

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
POLICE AND FIRE RETIREMENT SYSTEM
BOARD OF TRUSTEES
DECEMBER 14, 2007**

JOINT SPECIAL MEETING

A special meeting of the Board of Trustees was held on Friday, December 14, 2007 at the Municipal Health and Service Credit Union, 114 East Pike Street, Pontiac, Michigan 48342. The meeting was called to order at 10:17 a.m.

GENERS TRUSTEES PRESENT

Shirley Barnett
Koné Bowman
Raymond Cochran
Charlie Harrison, Chairman
Javier Saucedo, Vice Chair

Devin Scott
Kevin Williams
Debra Woods
Andrea Wright

TRUSTEES ABSENT

Robert Giddings
Mayor Clarence Phillips

PFRS TRUSTEES PRESENT

Raymond Cochran
Brian Lee
Thomas Miller, Vice Chair
Craig Storum, Chairman

OTHERS PRESENT

David Hoffman, Gabriel, Roeder, Smith & Company
David Kausch, Gabriel, Roeder, Smith & Company
Sandra W. Rodwan, Rodwan Consulting Company
Claudia Scott, Rodwan Consulting Company
Ellen Zimmermann, Retirement Systems Administrator
Jane Arndt, M-Administrative Assistant

Re: Actuarial Presentations

Ms. Zimmermann described the service provider RFP process. She said that the actuarial services were bid out four years ago. There had been concerns about the level of service and fees at that time. Recently, there have been issues and concerns again regarding the level of service and cost factors.

Data for the 2006 valuation was provided to GRS in January or February of 2007: later an OPEB valuation was requested which was a lot of additional work. The member annual benefit statements were received within the last month containing a number of errors and inconsistencies. Customer service has become an issue with the office having to provide more data and identify eligible members she felt is the responsibility of GRS. Their service has lagged with cost studies and other requests taking more than a reasonable amount of time.

There has been less clarity when pensions are split due to an EDRO. They charge top dollar for their service. She also had problems contacting Mr. Hoffman. For this meeting he did not provide a sufficient number of presentation materials as requested prior to the meeting.

She would like to keep the GRS benefit calculation software. It allows staff to create benefit estimates and final calculations. It also allows the system to maintain a database of active, deferred and retired members.

Trustee Miller questioned whether there has been a change in personnel at GRS and if the Retirement Office contacted them regarding these issues. He also asked if these issues were addressed at a higher level.

Ms. Zimmermann said that emails have been sent addressing the issues. She has also had changes in the assigned staff. Trustee Wright asked if the issues had been submitted in writing. Ms. Zimmermann said that they had not been submitted in writing but were sent via email. Trustee Miller said that the Retirement Office has been looking for improvement for years.

Trustee Cochran said that he worked with Mr. Smith from GRS in the 1970's and their service was excellent. Trustee Bowman said that he has requested information on several occasions and never received a response.

Chairman Harrison said that there was an issue about a few years ago regarding the cost of the software. Ms. Zimmermann said that the software was not functioning in a way to provide the requested data and the programming fees to make the changes were more than the rates the attorney charges. They did reduce the fees after several discussions.

Trustee Miller asked if there will be impact transitioning from one firm to the other. Ms. Zimmermann said that she does not anticipate any problems transferring the data and that the historical data is also maintained in paper format.

Chairman Storum asked if Rodwan has their own software. He also asked what costs would be incurred to provide the software to the members so they can run their own estimates and whether other companies provide this service. Ms. Zimmermann said that they most likely do not have their own software or provide that service but she will inquire. She is felt the office could provide something functional.

Trustee Wright said that at a previous meeting requesting that the City's IT Department develop an intranet site to provide that service was discussed. Human Resources has

intranet pages on the City's website. She asked how many RFP's were sent out and how many responded. Ms. Zimmermann said that three RFP's were sent out and two firms responded.

Chairman Storum asked if the systems will be looking for other database or service providers or whether GRS will still be responsible for database problems. Ms. Zimmermann said that there is other pension administration software out there. She can look into it.

Trustee Wright asked if the systems need to negotiate an agreement for the software. Ms. Zimmermann said that we have the software but will need to maintain an agreement.

Mr. Hoffman and Mr. Kausch arrived at 10:33 a.m.

