

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST  
BOARD OF TRUSTEES  
Minutes for the Regular Board Meeting  
November 20, 2014**

The meeting was called to order by Jeremy Flack, Chairperson, at 10:36 a.m.

**ROLL CALL**

Members Present: Clark, Crawford, Flack, Hastie, Heusel, Monroe  
Members Absent: Nerdrum, Powers  
Staff Present: Jarskey, Kluczynski, Walker  
Others: Aaron Castle, Legal Counsel  
Larry Langer, Buck Consultants  
Dan Levin, Buck Consultants  
David Diephuis, City Resident

**AUDIENCE COMMENTS – None**

**A. APPROVAL OF AGENDA**

It was **moved** by Heusel and **seconded** by Monroe to approve the agenda as submitted.  
**Approved**

**B. APPROVAL OF MINUTES – October 16, 2014 Regular Board Meeting Minutes**

It was **moved** by Heusel and **seconded** by Monroe to approve the October 16, 2014 Board Meeting minutes as submitted.  
**Approved**

**C. CONSENT AGENDA – None**

**D. PRESENTATION: Actuarial Valuation for the FY Ended June 30, 2014  
(Dan Levin, Buck Consultants)**

Mr. Levin presented the Annual Actuarial Valuation for the Year Ended June 30, 2014. Highlights and key takeaways from the presentation included the following:

- Results of the valuation deviated from last year's valuation due to:
  - Market value returns of 14.7 % compared to 7.0% assumed (impacts UAAL and *amortization* of UAAL)
  - Payroll increased by 6.4% compared to the 3.5% increase assumed (impacts NC and *amortization* of UAAL)
  - Favorable claim experience resulted in a 3.4% *decrease* relative to expected liability (impacts UAAL and NC)
  - Updated census produced a 1.4% increase relative to expected liability (impacts UAAL and NC)
- Overall, the above factors resulted in the FY 2016 AOC to be 6.3% lower than projected in the June 30, 2013 report

**Key Takeaways:**

- During the year ended June 30, 2014, higher than expected investment returns, higher salaries than expected, and favorable claim experience generated results that were 6.3% lower than expected, when compared to the June 30, 2013 projections
  - FY 2016 Annual OPEB Cost is \$11,305,000
  - FY 2016 Projected Annual OPEB Cost was \$12,060,000

•Existing Net OPEB Obligation of \$7.64 million

•Minimum GASB 45 contributions do not result in a funded plan, due to open amortization period as level % of payroll

•Alternative of prior contribution increased by 2.0% each year funds the plan by 2035 (only normal cost contributions after that)

It was **moved** by Crawford and **seconded** by Hastie to receive and file the Actuarial Valuation Report and presentation, and direct that a copy of the Report be forwarded to the City as an indication of the required contributions for the fiscal year beginning July 1, 2015.

**Approved**

**E. ACTION ITEMS**

**E-1 Resolution to Accept Investment Consultant Recommendations Regarding Securities Lending and Collateral Pool Changes**

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retiree Health Care Benefit Plan & 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; and

WHEREAS, Northern Trust, the System's custodial bank, has communicated to the Retirement System that it intends to change the collateral pool provisions for its securities lending program, in which several fund managers participate, and offers two options; and

WHEREAS, the Investment Policy Committee has requested that Meketa review the System's current participation in the securities lending program, as well as the two proposed options for the new collateral pool; and

WHEREAS, Meketa indicates securities lending programs represent a form of leverage with an uneven risk/reward tradeoff, that securities lending spreads have narrowed, income from the program is shared with the provider, therefore the upside of the program is limited; and

WHEREAS, Meketa generally recommends against securities lending in portfolios that are used to provide stability and liquidity such as investment grade bonds; and

WHEREAS, Meketa recommends that Trustees consider removing IR&M TIPS from the program, and that the Board choose the NILAP collateral pool; so be it

RESOLVED, that the Board of Trustees remove the IR&M TIPS separate accounts from participation in the securities lending program; and

FURTHER RESOLVED, that the Board of Trustees will advise Northern Trust of its election to participate in the NILAP (2a-7) collateral pool for the manager who remains in the securities lending program.

It was **moved** by Hastie and **seconded** by Crawford to approve the Resolution to Accept Investment Consultant Recommendations Regarding Securities Lending and Collateral Pool Changes as presented.

**Approved**

F. DISCUSSION ITEMS - None

G. REPORTS

G-1 Investment Policy Committee Minutes – November 6, 2014

Following are the Investment Policy Committee minutes from the meeting convened at 3:09 p.m. on November 6, 2014:

Member(s) Present: Clark, Flack (via telephone), Hastie  
Member(s) Absent: Monroe  
Other Trustees Present: None  
Staff Present: Kluczynski, Walker  
Others Present: Edward Urban, Meketa Investment Group  
Henry Jaung, Meketa Investment Group  
David Diephuis, City Resident

**SEPTEMBER 30, 2014 INVESTMENT PERFORMANCE REVIEW**

Mr. Jaung reviewed the performance update for the period ended September 30, 2014. As of September 30, the VEBA was valued at \$124.7 million, a decrease of \$2.6 million for the fiscal year to date. During the third quarter, the VEBA reported net cash outflows of < \$0.1 million. The VEBA returned -2.0% for the third quarter, net of fees. At the end of September, the VEBA was within all of its asset allocation target ranges, with the exception of investment grade bonds. The investment grade bond overweight offsets the current TIPS underweight (-7%). In late August and early September, the Bradford & Marzec portfolio was transitioned to other existing investment grade bond, high yield, and bank loan managers.

**ADJOURNMENT**

**Meeting adjourned at 5:35 p.m.**

G-2 Preliminary Investment Reports for the Month Ended October 31, 2014

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2014, to the Board of Trustees:

10/31/2014 Asset Value (Preliminary)	\$126,369,219
9/30/2014 Asset Value (Audited by Northern)	\$124,755,155
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$6,003,000
Percent Gain <Loss>	5.2%
<b>November 19, 2014 Asset Value</b>	<b>\$ 126,672,070</b>

G-3 Legal Report – None

H. TRUSTEE COMMENTS - None

I. FUTURE AGENDA ITEMS - None

J. INFORMATION (Received & Filed)

J-1 Record of Paid Invoices

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

	PAYEE	AMOUNT	DESCRIPTION
1	Meketa Investment Group	3,750.00	Investment Consultant Retainer - October 2014
2	Buck Consultants	2,331.71	Actuarial services through 6/30/2014
3	Buck Consultants	2,283.75	Actuarial services through 12/31/2013
4	Rehmann Robson	1,659.57	Progress audit billing for June 30, 2014
5	Fisher Investments	30,869.50	Investment advisory fees – 7/1/2014-9/30/2014
6	RhumbLine Advisers	1,103.00	Investment advisory fees – 7/1/2014-9/30/2014
	<b>TOTAL</b>	<b>41,997.53</b>	

K. **ADJOURNMENT**

It was **moved** by Heusel and **seconded** by Clark to adjourn the meeting at 11:30 a.m.  
**Meeting adjourned at 11:30 a.m.**



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