

**City of Ann Arbor Employees' Retirement System  
Minutes for the Regular Meeting  
November 15, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:35 a.m.

**ROLL CALL**

Members Present:	Clark, Crawford, Flack, Hastie, Monroe
Members Absent:	Heusel, Nerdrum, Powers, Rogers
Staff Present:	Kluczynski, Walker
Others:	Michael VanOverbeke, Legal Counsel Larry Langer, Buck Consultants Dan Levin, Buck Consultants Michael Dortch, Ann Arbor Police Department David Diephuis, City Resident

**AUDIENCE COMMENTS**

Mr. Diephuis asked if during their presentation, the actuaries could address the possible effects of moving new hires to a defined contribution plan from a macro prospective, as well as the effects of increasing City staff levels in certain areas, and how a 1% annual increase in City hiring play into the annual required contribution.

**A. APPROVAL OF REVISED AGENDA**

Revisions to the agenda include the following items:

- E-1 Memo: 2012 Board Elections
- F-4 Administrative Policy Committee Minutes – November 13, 2012
- F-5 Audit Committee Minutes – November 13, 2012
- G-7 Oaktree PPIP Private Fund - Correspondence

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

**Approved**

**B. APPROVAL OF MINUTES**

**B-1 October 18, 2012 Regular Board Meeting Minutes**

It was **moved** by Crawford and **seconded** by Hastie to approve the October 18, 2012 Board Meeting minutes as submitted.

**Approved**

**C. CONSENT AGENDA**

It was **moved** by Hastie and **seconded** by Clark to approve the consent agenda as submitted:

**C-1 Resolution to Accept City of Ann Arbor Reciprocal Credit**

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 Reciprocal Retirement Act ("Reciprocal Act")[Public Act 88 of 1961, as amended (MCL 38.1101 et seq.)] was adopted by the City of Ann Arbor 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 Reciprocal Act allows a member to use service credit acquired with a preceding reciprocal unit for purposes of meeting the Retirement System's normal retirement eligibility requirements upon satisfaction of certain conditions, and

WHEREAS, individuals who were previously employed by the City of Ann Arbor and were members of the Retirement System and subsequently terminated employment and withdraw all accumulated contributions and later were re-employed by the city and elected not to buy back previous service credits and,

WHEREAS, such individuals would like to be entitled to use previous service with the City in meeting the service requirements of the Retirement System and the previous service will not be used in calculating any benefits, 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
Patricia Forner	General	7 Years, 10 Months	City of Ann Arbor

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.

**C-2 EDRO Certification – Kelly L. Marion v. Kevin M. Marion**

**WHEREAS**, the Board is in receipt of an Eligible Domestic Relations Order dated October 12, 2012, wherein Kelly L. Marion, the Alternate Payee, is awarded certain rights to the benefits of Kevin M. Marion, the Participant, and

**WHEREAS**, the Alternate Payee is entitled to a portion of the Participant's monthly retirement benefit from the Retirement System which is subject to the Alternate Payee making an application for the same, and

**WHEREAS**, the payments from the plan to the Alternate Payee shall begin when the Participant commences benefits from the Retirement System, unless the Alternate Payee elects to receive benefits at any time after the Participant reaches his earliest retirement date, and

**WHEREAS**, the Board's policy is to require that the cost for the actuary's calculations are to be borne by the parties to the domestic relations proceedings, and the order provides that the Participant and the Alternate Payee shall be responsible for any and all additional costs for actuarial services in proportion to the Alternate Payee's share of the Participant's retirement allowance awarded to the Alternate Payee under Section 6 of the EDRO, and

**WHEREAS**, said matter having 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, therefore be it

**RESOLVED**, that the Board acknowledges receipt of said court order and will administer 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 Participant's pension file and other appropriate records be retained by the Retirement System relative to this matter, and further

**RESOLVED**, that copies of this resolution be sent to John K. Kline, Esq., attorney for the Participant; Monika U. Holzer Sacks, Esq., attorney for the Alternate Payee; and the Board's Actuary.

**Consent Agenda Approved**

**D. ACTION ITEMS**

**D-1 Proposed Investment Policy Statement**

Mr. Hastie presented the revised Investment Policy Statement on behalf of the Investment Policy Committee, and submitted a document showing investment returns in the last year compared to historical returns. A lengthy discussion ensued on various items in the document, but with no changes being suggested by the Board of Trustees, it was decided to approve the IPS as submitted, with the knowledge that any major changes to the policy ranges will be brought to the full Board for discussion and/or approval.

