

- b. Request #2 – Linda Hasson (Pontiac Resident) Received via fax May 20, 2015
- c. Request #3 – Linda Hasson (Pontiac Resident) Received via fax May 20, 2015
- d. Request #4 – Linda Hasson (Pontiac Resident) Received via fax May 20, 2015
- 2. Robinson Capital – Short-Term Bond Strategies (May 2015)
- 3. 401k Lawsuits Just Got Easier, USA Today (May 19, 2015)
- 4. Need for Cyber Liability Insurance ..., Benefits Magazine (May 2015)
- 5. Gray & Company Emerging Manager and Michigan Large Cap Update (May 15, 2015)
- 6. The Oakland Press: Adviser to Pontiac Pension Fund ... (May 21, 2015)
- 7. Pensions & Investments: SEC Charges Gray Financial Group ... (May 21, 2015)
- 8. Before the SEC: In the Matter of Gray Financial Group, Inc. ... (May 21, 2015)
- 9. Gray & Company Client Letter (May 22, 2015)
- D. Financial Reports:
 - 1. Accounts Payable: April 2015
- E. Applications for Retirement, Final Calculations, Refunds, Re-examinations

1. New Retirements – *No new retirements*

2. Terminated Retirements (Deaths)

Ret No.	Name	Date of Death	Member or Beneficiary	If Beneficiary Member Name	Union or Dept.
1339	Uller, Joseph	05.05.2015	Member		Local 2002
610	Gomez, Maria	04.25.2015	Beneficiary	Jesse Gomez	
953	Han, Helen	03.29.2015	Beneficiary	John Han	
973	Bolan, Ora Lee	04.13.2015	Member		Local 2002
701012	Drenkhahn, Glenia	04.20.2015	Beneficiary	Walter Drenkhahn	

3. Joint & Survivor Continued Retirements

Ret No.	Retiree's Name	Date of Death	Survivor's Name	Joint & Surv Option	Amount	Union or Dept.
1801	Knight, William	04.20.2015	Knight, Phyllis	100% J&S		Local 2002

4. Employee Contribution Refunds

Trustee Nazarko questioned the amount of Staff payroll.

Miss Carter indicated the number should be doubled to represent the two pay periods and will be reflected correctly in the minutes.

RESOLUTION 15-033 By Gaffney, Supported by Williams

Resolved, That the Board approve the consent agenda for May 27, 2015 as amended.

Yeas: 8 – Nays: 0

CONSULTANTS

Re: Gray & Company – Report from Investment Consultant

Mr. Gray presented the System's performance report for the first quarter of 2015 including an overview of the capital markets.

General Employees Retirement System

Regular Meeting

May 27, 2015

There was significant market volatility during the first quarter. Investors are pulling out of the market in anticipation of rising interest rates and standard deviation is up. The markets are overdue for a correction. In his opinion, it would be healthy for the markets to pull back.

Global equity markets generated positive returns for the year. The S&P 500 realized returns of 12.7% and the Russell 2000 at 8.2%. The MSCI EAFE generated negative returns for the year at -0.9% with returns of 4.9% for the quarter.

The S&P sector performance for the period reported negative returns for energy at -2.85% and utilities at -5.17%. The energy market is down due to reduced oil prices and decreased fracking. Materials and industrials are also down due to reduced global demand.

The Fund's total market value as of March 31, 2015 was 500.3 million.

	Value \$ (000)	% of Fund	Current QTR	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs	15 Yrs
Total Plan	500,342	100	3.15	8.33	11.91	11.04	8.41	7.95	6.69
Net of Fees			3.03	7.76	11.31	10.33	7.78		
Policy Index			2.69	8.51	12.47	11.57	8.19	7.97	6.56

He reviewed the total plan's performance returns ranking versus the public fund universe and the policy index.

	Last Qtr	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 15 Years
Total Plan	3.15 (9)	8.33 (19)	11.91 (2)	11.04 (3)	8.41 (3)	7.95 (11)	6.69 (10)
Policy Index	2.69 (24)	8.51 (17)	12.47 (1)	11.57 (1)	8.19 (3)	7.97 (9)	6.56 (12)

High yield manager Peritus Asset Management has been terminated. It was determined that these high yield bond assets will be moved into safer bonds in a global fixed income index fund. The actual manager presentations will be scheduled for a future full Board meeting.

