

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
December 18, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:41 a.m.

**ROLL CALL**

Members Present: Boonstra, Crawford, Hescheles, Kahan, Kaur, Nerdrum, Sylvester  
Members Absent: Fraser, Heatley  
Staff Present: Kluczynski, Powell  
Others: Michael VanOverbeke, Legal Counsel  
Brad Armstrong, Gabriel, Roeder, Smith & Company  
David Kausch, Gabriel, Roeder, Smith & Company  
Alan Panter, Abraham & Gaffney, P.C.  
Jeremy Flack, Fire Employee  
David Diephuis, City Resident

**AUDIENCE COMMENTS** – *None*

**A. APPROVAL OF AGENDA**

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

**B. APPROVAL OF MINUTES**

**B-1 November 20, 2008 Regular Board Meeting Minutes**

It was **moved** by Crawford and **seconded** by Kahan to approve the November 20, 2008 regular Board meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA**

It was **moved** by Crawford and **seconded** by Nerdrum to approve the following consent agenda as submitted:

**Preliminary Retirement Resolutions:**

**C-1 Preliminary Approval of Service Retirement for Nancy Broxholm**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Nancy Broxholm (Applicant)**, dated November 21, 2008, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Nancy Broxholm** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

**C-2 Preliminary Approval of Service Retirement for Ann Mattson**

**WHEREAS**, the Board of Trustees is in receipt of an application for retirement from **Ann Mattson (Applicant)**, dated November 13, 2008, and

**WHEREAS**, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

**RESOLVED**, that said application for service retirement of **Ann Mattson** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

**RESOLVED**, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

**RESOLVED**, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

**RESOLVED**, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

**Final Retirement Resolutions:**

**C-3 Approval of Service Retirement for Charles Gaige**

**WHEREAS**, **Charles Gaige** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of November 15, 2008, and

**WHEREAS**, said Participant has been credited with 7 years and 3 months of service credit, and

**WHEREAS**, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

**WHEREAS**, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

**WHEREAS**, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

**WHEREAS**, said Participant has elected to receive an Option II, 100% Joint & Survivor (Pop-Up) form of benefit (and nominated Andra Gaige, wife, as option beneficiary), and

**WHEREAS**, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

**RESOLVED**, that a service retirement is hereby granted to **Charles Gaige** (Participant), effective November 15, 2008, and further

**RESOLVED**, that benefits be paid consistent with the foregoing, and further

**RESOLVED**, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

#### **C-4 Approval of Service Retirement for Karin Peterson**

**WHEREAS**, **Karin Peterson** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of November 2, 2008, and

**WHEREAS**, said Participant has been credited with 18 years and 9 months of service credit, and

**WHEREAS**, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

**WHEREAS**, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

**WHEREAS**, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

**WHEREAS**, said Participant has elected to receive an Option 1 – Cash Refund Annuity plus Pension Terminating at Death, and

**WHEREAS**, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

**RESOLVED**, that a service retirement is hereby granted to **Karin Peterson** (Participant), effective November 2, 2008, and further

**RESOLVED**, that benefits be paid consistent with the foregoing, and further

**RESOLVED**, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

**Resolutions:**

**C-5 Authorization for Payment of Invoices (\$44,641.24)**

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

WHEREAS, Section 13(4) of Public Act 314 of 1965, as amended, provides that an investment fiduciary may use a portion of the income of the system to defray the costs of investing, managing, and protecting the assets of the system, may retain services necessary for the conduct of the affairs of the system, and may pay reasonable compensation for those services; 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 previously approved a resolution at its regular meeting of June 19, 1997 to have accounts payable services provided through its custodian bank, The Northern Trust Company; and

WHEREAS, the Board is of the opinion that prompt payment to service providers for services rendered is appropriate and in the best interest of the plan; 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.

