

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
November 15, 2007**

The meeting was called to order by Nancy Sylvester, Chairperson, at 11:50 a.m.

ROLL CALL

Members Present: Boonstra, Heatley, Kahan, Nerdrum, Sylvester
Members Absent: Carter, Crawford, Fraser, Pollock
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel

AUDIENCE COMMENTS

There were no audience comments presented.

A. APPROVAL OF AGENDA

It was **moved** by Nerdrum and **seconded** by Kahan to approve the agenda as submitted.
Approved

B. APPROVAL OF MINUTES

B-1 October 18, 2007 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

It was **moved** by Kahan and **seconded** by Boonstra to approve the October 18, 2007 Board meeting minutes as submitted.
Approved

C. CONSENT AGENDA

C-1 Authorization for Payment of Invoices (\$ 34,860.71)

WHEREAS, the Board of Trustees is vested with the general administration, management and responsibility for the proper operation of the Trust; and

WHEREAS, Section 1:746(1) of Chapter 21 of the Code of the City of Ann Arbor provides that the Trustees may use a portion of the income of the system for payment for reasonable and necessary professional services costs and expenses related to assisting the Trustees and Trust Administrator in the operation of the Trust; 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; therefore be it

RESOLVED, that the Board of Trustees' custodial bank, The Northern Trust Company, is authorized and directed to provide payment to the following vendors and providers of service in the amount as indicated upon receipt by the Board of appropriate invoices or as required by lease agreements, subject to (a) review and approval of said invoices and lease agreements by appropriate Board representatives and (b) payment authorization signed by Nancy Sylvester/Chairperson, Chris Heatley/Vice-Chairperson, or Jeffrey Kahan/Secretary, and Willie J. Powell, Executive Director.

	PAYEE	AMOUNT	<u>DESCRIPTION</u>
1.	Gray & Company	1,250.00	Investment Consultant Retainer – October 2007
2.	Chicago Equity Partners	20,904.71	Investment Mgmt. Fees – July-September 2007
3.	Southern Sun Asset Mgmt.	12,706.00	Investment Mgmt. Fees – July-September 2007
	<u>TOTAL</u>	34,860.71	

It was **moved** by Kahan and **seconded** by Boonstra to approve the Consent Agenda as presented.

Approved

D. ACTION ITEMS

D-1 Resolution to Place Chicago Equity Partners on the Watch List

Mr. Heatley stated that the Investment Policy Committee is placing the following resolution on the agenda due to Chicago Equity Partners not meeting the investment performance guidelines per the Board's Investment Policy. Mr. Heatley stated that Gray & Company has been asked to meet with Chicago Equity Partners to find out why they are not performing, and they will be asked to send a representative to the IPC meeting in January 2008.

RE: Resolution to Place Chicago Equity Partners on the Watch List

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 Investment Policy Statement in order to effectively monitor on a ongoing basis its investment managers; and

WHEREAS, the Investment Policy Statement specifies that any manager that fails to meet the Fund's investment criteria relative to its peers (top 40% of relative peer universe) for three consecutive quarters during any time period after four quarters (1 year) of performance measurement has been attained will be placed on probation, and

WHEREAS, the Performance Report for the period ending September 30, 2007 from Gray & Company indicates that Chicago Equity Partners is in the 87th percentile for the three year period, and

WHEREAS, Chicago Equity Partners has underperformed for the quarter ending September 30, 2007, the one year and the three year periods by not meeting the market index (S&P 400 MidCap) set for it; and

WHEREAS, the Investment Policy Committee, along with its Investment Consultant, Gray & Company, recommend that in accordance with the Investment Policy Statement that Chicago Equity Partners be placed on the watch list; so be it

RESOLVED, the Board of Trustees places Chicago Equity Partners on the watch list in accordance with the Investment Policy Statement.

It was **moved** by Heatley and **seconded** by Kahan to place Chicago Equity Partners on the Watch List.

