

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 18, 2010**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:38 a.m.

ROLL CALL

Members Present: Clark (10:03), Crawford (via telephone), Flack, Fraser, Hastie, Kaur (8:52),
Monroe, Nerdrum, Sylvester
Members Absent: None
Staff Present: Kluczynski, Powell, Refalo
Others: Michael VanOverbeke, Legal Counsel
Jeff Rentschler, City Retiree
Jack Ceo, City Retiree
David Diephuis, City Resident

Ms. Sylvester introduced and welcomed the newly-appointed Citizen Trustee, Brock Hastie, whose appointed term is November 4, 2010 through October 18, 2013. Ms. Sylvester noted that Mr. Hastie has an MBA from the University of Michigan and is the Vice President and Portfolio Manager with Retirement Income Solutions in Ann Arbor.

AUDIENCE COMMENTS

Mr. Ceo requested the Board's assistance with an issue he is having regarding his retiree healthcare, and that clarification of the Ordinance may need to be defined and discussed with the Benefits Manager in HR. Mr. Fraser asked Mr. Ceo to forward to him the recent emails and he will look into the matter.

Mr. Rentschler inquired as to why the new Post Retirement Increase language was not included in the recent Ordinance restatement that will be going before City Council in January. Mr. Fraser stated that the City is under mandates from the Federal Government to get a certain update of the Plan executed by the end of January 2011, and there was only so much the group felt they could accomplish in that period of time without also modifying some of the other additions to the Ordinance, and they see it as a two-step process. There is also the time-constrained process of getting information out to all of the employees about just restructuring the existing Ordinance, and the group felt that adding the complex language could put the entire process at risk and that it should be treated as two separate steps in updating the Ordinance. Mr. Crawford stated that the group is working diligently to get the language added by the first Council meeting in January. Mr. Rentschler asked that he defer his comments regarding Item D-4 when that issue is discussed later in the agenda.

A. APPROVAL OF REVISED AGENDA

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

- D-4 Proposed Executive Director Contract

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

B. APPROVAL OF MINUTES

B-1 October 21, 2010 Regular Board Meeting Minutes

It was **moved** by Fraser and **seconded** by Flack to approve the October 21, 2010 Board Meeting minutes as presented.

Approved

C. CONSENT AGENDA

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

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
Ellen Taylor	Fire	2 years, 11 months	Michigan Public School Retirement System

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

D. ACTION ITEMS

D-1 Actuarial Contract with Buck Consultants

Ms. Nerdrum stated that she and Mr. VanOverbeke are still in the process of finalizing certain language in the contract as far as limits of liability and other issues. Ms. Nerdrum believes that the contract needs to be put in place in order for Buck Consultants to begin with the transition so that they can get up and running, and in reviewing the draft, there are concerns with the software programs. Mr. VanOverbeke stated that Buck has received the contract with the understanding that it is a draft and is still under Board review, and that he is still awaiting their feedback as well. Mr. VanOverbeke stated that today's discussion should focus on if there are any concerns the Board may have with regards to the Agreement, and that further negotiations are still in the works with Buck Consultants, but there is no reason for Board approval at this meeting and no action should be taken at this time due to this being submitted as an informational item. Ms. Nerdrum agreed, stating that the contract process can keep moving, and even be signed, subject to amendments regarding the software solutions. The Board agreed. Mr. VanOverbeke explained Limitations of Liability as it relates to the public sector, and stated that Buck Consultants has requested a limitation of liability of \$500,000. *(Ms. Kaur arrived at this time.)*

Mr. VanOverbeke stated that in discussing this request with Ms. Nerdrum, it was decided that \$500,000 is a reasonable number, but that it would be brought before the Board for discussion. Ms. Nerdrum stated that she feels it is reasonable given the size of our Plan. The Board determined that it is comfortable with \$500,000. Mr. Powell suggested that a due diligence visit be conducted by the end of the year. Ms. Sylvester asked that if anyone is interested in conducting the due diligence visit to let the staff know as soon as possible.

D-2 Pension Gold Contract Renewal for January 1, 2011-December 31, 2011

Mr. Powell stated that the Pension Gold Contract has been revised to include only one year of hosting, and reviewed the changes in fees. Mr. VanOverbeke stated that he did receive an email from LRS approving all of the requested changes, and added that he was able to get a 90-day termination agreement, even during the initial one-year period. Mr. Powell was asked to look into the current security of the program with ITSU in order to make sure that the program is protected, which should be verified on an annual basis.

It was **moved** by Kaur and **seconded** by Nerdrum to approve the fee change as indicated in the contract as well as requesting Mr. Powell to obtain the security verification as discussed.

Approved

D-3 Declaration of Nancy Sylvester for General Trustee

Mr. Powell stated that Ms. Sylvester was the only general employee to file a Declaration of Candidacy form with the City Clerk's Office, therefore by Board Policy a formal election will not be held in December. Ms. Sylvester's new term will be January 1, 2011 – December 31, 2013.