It was **moved** by Crawford and **seconded** by Monroe to approve and acknowledge the receipt of a copy of the Investment Policy Statement for the City of Ann Arbor Employees' Retirement System as recommended by the Board's Investment Consultant and the Investment Policy Committee.

**Approved**

**E. DISCUSSION ITEMS**

**E-1 Memo: 2012 Board Elections**

Ms. Walker informed the Board of Trustees that David Monroe was the only employee to complete a Declaration of Candidacy Form for the 2012 Police Member Election, and Terry Clark was the only employee to complete a Declaration of Candidacy Form for the 2012 General Member Election. Per the Board's Rules and Regulations Governing Elections of Board Trustees:

*ARTICLE IV – ELECTION*

*A) Single Candidate Election*

*If only one candidate has filed the Declaration of Candidacy, the City Clerk's Office shall not hold the election. The Clerk shall notify the Board of Trustees that the candidate is unopposed. The Board, upon such notice, shall declare the unopposed candidate to be the Trustee for the designated term.*

It was **moved** by Crawford and **seconded** by Hastie to acknowledge receipt of the certification notice for Terry Clark and David Monroe and recognize their renewed terms on the Board of Trustees as January 1, 2013 – December 31, 2015.

**Approved**

**F. REPORTS**

**F-1 Executive Report – November 15, 2012**

**INVESCO**

INVESCO Mortgage Recovery Loans AIV, L.P. made a distribution on Wednesday, October 31, 2012 totaling \$18,286,150. This distribution is comprised of \$16,834,891 of return of capital, \$833,426 of realized gains, and \$617,833 of interest income. **Partner's allocable share of distribution: \$243,433.**

INVESCO Mortgage Recovery Feeder Fund, L.P. made a distribution on Wednesday, October 31, 2012 totaling \$1,952,086, comprised of \$343,759 of realized gains and \$1,608,327 of return of capital. **Partner's allocable share of distribution: \$25,987.**

**INTERCONTINENTAL REIF III**

Intercontinental made a distribution of \$62,788.37 on November 2, 2012, which represents the Retirement System's allocated share of \$2,000,000 of income generated by portfolio investments during the third quarter of 2012.

**ACTUARIAL AND AUDIT DATA**

The actuarial reports for the Retirement System and the VEBA have been completed, will be reviewed by the Audit Committee on November 13, and will be presented to the Board on November 15<sup>th</sup>.

**BUCK OCS/ESS**

The Buck online system is complete for all 5-year vesting employees. Buck has provided change order quotes for the 10-year vesting schedules for the various new hires and employee groups. Staff is working on a rollout plan and instruction manual.

**MANAGER FORUM**

An Investment Manager Forum for our equity and hedge fund managers was conducted on Wednesday, October 24<sup>th</sup>. Hedge funds Blackrock, Orion and Optima, Loomis Sayles, Southern Sun, Fisher, DFA, Vontobel, and Thornburg (*by phone*) participated. Economic outlooks, comparison and contrast in investment styles and philosophies were highlights of the forum.

**TRUSTEE ELECTIONS FOR EXPIRING TERMS**

This year's elections will be held on December 12<sup>th</sup> and December 13<sup>th</sup>. The notice of expiring terms and solicitation and deadlines for candidates was published in the October 9, 2012 A2 News Notes.

**CHANGE FROM SCHWARTZ TO NTGI BLEND OF INDEX FUNDS**

After discussion with Meketa and Northern, it has been decided that a 20% treasury securities fund and 80% credit index fund will be combined at Northern in one account, thus simplifying reporting.

Legal instruments are approved by Board Counsel, signed, and have been sent to Northern. Funding will take place as soon as practicable.