Approved

E. DISCUSSION ITEMS

E-1 Legal Opinion Regarding Eligibility Requirements for City's Retirement Healthcare

Mr. VanOverbeke stated that he has submitted his opinion on the issue of whether an individual who has opted out of the City's health care waiver program as an active employee from health care coverage is eligible for retiree health care benefits at the time of retirement. Mr. VanOverbeke noted that the role of the Board on the health care is a little different than the role of the Board on the Retirement System side. On the Retirement System side, the Board is the fiduciary responsible for the administration of the benefits as well as the investment of the Plan assets. On the retiree health care side, the Board is the full fiduciary responsible for the administration in the investment of Plan assets. When it comes to the administration of the benefits, the City for the most part in terms of a lot of these benefit issues is the administrator, primarily because they administer the health care program for active employees. There are certain administrator responsibilities in terms of the benefit plan itself rather than the trust that the Board does have authority over.

This issue concerns a representative of the City's position that an individual who has opted out of active health care waiver program that is in some collective bargaining agreements that once they do that, if they then decide to retire within the next year, that upon retirement they somehow forfeited all rights to retiree health care. Mr. VanOverbeke has reviewed this issue, and referred to the Retiree Health Care Ordinance, and the section regarding eligibility, or who is eligible for retiree health care. The Ordinance states that in order to be eligible for post retirement health care benefits during the plan year, an individual must 1) be a retiree of the City who on the date of retirement from the City elects to receive coverage from the Plan, and 2) have been a participant of this Plan.

Mr. VanOverbeke stated he has reviewed the correspondence from the City regarding this issue, and believes there is a little confusion with regards to the definition of this Plan.

Clearly an individual who elects to opt out of coverage elects not to be a participant of the City's health care plan for active employees. But in the Ordinance language, the definition of participant isn't that participant definition, which is very clearly defined in the language as well as the term "Plan", which is the Retiree Health Care Plan, and not the active employee health care plan. The individual doesn't need to have been a participant of the active plan in order to be eligible, they just need to be a participant of the Retiree Health Care Plan. Participant is specifically defined as well, and is an employee who meets certain requirements, basically that they were an employee of the City and are not excluded under all the other provisions under paragraph C of the language, i.e., officers, City Council members, etc.

Mr. VanOverbeke stated that all individuals who opt out of active health care continue to be participants of the Retiree Health Care Plan, and the City should be funding for their retiree health care liability. There are two classes of people in the Retirement System, members and retirees. While you are an active employee you are a member of the Retirement System. Upon retirement, you lose your status as a member and you become a retiree. On the health care side, we use "participant" in lieu of "member" and then still refer to retiree as well. While they are an active employee, an individual is a participant of the Retiree Health Care Plan, and that is all active employees who are otherwise going to qualify for the benefit and the City is funding for participants while they are active, and then upon retirement they get the benefit. There is nothing in there that says you have to be getting active health care coverage while an active employee in order to be a participant.

The Ordinance also states that, *"In all cases of doubt, the Trustees shall decide who is a participant within the meaning of this Plan and Trust provided such decision is consistent with the City personnel rules and regulations and/or Collective Bargaining Agreements."* Base plan benefits are the benefits in effect at the time an individual retires from their benefit group, meaning that when they retire they will get the benefits that are in place for their group at the time of retirement. There is nothing in the Retiree Health Care Ordinance or the Collective Bargaining Agreements that says that by opting out you waive your participation in the Retiree Health Care Plan. The Health Care Waiver Program specifically contemplates that in the event you have opted out and for some reason you have to come back in to the program, you have to repay those contributions, so this will in no way preclude someone from active retiree health care.

It was **moved** by Boonstra and **seconded** by Kahan to acknowledge receipt of the opinion from legal counsel, that the Board is concurrent in the opinion, and direct that a copy of the legal opinion be forwarded to the appropriate City representatives with an indication that the Board hereby indicates its intent that individuals electing to participate in the City's Health Care Waiver Program still fall within the definition of participant, and that they then are eligible for health care upon retirement.

