

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
AUGUST 28, 2013**

A regular meeting of the Board of Trustees was held on Wednesday, August 28, 2013 at the Pontiac General Employees' Retirement System Office located at 2201 Auburn Road, Suite B, Auburn Hills, Michigan 48326. The meeting was called to order at 10:20 a.m.

TRUSTEES PRESENT

Shirley Barnett
Koné Bowman, Vice Chairman
Janice Gaffney
Robert Giddings
Charlie Harrison, Chairman
John Naglick, Secretary
Kevin Williams

OTHERS PRESENT

Beth Bialy, Plante & Moran
Nick Tochman, Plante & Moran
Cynthia Billings, Sullivan, Ward, Asher & Patton
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M-Administrative Assistant

TRUSTEES ABSENT

Leon Jukowski, Mayor (*absent*)
Walter Moore (*excused*)
Patrice Waterman (*excused*)

PUBLIC DISCUSSION/UNION REPS - None

AGENDA CHANGES - None

APPROVAL OF CONSENT AGENDA

- A. Approval of Minutes of Regular Meeting: July 24, 2013
- B. Approval of Minutes of Special Meeting: August 12, 2013
- C. Communications
 - 1. Correspondence from GERS to Emergency Manager Re: Elimination of Retiree Healthcare
 - 2. Correspondence from John Naglick Re: Elimination of Retiree Healthcare
 - 3. Correspondence from Ambassador Re: August 2013 Strategies
 - 4. Correspondence from AMBS Re: August 2013 Newsletter
 - 5. Correspondence from First Eagle Re: Performance Summary July 2013
 - 6. Conferences:
 - a. 2013 Client Conference – Mesirow Private Equity – October 16-17, 2013
 - b. 59th Annual Public Plans Conference – IFEBP – October 20-23, 2013
- D. Financial Reports
 - 1. Statement of Changes: July, 2013
 - 2. Accounts Payable: August, 2013

- 3. Ratification of Capital Calls:
 - a. Mesirov Private Equity Fund VI \$15,000
- E. Death Audit
- F. Applications for Retirement, Final Calculations, Refunds, Re-Examinations
 - 1. Remove from the Rolls
 - a. Doug Danielson (deceased 08-02-13): surv bnft of \$2,864.20/mo to Jody Danielson
 - b. Paul Grant (deceased 05-30-13)
 - c. Hugh Malloy (deceased 08-07-13)
 - d. Ida Marks (deceased 07-24-13)
 - e. Mary Pittman (05-??-13) per death audit
 - 2. Application for Service Retirement:
 - a. Taveo Whittaker - Teamsters 16 years, 6 months Age 42 (Early Out)
 - b. Evelyn M. Chambers – PMEA 18 years, 6 months Age 60 (Off Deferred)
 - 3. Final Benefit Calculations:
 - a. Carol Wilkins #2716 Early Out
 - b. Keith Keesling #2725 Early Out
 - c. Vincente Jimenez #2726 Early Out
 - d. Diana Deplanche #2732 Early Out
 - e. Nora A. Francis #2741 Off Deferred
 - f. Evelyn Chambers #2744 Off Deferred
 - g. Rachel Zarzorian #602613 (Englund EDRO)

RESOLUTION 13-075 By Williams, Supported by Gaffney
 Resolved, That the Board approve the consent agenda for August 28, 2013

CONSULTANTS

Re: Plante & Moran – 2012 Audit Presentation

Beth Bialy introduced herself and Nick Tochman to the Board. They are presenting the financial report for the System as of December 31, 2012.

Mr. Tochman told the Board that the Independent Auditor’s Report expresses their opinion based on their audit of the financial statements of the Fund. They have issued an unqualified opinion which is the highest opinion they can issue.

This year’s audit format is different from last year’s. This report has implemented GASB 63 requirements and the term “net assets” has been changed to “net position”.

The Management Discussion & Analysis is prepared by the Plan’s management which includes the current year’s financial results. It is a summary of the balance sheet and income statement.

In 2012, the Board adopted a new asset allocation. The actual breakout of assets to asset class as of December 31, 2012 was: domestic equities 55%; domestic fixed income 18%; international equities and fixed income 15%; basket clause category securities 8% and cash 4%.

Under Plan Sponsor Financial Condition they noted that the Plan Sponsor is currently in receivership under Public Act 346. The System is overfunded which means no contributions are needed from the Plan Sponsor.