It was **moved** by Kaur and **seconded** by Nerdrum to declare Ms. Sylvester a General Member Trustee for the term of January 1, 2011 – December 31, 2013.

Approved

D-4 Proposed Executive Director Contract

Ms. Nerdrum provided a summary of the recent Hiring Committee meeting where the group had discussed the proposed contract, salary, and benefit structure for the new Executive Director. The Board discussed the Committee's recommendations and decided that Ms. Nerdrum will act on

behalf of the Board of Trustees to make the offer of employment to the Executive Director finalist per

the proposed contract and benefit structure as recommended by the Hiring Committee, with the ability to negotiate the terms as discussed by the Board.

It was **moved** by Fraser and **seconded** by Flack to authorize Ms. Nerdrum to make an offer of employment and negotiate the terms of employment to the Executive Director candidate selected by the Board of Trustees consistent with the proposed draft of the Employment Agreement dated November 12, 2010 and the discussion at today's Board meeting.

Approved

E. DISCUSSION ITEMS - None

F. EXECUTIVE SESSION – Attorney/Client Privilege

The Board convened an Executive Session for the purpose of discussing litigation matters under Attorney/Client privilege.

Roll call vote:

Clark – Absent	Fraser – Yes	Monroe - Yes
Crawford - Yes	Hastie - Yes	Nerdrum - Yes
Flack – Yes	Kaur - Yes	Sylvester - Yes

Executive session time: 9:40 – 9:57 a.m.

It was **moved** by Kaur and **seconded** by Monroe to authorize legal counsel to proceed with filing an appropriate complaint in the Robert Raiford matter.

Approved

(Mr. Fraser departed at this time)

G. REPORTS

G-1 Executive Report

INVESTMENT CONSULTANT FINALISTS

The Investment Policy Committee at its meeting on November 9, 2010 selected the following investment consultant firms to make a presentation before the Board of Trustees on December 7th beginning at 12:00 noon. There were a total of 20 firms that sent in a RFP.

Time	Firm	Assets Under Advisement	Public Funds Under Advisement
12:00-12:40	Asset Consulting Group	\$40 billion	\$13.4 billion
12:45-1.25	Gregory A. Schwartz & Co.	\$3 billion	\$500 million
1:30-2:10	MSSB - Holycross Group	\$2.2 billion	\$1.75 billion
2:30-3:10	New England Pension Cons.	\$350 billion	\$150 billion
3:15-3:55	Meketa Investment Group	\$260 billion	\$230 billion
4:00 -4:40	Gray & Company	\$9 billion	\$8.3 billion

PRINCIPAL GLOBAL INVESTORS

On October 29, 2010, Principal Global Investors wired the last payment of \$1,337,373.84 from its real estate holdings for the City of Ann Arbor Retirement System. The total cash redemption from the real estate holdings were \$10,715,136.00. The money from Principal is designated to be transferred to the cash account to meet the operation needs of the System per the e-mail below from Gray & Company.

Willie,

As discussed yesterday, Gray & Company recommends using the proceeds from the Principal liquidation to pay the Plan's current benefit obligations and expenses. Please let me know if you would like a formal recommendation to the Board for meeting next week's meeting.

Gray & Company is prepared to present value added real estate strategies to the Trustees at an upcoming meeting to maintain the System's allocation to the real estate asset class. Please contact Larry or myself with any questions. Thank you for your continued support.

*Christopher J. Kuhn, CFA, CAIA
Senior Consultant, Gray & Company*

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

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

10/31/2010 Asset Value (Preliminary)	\$381,684,986
9/30/2010 Asset Value (Audited by Northern)	\$373,792,309
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$29,072,470
Percent Gain <Loss>	8.0%
November 17, 2010 Asset Value	\$384,807,771

G-3 Investment Policy Committee Report – November 2, 2010

Following are the Investment Policy Committee minutes from the meeting convened at 1:31 p.m. on November 2, 2010:

Member(s) Present: *Flack, Monroe, Sylvester*
 Member(s) Absent: *None*
 Other Trustees Present: *None*
 Staff Present: *Kluczynski, Powell*
 Others Present: *Larry Gray, Gray & Company*
 Chris Kuhn, Gray & Company
 David Diephuis, City Resident (3:00)

SELECTION OF INVESTMENT CONSULTANT FINALISTS

The Committee discussed the 20 Investment Consultant RFP finalists to decide who to bring in for interviews and presentations at the December IPC meeting. After discussion, the following motion was made:

It was **moved** by Flack and **seconded** by Monroe to request that the following firms be asked to attend the December 7th IPC meeting in order to make a presentation to the Committee: Asset Consulting Group, Gray & Company, Gregory J. Schwartz & Company, Meketa Investment Group, Morgan Stanley Smith Barney-The Holycross Group, and New England Pension Consultants LLC.