Approved

F. REPORTS

F-1 Investment Policy Committee Report

Following are the Retiree Health Care Benefit Plan & Trust Investment Policy Committee minutes from the meeting convened at 3:14 p.m. on November 6, 2007:

Member(s) Present: Heatley, Kahan, Pollock, Sylvester
 Member(s) Absent: Boonstra
 Other Trustees Present: Crawford
 Staff Present: Kluczynski, Powell
 Others Present: Chris Kuhn, Gray & Company
 Ivory Day, Gray & Company

**Retiree Health Care Benefit Plan & Trust Quarterly Review
 for the Quarter Ending SEPTEMBER 30, 2007**

Mr. Kuhn reviewed the Capital Market Review from the quarterly report.

Mr. Day reviewed the September 30, 2007 quarterly review and Capital Market Review, and indicated that the Fund's total market value as of September 30, 2007 was \$63,885,468. The Fund had a return of -0.17% for the current quarter, and a return of 13.19% for the last twelve months.

Mr. Day reviewed the Summary of Manager Performance:

Managers	Market Value
Domestic Equity	\$ 42,721,241
Fixed Income	17,720,558
Real Estate	3,336,734
Cash & Cash Equivalents	106,934
<u>Total Plan</u>	\$63,885,468

During the manager performance review, the Committee noticed low performance for Chicago Equity Partners where they have significantly underperformed for the last three years. Mr. Powell reviewed the Investment Policy Statement with the Committee, and it was determined that due to their underperformance, Chicago Equity Partners should be placed on the watch list according to the Policy. Mr. Day suggested that for a manager such as Chicago Equity Partners, that he create a rolling period analysis which gives a much more accurate picture of what the manager is doing over time, and would better explain the situation with Chicago Equity Partners, especially compared to this particular benchmark index. Mr. Pollock agreed that Mr. Day should do a rolling period analysis, and the Committee should also have Chicago Equity Partners come in to explain their performance for the last three years. Mr. Pollock noted that there are going to be several three-year periods where a manager is not going to do well, and they may have had six periods in their history like this, but 80% of the time they are outperforming the index, so it should be put in context with the rolling numbers. Mr. Kuhn stated that when looking at the June 30, 2007 manager summary, Chicago Equity Partners had slightly outperformed the benchmark for the second quarter in the third percentile, and for the year they were 22nd.

It was **moved** by Pollock and **seconded** by Sylvester to place Chicago Equity Partners on the watch list, to direct Gray & Company to do a rolling period analysis of Chicago Equity Partners' numbers, and request that they come to the January 2008 IPC meeting to explain their underperformance for the last three years.

Approved

Adjournment

It was **moved** by Kahan and **seconded** by Sylvester to adjourn the meeting at 4:00 p.m.
Meeting adjourned at 4:00 p.m.

F-2 Preliminary Investment Reports for the Month Ended October 31, 2007

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2007, to the Board of Trustees:

10/31/2007 Asset Value (Preliminary)	\$64,439,758
9/30/2007 Asset Value (Audited by Northern)	\$63,885,468
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$4,800,147
Percent Gain <Loss>	8.0%
November 14, 2007 Asset Value	\$62,377,060

F-3 Legal Report - None

G. TRUSTEE COMMENTS

Ms. Sylvester asked if there is a way that Trustees can access a program or perform searches of past Board meetings and discussions. Mr. Powell stated that he would talk to the document imaging representative to find out if they have suggestions that may help Trustees access the Storm Viewer program.

H. FUTURE AGENDA ITEMS - None

I. ADJOURNMENT

It was **moved** by Boonstra and **seconded** by Nerdrum to adjourn the meeting at 12:07 p.m.

Meeting adjourned at 12:07 p.m.



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