small equity stake in GRS. "GRS has never been party to any litigation where it has had a fiduciary responsibility. From time to time, GRS has been a party to professional liability claims but has not had any such claims filed since 2005. All claims were either settled or, in one case, won by a trial/appeal victory. None of the claims have had a material financial impact on GRS." GRS has not submitted any claims to its error & omissions carrier since 2005. "No claims have ever been filed with the fidelity bond carrier."

Buck Consultants
Larry Langer, John Lapinski, Marco Ruffini

Presentation summary:

- *Leading benefit consulting and actuarial services firm founded in 1916*
- *Acquired by ACS in 2005*
- *ACS acquired by Xerox on February 28, 2010 – combined firm of 120,000 employees with \$22B in annual revenue*
- *Buck serves wide range of public sector, corporate, and non-profit clients, 3,000 clients worldwide and 1,200 professionals in 17 countries*
- *Human Resources Consulting Services include Retirement, Health & Productivity, Compensation, and Strategic HR*
- *Team Advantages:*
 - Local knowledge with national resources*
 - Broader Expertise*
 - Flexible technology to address our administration needs*
 - Responsive consulting – immediate responses*
 - Fair predictable billing*
 - Active with MAPERS*

The firm has been around since 1916. It became a wholly owned subsidiary of Xerox in February 2010. The company's client base consists of more 3000 clients in all 50 states. They have an office in Detroit. Buck Consultants provide actuarial and benefit consulting services for over 1000 public sector entities that include pension systems and health and welfare systems. Their public retirement systems' assets are in the billions of dollars. The firm, its principals or affiliates has not been the focus of a federal or state inquiry. The firm has never submitted a claim for reimbursement under any errors or omissions policy.

EFI Actuaries
Greg Stump

Presentation summary:

- *Public Sector only (for 2 decades)*
- *Member of NCPERS, MAPERS, SACRS, IFEBP*
- *Members of Public Plans Committee of Conference of Consulting Actuaries*
- *Heavily involved in education activities (Speaking engagements regularly at NASRA, SACRS, NCPERS)*
- *National Focus - EFI has a single national practice – no regional offices*
- *Enables them to compare and contrast, share lessons learned with clients*
- *Has clients coast to coast, big plans, not-so-big plans, and "strange" plans*
- *Their consulting team all have multiple credentials from various actuarial organizations and have years of experience with complex retirement systems and actuarial/simulation modeling*

The firm inception is 1990. EFI Actuaries is structured as a corporation. The firm is exclusively dedicated to performing actuarial studies and providing actuarial consulting to public sector retirement plans. The pension funds of their clients range from \$6 million to \$250 billion. The average size is over \$1 billion. Actuarial Valuations can be issued approximately 15 weeks after data is delivered to the firm. The firm, its principals or affiliates has not been the focus of a federal or state inquiry. The firm has not been a party to any litigation concerning fiduciary responsibility or other performance related matters. EFI has not submitted a claim to their error and omissions insurance or other fidelity bond insurance carrier.

COMMITTEE DISCUSSION:

The Committee discussed and ranked the three actuarial presentations, and agreed unanimously that Buck Consultants stands out as the better choice for the Retirement and VEBA Systems. The Committee agreed that a recommendation should be made to the Board of Trustees at the September 16, 2010 regular Board meeting to hire Buck Consultants as the System’s actuary pending a due diligence visit and contract review by legal counsel. The Committee would also like legal counsel’s opinion on the importance of the firm not having as strong of a Michigan presence, and to identify the potential challenges of having a non-Michigan-based actuarial firm.

It was **moved** by Sylvester and **seconded** by Crawford to recommend that the Board of Trustees retain Buck Consultants contingent upon a due diligence visit, contract review by legal counsel, and the Board’s approval of the contract.

Approved

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Clark to adjourn the meeting at 4:37 p.m.
Meeting adjourned at 4:37 p.m.

F-6 Hiring Committee Minutes – September 2, 2010

Following are the Hiring Committee minutes from the meeting convened at 4:15 p.m. on September 2, 2010:

Committee Members Present:	Clark, Crawford, Monroe, Nerdrum (4:22), Sylvester
Members Absent:	None
Other Trustees Present:	None
Staff Present:	Jarskey, Kluczynski, Powell
Others Present:	Sharie Sell, HR Employment Services Specialist David Diephuis, City Resident

TEAM INTERVIEW STRUCTURE & SCHEDULE

The Committee discussed and structured the interview schedules for the Executive Director position, which will be held on Monday, September 20th from 12:00-6:00 p.m. at the Wheeler Center. The groups will debrief from 1:30-3:00 p.m. on Tuesday, September 21st at the Retirement System Office, and will tentatively hold a Special Board Meeting directly afterward at 3:00 p.m. to make a decision. Both meetings will be open to the public. If during the deliberation the Board decides to bring back one or more candidates for a second interview, the Special Call Meeting will be postponed and rescheduled.