Mr. Gray reviewed the total fund allocation and performance by manager.

Mr. Gray notified the Board that on May 21, 2015 the SEC filed an Order to Initiate Proceedings against Gray Financial Group, Inc., Laurence O. Gray and Robert C. Hubbard IV.

Ms. Billings questioned whether Gray & Company will continue to fight the lawsuit. Mr. Gray confirmed they will continue to fight the lawsuit.

Ms. Billings also asked if the attorneys for the Georgia retirement systems signed off on the investments which are at issue in the SEC proceedings. Mr. Gray confirmed the Georgia retirement system lawyers did sign off on the investments.

Trustee Williams asked, as our consultant what would Mr. Gray recommend in this type of situation to another client. Mr. Gray stated he would recommend putting the manager on watch.

Trustee Bowman asked to confirm the Board will be provided presentation materials for any managers under consideration to replace Peritus. Mr. Gray confirmed presentation materials will be provided.

Re: 2014 Actuarial Valuation Report – Rodwan Consultant Company

Denise Jones indicated the purpose of the actuarial valuation is to determine the liabilities associated with benefits to be paid to current retired, active and inactive deferred members of the Retirement System.

They compare the accrued assets with accrued liabilities to assess the funded condition of the Retirement System.

They also compute the City's recommended contribution rate for the fiscal year beginning July 1, 2016. Most other systems require contributions. The City of Pontiac General Employees' Retirement System's funding ratio offsets the accrued liabilities, so contributions are not needed.

The current funding ratio for the period ending December 31, 2014 is 153% versus 141.8% for the period ending December 31, 2013. The increased funding ratio is due to the System's favorable investment returns and the decrease in liabilities. Accrued liabilities for the period ending December 31, 2014 were computed to be \$270,139,151 with the funding value of accrued assets of \$413,418,482.

The System's uses a five-year smoothed market value of assets which spreads capital gains and losses over a five-year period.

Chairman Harrison asked what the rationale is for using a ten-year smoothing versus a five-year smoothing.

Ms. Jones told the Board that a small number of their clients use a ten-year smoothing due to declines in the market to smooth losses.

Sandy Rodwan pointed out that increasing the number of years used in the smoothing method creates a lag on performance gains.

Ms. Arndt confirmed that the main purpose of using a ten-year smoothing method is to smooth losses. She also indicated the Michigan MERS uses a ten-year smoothing method along with an 8% annual return assumption. She expressed that in her opinion, this makes it difficult to determine their actual funding ratio.

Ms. Jones reviewed the financial data. The smoothed value of assets as of December 31, 2014 was \$413,418,482 compared to \$396,857,874 for the period ending December 31, 2013. The market value of assets was \$491,916,189 for December 31, 2014 versus \$490,472,889 for December 31, 2013.

The overall experience of the System during 2014 was more favorable based on the long-term assumptions. The recognized investment income at 11.72% was more than the 7.5% annual return assumption.

She reviewed the participant data comparing the number of Hospital and City retired members including beneficiaries, vested inactive members and active members. The number of City retirees decreased from 719 to 656 for the period ending December 31, 2014. Hospital retirees increased from 413 to 466.

Trustee Giddings asked about the increase in the number of Hospital retirees.

Ms. Jones indicated the increase was due to a coding error discovered in 2013 that was corrected in 2014.

Total retired members decreased from 1,132 to 1,122. General vested inactive members decreased from 193 to 179 and Hospital members decreased from 68 to 51. Average monthly pensions declined from \$2,603,034 to \$2,352,408.

Miss Carter suggested cash outs to deferred members that would receive a small monthly benefit and questioned whether that is included in the valuation.

Ms. Jones stated they did not anticipate paying those members out early. The liability would have to be costed out.

Ms. Jones reviewed the computed contributions costs. She explained that the City's computed normal cost is \$260,613 million with a temporary funding credit of \$260,613 million. The City is not required to make contributions to the System at this time based on the funding credit.