	<b><u>PAYEE</u></b>	<b><u>AMOUNT</u></b>	<b><u>DESCRIPTION</u></b>
1	<b>Gray &amp; Company</b>	<b>7,624.96</b>	Investment Consultant Retainer – October 2008
2	<b>Gray &amp; Company</b>	<b>7,194.58</b>	Investment Consultant Retainer – November 2008
3	<b>SBC / AT&amp;T</b>	<b>159.44</b>	Monthly Telephone Service – 10/14/08– 11/13/08
4	<b>AT&amp;T</b>	<b>135.81</b>	Monthly Toll-Free Telephone Service
5	<b>Coverall North America, Inc.</b>	<b>215.34</b>	Office Cleaning Services for November
6	<b>Staples Business Advantage</b>	<b>64.63</b>	Miscellaneous office supplies
7	<b>Staples Business Advantage</b>	<b>20.99</b>	Miscellaneous office supplies
8	<b>City of Ann Arbor Treasurer</b>	<b>11.07</b>	Municipal Code Supplement
9	<b>MAPERS</b>	<b>50.00</b>	2009 Annual Membership Dues

10	VanOverbeke, Michaud & Timmony, P.C.	15,808.50	Legal Services – 7/1/08 – 9/30/08
11	Heitman Capital Management	5,032.68	Investment Manager Fees: 1/1/08-3/31/08
12	Heitman Capital Management	4,509.45	Investment Manager Fees: 4/1/08-6/30/08
13	IFEBP	850.00	CAPPP Part 1 Refresher Reimb. – Nancy Sylvester
14	Abraham & Gaffney, P.C.	1,500.00	Audit Report for the Year Ended June 30, 2008
15	Coverall North America, Inc.	140.00	Office Cleaning Services for December
16	Borders, Inc.	17.81	Retirement Tax Publication
17	Transition Imaging, LLC	433.25	Digital Imaging Services – Invoice #1168
18	Transition Imaging, LLC	691.25	Digital Imaging Services – Invoice #1169
19	DTE Energy	181.48	Monthly Electric Fees - 11/11/08–12/11/08
<b>TOTAL</b>		<b>44,641.24</b>	

**C-6 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
Barnett Jones	Police	5 Years, 8 Months <u>18 Years, 1 Month</u> <b>23 Years, 9 Months</b>	<ul style="list-style-type: none"> <li>• City of Sterling Heights, Michigan</li> <li>• Oakland County, Michigan</li> </ul>
Lisa Mitchell	General	<b>11 Years, 6 Months</b>	City of Detroit

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.

**Consent Agenda approved as revised**

**D. ACTION ITEMS**

**D-1 Revised Asset Allocation**

Mr. Powell stated that Gray & Company had submitted a revised asset allocation analysis to the Investment Policy Committee on December 2<sup>nd</sup> based upon the current market conditions. Timber has been omitted and the equity placed into the high yield area. Mr. Kahan explained that the high yield would be a fixed income strategy that would take advantage of the current trends in that particular market and the intent would be a fairly short-term, more opportunistic play. The next step will be for Gray & Company to bring approximately three firms in for a presentation to the IPC.

It was **moved** by Kahan and **seconded** by Nerdrum to approve the revised asset allocation plan as submitted by Gray & Company.

**Approved**

**D-2 Contract with Blackrock Multi-Manager Partners (Offshore) Ltd.**

Mr. VanOverbeke stated that his office has reviewed the proposed contract and has issued an opinion stating there are no issues with the documents. Mr. Kahan stated that the Investment Policy Committee has decided to wait until February 2009 to invest in this manager, and a due diligence visit would still be in order before the funding takes place. The Board agreed that a visit should take place some time in January 2009 and that up to three Trustees be approved to go at a cost not to exceed more than \$1,000 each. Mr. Powell suggested that the Trustees work with Larry Gray so that he may attend the visit as well. Mr. VanOverbeke suggested holding off on approving the contract until closer to February due to the markets and it would not be wise to actually enter into the contract this soon. Mr. Hescheles agreed, stating that there is the distinct possibility that the Board could change its mind before then.

It was **moved** by Kaur and **seconded** by Kahan to defer the approval of the Blackrock contract until the January Board meeting, to allow for a due diligence visit to their firm.

**Approved**

It was **moved** by Kahan and **seconded** by Hescheles to allow up to three Trustees to conduct a due diligence visit to Blackrock Multi-Manager Partners, at a cost not to exceed \$1,000 each.