OTHER LOGISTICS PERTINENT TO THE HIRING PROCESS

Ms. Sell discussed the City’s process for performing background investigations on applicants. Ms. Sell provided information for both the LexisNexis service and for a private investigator, and stated that both services will allow the Committee to customize a background search to their specifications. After reviewing all of the information, the Committee decided to use the private investigator option since he would provide a more in-depth investigation, and will request that he attend the Board’s deliberation meeting at approximately 2:30 p.m. on September 21st in order to answer any questions the Board members may have. As far as expenses for accommodations, Ms. Sell stated that the System may only have to pay for food and mileage for the applicants in the

area. The Committee agreed to pay up to \$50 for food per day and mileage at the current Federal rate. Ms. Sell stated that she will inform the candidates beforehand that she will require detailed receipts in order to be reimbursed by the Retirement System.

EXECUTIVE DIRECTOR BENEFITS PACKAGE DISCUSSION

Ms. Sell stated that a couple of applicants have inquired about the benefit package for the position, so the question came up whether the new Executive Director will be receiving healthcare benefits from the City, especially if they will be under a separate contract, and not an actual 'City Employee'. Ms. Sylvester stated she assumed the new Director would be receiving the same benefits as Mr. Powell under the City's non-union rules. Ms. Sell stated that after checking with the Attorney's Office, she was informed that Mr. Powell's benefits remained as is because he was already an existing City employee and was assigned to the Retirement System, so it made sense to carry his package over. Ms. Sell stated that as she understands it, this will be a new person coming in with a separate contract so she would like verification on what the Committee would like to do so that she can relay the information to the candidates. Mr. Powell stated that even in this case, the Ordinance states that the new person can actually be a Board employee and the City can still provide the same benefits. Ms. Sylvester stated that she believes the new director should have a separate contract and they would get the same benefits that a non-union City employee would get, which would be cheaper for the City. The other Committee members agreed.

It was **moved** by Nerdrum and **seconded** by Monroe to recommend to the Board of Trustees that the new Executive Director be an employee of the Board on contract, using the non-union benefit structure provided by the City.

Approved

ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Clark to adjourn the meeting at 5:30 p.m.

Meeting adjourned at 5:30 p.m.

MEETING RECONVENED – 5:33 p.m.

Committee Members Present:	Clark, Monroe, Nerdrum, Sylvester
Members Absent:	Crawford
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell
Others Present:	Sharie Sell, HR Employment Services Specialist David Diephuis, City Resident

The Committee reconvened the meeting for the purpose of assigning the three interview teams for the Executive Director interviews on September 20th.

ADJOURNMENT

It was **moved** by Nerdrum and **seconded** by Clark to adjourn the meeting at 5:35 p.m.

Meeting adjourned at 5:35 p.m.

F-7 Legal Report – No Report

G. INFORMATION

G-1 Communications Memorandum

The Communications Memorandum was received and filed.

G-2 October Planning Calendar

The October Planning Calendar was received and filed.

G-3 Board Tracking Report

The Board Tracking Report was received and filed.

G-4 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Coverall North America, Inc.	375.00	Carpet Cleaning Services 8/7/2010
2	DTE Energy	43.38	Monthly Gas Fee dated August 12, 2010
3	DTE Energy	318.57	Monthly Electric Fee dated August 12, 2010
4	AT&T	123.09	Monthly Long-Distance Telephone Service
5	Gray & Company	8,278.80	Investment Consultant Retainer – July 2010
6	Staples Business Advantage	177.92	Miscellaneous office supplies
7	Hasselbring-Clark Co.	2.87	Monthly copier cost per copy
8	FedEx	33.22	Fed Ex to GRS 7/30/2010
9	University Office Equipment	30.36	Last copier reading/charges for Sharp copier
10	Levi, Ray & Shoup, Inc.	1,250.00	Hosting of Pension Gold PE Application
11	Levi, Ray & Shoup, Inc.	525.00	Support hours & special projects – Pension Gold
12	Transition Imaging	420.25	Digital Imaging Services – Invoice #1197
13	Transition Imaging	134.25	Digital Imaging Services – Invoice #1198
14	Transition Imaging	121.00	Digital Imaging Services – Invoice #1199
15	Transition Imaging	207.75	Digital Imaging Services – Invoice #1200
16	State Street Global Advisors	987.55	Investment Mgmt. Fees – 4/1/2010-6/30/2010
17	Staples Advantage	130.79	Miscellaneous office supplies
	TOTAL	13,159.80	

G-5 Retirement Report

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Thomas Lee	Age & Service	October 16, 2010	General	25 years	Public Services
Eliver Longoria	Early / Age & Service	October 15, 2010	General	21 years, 11.5 months	Public Services

H. TRUSTEE COMMENTS

Mr. Flack discussed the recent IFEBP CAPP-Part II Conference that he attended in June, stating

that he has received notification that he has passed the test given after completion of that course.

I. ADJOURNMENT

It was **moved** by Fraser and **seconded** by Nerdrum to adjourn the meeting at 9:50 a.m.
Meeting adjourned at 9:50 a.m.

**Willie J. Powell, Interim Executive Director
City of Ann Arbor Employees' Retirement System**