

**CITY OF ANN ARBOR RETIREE HEALTH CARE BENEFIT PLAN & TRUST
BOARD OF TRUSTEES
Minutes for the Regular Board Meeting
December 15, 2011**

The meeting was called to order by Jeremy Flack, Chairperson, at 9:53 a.m.

ROLL CALL

Members Present: Clark, Crawford (9:53-12:00), Flack, Hastie, Monroe, Rogers
 Members Absent: Heusel, Nerdrum, Powers
 Staff Present: Jarskey, Kluczynski, Walker
 Others: Michael VanOverbeke, Legal Counsel
 Michael Dortch, AAPD
 Alan Panter, Abraham & Gaffney
 Larry Langer, Buck Consultants
 Dan Levin, Buck Consultants

AUDIENCE COMMENTS - None

A. APPROVAL OF REVISED AGENDA

Revisions to the agenda include the following items:

- Presentation: Financial Audit for the Fiscal year Ended June 30, 2011
- E-3 Resolution to Hire Beachpoint Capital Management as Bank Loan Manager

It was **moved** by Hastie and **seconded** by Clark to approve the agenda as revised, noting that the Audit Presentation will be discussed first on the agenda.

Approved as revised

PRESENTATION – Financial Audit for the Fiscal Year Ended June 30, 2011

Alan Panter from Abraham & Gaffney, P.C. presented the Financial Audit for the fiscal year ended June 30, 2011. Mr. Panter stated that this year's audit went very well and his firm encountered no significant difficulties in dealing with management in performing and completing the audit. The table below compares key financial information in a condensed format between the current year and the prior year:

	Fiscal Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Total assets	\$ 86,551,885	\$ 63,419,081
Total liabilities	<u>60,270</u>	<u>52,070</u>
Net assets held in trust for healthcare benefits	86,491,615	63,367,011
Net investment income	18,307,326	8,410,273
Contributions - employer	4,839,659	927,417
Retiree health benefits paid	<u> -</u>	<u> -</u>
Contributions in excess of benefits paid	4,839,659	927,417
General and administrative expenses	<u>22,381</u>	<u>29,371</u>
Net change in plan net assets	<u>\$ 23,124,604</u>	<u>\$ 9,308,319</u>

It was **moved** by Hastie and **seconded** by Monroe to acknowledge receipt and presentation of the Audit Report for the fiscal year ended June 30, 2011.

Approved

B. APPROVAL OF MINUTES

B-1 November 17, 2011 Regular Retiree Health Care Benefit Plan & Trust Board Meeting

It was **moved** by Monroe and **seconded** by Clark to approve the November 17, 2011 Board meeting minutes as submitted.

Approved

C. CONSENT AGENDA - None

D. PRESENTATION – Report of the 13th Annual Actuarial Valuation for the Year Ended June 30, 2011

Larry Langer and Dan Levin from Buck Consultants presented the Report of the 13th Annual Actuarial Valuation for the year ended June 30, 2011. Below are detailed valuation results for City of Ann Arbor's retiree medical program.

The Present Value of Benefits (PVB) is the total present value of all expected future benefits, based on certain actuarial assumptions. Benefits are defined as paid claims and expenses from the plan, net of retiree contributions. The PVB is a measure of total liability or obligation. Essentially, the PVB is the value (on the valuation date) of the benefits promised to current and future retirees. The plan's projected PVB for the fiscal year ending June 30, 2013 is \$282,241,000. A portion of the combined liability (37%) is for current active employees (future retirees).

The Actuarial Accrued Liability (AAL) is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The plan's projected AAL for the fiscal year ending June 30, 2013 under the "Entry Age Normal – Level % of Salary" method is \$251,280,000. Normal Cost is the value of benefits expected to be earned during the year, again based on certain actuarial methods and assumptions. The projected fiscal year 2013 Normal Cost is \$4,061,000.

The Annual Required Contribution (ARC) is a combination of the Normal Cost for the fiscal year ending June 30, 2013 and an amortization payment of the Unfunded Accrued Actuarial Liability (UAL). Using the maximum amortization period allowed under GASB 45 (30 years) and a level percent of pay, the fiscal year 2013 ARC is \$12,379,000. The City of Ann Arbor may adopt an amortization period that is lower than this, however this will increase the ARC from the amounts noted here. The amortization payment for the UAL reflects interest at the discount rate and beginning of year amortization payments.

Changes From the Prior Valuation

- Census data updated as of June 30, 2011 was used, as provided by the City
- Per capita claims experience was updated to reflect the most recent 24 months of fund experience.
- Plan changes made as of 7/1/2010 and 8/1/2010 are reflected, as well as the retiree contribution structure for certain participants choosing the "high" plan option.
- Trend rates were changed to be 8.5% for the initial year, grading down to 4.5% at 0.5% per year. The prior valuation trend was 9.0% grading down to 3.5% over nine years.