**Approved**

**D-3 Proposed 2009 Interest Credit on Member Contributions**

Mr. Powell stated that this is the annual letter sent to the Board by Gabriel, Roeder, Smith & Company for the interest that would be credited to the employees' contributions. The letter indicates that the computed rate of return for the fiscal year ending June 30, 2008 is 9.2%. The equivalent quarterly return is 2.22%, therefore, 2.22% regular interest should be credited to member accounts for the quarter ending March 31, 2009 and each of the remaining 3 quarters in calendar year 2009. Mr. VanOverbeke explained the process for calculating member interest credits, and added that the System's 10-year smoothing of market rates meets the Pension Protection Act requirements. Ms. Nerdrum asked about how GRS came up with the 9.2% in relation to the 10-year smoothing, and Mr. Powell stated that Mr. Kausch from GRS is due to arrive for the upcoming presentation of the VEBA Report, so the Board decided to defer this question until a later point in the meeting. *Note: The Board failed to remember to ask Mr. Kausch about this issue later in the meeting, so staff will research the answers and bring this item back to the January 2009 Board meeting.*

**E. DISCUSSION ITEMS**

**E-1 Policy Determination on Eligibility for Annuity Withdrawal by Deferred Retirees**

Mr. Boonstra stated that at the last APC meeting, an issue was brought to their attention by staff about annuity withdrawal options for deferred retirees, and he is bringing this memo to the Board in order to clear up the issue of what has happened in past practice with employees who had signed up for deferred retirement and took money from their contribution account when they left employment, and then subsequently came back some time later and withdrew additional money before their actual retirement at age 60. Mr. Boonstra stated that the Committee agreed that this process should be eliminated and that approval of this memo/policy would cease that process. Mr. Crawford stated that the Ordinance is very clear that you can withdrawal funds when you leave employment and when your benefits commence, but what is not clear is that there has been a practice of withdrawing the fund in between those limits, and the Committee is recommending that this policy be adopted in order to clarify the Board's interpretation.

Mr. VanOverbeke added that the adoption of this policy will tie up the loose ends of the ongoing revisions of the deferred retirement form and handbook language that the APC has been working on over the last few months. Mr. VanOverbeke stated that the proposed process is common in most communities. Below is the proposed policy guidelines:

**DEFERRED RETIREMENT ALLOWANCE AND THE ANNUITY WITHDRAWAL OPTION**

During the Administrative Policy Committee's review of the Retirement System's forms for deferred retirees, a policy issue has developed regarding how the Retirement System administers the Annuity Withdrawal Option with respect to deferred vested retirees.

Section 1:565 of the Retirement Ordinance titled, "Deferred Retirement Allowance," states in pertinent part that:

"Except as otherwise provided in this section, the right to deferred retirement benefits shall be forfeited if the employee withdraws contributions from the annuity savings fund. An employee whose age and service total at least 50 **at the time of termination** may elect to withdraw the employee's accumulated contributions in the percentages specified in section 1:566(2) and shall have the retirement allowance reduced as specified by that section." A deferred vested retiree's retirement allowance "shall begin, and membership shall end, following the month the member reaches the age of 60 years and applies for a retirement allowance." (Emphasis added).

Section 1:566(2)(a) of the Retirement Ordinance titled, "Annuity Option," states in pertinent part that:

"A member . . . who has attained 60 years of age and is eligible for a retirement allowance under the provisions of 1:565 may elect to be paid **in a single payment** of 25%, 50%, 75% or 100% of the member's accumulated contributions and thereafter be paid an annuity equal to 75%, 50%, 25%, or 0% respectively, of the annuity portion of the retirement allowance as determined without regard to the single payment." (Emphasis added).

It is my understanding from Retirement System staff that the Retirement System has previously allowed deferred retirees to elect to withdraw a percentage of their annuity under the Retirement Plan's annuity option at the time of termination of employment, and/or other various times before reaching the age of 60, and/or again at the time of benefit commencement. For example, a deferred retiree could withdraw 25% of his or her accumulated contributions at the time he or she terminates employment. The deferred vested retiree could also withdraw another percentage of his or her accumulated contributions at any other time before reaching age 60. The situation could be repeated until either the member does not have any more accumulated contributions with the Retirement System, or he or she begins to receive a benefit.

The language in the ordinance is clear that a deferred vested retiree's age and service must total 50 at termination of employment, however, it is arguably open to interpretation as to when he or she may actually withdraw a portion of his or her accumulated contributions (i.e. at termination of employment, or sometime after termination). Further while some members may have received more than one payment in the past, the Annuity Option provisions in the Ordinance clearly provide for the withdrawal to be paid "in a single payment." Please note that according to discussions with legal counsel, in his experience, the offering of an annuity withdrawal option to deferred vested retirees at any time prior to retirement benefit commencement is unique to the City of Ann Arbor Employees Retirement System.