The Statement of Plan Net Position as of December 31, 2012 noted an increase in the net position to \$423.5 million, up from \$394 million the previous year. Returns were 13%, which is better than the actuarial assumption.

The Statement of Changes in Plan Net Position indicated an increase in interest and dividend income of 7%. The fair value of assets was up \$52 million or 13% over 2011. Total deductions were \$22 million up 2% or \$460,000.00 from the previous year.

Mr. Tochman reviewed the Notes to the Financial Statements.

He indicated that the System's financial statements are provided to the City because they are included as a component of the City's financial statement.

Under methods used to value investments he pointed out that alternative investments are a component of the Fund's portfolio. These types of investments are allowed up to 10% under the State Act but are harder to value. Alternative investments are reported at estimated fair value because they do not have an established market value.

Membership information indicated that there are more retirees than active members in the System.

He described the Fund's deposits and investments which are subjected to several types of risk including interest rate risk, duration risk and credit risk.

He provided an overview of the upcoming GASB standards. GASB 67 replaces the requirements of GASB 25. The new requirement will affect the Plan's financial reporting by not allowing the Plan to use the actuarial smoothing of assets.

Ms. Zimmermann indicated that the new requirement is a major change. She asked if the fair market value will be based on the balance sheet date.

Ms. Bialy noted that it is a timing issue and that the prior year's balance sheet will roll forward on the actuarial report as of the balance sheet date.

GASB 68 will affect the City because they will have to put the full liability on their balance sheet. Normally, this would be offset with assets.

Chairman Harrison asked if the current audit reflects smoothing and if the change will take effect next year.

Ms. Bialy stated that the change will not take place for this System until 2014. The current audit represents the System's balance sheet which is the fair market value of the Fund. They do not use the smoothed value of assets in their audited statements.

Chairman Harrison noted that the losses in 2008 will fall off next year which will be a significant change.

Ms. Bialy agreed that having a bad year drop off is to the advantage of the System.

Mr. Tochman reported that as of December 31, 2011 the actuarial value of assets was \$383.3 million with actuarial accrued liabilities of \$249.7 million with total overfunding of \$133.6 million. This is a great position for the Fund to be in.

Ms. Bialy provided a review of the professional standards letter they are required to provide. They are required to disclose any issues, internal or other, as a result of the audit.

Section 1 pertains to internal control matters that are identified during the audit. She reported that they identified one deficiency in internal controls that they deemed significant.

Alternative investments by nature are harder to value. The best way is to have audited financial statements which were received from all the managers. They would have to go down a different path to value the investments without these statements.

One investment in GrayCo Alts totaling \$390,000.00 did not reflect fair value. It is not a lot of money compared to the size of the Fund. However, there should be a process in place to value investments especially with the increased percentage of basket clause investments allowed in the portfolio.

Fair value is the key with alternative investments and Parmenter did not provide an updated fair value.

Chairman Harrison asked Ms. Bialy as an auditor what the Board should do.

Ms. Bialy stated that she would make sure that fair value reporting is a requirement that is written into the investment agreement.

Trustee Naglick stated that he spoke with Chris Kuhn of Gray & Company with regard to this matter. He is concerned because the System has only invested \$3.8 million of the \$6 million of committed capital with GrayCo Alts and that more assets could be invested with Parmenter.

He has brought this issue up with Larry Gray. Mr. Gray assured him that the problem was the reporting period of 120 days and increasing that period to 180 days would remedy the situation. However, Mr. Gray indicated that Parmenter does not believe in fair value reporting and they do not require an appraisal. The Chairman needs to tell Mr. Gray to inform Parmenter that fair value reporting is needed. Recently, an SEC complaint was filed against GrayCo Alts Fund II. This is an issue when public fund assets are invested.

Ms. Zimmermann stated that Mr. Gray never said that Parmenter would never provide a fair market valuation. He indicated that they would have the investment appraised within two years.

Trustee Naglick stated that a deficiency in the audit is an issue.

Chairman Harrison indicated that this manager invests in distressed real estate which is harder to define. The manager did provide an audited financial statement.

Ms. Bialy stated that this is a significant deficiency but not a material issue. It is a process issue.

Chairman Harrison stated that with this type of investment it is not as easy to pin point fair value.

Trustee Gaffney noted that it may not be to the manager's advantage to report fair value.

Trustee Naglick again noted that the manager needs to comply with accounting principles.

Ms. Bialy stated that sometimes it is harder for auditors to value an alternative investment from an auditor's perspective.

She was asked what needs to happen to clear the qualification with no noted significant deficiency.