She compared the actuarial accrued liability for December 31, 2014 at \$270,139,151 versus \$279,931,726 for the period ending December 31, 2013. The assets allocated to funding were \$413,418,482 versus \$396,857,874 resulting in an increase of \$16.5 million. The unfunded actuarial accrued liabilities at (\$143,279,331) represent the amount of assets accrued minus the accrued liabilities versus \$116,926,149.

She explained the determination of unfunded accrued liability by member type. Total accrued liabilities for retirees and beneficiaries was \$249,815,433; vested terminated members \$15,295,353 and active members \$5,028,365 totaling \$270,139,151. The present value of assets was \$413,418,482 minus the accrued liability of \$270,139,151 leaving an unfunded accrued liability of (\$143,279,331) which resulted in a funded position of 153.0%.

She described the history of assets and accrued liabilities.

She reviewed the funding value of assets and explained the phased-in recognition of investment income. Based on the smoothing method a gain of \$12,137,268 dropped off when calculating the

funding value of assets for the 2014 valuation. The recognized rate of return in 2014 was 11.67% compared to 14.59% in 2013.

She reviewed the valuation data including the historical schedule of pensions being paid, the retirement type by attained age and total annual pensions paid; the number of Hospital retired members and survivors by age and the combined number of Hospital and City retired members and survivors by age. She indicated that there are over two hundred members over the age of eighty receiving a retirement benefit.

The number of active members and inactive vested members eligible to receive a benefit were reviewed. The assumption is that anyone over the age of sixty will apply for their benefit.

The overall experience of the Retirement System during the year ended December 31, 2014 was more favorable than expected based upon the long-term assumptions. The primary source of the favorable experience was the recognized rate of investment return on the smoothed funding value of assets at 11.7% versus 7.5% assumed annual return.

The present value of future benefits payable to current retirees and beneficiaries was computed to be \$249,815,433. The Reserve for Retired Benefit Payments was reported to be \$249,088,461. The Actuary is recommending the difference of \$726,972 be transferred from the Reserve for Employer Contributions to the Reserve for Retired Benefit Payments.

Trustee Giddings confirmed that the recommended transfer is a bookkeeping item and there is no actual movement of funds. Ms. Jones stated it is a funding credit to cover the computed contribution cost of benefits.

Trustee Giddings also confirmed that the \$400.00 temporary monthly increase payment was included in the assumptions. When the temporary increase terminates this should result in a positive for the System.

Trustee Nazarko asked if the cost of the beneficiaries' benefits is included.

Ms. Jones indicated that the computed cost of benefits is based on the current payees in the System. This includes former employees and their designated beneficiaries once they are in pay status.

She noted there were no assumption changes for the valuation.

There was discussion amongst the Board members and the actuary over whether it was time to review a change to the mortality tables used for computing the System's liabilities. After much dialogue, it was determined not to make any changes at this time.

Miss Carter stated that the new mortality annuity table could be reviewed for use when processing the 2015 valuation.

Trustee Nazarko felt that there should be further discussion in the Finance Subcommittee meeting. Given the history of the System he did not feel a new table was necessary.

Trustee Gaffney stated that the Retirement System should use the most conservative table and not be concerned about the small reduction in the funding ratio. She felt that Trustee Nazarko's concern with regard to which mortality table to use was to improve the funding ratio in order to move the System to MERS.

Even though she has lost her healthcare insurance she does not want the Retirement System to be moved to MERS. The System's assets are to preserve the retirement benefits for the retirees and beneficiaries.

Trustee Nazarko indicated his concern is based on preserving the assets of the System.

Trustee Giddings felt that the more conservative table should be used to value the assets.

Trustee Patrice Waterman asked how many systems are using the 1983 versus the RP2000 mortality table.

Ms. Jones stated that a number of systems have moved from the 1983 to the 1994 table.

Ms. Billings asked which mortality table is being used for the GASB 67 report.

Ms. Jones stated they do not have to use the same mortality table for the GASB 67 report as they do for the valuation.

Trustee Bowman suggested moving forward with the RP2000 table.

Trustee Gaffney recommended that the issue be referred back to both Committees.

Miss Carter indicated the actuary can raise the issue with regard to the processing of the 2015 valuation.

