

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
January 19, 2012**

The meeting was called to order by Jeremy Flack, Chairperson, at 8:40 a.m.

ROLL CALL

Members Present: Clark, Crawford, Flack, Hastie, Heusel, Monroe, Rogers
Members Absent: Nerdrum, Powers
Staff Present: Kluczynski, Walker
Others: Michael VanOverbeke, Legal Counsel
Michael Van Dam, City Retiree
David Diephuis, City Resident

AUDIENCE COMMENTS

Mr. Diephuis thanked the Administrative Policy Committee for their work on the public access to Board meeting information, and the recommendations being made to the Board aren't everything that he had hoped for, but they are very sound and should help to facilitate improvements of understanding in the community as to what the Board does in terms of its duties, responsibilities, and decisions.

A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES

B-1 December 15, 2011 Regular Board Meeting Minutes

It was **moved** by Monroe and **seconded** by Rogers to approve the December 15, 2011 Board Meeting minutes as submitted.
Approved

C. CONSENT AGENDA - None

D. ACTION ITEMS

D-1 Retirement System Annual Report for the Year Ended June 30, 2011

Ms. Walker presented the Annual Report for the fiscal year ended June 30, 2011, stating the report includes an overview of the performance of the System and operational updates. Mr. Monroe questioned language in the Report that refers to post-retirement adjustments, and that they are made every July 1. Ms. Walker stated that this statement refers to the annual Poverty Increase for those retirees/beneficiaries that fall below the poverty level, and she will revise the Report to make it clear that this does not pertain to all retirees.

It was **moved** by Crawford and **seconded** by Clark to approve the Retirement System Annual Report for the Year Ended June 30, 2011 as revised.
Approved

D-2 Summary Annual Report for the Year Ended June 30, 2011

Ms. Walker stated that this report is a condensed version of the full Annual Report (D-1).

It was **moved** by Clark and **seconded** by Crawford to approve the Summary Annual Report for the Year Ended June 30, 2011.

Approved

E. DISCUSSION ITEMS

E-1 Proposed Agenda & High-Level Talking Points for Working Session with City Council

Ms. Walker presented a proposed agenda for the upcoming Working Session with City Council on Monday, February 13, 2012. Mr. Crawford stated that even though the working session is slated as being a budget session, the Retirement System presentation will be first on the agenda that evening (allow ½ hour) with the budget discussions beginning afterward, and clarified that the budget discussions have nothing to do with the Retirement System's budget. Ms. Walker stated that she has begun working on a Powerpoint presentation outlining actuarial and investment performance information. Mr. Monroe suggested adding information on other systems and the State funding level, and its relation to the Board's long-term strategy and 7% assumption. Mr. Crawford also suggested that information on all of the recent vesting/FAC Ordinance changes be included as well as the ballot vote regarding Board structure because they will want to know the outcome and the effect of that, noting that the language has yet to be approved by the collective bargaining units before that change can be made. Mr. Monroe suggested that it may be appropriate for City Council to be made aware that the current Board structure is working very well. Mr. Crawford agreed, and stated that Council may also be interested to know that the ten items in the Blue Ribbon Committee Report have been addressed, perhaps by placing the ten bullet points with a summary, and also information on the status of the VCP under the VEBA Trust.

E-2 Revisit Early Retirement Factor Issues as Discussed at the December Board Meeting

Ms. Walker explained that when the Chapter 18 Ordinance language was recently restated, it appears that the language describing how the Early Retirement Factor is computed was inadvertently misstated, and she went on to explain how the process actually works. The new language was written in such a way that the early retirement factor was applied to the overall retirement allowance, which is not the way the formula and math works. There have been discussions to clarify the methodology used when performing these calculations, but apparently there are still issues with the way the calculations are done, and the City's attorneys have proposed that the Board arrive at a combined early reduction factor that would just be applied to the retirement allowance, which would simplify this calculation somewhat for the retiree. Ms. Walker stated that the City has suggested that the actuary provide an idea of an early retirement factor study to determine if we can come up with a simplified factor that wouldn't provide any losers in the scenarios. Ms. Walker stated that Buck Consultants has related to her that the cost of such a study is estimated to be between \$4,000 and \$6,000, where they would look at all of the current actives to determine what the maximum retirement factors you could come up with so there wouldn't be any losers in aggregate; Ms. Walker noted that this cost has not been budgeted. Mr. Crawford stated that the current calculations are way too complex for the employees to understand, and he supports coming up with a way to make it clear what their benefits are, and the question is whether the actuary can come up with a calculation where there are no losers, that makes it easier to calculate, and without there being a high cost each year to the System.