**F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended October 31, 2012**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2012 to the Board of Trustees:

10/31/2012 Asset Value (Preliminary)	\$414,844,904
9/30/2012 Asset Value (Audited by Northern)	\$417,204,303
Calendar YTD Increase/Decrease in Assets (excludes non-investment receipts and disbursements)	\$37,729,420
Percent Gain <Loss>	9.7%
<b>November 14, 2012 Asset Value</b>	<b>\$407,806,011</b>

**F-3 Investment Policy Committee Minutes – October 23, 2012**

Following are the Investment Policy Committee minutes from the meeting convened at 4:08 p.m. on October 23, 2012:

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

**INTERIM PERFORMANCE REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

*Mr. Jaung reviewed the performance report, noting that as of September 30, 2012, the Retirement System was valued at \$417.6 million.*

**DRAFTED INVESTMENT POLICY STATEMENT REVIEW & SAMPLE MANAGER GUIDELINES**

*The Committee reviewed the drafted Investment Policy Statement which Meketa had revised per the previous discussions. After a lengthy review, the Committee made various language changes to the document, and Mr. Jaung stated that he would make the revisions and send them to Mr. VanOverbeke for review before the IPS is taken to the full Board of Trustees for approval at the next regular Board meeting on November 15<sup>th</sup>.*

**ADJOURNMENT**

**Meeting adjourned at 5:54 p.m.**

**F-4 Administrative Policy Committee Minutes – November 13, 2012**

Following are the Administrative Policy Committee minutes from the meeting convened at 3:08 p.m. on November 13, 2012:

*Committee Members Present: Crawford, Heusel (via telephone), Monroe*  
*Members Absent: None*  
*Other Trustees Present: None*  
*Staff Present: Kluczynski, Walker*  
*Others Present: David Diephuis, City Resident*

## **EXECUTIVE DIRECTOR EVALUATION**

### **Retiree Healthcare discussion:**

Mr. Crawford informed the Committee that during the Audit Committee meeting, Buck Consultants will be asked what the cost might be for an individual in Ms. Walker's situation in order to get an idea of the magnitude of the cost of this benefit. Ms. Walker stated that she is still unclear whether the \$2,500 plan for new hires is under a notional account and how it is going to be administered. Mr. Crawford stated that the account is known as an "RH/RA", or a notional account, which does not earn interest and the money is put into a pool so when an employee retires, the years of service is calculated times the dollar amount. Mr. Crawford stated that the money would go into the VEBA in a separate accounting system. Mr. Monroe stated that he knows of at least two collective bargaining units that are under the impression that the funds are managed by the employees, much like an ICMA account. Mr. Crawford stated that it is still being discussed, but this is what he has been told has been decided upon.

### **FIDUCIARY AUDIT RECOMMENDATIONS & CONSIDERATIONS**

Mr. Crawford suggested that the Committee review the document in sections in order to be sure that the recommendations get addressed, and the Committee agreed. Results for the items reviewed under Benefits Processing were as follows:

**Reexamine all existing processes for calculating benefits to identify areas of weakness where there is a lack of appropriate checks and balances; identify solutions for remediation and develop a plan with timeframes and accountability to implement such changes.**

Conclusion: Since this fiduciary report was completed, staff has implemented and audited Buck Consultants' benefit calculation software, and will continue to dual-process retirement calculations until March/April of 2013, at which time the Committee will consider this item complete. Status: Committee will review again in March/April 2013.

**Evaluate whether the Board should participate at the preliminary stage of the benefits calculation process.**

Conclusion: The Board had agreed that there is no need for their involvement in benefit calculations. Status is noted as completed.

**Require that members submit authentic documents to verify their identity and the relationship to his/her beneficiary. Place copies of such identification in the members' permanent files.**

Conclusion: The Committee will recommend to the Board of Trustees that a beneficiary's driver's license and/or birth certificate be obtained at the time of a member's retirement in order to verify their age, and verification of their Social Security Number will take place at the point of the beneficiary's pay status. Status is noted as awaiting final Board decision.

**Establish a process that occurs every few years or as needed for reviewing, discussing, and modifying Chapter 18 of the Ordinance in concert with City Council's process.**

Conclusion: The APC will consider reviewing the Retirement Ordinance every three years beginning in 2016, being that the Ordinance has recently been revised/restated.

Staff will also send a memo to Council similar to last year's indicating a desire to provide comments when Council considers changes to the Ordinance. Status: 3-year Ordinance reviews will begin in 2016.