RESOLUTION 15-034 By Gaffney, Supported by P. Waterman

Whereas, The responsibility for the direction and operation of the City of Pontiac General Employees' Retirement System and for making effective the provisions thereof are vested in the Board of Trustees; and

Whereas, The pension provisions provide that an actuarial valuation shall be made at the close of each fiscal year for the purpose of establishing the financial condition of the Retirement System and as a check on its current operating experience, and that the Secretary shall prepare each year the annual report of the Board to be submitted to the City Council showing among other things, a statement of assets, liabilities and reserves certified by the actuary; and

Whereas, The pension provisions further provide that an annual determination shall be made of the actuarial reserve requirements or the several annuities and benefits prescribed, to be financed in addition to interest and other income accruing to the Retirement System by contributions by the members and by the City; and

Whereas, The actuary has computed the pension reserves and contributions necessary for the July 1, 2014 through June 30, 2015 fiscal year and has presented the Annual Actuarial Valuation of the City of Pontiac General Employees' Retirement System as of December 31, 2012 to the Retirement Board;

Now, Therefore, Be it Resolved, That the Report of the Annual Actuarial Valuation of the City of Pontiac General Employees' Retirement System as of December 31, 2014 be accepted by the Retirement Commission and be placed on file; and

Be It Further Resolved, That the City contribution requirements of covered member payroll for the period contained on page 4 thereof, and the City dollar contribution and payment schedule requirement contained on page 4 thereof is hereby certified to the City Council as the amount necessary for the July 1, 2016 through June 30, 2017 fiscal year appropriation by the City Council to finance the pension reserves of the City of Pontiac General Employees' Retirement System; and

Be It Further Resolved, That the annual transfers recommended on page 9 thereof be authorized; and

Be It Further Resolved, That a copy of this resolution be provided to the actuary and copies of this resolution and the report of the Sixty-Eighth Annual Actuarial Valuation of the City of Pontiac General Employees' Retirement System be provided to the City Council.

Yeas: 8 – Nays: 0

Re: 2014 GASB 67 Statement

Ms. Jones provided an overview of the 2014 GASB 67 Report. She noted the report was based on the market value of assets which raised the funding ratio to 182.03% based on a total pension liability of \$270,139,151 and a Plan fiduciary net position of \$491,726,796 resulting in a total pension liability of (\$221,587,645).

RESOLUTION 15-035 By Gaffney, Supported by P. Waterman

Resolved, That the Board receives and files the City of Pontiac General Employees' Retirement System's 2014 GASB 67 Statement for the period ending December 31, 2014.

Yeas: 8 – Nays: 0

REPORTS

Re: Chairman

Re: Trustees/Committees

Personnel Subcommittee

Trustee Gaffney reported the Personnel Committee met on May 14, 2015.

The Committee reviewed the letter sent to the Pontiac City Council in reference to the COLA overpayment issue.

The disability and re-exam process policies were reviewed. The Committee felt that new policies should be drafted to incorporate the significant changes at the City.

They also discussed the defined contribution plan that was approved as part of the Executive Director's compensation package. Currently, a 457 Plan is available for GERS employees, which is not what was offered in the compensation package. The Committee recommends a 401(a) Money Purchase Plan is a better fit for the executive compensation and future staff. The Committee recommends that the Board approve establishing a 401(a) defined contribution plan.

The Charter updates are near completion.

The next Committee meeting will be held on June 12, 2015.

Finance Subcommittee

Committee Chair Trustee Moore deferred the Committee report to Executive Director Carter.

Miss Carter reported the Finance Committee met on May 20, 2015 including Trustees Giddings, Harrison, Moore and Patrice Waterman. Mr. Gray was in attendance as was Ms. Billings via telephone.

They reviewed the statement of net assets and the unaudited financial statements as of March 31, 2015. They also reviewed the accounts payable for April, 2015.

A number of news articles pertaining to pension-related issues were reviewed including an article on cyber security insurance policies.

Trustee Giddings questioned whether a better solution than cyber security insurance would be to look into offering members a program like Life Lock at a group rate.

Ms. Billings noted that it was just reported the IRS has been hacked.

Miss Carter indicated the Committee reviewed the deceased retiree and beneficiary information from 2004 through 2014.