Mr. VanOverbeke stated that in the public sector, the ability to have an earlier than normal retirement age is more atypical than normal retirements, and up until now there has been no confusion as to how the benefit was calculated. Mr. VanOverbeke stated that he understood from recent discussions is that what we were going to do is in order to get this wrapped up and get the IRS determination letter process moving, was to clean up the language to reflect the current practice, have Buck Consultants perform the study, and then at some point in time in the near future when this has been done, then look at amending the Plan which the City can do for non-union employees as long as they are conscious of no cutbacks, and then ultimately through collective bargaining.

Mr. VanOverbeke stated that obviously if you come up with calculations where there are no losers and everyone is a winner, no one is going to complain about that; because this is a proposed Plan amendment, under Department of Labor guidelines the Board is not supposed to use Plan dollars to pay for a proposed Plan change, and in this instance it is not an appropriate expenditure for Plan dollars. Mr. VanOverbeke added that the Board should determine the funding source for that study if it wishes to move forward, so it may end up being a recommendation to the City to evaluate it. Mr. Crawford stated that he does not know if the City would want to take up this study, but the Board could always ask. Ms. Walker stated that once the online calculator is finished, it will be able to provide employees with the early retirement factor information, so they will be able to model their retirement options, and Mr. Crawford stated that this may be what it comes down to, with the employees being informed that they will have to look to the computer and the results will not be the same for everybody.

Mr. VanOverbeke stated that the Board has been seeing more early retirements recently because of the changes going on in Lansing, but historically there have not been a lot of early retirements, and he suspects that once we get through the legislative changes and healthcare issues there may be a reduction in them as well. Mr. VanOverbeke stated that as it stands right now through recent discussions, is that he was going to get the permission from the City to move forward with cleaning up the language on the early retirement factor to mirror what we are currently doing and what had been done previously, and that he would provide the definition for regular interest, but then every time there have been discussions with Mr. Stephenson, he has indicated that the City has not signed off with going forward with that, and the City still has an issue with putting in place in the Ordinance what previously had been done to get the qualification letter to the IRS, so it appears they are waiting for the results of a study and get a hard-line number in the language, but we are waiting for a decision as to whether or not we are going to go with a hard-line number with no losers. At the last meeting, the Board had decided to move forward with what was always the understanding in the restatement, to just codify what the current practices are. Mr. VanOverbeke stated that unless the Board has a different direction from the last meeting to this meeting, we don't need further direction from the Board, but we are still waiting to hear from the City. Mr. Crawford clarified that the Board should inform the City of what it would take if they want to pursue changing everything, and then see if they are good to go with codifying the existing practice going forward. Ms. Walker stated that she will work with Mr. VanOverbeke to prepare a statement to the City.

AMENDED AGENDA:

It was **moved** by Hastie and **seconded** by Clark to amend the agenda to hear Mr. Kaiser's comments regarding his tax issue.

Approved

Mr. Kaiser read a letter regarding the Board's recent offer. In summary, Mr. Kaiser believes he would lose money in the long run if accepting the offer to allow him to withdraw a portion of his contributions in order to pay off the tax debt in full while receiving a lesser monthly benefit going forward; he is also requesting that the Board pay the interest on the 5-year payment arrangement he has made with the IRS and his CPA fees. Mr. VanOverbeke gave a brief history of Mr. Kaiser's

situation.