### ADJOURNMENT

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

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### **BOARD DISCUSSION REGARDING APC MINUTES**

A discussion ensued regarding the issue of requiring an employee's named beneficiary to provide documentation of their date of birth at the time of the employee's retirement, such as a birth certificate or driver's license, in order to be sure that their proper date of birth is on file, which will also ensure that the benefit calculation data is correct, specifically for those choosing the Option 2 or Option 3 forms of benefits. The Board decided that going forward, all beneficiaries be asked to provide this information, and that upon the time of their potential pay status, they be asked to provide proper Social Security identification. Mr. VanOverbeke suggested that this requirement be incorporated and referenced into the System's Service Retirement Procedures, and Ms. Walker added that retirement paperwork will also be revised to indicate that proper identification is on file.

Mr. Crawford stated that another recommendation from the Fiduciary Audit was to periodically review the Ordinance language every three years, and the Committee has recommended that in light of the recent Ordinance restatement, that the first review will occur in 2016. The Board agreed. A discussion ensued regarding a recent issue that went to City Council that the Board would have liked to have provided additional information, and what role the Board should play when issues like this arise in order to perhaps allow Council to make better decisions. It was decided that a similar letter be sent to City Council as was sent in October 2011, which will indicate the Board's desire to provide comments when a retirement-related Ordinance change is being considered. Ms. Walker stated that she would draft a letter for the Board's review before it is forwarded to City Council.

### **F-5 Audit Committee Minutes – November 13, 2012**

Following are the Audit Committee minutes from the meeting convened at 4:04 p.m. on November 13, 2012:

<i>Committee Members Present:</i>	<i>Crawford, Monroe, Nerdrum</i>
<i>Members Absent:</i>	<i>Clark</i>
<i>Other Trustees Present:</i>	<i>None</i>
<i>Staff Present:</i>	<i>Jarskey, Kluczynski, Walker</i>
<i>Others Present:</i>	<i>Via telephone: Larry Langer, Dan Levin, Kevin Peng, Buck Consultants David Diephuis, City Resident</i>

### **2012 RETIREMENT SYSTEM ACTUARIAL VALUATION REVIEW**

Mr. Langer reviewed the minor changes made to this report since the October 10<sup>th</sup> APC meeting, which included the updated projections, the change in payroll data, and other minor language revisions.

It was **moved** by Crawford and **seconded** by Monroe to accept the 2012 Retirement System Actuarial Valuation as submitted by Buck Consultants, and will recommend approval of the report to

the Board of Trustees at the November 15<sup>th</sup> regular Board meeting.

**Approved**

### **2012 VEBA ACTUARIAL VALUATION REVIEW**

Buck Consultants provided a general review of the Retiree Health Care Benefit Plan & Trust Valuation, with no major changes being suggested by the Committee. Mr. Langer and Mr. Levin will be attending the November 15<sup>th</sup> Board meeting to present both Valuations to the full Board of Trustees.

It was ***moved*** by Crawford and ***seconded*** by Monroe to accept the 2012 Retiree Health Care Benefit Plan & Trust Actuarial Valuation as submitted by Buck Consultants, and recommend approval of the report to the Board of Trustees at the November 15<sup>th</sup> regular Board meeting.

**Approved**

### **UPDATE ON BUCK SOFTWARE SYSTEM**

Ms. Walker stated that staff is continuing to work with Mr. Langer and Mr. Abma on various issues, and the employee self-service program is up and running for the 5-year vesting employees, with the 10-year vesting portion currently in development.

### **ADJOURNMENT**

It was ***moved*** by Crawford and ***seconded*** by Monroe to adjourn the meeting at 5:10 p.m.

**Meeting adjourned at 5:10 p.m.**

### **F-6 Legal Report – No Report**

### **PRESENTATION: Annual Actuarial Valuation for the Year Ended June 30, 2012**

Mr. Langer and Mr. Levin attended the meeting in order to present the Annual Actuarial Valuation for the Year Ended June 30, 2012. Highlights and key takeaways from the presentation included the following:

### **Events During Fiscal Year Ending June 30, 2012 Which Impacted the June 30, 2012 Actuarial Valuation Results:**

- Results of this valuation deviated from last year's valuation due to many legitimate reasons:
  - Market value returns of 0% compared to 7% assumed
  - Payroll *decreased* by over 4% compared to 3.5% assumed
  - 39 retirements compared to 21.5 assumed
  - Plan provisions (change vesting from 5 to 10 years, Final average compensation from 3 to 5 years for new hires in certain groups and member contribution to 6%
  - Apply generational mortality improvements
- Overall, the above events resulted in the funded status to be lower than anticipated and employer contributions to be higher than anticipated based on the revised June 30, 2011 projections.