It is my recommendation that the Board of Trustees adopt a policy clarifying these issues regarding the annuity withdrawal option to deferred vested retirees. Further guidance on these issues is requested from the Board so that the Administrative Policy Committee may include the appropriate policy provisions in the recommended forms. It is my recommendation that the policy should reflect the following:

1. The deferred member's age and service must total 50 at the time of termination of employment to be eligible for the annuity withdrawal option;



2. The deferred member after termination of employment is eligible to receive a single lump sum payment and not multiple withdrawals of his or her accumulated contributions in accordance with the Annuity Withdrawal Option;
3. The deferred member desiring to elect the Annuity Withdrawal Option must make the election and indicate the percentage of withdrawal within 90 days of terminating employment;
4. At the time of benefit commencement (i.e. after the deferred member turns 60), the member may elect any form of benefit option under the Retirement System including the Annuity Withdrawal Option;
5. A deferred member may not withdraw any additional contributions under the Annuity Withdrawal Option between the end of the 90-day period after termination of employment and his or her benefit commencement after attainment of age 60; and
6. Notwithstanding the above, a deferred member may still request a complete refund of accumulated contributions at any time after termination of employment, however, such withdrawal is not considered an exercise of the Annuity Withdrawal Option and will result in forfeiture of his or her right to a deferred retirement allowance.

It was **moved** by Crawford and **seconded** by Nerdrum to approve the Policy Determination on Eligibility for Annuity Withdrawal by Deferred Retirees.

**Approved**

## **E-2 Annual Retirement Board Retreat Agenda for Tuesday, February 3, 2009**

Mr. Powell submitted a proposed agenda for the upcoming Board Retreat on February 3, 2009. Mr. Kahan stated that he believes the Board should take a bigger view of where the System is in the portfolio and what we would like to achieve in the next year or two. Mr. VanOverbeke suggested that the Board examine what it would like to achieve, as well as what it has achieved in the last couple of years. Mr. VanOverbeke stated that it has been a long time since the Board has conducted an overview of the Plan provisions to get a good idea of how the Plan operates, and with the many newer Trustees on the Board it would be a good idea to add that to the agenda. Included in the discussion could be a review of the policies and procedures that have been adopted by the Board, which the Board may find need to be updated. The Board asked Mr. Powell to note the changes as suggested and bring another drafted agenda to the January 2009 Board meeting. The Board understands that the retreat will be held in lieu of the regularly scheduled Committee meetings that day, and noted that special meetings could be scheduled later that month if need be.

## **F. REPORTS**

### **F-1 Executive Report**

#### **REBALANCING**

As per the Board-adopted resolution on November 20, 2008, the following rebalancing has occurred as recommended by Gray & Company:

<u>Manager</u>	<u>Asset Class</u>	<u>Amount</u>
Schwartz	Fixed Income	(\$4, 662,000)
NT Russell 1000	Equities	973,000
S & P 500	Equities	636,000
Rhumblin	Equities	1,811,000
Loomis & Sayles	Equities	1,242,000

### **RETIREE SIGNATURE VERIFICATION**

The signature verification forms were mailed to retirees/beneficiaries requesting that they verify they are a recipient of a benefit payment through the City of Ann Arbor Employees' Retirement System. The form requested the retiree/beneficiary to have his/her signature notarized. The Board's policy is that this form be sent to all retirees/beneficiaries every three years. Staff sent out over 800 hundred verification forms. To date there are approximately 197 forms outstanding which equals approximately 25% still outstanding. The forms were sent out on October 27. After the holidays are over, staff will send out a second letter requesting compliance from the ones who are still outstanding.

### **SPECIAL PROJECT WITH LEGAL FIRM**

A retainer agreement has been signed with Sullivan, Ward, Asher & Patton, P.C. Attorneys and Counselors at Law, for the special project assigned by the Board of Trustees at the October Board Meeting. The firm will be compensated at the rate of \$180.00 per hour for partners; \$150.00 per hour for associates; and \$60.00 per hour for paralegals, and shall be reimbursed for out-of-pocket expenses incurred on behalf of the City of Ann Arbor Employees' Retirement System.