Gabriel, Roeder, Smith & Company

David Hoffman, Consultant

David Kausch, Consulting Actuary

Mr. Hoffman said that the trustees are well aware of the services offered by his firm and there have been no changes to the services they provide.

He introduced Mr. Kausch and said that he has twelve years of experience as an actuary and was previously a college professor. He replaced Randy Dziubek when he left to take a position in their Florida office the first of the year.

He reviewed their basic retainer services with a fee increase of 2% with proposed fees for the General Employees Retirement System of \$17,500 to \$21,500 for calendar year 2008. He pointed out the usual services including meeting attendance, actuarial valuation reports and member benefit statements.

Proposed fees for the Police and Fire Retirement System for calendar year 2008 are \$17,200 to \$21,400 which include the same basic retainer services.

Proposed fees for the General Employees VEBA and the Police and Fire VEBA for calendar year 2008 are \$13,000 to \$15,000.

The firm's client references include the City of Grand Rapids, City of Ann Arbor and the City of Lansing.

He reviewed the administrative team that would be providing the actuarial consulting and related services to the systems. This also included a list of the clients they are currently servicing. He said that during his twenty-three years as an actuary his experience has only involved providing these services to public pension systems. He referred to a more extensive list of clients who currently retain their services. He said the list says a lot about their ability to service all these systems.

Ms. Zimmermann asked if the client list by consultant is the actual number of clients per consultant or a partial list. She questioned the average number of clients-per-consultant, the addition of two out-of-state clients and whether they are able to sufficiently support all their clients supporting so many plans. Mr. Hoffman said that they interviewed a consultant yesterday and he will be lightening his client load.

Trustee Miller asked how many hours are spent on each client. Mr. Hoffman said that approximate total time for staff per client is roughly 200 to 250 hours. Ms. Zimmermann asked if that includes EDRO's, cost studies and issues outside of the basic services.

Mr. Hoffman reviewed the status of the most recent ratio of assets to payroll for the General Employees Retirement System. He said that the ratio of assets to payroll is 35 to 1 including the assets from the hospital. The amortization shows a \$7 million funding credit.

He said that he recently heard at a conference that plans should look for less volatility in their asset mix with average returns of 6% or less volatility. The City of Pontiac plans should not change their asset mix and keep the status where it is.

He discussed how there is no control over the cost of benefits. He also described the conversion of benefits from a defined benefit plan to a defined contribution plan. He said that currently many systems are converting new hires to a defined contribution plan and offering a lower tier of benefits. Recent trends are also moving toward non-hiring, lower funding credits and a decline in active payroll.

He said that the General Employees Retirement System funding credit of over 40% of payroll with the assumption met should never need a City contribution in reality. Assuming returns of 5% per year on average no contributions should be needed for the next fifty years. But it could happen.

He also said it is more beneficial for the City to continue with a defined benefit plan where they are not required to make contributions versus a defined contribution plan which will require funding for future hires.

Chairman Harrison asked if they are able to provide service for Ms. Zimmermann and the staff in a timely fashion. Mr. Hoffman said that Mr. Dziubek will be returning to their office and added back to the team. He also said that he had been on medical leave for four months and had reduced his hours to thirty per week. He has also slightly lowered his client load. Mr. Dziubek will be flying back on Friday and begin working fulltime with his original clients. The addition of a consultant to the staff should improve turn around time.

Chairman Storum had a question regarding the contribution rate graph. He asked if they continue to recommend long-term smoothing. He also asked if the smoothing helped to reduce the volatility and assumed less risk. Mr. Hoffman said that volatility is generated by the asset mix.

*Mr. Hoffman and Mr. Kausch left at 11:05 a.m.
Ms. Rodwan and Ms. Scott arrived at 11:07 a.m.
Trustees Lee and Storum left at 11:07 a.m.*

Rodwan Consulting Company

Sandra Rodwan, President
Claudia Scott

Trustees Lee and Storum returned at 11:11 a.m.

Ms. Rodwan thanked the Board for the opportunity. She said that she and Ms. Scott worked together at GRS and that she has over thirty years of experience working with public pension systems. Rodwan Consulting Company incorporated in December, 2000.

Rodwan's philosophy of service is to focus on their clients not on themselves. They have dedicated resources to provide good service for their clients. They strive to provide quality, accuracy, timeliness and to keep their fees reasonable. They do not add extra charges for phone calls or an extra meeting. They feel if you focus on serving your client everything works out.