EXECUTIVE SESSION – KURT KAISER TAX ISSUE

It was **moved** by Hastie and **seconded** by Crawford to convene an executive session for the purpose of revisiting legal counsel's prior memo subject to attorney-client privilege regarding Mr. Kaiser's personal and confidential matter.

Approved

Roll call vote:

Clark – Yes	Hastie – Yes	Nerdrum - Absent
Crawford - Yes	Heusel – Yes	Powers - Absent
Flack – Yes	Monroe - Yes	Rogers - Yes

Executive session time: 9:45 a.m. – 10:18 a.m.

It was **moved** by Hastie and **seconded** by Clark to acknowledge discussion with legal counsel in closed session regarding the prior confidential communication dated October 14, 2011 to the Board with regards to Mr. Kurt Kaiser, as well as discussions regarding his proposal to the Board today, and to direct that legal counsel have discussions with Mr. Kaiser consistent with the discussion that took place by the Board in closed session today.

Approved

F. REPORTS

F-1 Executive Report – January 19, 2012

MICHIGAN TAX

Substantially all of the approximately 500 requests to complete the new Michigan tax withholding forms sent out in December have been returned by participants, although there were a number of questions on the form. Members who did not return a form will be subject to withholding unless our records show their birth date is before 1946. Trustees may recall that at the last minute the Michigan Supreme Court invalidated that portion of the new withholding regulations which provided for a phase-out of the income exclusion based on total household resource levels, for tax payers born from 1946 to 1952. This necessitated a last minute change in the form and instructions. Northern Trust's tax programming vendor has been testing the programming and Northern has advised that the software will be installed 1-12-2011. Then staff will have until December 18 to enter updates. This actually represents 2-3 working days.

DECEMBER POLICE RETIREMENTS

Final pay statements are in process for 9 police retirements in the December time frame. As final pay statements from the City are received and processed, payments for February 1st for these retirements will be set up and processed.

INVESCO MORTGAGE RECOVERY LOANS DISTRIBUTION

INVESCO Mortgage Recovery Loans made a distribution on Friday, December 23, 2011 totaling \$129,265,251. This distribution is comprised of proceeds received by the Partnership from the financing of Portfolio Investments in Shackleford Crossings Investors LLC and IMRF Loan Portfolio Member LLC (the "Atlas Portfolio"). **Partner's allocable share of distribution: \$1,720,831.**

TRANSITION PROCESSES UPDATE TO FUND NEWLY SELECTED EMERGING MARKET MANAGERS AND CONSOLIDATE INDEX FUNDS

Paperwork is complete for the funding of the emerging markets managers and for the transition to Northern Index funds. GTS is in the process on the transition with Northern Trust.

BUCK CALCULATION SYSTEM UPDATE

Earnings for the mid 2002 to 2007 years are loaded to the system. 2007 to current were loaded in December. Programming provided for the years 2007 to current by LRS resulted in truncated files originally being produced by LRS extract program - an issue which consumed much "back and forth" time regarding the upload of these files before the issue was identified.

F-2 City of Ann Arbor Employees' Retirement System Preliminary Report for the Month Ended December 31, 2011

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended December 31, 2011 to the Board of Trustees:

12/31/2011 Asset Value (Preliminary)	\$390,485,220
11/30/2011 Asset Value (Audited by Northern)	\$392,494,290
Calendar YTD Increase/Decrease in Assets <i>(excludes non-investment receipts and disbursements)</i>	\$8,776,484
Percent Gain <Loss>	2.2%
January 18, 2012 Asset Value	\$ 397,169,922

F-3 Investment Policy Committee Minutes: No Report

F-4 Administrative Policy Committee Minutes – January 10, 2012

Following are the Administrative Policy Committee minutes from the meeting convened at 3:06 p.m. on January 10, 2012:

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

PUBLIC ACCESS/REVIEW OF BOARD & COMMITTEE PACKET ITEMS

A lengthy discussion ensued on the issue of posting entire Board and Committee packets on the Retirement System's website, with Mr. Diephuis submitting a document for the Committee's consideration entitled, "Suggestions for Increasing Public Access and Timely Information in Retirement System Agendas and Website". The document included five items which the Committee reviewed one-by-one. As a result of the conversation, the Committee decided to make the following changes:

- 1. On the day Board packets are distributed, submit the agendas to the City Administrator's Office for posting on the City's Boards & Commissions calendar page on the website.*
- 2. After minutes are approved, submit them to the City Administrator's Office for posting on*

the Boards & Commissions calendar page on the City's website.