### **Key Takeaways:**

- During the year ended June 30, 2012, smaller investment returns and lower salaries than expected, somewhat offset by more retirements than expected and mortality improvements results that were worse than expected when compared to the projections based on the June 30, 2011 census and valuation assumptions
- 2013/2014 employer contribution is \$11,216,629



- 2012/2013 employer contribution was \$9,748,510
- Based on revised projection from June 30, 2011 valuation, we expected \$11,203,000
- Funded Ratio of 82.68%;
  - June 30, 2011 funded ratio was 88.03%
  - Based on revised projection from June 30, 2011 valuation, we expected a funded ratio of 83.89%
- The funded status will continue to slip in the next few years as the last of the returns from 2009 and 2012 are reflected in the valuation, resulting in higher contributions. Returns from 2010 and 2011 could reverse this trend.

It was **moved** by Monroe and **seconded** by Crawford 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, 2013.

**Approved**

**G. INFORMATION (Received & Filed)**

**G-1 Communications Memorandum**

**G-2 December Planning Calendar**

**G-3 Record of Paid Invoices**

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

	<b>PAYEE</b>	<b>AMOUNT</b>	<b>DESCRIPTION</b>
1	<b>DTE Energy</b>	<b>37.10</b>	Monthly Gas Fee dated October 10, 2012
2	<b>DTE Energy</b>	<b>499.43</b>	Monthly Electric Fee dated October 10, 2012
3	<b>Comcast</b>	<b>81.65</b>	Monthly Cable Fee
4	<b>Staples Business Advantage</b>	<b>171.72</b>	Miscellaneous office supplies
5	<b>Allstar Alarm, LLC</b>	<b>90.00</b>	3 Months Central Station Monitoring (Nov-January)
6	<b>Afternoon Delight</b>	<b>198.40</b>	Fall Equity Manager Forum at WISD 10/24/2012
7	<b>Buck Consultants</b>	<b>6,333.33</b>	Basic actuarial services & hosting fees 9/30/2012
8	<b>Med Source Services/Cons. Phys</b>	<b>850.00</b>	Disability exam & report – L. Coley 10/11/2012
9	<b>AT&amp;T</b>	<b>151.21</b>	Monthly telephone service
10	<b>Fifth Third Bank/Maple Office</b>	<b>338.69</b>	Condo association dues – November 2012
11	<b>Bradford &amp; Marzec, Inc.</b>	<b>46,146.85</b>	Investment management fees: 7/1/2012-9/30/2012
12	<b>Fisher Investments</b>	<b>48,724.77</b>	Investment management fees: 7/1/2012-9/30/2012
13	<b>Loomis, Sayles &amp; Company</b>	<b>35,945.06</b>	Investment management fees: 7/1/2012-9/30/2012
14	<b>Sky Harbor Capital Management</b>	<b>3,609.43</b>	Investment management fees: 7/1/2012-9/30/2012
	<b>TOTAL</b>	<b>143,177.64</b>	

**G-4 Retirement Report**

The following employee(s) have completed their paperwork for retirement:

Name	Type of Retirement	Effective Date	Group	Years of Service	Service Area
Timothy Towles	Age & Service	November 27, 2012	General	26 years, 1 month	Public Services
Dean Bowerbank	Age & Service	December 1, 2012	General	26 years, 1 month	Financial / Administrative Services
Homayoon Pirooz	Age & Service	December 1, 2012	General	30 years, 4.5 months	Public Services
Tonjia Williams	Age & Service	December 4, 2012	General	25 years, 2.5 months	15 <sup>th</sup> District Court
Ivory Sims	Deferred / Age & Service	December 12, 2012	General	12 years, 4 months	Community Services

G-5 Fiduciary Liability Policy from Chubb Group of Insurance Companies

G-6 Investment Manager Forum Notes – October 24, 2012

G-7 Oaktree PPIP Private Fund, LLP

H. TRUSTEE COMMENTS - None

I. ADJOURNMENT

It was **moved** by Crawford and **seconded** by Clark to adjourn the meeting at 11:17 a.m. due to the impending loss of a quorum.

**Meeting adjourned at 11:17 a.m.**

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