Ms. Bialy stated that in order to clear the deficiency GrayCo needs to use an industry approved model rather than having the investment on the balance sheet at cost.

Trustee Giddings expressed his concern that the significant deficiency will come back on the Board if it is not cleared.

It was noted that as a fund of funds manager GrayCo needs to implement a better process to report fair value of the investments.

Trustee Gaffney agreed with Trustee Naglick that the Board needs to put pressure on Mr. Gray to provide the information.

Trustee Bowman stated that he is on the same page and wants the Board to extend pressure on Mr. Gray to provide the data.

Trustee Giddings stated that the Board needs to act soon because the information has been reported.

Chairman Harrison directed Ms. Zimmermann to draft a letter to GrayCo based on the findings of the audit report.

Ms. Bialy indicated that there were no significant audit findings.

The audit was performed based on the planned scope and timing.

She reported that the Summary Annual Report was sent out late by the Retirement Office.

They did not encounter any difficulties performing the audit, nor were there any disagreements or issues with management.

Accounting estimates are an integral part of the financial statements. Certain accounting estimates primarily alternative investments are sensitive because of their significance to the financial statements. They look at the reasonable assumption based on the actuarial assumptions since this investment is only \$390,000.00.

Management did not consult with any other independent accountants.

Last year's audit reported that there were a number of retirement benefits being paid on the initial estimate. As of December 31, 2012, all the final benefit calculations were caught up and the backlog has been cleared.

She told the Board that with a small or limited staff some changes or processes can be more difficult to implement. If a process is changed it is important to insure that checks and balances are in place.

The personal property tax has been repealed contingent on a statewide vote in August, 2014. She described the proposed changes including the potential property tax base loss to local governments.

She described the significant changes with regard to Public Act 347 which amended Public Act 314 and the impact on public pension systems. Changes include increasing the limitations on basket clause investments; training, travel and education spending limitations of \$30,000.00 per trustee and additional documentation and reporting requirements.

Public Act 329 that was passed in October, 2012 allows communities that meet certain criteria to issue bonds to fund all or a portion of their unfunded pension and other post-employment benefit (OPEB) liabilities. They are referred to as "benefit bonds." The issuance of these bonds requires the municipality to carry a AA credit rating.

RESOLUTION 13-076 By Williams, Supported by Gaffney
Resolved, That the Board approved to receive and file the 2012 Audit Report as presented.

Yeas: 7 – Nays: 0

Ms. Bialy & Mr. Tochman left at 10:34 a.m.

REPORTS

Re: Chairman - None

Re: Secretary - None

Re: Trustees/Committees

Trustee Gaffney indicated that the Personnel Committee will be scheduling a meeting prior to the next Board meeting.

Re: Administrator

Retiree Healthcare Notices & Forms

Ms. Zimmermann told the Board that the notices and forms sent to retirees regarding their healthcare benefits are included in the Reports Section of the Agenda Packet.

Letter to Deferred Retirees

Ms. Zimmermann reported that the letter to the deferred vested members regarding the non-payment of their accrued sick bank has been sent out. The letter explained that this was based on the action of the Emergency Manager and that because the sick bank was not paid to them, it cannot be included when determining their final average calculation

Re: Legal

IRS Letter of Determination Submission for an IRC Section 420 Transfer

Ms. Billings reported that this item is pending. She will keep the Board informed of any changes with regard to this matter.

Request for Attorney General Opinion

Ms. Billings reported that this item is pending. She will keep the Board informed of any changes with regard to this matter.

IRS Letter of Determination Submission for Qualification Under IRC Section 401(a)

Ms. Billings reported that this is the general qualification for the Plan under the Internal Revenue Code. This item is also pending. She will keep the Board informed of any changes with regard to this matter.

Memorandum Regarding Tommy Goodman Calculation of Credited Service

Ms. Billings reported that Mr. Goodman requested that he receive the same credited service for the purpose of calculating his retirement benefit for the time he worked as a part-time employee. She explained that the service credit has to be determined and approved by the City's Human Resources Director.

Trustee Naglick stated that he can provide Mr. Goodman's payroll records.

Ms. Billings stated that the City has to determine whether Mr. Goodman will receive service credit for his part-time employment through the Human Resources Director.

Trustee Naglick indicated that the payroll information can be provided by Coylicia Mosley who is the City's Human Resources Specialist.

Ms. Billings stated that Mr. Goodman is not inquiring about his full time service credit. He is asking for service credit for his part-time employment that was given to other members based on a grievance and special arbitration.