3. On a trial basis, enhance meeting agendas to include a description of the action and discussion items.
4. Post a summarized quarterly asset report on the Retirement System's web page, either from Meketa Investment Group's quarterly statement, or one customized by Meketa for the web page.

Mr. Crawford suggested attaching a sample agenda as part of this meeting's minutes for the Board's review at the January Board meeting.

CORRECTION TO FIREFIGHTERS' FINAL PAY

Ms. Walker stated that staff has noticed revisions by the Payroll Office to firefighter's final pay distributions, and Finance has relayed that it relates to them being paid for an "estimated week". Mr. Crawford explained how historically firefighters are paid out because upon employment, they are paid up front for one week, which must be adjusted upon retirement. Ms. Walker stated that it has been clarified that the Attorney's Office has provided Payroll with a way to resolve this which involved a back payment to each retired firefighter that was eligible, but she is unsure of how many retirees this affects. Mr. Crawford stated that due to a 1-year statute of limitations, there are not many retirees involved, being that there were only a handful of them retired within the last year.

MEDICAL DIRECTOR RFP SUBMITTALS & SUMMARY

Ms. Walker reviewed a comparison of Medical Consultant RFP's as submitted by the December 16, 2011 due date. Two companies submitted RFP's, including National IME Network and the System's current provider, Med-Source/Consulting Physicians. Ms. Walker stated that both providers were comparable, with National IME Network having slightly lower exam fees, and they did provide references which she was able to contact with positive feedback. Given the results, the Committee decided that since there is no formal contract process to conduct, that the System will begin utilizing National IME Network while still retaining services from Med-Source/Consulting Physicians if the need arises.

ACCELERATED VESTING FOR VCP-AFFECTED INDIVIDUALS - UPDATE

Ms. Walker provided a report regarding a breakdown of the members of the Plan who terminated non-vested between 2002 and 2007 and need to be reviewed for possible vesting due to the VCP.

ADJOURNMENT

It was **moved** by Monroe and **seconded** by Heusel to adjourn the meeting at 4:23 p.m.
Meeting adjourned at 4:23 p.m.

Mr. Crawford reviewed the proposed expanded agenda and asked for the Board's opinion on whether to use this format going forward. The Board agreed to use an expanded version, keeping in mind to better define the bulleted subject titles in the Reporting Section of the agenda.

F-5 Audit Committee Minutes – No Report

F-6 Legal Report – Lyondell Chemical Securities Litigation

Mr. VanOverbeke reviewed a status update on the Lyondell Chemical securities litigation matter, stating that the Retirement System has been named as a defendant in a second amended complaint. At this point, Mr. VanOverbeke will be contacting The Northern Trust Company to find out what the System has received in this case and will be filing an appearance.

Mr. Monroe raised an issue regarding an email sent to all employees from the City last week, specifically regarding the following statement regarding possible State mandates:

Council and staff will continue to discuss the third phase of the state requirements surrounding state shared revenue and the new EVIP requirements, which is also benefits related. There have been many questions from staff surrounding earned pension benefits to date should City Council change pension provisions to meet the state standards in the EVIP program. Any pension benefits you have earned to date will remain unchanged. However, should Council adopt changes to the pension provision then this would impact future pension benefits. We will keep all employees posted on this issue as discussions move forward.

Mr. VanOverbeke stated that this comes from Governor Snyder's budget bill provision that provided for local communities to share full participation in their revenue sharing using three different criteria, 1) dashboard, 2) consolidation of resources with other communities, and 3) pension benefits. The request was that if a community wanted to fully participate in the third tier, it had to show that the community was using its best efforts to bring about changes to pension benefits such as caps on FAC roll-ins and reducing multipliers for general and public safety. Those were not mandated by law, but part of the budget bill in order to participate, so a local community could do nothing or decide to participate. If participating, the budget bill does not give them the ability to violate the State Constitution or collective bargaining, so in terms of the email, it appears that the City is still discussing what it is going to do in terms of trying to fully participate in the revenue sharing, while advising that whatever employees have accrued to date is not going to be changed or diminished.