Another business item discussed was the cashing out of deferred members with low projected benefits. The present value of the benefit would be provided to the Committee for their review.

Mr. Gray reviewed the investment performance numbers for the first quarter of 2015.

The Committee reviewed the manager recommendations to replace the high yield investment.

The letter regarding the COLA overpayment sent to City Council was reviewed.

The next meeting is scheduled for June 17, 2015.

Re: Executive Director

Miss Carter reviewed the unaudited financial statements as of March 31, 2015.

Trustee Patrice Waterman stated she received a letter from the City's attorney. She asked that Ms. Billings be present at the next Council legislative meeting to explain any questions with regard to the IRS overpayment recoupment policy.

UNFINISHED BUSINESS

NEW BUSINESS

Re: Establishment of 401(a) Money Purchase Plan and Transfer of Employer Contributions

Ms. Billings stated that when the Executive Director was hired she was offered a defined contribution plan. The System has a 457 Plan but does not have a 401(a) Plan. It is much better for both the employee and the employer to have a 401(a) defined contribution plan.

Trustee Giddings confirmed that it is the intent to have the System be the Plan Sponsor and that it will be a qualified plan. He also confirmed that the Retirement System is considered a legal governmental entity.

He asked about the fees and the fiduciary liability and whether there will be an employer contribution match.

He also questioned if the contract is primarily a boilerplate document and his concern that the System could be sued.

Ms. Billings indicated that the contract is a boilerplate document. A copy of the Plan document will be provided to the Board.

Chairman Harrison confirmed that a 457 Plan is inferior compared to a 401(a) Plan.

Trustee Gaffney indicated a 457 Plan is used to supplement a pension.

Chairman Harrison also asked if the contributions in the 457 Plan can be rolled over to the 401(a) Plan.

Ms. Billings stated that ICMA knows the money is being parked in the 457 Plan is waiting to transfer the assets.

Trustee Giddings indicated he agrees that the 401(a) Plan should have been setup a long time ago. However, he wants to insure that the System is abiding by the IRS rules.

Ms. Billings indicated that the Personnel and Finance Subcommittees will be monitoring the Plan.

Trustee Nazarko agreed that it is important to determine that the contract is not in violation.

Miss Carter added two disability determinations from the Medical Director for the Board approval. Disability retirees Deborah Pyke and Mark White have been deemed to be fully and totally disabled.

RESOLUTION 15-036 By Gaffney, Supported by Williams

Resolved, That the Board approve the continued disability retirement for Deborah Pyke based on the Medical Director's Independent Medical Exam.

Yeas: 8 – Nays: 0

RESOLUTION 15-037 By Williams, Supported by Bowman

Resolved, That the Board approve the continued disability retirement for Mark White based on the Medical Director's Independent Medical Exam.

Yeas: 8 – Nays: 0

Re: Legal - None

RESOLUTION 15-038 By Gaffney, Supported by Bowman

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

Roll Call:

Trustee Arndt – yea

Chairman Harrison – yea

Trustee Bowman - yea

Trustee Nazarko - yea

Trustee Gaffney - yea

Trustee Patrice Waterman - yea

Trustee Giddings - yea

Trustee Kevin Williams - yea

The Board moved to closed session at 12:15 p.m.

Mr. Marshall, Ms. Swazer, Ms. Watson and Ms. Woods left at 12:15 p.m.

Trustee Bowman left at 12:50 p.m.

The Board returned from closed session at 1:18 p.m.

RESOLUTION 15-039 By Nazarko, Supported by Gaffney

Resolved, that the Board ratify the Chairman's signature to apply for lead plaintiff status in the Aerie Pharmaceuticals, Inc. securities litigation.

Yeas: 7 – Nays: 0

RESOLUTION 15-040 By Giddings, Supported by Arndt

Resolved, that the Board approve the closed session minutes for April 29, 2015.

Yeas: 7 – Nays: 0

SCHEDULING OF NEXT MEETING

Regular Meeting: Wednesday, June 24, 2015 @ 10:00 a.m. – Retirement Office

ADJOURNMENT

RESOLUTION 15-041 By Gaffney, Supported by Waterman
Resolved, That the meeting be adjourned at 1:20 p.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 May 27, 2015

As recorded by Jane Arndt