Approved

The Committee recessed from 3:15-3:20 p.m.

RETIREMENT SYSTEM QUARTERLY PERFORMANCE REPORT FOR SEPTEMBER 30, 2010

Mr. Gray and Mr. Kuhn reviewed the quarterly performance report. The Fund's total market value as of September 30, 2010 was \$367.81 million. The Fund had a return of 8.61% for the current quarter, and a return of 10.85% for the last twelve months.

Summary of Assets as of September 30, 2010:

Managers	Market Value
Domestic Equity	\$ 181,052,000
International Equity	42,035,000
Fixed Income	98,987,000
Real Estate	12,650,000
Alternative Composite	25,182,000
Cash & Cash Equivalents	7,908,000
Total Plan	\$367,814,000

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Monroe to adjourn the meeting at 4:51 p.m.

Meeting adjourned at 4:51 p.m.

BOARD DISCUSSION:

Mr. Hastie expressed a desire to participate on the Investment Policy Committee, and Mr. Flack made the following motion:

It was **moved** by Flack and **seconded** by Monroe to appoint Brock Hastie to the Investment Policy Committee.

Approved

G-4 Administrative Policy Committee Report – No Report

G-5 Audit Committee Report – November 9, 2010

Following are the Audit Committee minutes from the meeting convened at 4:05 p.m. on November 9, 2010:

Committee Members Present: Crawford (4:35), Monroe, Nerdrum, Sylvester
Members Absent: Kaur

Other Trustees Present: None
Staff Present: Jarskey, Kluczynski, Powell, Refalo
Others Present: David Diephuis, City Resident

OVERVIEW OF BUCK CONSULTANTS PENSION BENEFIT SOFTWARE

Mr. Powell stated that staff met with Buck Consultants last week for a preview of their pension benefit software. Staff recommends implementing the benefit administration software that includes the data and forms. This would create the forms and letters needed to present the retirement options to the employee, allow them to make an election, provide spousal consent, set up direct deposit, include historical data, data updates and forms.

Mr. Powell noted that the City's I.T. Unit will need to be involved with the implementation of any software because they would need to integrate the City's payroll data with a new software program, and they have indicated that they would not be available until after the first of the year due to the recent move to the new City Hall building downtown. Mr. Powell suggested that the Committee develop a timeline and request GRS to allow the System to continue using the current software until Buck's software can be installed and implemented. A discussion ensued regarding the comparison of the two programs, and details of what staff would require in the new software. Mr. Powell was asked to obtain further information regarding the annual fee/maintenance fee, if GRS will be willing to extend the current software usage and bridge the gap until the new software system is installed and implemented, and find out the integration timeline with the City.

Ms. Nerdrum summarized the next steps and asked that Mr. Powell find out from the City if staff will be able to get proper access to the City's payroll information necessary to make this a viable database, what will be the annual hosting fee with Buck Consultants once everything is in place, what our options are with GRS regarding bridging the gap between the old and new systems, the time frame for Buck to get their system up and running (implementation, loading, testing), I.T.S.U.'s availability, and to find out if Buck's program would be able to print member quarterly statements.

PRELIMINARY DRAFT OF THE JUNE 30, 2010 VEBA ACTUARIAL VALUATION

Ms. Nerdrum stated that she will further review the drafted VEBA Valuation and will advise staff of any concerns or changes so that GRS will have time to submit a final report to the VEBA Board for the November 18th regular Board meeting.

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Monroe to adjourn the meeting at 4:45 p.m.
Meeting adjourned at 4:45 p.m.

G-6 Hiring Committee Minutes – November 9, 2010

Following are the Hiring Committee minutes from the meeting convened at 4:45 p.m. on November 9, 2010:

Committee Members Present: Crawford, Monroe, Nerdrum, Sylvester
Members Absent: Clark
Other Trustees Present: None
Staff Present: Kluczynski, Powell
Others Present: Michael VanOverbeke, Legal Counsel
Sharie Sell, HR Employment Services Specialist

**EXECUTIVE DIRECTOR BENEFITS PACKAGE DISCUSSION & REVIEW OF THE
EXECUTIVE DIRECTOR EMPLOYMENT CONTRACT**

Ms. Sell stated that she has submitted the standard non-union Summary of Benefits information along with the salary range as advertised with the job posting in the meeting packet. Mr. VanOverbeke noted that the new Executive Director will be an employee of the Board and not the City therefore the Board is able to adjust certain benefits. The Committee discussed the salary range and what amount should be offered to the candidate. It was decided that with the experience level of the candidate, the salary should be offered just below or at the mid-range of the advertised pay scale but no higher, and that retiree healthcare should not be included in the offer. Mr. Crawford stated that he has a problem offering the retiree healthcare benefit considering the age 60 with 5 years provision along with offering the mid-range amount, which seems overly generous, but would consider offering at or near the mid-range if retiree healthcare was not included.