Mr. Monroe asked if this would affect employees looking to retire within the next few months when it comes to rolling in overtime or other accruals. Mr. VanOverbeke stated that in order for the City to move forward with any of those kinds of changes, they would have to be collectively bargained, and the accrued financial benefit shall not be diminished or impaired according to Article 9, Section 24 of State law with regards to retirement benefits, although this article does not apply to healthcare, which is a separate issue.

G. INFORMATION (Received & Filed)

G-1 Communications Memorandum

G-2 February Planning Calendar

G-3 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 January 2012
2	DTE Energy	225.43	Monthly Gas Fee dated December 12, 2011
3	DTE Energy	252.76	Monthly Electric Fee dated December 12, 2011
4	Comcast	76.23	Monthly Cable Fee
5	AT&T	131.72	Monthly Long-Distance Telephone Service

6	Meketa Investment Group	8,750.00	Investment Consultant Retainer – December 2011
7	Staples Business Advantage	229.55	Miscellaneous office supplies
8	Afternoon Delight	148.00	December 2011 Board Meeting
9	Abraham & Gaffney, P.C.	1,000.00	Final billing for audit completion for FY 6/30/2011
10	Levi, Ray & Shoup, Inc.	9,000.00	Annual WWW Hosting - Pension Gold
11	AT&T	145.39	Monthly toll-free Long-Distance Telephone Service
12	Fifth Third Bank/Maple Office	355.00	Condo association dues – January 2012
13	Buck Consultants	1,583.33	Monthly hosting fees
14	Buck Consultants	900.00	EDRO Estimated Calculations – Bowerbank
15	David Monroe	60.39	Travel reimb.–MAPERS 1-Day Seminar 12/2/2011
16	Jeremy Flack	84.36	Travel reimb.–MAPERS 1-Day Seminar 12/2/2011
TOTAL		23,082.16	

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
Anne Daws-Lazar	Age & Service	February 25, 2012	General	25 years (which includes 6 years reciprocal credit)	Safety Services / Police
Margaret Piotrowski	Age & Service	January 16, 2012	General	5 years	Community Services / Planning & Development

G-5 IRS Announces 2012 Standard Mileage Rates

G-6 Reciprocal Credit Inquiry from Active Employee

Ms. Walker stated that although it appears this employee does not qualify for reciprocal credit with either of her prior employers, she still wanted the information brought before the Board. Mr. VanOverbeke explained the Reciprocal Retirement Act which was put in place many years ago and recognizes prior service with other units of government in order to reach retirement eligibility. The Act is strictly for participation in Michigan governmental service. In this instance, this employee worked for a non-profit entity which was not a governmental entity so it does not qualify under the Reciprocal Retirement Act. The other employment was with a non-Michigan governmental entity, but was a Canadian company, so it does not qualify. Mr. VanOverbeke stated that because the request was brought before the Board, a proper motion would be appropriate denying the request for recognition of a governmental service.

It was **moved** by Hastie and **seconded** by Clark to note that Carol Burry has requested the Board review her application for recognition of service credit under the Reciprocal Retirement Act; the Board noting that the verification of employment received by the System with regards to Ms. Burry indicates that she was an employee of a 501(c)(3) at the U of M Student Legal Services which is not a governmental entity as required under the Reciprocal Retirement Act, and further that her employment with the Great Lakes Fishery Commission was not that of a Michigan governmental employer, and therefore her request for recognition of service credit under the Act be denied.

Approved

H. **TRUSTEE COMMENTS** - *None*

I. **ADJOURNMENT**

It was **moved** by Hastie and **seconded** by Crawford to adjourn the meeting at 11:09 a.m.
Meeting adjourned at 11:09 a.m.

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