It was **moved** by Rogers and **seconded** by Crawford to acknowledge receipt and presentation of the 13th Annual Actuarial Valuation for the year ended June 30, 2011 and direct that a copy of the

report be directed to the employer as an indication of the Annual Required Contribution (ARC) as calculated by the actuary for the Retiree Health Care Benefit Plan & Trust.

Approved

MEETING RECESSED

It was **moved** by Rogers and **seconded** by Crawford to recess the VEBA Board meeting at this time in order to reconvene the Retirement Board meeting.

Meeting recessed at 10:54 a.m.

MEETING RECONVENED AT 12:35 p.m.

E. ACTION ITEMS

E-1 Legal Correspondence Regarding VEBA Reinstatement with the Internal Revenue Service

Mr. VanOverbeke presented legal correspondence, for the Board's information, as submitted to the IRS regarding reinstating the VEBA Trust.

E-2 Transition Update from Meketa Investment Group

Mr. Hastie reviewed the transition update, stating that one small change has been made regarding the midcap asset, as suggested by Meketa Investment Group in the Update:

- *Following the Board's index consolidation decision, we contacted SSgA to discuss further the two VEBA nonlending index mandates (Midcap/TIPS). As a reminder, SSgA was recommended as an alternative for two portfolios because NTGI does not offer VEBA-eligible non-lending vehicles for TIPS and MidCap.*
- *However, SSgA has stated that it is unwilling to waive its fee minimum for these funds. Given the mandate size, we believe the fee minimum (\$10,000 per fund) results in an excessively high fee, especially relative to the VEBA's current MidCap index provider, RhumbLine.*
- *Therefore, we recommend maintaining the VEBA's current MidCap portfolio managed by RhumbLine Advisers. We note that, since a RhumbLine MidCap investment agreement is already in place, the adjustment would facilitate a more timely transition. RhumbLine's fees (0.0485%) would not change; RhumbLine would continue to waive the minimum for the VEBA.*

It was **moved** by Hastie and **seconded** by Clark to leave the existing midcap assets with Rhumbline, but continue moving forward with the consolidation in all of the other asset classes.

Approved

E-3 Resolution to Hire Beachpoint Capital Management as Bank Loan Manager

Mr. Hastie stated that the Investment Policy Committee has discussed hiring a bank loan manager per the recently approved Asset Allocation Policy, and Meketa recommended three managers who were interviewed at the December 6th IPC meeting with the Committee deciding that Beachpoint Capital was the best manager to hire and seemed to fit with our investment objectives, noting that the firm also agreed to lower their fees to 65 basis points. Meketa Investment Group concurs with the Committee's decision; therefore the following resolution is presented for Board approval:

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, Meketa Investment Group has advised the Investment Policy Committee to add a Bank Loan manager to the portfolio congruent with a new asset allocation policy; and

WHEREAS, the Investment Policy Committee interviewed the following three firms for Bank Loan Managers on December 6, 2011: Beachpoint Capital, Guggenheim Partners, and Sankaty Advisors, and

WHEREAS, the Investment Policy Committee and Meketa Investment Group recommend funding the Bank Loan mandate to reach a target of 4% of the portfolio, so be it

RESOLVED, that Beachpoint be added to the portfolio after successful contractual negotiations with the Board's Legal Counsel and Executive Director for Board approval. Timing of the allocations will be determined in conjunction with the Board and Meketa's recommendation.

It was **moved** by Hastie and **seconded** by Clark to approve the resolution to hire Beachpoint Capital Management as the VEBA's Bank Loan Manager.

Approved

F. **DISCUSSION ITEMS** - *None*

G. **REPORTS**

G-1 **Investment Policy Committee Minutes** – *No Report*

G-2 **Preliminary Investment Reports for the Month Ended November 30, 2011**

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended November 30, 2011, to the Board of Trustees:

11/30/2011 Asset Value (Preliminary)	\$83,389,274
10/31/2011 Asset Value (Audited by Northern)	\$78,450,373
Calendar YTD Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>)	\$3,265,934
Percent Gain <Loss>	4.3%
December 14, 2011 Asset Value	\$ 81,557,842

G-3 **Legal Report** – *No Report*

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

I. **FUTURE AGENDA ITEMS** - *None*

J. **INFORMATION**

J-1 **Record of Paid Invoices**

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

	PAYEE	AMOUNT	DESCRIPTION
1	Meketa Investment Group	2,916.67	Investment Consultant Retainer - November 2011
2	State Street Global Advisors	213.65	Investment Mgmt. Fees: 7/1/11 – 9/30/11
3	Buck Consultants	2,250.00	1 st Qtrly Installment for Basic Actuarial Services
	TOTAL	5,380.32	

K. **ADJOURNMENT**

It was **moved** by Monroe and **seconded** by Clark to adjourn the meeting at 12:42 p.m.
Meeting adjourned at 12:42 p.m.

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