Remaining Membership in the Retirement System

Ms. Billings discussed the various lists of employees and stated she needs confirmation from the City as to who is a member of the System. Trustee Naglick will confirm which contract people are not in the System.

Posting of Rescheduled Regular or Special Meetings on the City's Website

When a meeting is rescheduled, whether for a regular or special meeting, the notice must now be posted on the City's website. Trustee Naglick said he would work with Ken Martin to allow for this.

Fee Disclosure Statement

Ms. Billings reported that a requirement of Public Act 314 is the disclosure of fees. She has drafted a memorandum for the Board's review.

It was determined that the memorandum with the annual fee disclosure should be sent to investment managers by Chris Kuhn of Gray & Company.

Bernstein Litowitz Portfolio Monitoring Report – Second Quarter 2013

Ms. Billings reported that this is for the trustees' information.

RESOLUTION 13-077 By Naglick, Supported by Gaffney

Resolved, That the Board move to closed session to discuss pending litigation.

Roll Call:

Trustee Barnett – yea	Chairman Harrison - yea
Trustee Bowman – yea	Trustee Naglick – yea
Trustee Gaffney – yea	Trustee Williams - yea
Trustee Giddings - yea	

The Board moved to closed session at 10:52 a.m.

Ms. Arndt left at 10:52 a.m.

The Board returned from closed session at 11:11 a.m.

RESOLUTION 013-078 By Gaffney, Supported by Williams

Resolved, That the Board approve the closed session minutes for July 24, 2013.

Yeas: 7 – Nays: 0

UNFINISHED BUSINESS

Re: Remaining Members of GERS Determination – Refer to Legal

Re: Section 420 Transfer – Retiree Healthcare – Refer to Legal

Re: D. Miller Request for Consideration (Referred to Legal Counsel)

Ms. Billings reported that Daniel Miller is a disability retiree who received an overpayment on his pension benefit due to a mistake when his benefit was originally calculated.

Ms. Zimmermann explained that the overpayment was due to the wrong retirement date being used.

Trustee Barnett asked if the overpayment was a significant amount.

Ms. Billings told the Board that based on the member's letter, he was overpaid \$42,000.00 due to the mistake.

If the Court was to issue a judgment if this matter ends in litigation, the Court would ask who was in the best position to make the determination.

Trustee Giddings asked if the Court looks at whether this would cause harm to the member.

Ms. Zimmermann stated that quite a long time ago the Board had discussed a disability case where the member made application for a non-duty disability but began to collect workman's compensation, so his retirement type might be changed to a duty disability.

Ms. Billings stated that she will do a review of the member's issue with regard to the workman's compensation rule.

Re: P. Thomas Request for Consideration (Referred to Legal Counsel)

Ms. Billings reported that Deborah Munson made a presentation to the Judges at the Court regarding their retirement benefits. Prior to the presentation on July 13, 2013, Judge Preston Thomas applied for his retirement benefit.

During that presentation he learned that he was able to retire upon reaching age sixty on a voluntary basis. He has indicated that he was never told he was eligible to collect his benefit upon reaching age sixty. He has asked to receive a retroactive retirement benefits to the day he was first eligible to retire.

Ms. Zimmermann told the Board that Judge Thomas would have received a deferred member statement indicating his eligibility to retire.

Ms. Billings stated that the Retirement Ordinance excludes members from the City of Pontiac Retirement System that have not terminated their employment. She will have to look at the Internal Revenue Code. He appears to be still employed by the City. The IRS allows for in

service distribution when a member reaches retirement age provided the ordinance allows for an in-service distribution. However, the Ordinance provision indicates the member has to be separated from service.

It is her opinion that anyone still employed by the City is not eligible to receive a retirement benefit. This could be alleviated if the Retirement Ordinance was changed with an exception for District Court Judges.

She noted that one Judge is currently in pay status.

Ms. Zimmermann told the Board that when the Judge was appointed he became a deferred retiree in the System. She does not understand why they are not entitled to their pension benefit when they attain age and service.

Ms. Billings stated that they are not eligible as long as they are employed by the City.

Trustee Naglick told the Board that the Judges are on the City's biweekly payroll. Their salaries are paid by both the State of Michigan and the City of Pontiac.

Ms. Billings stated that supports her argument that Judge Thomas is not eligible because he has not separated his employment from the City.

Chairman Harrison asked legal counsel for her recommendations.

Ms. Billings recommended that the Retirement Ordinance be amended with a clause for judges, if in fact this would be considered an in-service distribution.