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**Retiree Signature Verification discussion:** The Board discussed the Retiree Signature Verification project that staff has been conducting since October 2008, and Mr. Powell stated that it has been difficult getting a lot of the forms sent back due to the inconvenience of the retirees having to have the form notarized. There are approximately 197 outstanding forms due to the office and staff is planning on sending out another letter after the first of the year to those retirees in order to request that the forms be sent back. Mr. Powell noted that this project is conducted every three years, and in 2005 it took a few months before staff had received every form back from the 800+ retirees/beneficiaries. Another situation that has been an inconvenience is that the form is required to have the retiree's beneficiary also sign in front of a notary, especially when their beneficiary lives far away or out of the state that they reside. Ms. Nerdrum asked if there is another avenue for getting these forms signed and sent back, and Mr. VanOverbeke stated that the Board could revise the form to add a witness line and an attestation statement at the bottom indicating that the retiree is signing and committing that the signature and information is true and accurate to best of their knowledge.

Mr. Powell asked Mr. Panter of Abraham & Gaffney (*auditors*) his opinion on this discussion, and he stated that he believes it is not necessary to have the forms notarized or witnessed, but he recommends continuing the process of sending out the forms for signatures. The Board agreed to amend the current policy to discontinue the notary and beneficiary signature requirement and to add the attestation statement at the bottom of the form, to be drafted by Mr. VanOverbeke.

It was **moved** by Boonstra and **seconded** by Nerdrum to modify the Board's policy for the Signature Verification Project to discontinue the notary requirement, as well as the beneficiary signature requirement, unless the beneficiary is the person receiving the monthly benefit, and that an attestation statement is added to the form indicating that the retiree is signing and committing that the signature and information is true and accurate to best of their knowledge.

**Approved**

**F-2 Preliminary Investment Reports for the Month Ended November 30, 2008**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended November 30, 2008, to the Board of Trustees:

11/30/2008 Asset Value (Preliminary)	\$313,998,772
10/31/2008 Asset Value (Audited by Northern)	\$332,722,023
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	(\$116,890,427)
Percent Gain <Loss>	-26.3%
<b>December 17, 2008 Asset Value</b>	<b>\$ 315,700,984</b>

**F-3 Investment Policy Committee Reports – November 25, 2008 & December 2, 2008**

**NOVEMBER 25, 2008:**

Following are the Investment Policy Committee minutes from the special meeting that was convened at 2:10 p.m. on November 25, 2008:

Member(s) Present: Heatley, Hescheles, Kahan  
 Member(s) Absent: Sylvester  
 Other Trustees Present: None  
 Staff Present: Kluczynski, Powell  
 Others Present: Chris Kuhn, Gray & Company

**GENERAL DISCUSSION REGARDING MARKETS  
AND INVESTING OPPORTUNITIES**

*Mr. Kuhn provided information showing current and targeted market allocations, noting that as of November 24, 2008, the total fund value was at \$303,921,000. A brief discussion ensued regarding rebalancing, and Mr. Powell stated that it is better to rebalance everything at one time rather than in different stages, and the Board approved a rebalancing at the November Board meeting.*

*The Committee discussed current investment opportunities, and Mr. Hescheles stated that there are excellent opportunities for investing in high yield funds right now, even though it is a long-term play, it makes sense. Mr. Kuhn agreed, adding that investing in distressed funds is also a good idea right now, anywhere from 2.5% - 5% can be added to the portfolio. Mr. Kuhn stated that when it comes to timber, it is low-risk and safe, and is also a long-term play over 7-10 years. Mr. Kuhn stated he would hold off on private equity investments right now or find experts in the high yield area, putting 2.5% into high*

yield for the Retirement System fund. The Committee asked Mr. Kuhn to bring in some high yield managers for the January 6, 2009 IPC meeting in order to get moving on these investments.

### **ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Hescheles to adjourn the meeting at 3:10 p.m.

**Meeting adjourned at 3:10 p.m.**

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### **DECEMBER 2, 2008:**

Following are the Investment Policy Committee minutes from the meeting convened at 2:16 p.m. (start time with quorum - 3:20 p.m.) on December 2, 2008:

Member(s) Present: Heatley, Hescheles (3:15), Kahan,  
Member(s) Absent: Sylvester  
Other Trustees Present: Crawford (3:10)  
Staff Present: Kluczynski, Powell, Refalo (4:00)  
Others Present: Larry Gray, Gray & Company  
Chris Kuhn, Gray & Company  
Stewart Nelson, City Resident

### **PRIVATE GLOBAL REAL ESTATE EDUCATION (INVESCO)** **April Simon, Laler DeCosta, and Mark Roberts**

Although there was no quorum during the time of this presentation, the representatives from Invesco proceeded with their review: "Global Real Estate Today: Opportunities & Challenges". Mr. Gray stated that he will continue to research this area. Presentation documents are available in the Retirement Office.