Their main focus is public employee plans. Their staff has over seventy years of experience. They support fifty retirement systems in eight states with the majority of their clients in Michigan. They provide basic retainer services for thirty-two of these clients which include an annual actuarial valuation and an annual actuarial written report.

They support four or five very large retirement systems with funds totaling \$5.5 billion. With the addition of the State of Arizona Corrections Officers it is not more than \$8 billion with 27,000 participants. However, they can support a system like the City of Ludington Police Officer with fifteen members and stay on top of trends and changes in plans this size.

They are cognizant of all sizes of public pension plans. They are very active at MAPERS, with federal legislation, retiree healthcare, are up-to-date with complex plans and OPEB.

Their success is based on their philosophy in the public sector. She has worked with public pension plans for more than twenty-five years and continues to acquire new ones. Their new business comes from referral.

They strive to present all information to their clients in a clear and unbiased format. No one in Michigan knows more about Michigan plans. They deliver understandable reports, conclusions and recommendations. The highest compliment they can receive is when the Board understands their reports.

They are pro-education. Their valuation software is DBVal. It is written and supported by persons with thirty years of experience. It offers a broad range of services and benefits. They have a technical support team that can provide support for specialized services.

They have significant experience with cash flow projections, health plans, VEBAS and MERS. They are proactive with their clients assisting in identifying trends and issues to insure sound funding policies and funding levels. Plans that follow their advice are in good shape. However, they do not mandate, they discuss assumptions and issues. They believe in two-way communications with their clients.

They identify risk areas for their clients with retirees living longer and the male mortality table improving. They are proactive in identifying emerging trends: salaries and liabilities are up, funding ratios, post retiree healthcare and OPEB. They welcome the opportunity to share their experience and quality of service.

Ms. Rodwan said that Ms. Scott has worked on the City of Pontiac systems in the past when she was with GRS.

Trustee Wright asked about their retainer services contract and how it states that the contract is good for three years with no fee increases barring no major change in benefits. Ms. Rodwan said that there would be an annual review to see how they are doing.

Trustee Lee asked about their software and whether they could provide a spreadsheet where members could run their own estimates. Ms. Rodwan said that they do not currently provide that service but she is sure they could provide a format where the data could be plugged into the form. He asked if it could be web-based. She said that they do not have that capability now but will have in the future.

Trustee Scott asked about their turn-around time. She said the goal is to provide the annual valuation report within six to eight weeks of when they receive the data.

Trustee Miller said that there proposed fees are very similar. Chairman Storum asked how their fees are generally based for cost studies and estimates changes. She said that they bill based on an hourly rate and actual time spent subject to a maximum amount.

Chairman Storum asked about their how long-term relationship with GRS has affected the transition of clients taken from GRS. Ms. Rodwan said that there have been no problems transitioning GRS data and clients into their system. Data from the last valuation was put through a trial run to ascertain differences with no problems. Ms. Scott has a great deal of experience with benefit calculations and there have not been any issues.

Ms. Rodwan said that they limit the number of clients or accounts per consultant. As they take on more clients they will look for good people who have the same high standards. They work very hard for their clients. They understand how important it is to have enough staff to provide excellent client service.

Ms. Rodwan and Ms. Scott left at 11:37 a.m.

Discussion followed by the trustees. Chairman Harrison asked if the trustees were ready to vote and if there were any questions.

RESOLUTION 07-092 By Woods, Supported by Wright

Resolved, That the Board approve the hiring of Rodwan Consulting Company to provide actuarial valuation services for the City of Pontiac General Employees Retirement System.

Yeas: 8 – Nays: 0

RESOLUTION 07-061 By Miller, Supported by Cochran

Resolved, That the Board approve the hiring of Rodwan Consulting Company to provide actuarial valuation services for the City of Pontiac Police and Fire Retirement System.

Yeas: 4 – Nays: 0

RESOLUTION 07-093 By Woods, Supported by Scott

Resolved, That the Board approve Trustee Kevin William's attendance at the Opal Public Funds Summit Conference on January 16, 2008 through January 18, 2008.

Yeas: 8 – Nays: 0

The meeting was adjourned at 11:44 a.m.