There was Board discussion regarding the notification to Judge Thomas that his benefit could be suspended until he separates his employment with the City and that he will have to pay back the pension benefits he has received.

Ms. Zimmermann indicated that there should be a review of past practice prior to notification. She believes that another judge or judges may have received their deferred retirement benefit while in the service of the City. She provided names of former judges receiving pension benefits from the System including Judges Brown, Waterman and Fairbrother.

Chairman Harrison indicated that Judge Bowman does not fit into this category because he is a Circuit Court Judge.

Ms. Zimmermann also noted that the judges filed a lawsuit with regard to the actuarial assumptions being used in new the Judges Retirement System that was set up some time ago.

Trustee Naglick suggested tabling this issue to review the issue further.

Trustee Gaffney indicated that she believes the Board needs to look at past practice but that Judge Thomas is not eligible for a retroactive benefit.

Trustee Naglick asked whether Ms. Munson was aware when she made her presentation that MAPE is still eligible to participate in GERS. He told the Board that Donnell Reed works for the MAPE Union.

Ms. Zimmermann stated that Ms. Munson contacted the Administrator of the Judge's Retirement System.

Ms. Billings indicated that the Administrator for the Judge's Retirement System is not authorized to make an opinion on this System; that he would have been speaking on behalf of the JRS.

Ms. Zimmermann stated that she was only notifying the Board that Ms. Munson contacted that Administrator who is the most knowledgeable person on these technical matters for judges.

Ms. Billings was requested to review this matter in detail.

Re: Revised Election Rules

Chairman Harrison indicated that Trustee Stubblefield's position on the Board is open and needs to be filled.

He discussed the Board dynamic and the fact that there are more retired members than actives. The Retirement Ordinance has that trustee position as an Active Trustee. He asked if the Board should leave it that way in order for those active members to have representation on the Board. Eventually all the actives will be gone and the Board can make a change then.

The Retirement Ordinance states that the position needs to be filled ninety days from its vacancy, so the election should take place in October.

Ms. Billings told the Board that they could request that the Retirement Ordinance be amended to change that trustee position from Active Trustee to Member Trustee.

Trustee Bowman stated that the Active Trustee should remain because there are still active employees.

Trustee Gaffney told the Board that they can look into something later perhaps including the actives with the deferred. It would be difficult to get the Retirement Ordinance amended at this time.

Ms. Billings reminded the Board that there was a significant amount of time that the Deferred Hospital Trustee position was vacant on the Board.

Trustee Gaffney also stated that the Board should give the active employees the opportunity to fill the position. If no one runs than the Board can propose changing the position. However, the Board should not wait until the active members retire.

Ms. Zimmermann stated that she will bring the election schedule to next month's meeting.

Trustee Naglick stated that the Court will not be going away and that any new hires will become active members in the Retirement System.

Trustee Gaffney suggested that the Retirement Office make sure that the active members get notified of the upcoming election.

Re: Temporary (two-year) Benefit Increase Cost Study

Ms. Zimmermann referred to the cost study which indicates the cost of the temporary two-year benefit increase to members in pay status.

The two-year temporary benefit increase is costing the System approximately \$9.9 million.

There was Board discussion regarding the confirmation of the benefit increase.

Trustee Giddings indicated that as the Hospital Trustee he would like to confirm whether there will be a benefit increase for his members.

Chairman Harrison referred to the letter sent to the Emergency Manager and the responses from John Naglick.

Trustee Naglick confirmed that he provided the responses. He also stated that the Court will make a determination today with regard to the temporary benefit increase.

Trustee Giddings asked if the benefit increase is approved will it go into effect September 1st.

Trustee Gaffney indicated that the Court is determining if a TRO will go into effect.

Trustee Giddings asked if the TRO can be issued.

Ms. Billings stated that it depends on the Judge's ruling.

Re: Impact of Benefit Changes on Actuarial Accrued Liability

Ms. Zimmermann told the Board that she was asked at the last meeting to provide a summary of the financial burden to the Retirement System based on the early out retirements authorized by the Emergency Manager.

The early out retirement benefits granted by the Emergency Manager cost the System approximately \$1.4 million to date excluding the \$400 per month increase.

NEW BUSINESS

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, September 25, 2013 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 13-079 By Bowman, Supported by Gaffney
Resolved, That the meeting be adjourned at 11:42 a.m.

Yeas: 7 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on August 28, 2013

Secretary, John Naglick
As recorded by Jane Arndt