### **BLACKROCK COMPLIANCE WITH PUBLIC ACT 314**

Mr. Gray recommended waiting until the first part of February 2009 to fund this manager. Mr. VanOverbeke's office has already reviewed the contract and has expressed that there are no legal concerns with the document. The Committee requested that Mr. Powell place the contract on the December 18, 2008 Board agenda for approval. Mr. Heatley noted that a due diligence visit will need to be arranged, perhaps in January 2009. Mr. Gray stated that he will plan on attending the visit to Blackrock as well.

### **DELIVERABLES FROM GRAY & COMPANY**

Mr. Gray and Mr. Kuhn presented an asset allocation analysis implementation plan and a ten year study based on 37 one year periods rolling quarterly. During the discussion, it was recommended to use excess money from Intercontinental's Fund III for the System's cash flow, which would require an amendment to the resolution that was approved by the Board on November 20<sup>th</sup>. At the January 6, 2009 IPC meeting, Gray & Company will hold three presentations on high yield managers. The proposed asset allocation plan is as follows:

Fixed Income Allocation:	27.5%	(Priority 1)
Equity Allocation:	60.0%	
Real Estate Allocation:	10.0%	(Priority 2)
Timberland Allocation:	<u>2.5%</u>	
	<b>100%</b>	

It was **moved** by Kahan and **seconded** by Hescheles to recommend that the Board of Trustees approve the Asset Allocation Implementation Plan as submitted by Gray & Company.

**Approved**

### **ANALYSIS OF LONG-TERM RETURNS AND NET FIGURES**

The Committee decided to hold this discussion as part of the upcoming Board Retreat in January 2009.

### **ADJOURNMENT**

It was **moved** by Kahan and **seconded** by Hescheles to adjourn the meeting at 4:20 p.m.

**Meeting adjourned at 4:20 p.m.**

### **F-4 Administrative Policy Committee Report – December 2, 2008**

Following are the Administrative Policy Committee notes from the meeting convened at 12:16 p.m. on December 2, 2008:

Committee Members Present:	Boonstra, Crawford (no quorum)
Members Absent:	Kaur, Sylvester
Other Trustees Present:	None
Staff Present:	Kluczynski, Powell (1:40), Refalo
Others Present:	Michael VanOverbeke, Legal Counsel

### **DEFERRED RETIREMENT COMMUNICATIONS**

Mr. VanOverbeke reviewed the drafted language that he has revised since the November APC meeting for both the employee handbook (which explains deferred retirement and the annuity option), and the Election of Deferred Retirement form. Mr. VanOverbeke also reviewed various illustrations showing the outcome when an employee leaves in, withdraws a portion, or withdraws 100% of their contributions. The Committee discussed the contribution withdrawal process, and how there has been past-practice of individuals coming back during the break between signing for a deferred retirement and the time they actually retire and withdrawing additional funds before retirement. Mr. VanOverbeke stated that this is not a usual practice, and all other retirement systems only allow a withdrawal at the time they leave employment and/or at the time they become of retirement age and process their final paperwork. Mr. VanOverbeke suggested that the Board be made aware that there should be a policy determination on eligibility for annuity withdrawal by deferred retirees in order to avoid this practice from happening. The deferred retirees need to be aware that withdrawing all of their funds may result in no benefit when they turn retirement age. Mr. Boonstra stated

he would bring it up at the December Board meeting and Mr. VanOverbeke agreed to draft a memo to the Board on Mr. Boonstra's behalf explaining the policy recommendation.

The Committee made minor changes to the drafted language and requested that Mr. VanOverbeke revise the documents for final review by the Committee at the January 6, 2009 meeting so that the new form and handbook language can be forwarded to the Board of Trustees at its January 2009 regular meeting.

### **STATUS OF PENSION GOLD SOFTWARE**

Mr. VanOverbeke stated that he understands that the Pension Gold program has been running well, and there is no argument with leaving the maintenance agreement as is even though LRS did not agree to sign the letter sent by Mr. Powell. Mr. VanOverbeke suggested that the Committee leave the position mute and carry on with running the program at this time.