Mr. VanOverbeke stated that by contract the candidate could be given membership in the Retirement System without having membership in the healthcare plan (VEBA), i.e., even though they would be able to draw a retirement benefit, the healthcare plan would not apply because they would have never been a member of that plan, noting again that they would be an employee of the Board and not the City, as stated in the VEBA Ordinance. The Committee reviewed and customized the benefits summary to be presented to the candidate. The Committee agreed that this is an "at-will" position with no term timeline, and there should be a 90-day notice provision.

It was **moved** by Crawford and **seconded** by Nerdrum to direct legal counsel to adjust the contract language as discussed and return the new draft to the Trustees by November 16th for review; the candidate will not be offered retiree healthcare, and the draft should include a salary offer of \$95,000. The contract will be presented to the Board of Trustees for approval on November 18, 2010.

Approved

Mr. VanOverbeke stated that he would redraft the contract to include the added revisions as discussed for the Board's review before it is presented at the November Board meeting. Ms. Sell asked if she could receive a copy to forward to the City Attorney's Office for their review. The Committee agreed, and Mr. VanOverbeke stated that he will forward the draft at the same time he forwards it to the Board of Trustees. Mr. VanOverbeke suggested that the position offer should be made to the candidate by a member of the Board rather than a City representative due to this being a Board employee, and for legal purposes, the City should extract themselves from this as much as possible at this point in time.

OTHER LOGISTICS PERTINENT TO THE HIRING PROCESS

Ms. Sell stated that Mr. Fifer has been given authorization to begin the background investigation, and he has indicated that he believes the process should not take very long considering that the candidate has been with the same company for 27 years.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Crawford to adjourn the meeting at 5:58 p.m.
Meeting adjourned at 5:58 p.m.

G-7 Legal Report

Mr. VanOverbeke commented on current legislation notices from MAPERS through recent emails, and encouraged that the Board members respond to the State Senators regarding the new pension bills. The MAPERS website includes contact information.

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 Board Tracking Report

The Board Tracking Report was received and filed.

H-4 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 2010
2	DTE Energy	53.07	Monthly Gas Fee dated October 13, 2010
3	DTE Energy	206.78	Monthly Electric Fee dated October 13, 2010
4	AT&T	126.76	Monthly Long-Distance Telephone Service
5	Gray & Company	8,565.93	Investment Consultant Retainer – September 2010
6	Gray & Company	8,229.56	Investment Consultant Retainer – August 2010
7	Staples Business Advantage	219.91	Miscellaneous office supplies
8	Allstar Alarm, LLC	90.00	3 Months Central Station Monitoring (Nov-January)
9	AT&T	63.61	Monthly Long-Distance Telephone Service
10	Lora Kluczynski	257.78	Petty cash reimbursement
11	Levi, Ray & Shoup, Inc.	37.50	Support services - Pension Gold
12	Levi, Ray & Shoup, Inc.	4,275.00	Support svcs/contrib. rate changes in Pension Gold
13	Robertson Morrison, Inc.	489.43	Zone motor replacement for thermostats
14	Bradford & Marzec, Inc.	39,992.05	Investment Mgmt. Fees – 7/1/10 – 9/30/10
15	Lee Munder Capital Group	31,335.74	Investment Mgmt. Fees – 7/1/10 – 9/30/10
16	Loomis, Sayles & Company	45,750.21	Investment Mgmt. Fees – 7/1/10 – 9/30/10
17	Schwartz Investment Counsel	10,921.00	Investment Mgmt. Fees – 7/1/10 – 9/30/10
18	Rhumblin Advisers-Russell MC	3,472.50	Investment Mgmt. Fees – 7/1/10 – 9/30/10
19	Rhumblin Advisers-S&P 600 SC	1,027.40	Investment Mgmt. Fees – 7/1/10 – 9/30/10
20	Comcast	75.92	Monthly Cable Fee
	TOTAL	155,330.15	

H-5 Retirement Report

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Hermena J. Lyke	Age & Service	January 6, 2011	General	17 years, 10 months	DDA
James Rafacz	Early/Age &Service	December 15, 2010	General	24 years, 8.5 months	Public Services/Parks

H-6 GASB Response to Preliminary Views on Accounting and Reporting Pension Assets and Liabilities in Annual Financial Reports

The Board acknowledged the response letter from GASB dated October 26, 2010.

I. TRUSTEE COMMENTS

Ms. Kaur informed the Board of Trustees that she will not seek to be reappointed to her seat on the Board after her term expires on February 5, 2011. Ms. Kaur said that it has been a privilege and an honor to serve on the Board of Trustees.

J. ADJOURNMENT

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

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