### **DUPLICATE HEALTHCARE COVERAGE ORDINANCE LANGUAGE**

Mr. VanOverbeke submitted drafted Ordinance language regarding Duplicate Healthcare Coverage as discussed in previous meetings. The Committee reviewed the language and agreed that it is acceptable as submitted, and recommended that it be placed on the December 18, 2009 Board meeting agenda for approval.

### **ADJOURNMENT**

**Meeting adjourned at 2:05 p.m.**

#### **F-5 Audit Committee Report – December 12, 2008 (Verbal Report)**

Ms. Nerdrum provided a verbal report for the Audit Committee meeting held on December 12, 2008, stating that the Committee reviewed the projections provided by Gabriel, Roeder, Smith & Company, which are also included as Item G-6 at the end of this Board agenda. The report contains projected contribution amounts for the City of Ann Arbor Employees' Retirement System and the Retiree Health Care Benefit Plan & Trust. The projections were based on the Pension and VEBA valuations as of June 30, 2008 with adjustments for asset performance after the valuation date. The Actuarial assumptions were adopted by the Board of Trustees, in particular:

- The assumed rate of interest was 7% except as noted below
- Payroll was assumed to increase 3.5% per year
- Changes in Unfunded Actuarial Accrued Liability were amortized over 15 years for the Pension and 30 years for the VEBA

At the direction of the Audit and Actuarial Committee of the Retirement System, the following three scenarios of rates of return on the market value of assets were considered for this projection:

Best: Market rates of return are -15% for the year ending June 30, 2009 and 7% thereafter  
Base: Market rates of return are -25% for the year ending June 30, 2009 and 7% thereafter  
Worst: Market rates of return are -35% for the year ending June 30, 2009 and 7% thereafter

**F-6 Legal Report – No Report**

**G. INFORMATION**

**G-1 Communications Memorandum**

Mr. Powell stated that he has received no communication correspondence to convey to the Board for December.

**G-2 January Planning Calendar**

The January Planning Calendar was received and filed.

**G-3 Vendor Contacts – No Contacts to Report**

**G-4 Status of Pending Projects Report**

The Status of Pending Projects Report was received and filed.

**G-5 2009 Board and Committee Meeting Schedules**

Staff provided a listing of all tentative meeting dates for the 2009 calendar year.

**G-6 Contribution Projection Letter from GRS**

Ms. Nerdrum discussed this letter from Gabriel, Roeder, Smith & Company during her Audit Committee Report, Item F-5.

**H. PRESENTATION – City of Ann Arbor Employees' Retirement System Financial Report for the Fiscal Year Ended June 30, 2008**

Mr. Panter from the auditing firm Abraham & Gaffney presented this year's Financial Report for the fiscal year ended June 30, 2008. Mr. Panter stated that this year the audit went fine and thanked Mr. Powell and Ms. Jarskey for all their help during the auditing process. Mr. Panter reviewed nine new auditing standards that were applied this year as compared to two standards last year. Mr. Panter reviewed the Report, which indicates that the June 30, 2008 net assets for 2008 were \$410,429,000 as compared to the 2007 amount of \$449,916,000, and the funded ratio for June 30 was at 99.6%. Mr. Panter reviewed the Internal Control Letter, which indicates issues and efficiencies with the auditing process, and discussed a timeliness issue with the accounting process at the beginning of 2008. Mr. Powell explained that the staff accountant had been very busy with the Pension Gold project all year, and there have been administrative goals set to avoid any delays in the future.

Ms. Nerdrum suggested that Mr. Powell provide monthly updates to the Audit Committee meeting as a check and balance so that the Committee can be sure that the accounting reconciliations are being done on time, and Mr. VanOverbeke suggested that if anything falls behind, Mr. Powell should be asked to inform the Committee, but a monthly update should not be necessary and Ms. Nerdrum agreed. Ms. Sylvester asked Mr. Powell to provide one update to the Committee at the January 6, 2009 Audit Committee meeting.

**H-a Executive Director's Response to Audit Management Letters**

Mr. Powell submitted a letter regarding his response to the Auditor's Management Letters. *(Received and filed)*

**H-b Audit Management Letters**

The Audit Management letters were reviewed by Mr. Panter, and received and filed by the Board of Trustees.

**I. TRUSTEE COMMENTS - None**

**J. ADJOURNMENT**

It was **moved** by Nerdrum and **seconded** by Crawford to adjourn the meeting at 10:15 a.m.

**Meeting adjourned at 10:15 a.m.**

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