

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

JUNE 13, 2013

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:21 a.m.

ROLL CALL:

PRESENT: Trustees Thomas Cook, Ronald Pearsall, Mark Sedlak, Vice Chairperson Mark Mitchell and Chairperson Wilfred Farrell.

ABSENT: Trustees Michael Erfourth and Paul Kleeman.

ALSO

PRESENT: Gabriel Roeder Smith & Company Actuary Ken Alberts; City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; and City Treasurer Ronald J. Tobey.

APPROVE AGENDA:

Motion by Vice Chairperson Mitchell to approve the Agenda as presented.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

APPROVE MINUTES OF APRIL 18, 2013 REGULAR MEETING:

Motion by Vice Chairperson Mitchell to accept the minutes of the April 18, 2013 Regular Meeting as presented.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

Motion by Trustee Cook to approve the consent agenda as follows:

1. Approve Pension Check Reports:

- | | |
|---------------|---------------|
| a. April 2013 | \$ 177,279.34 |
| b. May 2013 | \$ 177,279.34 |

2. Approve Statements:

- a. Atlanta Capital
As of March 31, 2013
- b. Franklin Templeton Investments
As of March 31, 2013

- c. Merrill Lynch – NFJ
As of March 28, 2013
- d. WHV
As of March 31, 2013
- e. City of Owosso Employees Retirement Fund
March 31, 2013
- f. City of Owosso Employees Retirement Fund
April 30, 2013

3. Payment Authorizations:

- a. M.D. Sass
For period 01/01/2013 through 03/31/13 \$ 11,559.69
- b. Wentworth, Hauser, and Violich
For period 04/01/11 through 06/30/11 \$ 4,376.00
- c. Ronald J. Tobey, City Treasurer
Report of Checks Written – April 2013 \$219,812.44
- d. Ronald J. Tobey, City Treasurer
Report of Checks Written – May 2013 \$178,999.36

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

COMMUNICATIONS:

- Michael McCloskey – *Letter of resignation*
- Hirayama Investments – *International Global Commentary*
- Merrill Lynch – *Market Focus, 1st Quarter 2013*
- Gabriel Roeder & Smith – *NewsScan April 25, 2013*
- Gabriel Roeder & Smith – *NewsScan May 15, 2013*
- Gabriel Roeder & Smith – *NewsScan May 30, 2013*
- Gabriel Roeder Smith - *GRS Insight, May 2013*
- MD Sass – *Investment Outlook & Strategy Commentary*

The following communications, publications and conference announcements are on file with the City Clerk – if you would like to read them, please contact her:

- Merrill Lynch: *Comprehensive AIM Report, Q1 DVD*

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Investment Advisor Maral Thomas indicated there was nothing new to report.

NEW BUSINESS:

APPLICATION FOR RETIREMENT – M. MCCLOSKEY

Motion by Trustee Cook to approve the retirement of Michael McCloskey effective May 19, 2013.

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

APPLICATION FOR RETIREMENT – M. WHEELER

Motion by Vice Chairperson Mitchell to approve the retirement of Michael Wheeler effective June 3, 2013.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 68TH ANNUAL ACTUARIAL VALUATION PRELIMINARY REPORT – KEN ALBERTS, GABRIEL ROEDER SMITH & COMPANY

Gabriel Roeder Smith Actuary Ken Alberts gave a presentation entitled “Actuarial 101” detailing actuarial theory and how it is applied to the System to determine valuations. (A copy of the PowerPoint slides will be emailed to Trustees. A copy will also be included with the permanently retained materials for this meeting.)

He went on to present the preliminary actuarial valuation report, noting the contribution for the City, as computed in the 2011 Actuarial Valuation, had gone up significantly again to over \$829,000 due to the continued effects of the losses realized in 2008, the fact that a large portion of the system is closed to new members, and the fact that more people retired than assumed. There was overall downward pressure on the rate for 2012 because of favorable investment returns, lower average pay raises as compared to the assumed, and the termination of 6 employees from the payroll. He went on to note that while the effects of the 2008 losses will end this year he anticipated further upward pressure on contributions in the next two years unless the market performs extremely well. He recommended the Board leave the Contingency Fund untouched because the City’s contribution for next year has come down and the aforementioned upward pressure on contributions.

Mr. Alberts went on to discuss his outlook for the System saying that while the System was properly prefunded and contributions are still less than what is paid out each year those parts of the system that are closed will be very susceptible to market fluctuations over the next 5 to 10 years. He cautioned that significant downturns in the market may prove to be very costly for the City.

There was discussion regarding getting the actuarial report earlier in the year to aid in budgeting. Mr. Alberts noted that he would like to target April for the completion of next year’s report.

There was also discussion regarding GASB 67 & 68 which will require the System to generate reports using the Entry Age Normal cost method. This change could result in the calculation of two separate actuarial reports if the Board insists on continuing with the current Aggregate funding method for the closed portions of the System. Mr. Alberts noted that there would be significant cost to continuing with the current method. He suggested the Board consider changing to the Entry Age method for all groups, and even further simplify things by allowing the results to be calculated using one single collective group instead of 6 or 7 smaller individual groups. He said the change in method would not affect contributions much in the current year but it would help to keep contributions more level from year to year and thus help the City with budgeting. It was suggested the Board address this item at the August meeting to allow the City’s Finance Director to provide information as to how the potential change may affect the City.

The following are comments from the final report:

Comment A: *The System was closed to Union new entrants effective January 1, 2005 and Non-Union new entrants effective January 1, 2006, except for the Police Patrol and Fire groups. Contributions for groups closed to new entrants are based on the Aggregate Actuarial Cost funding method. Contributions for open groups are based on the Entry Age Actuarial Cost funding method. Under the recently adopted GASB statements, systems and employers will be required to report and expense retirement benefits using the Entry Age Actuarial Cost Method for plan years beginning after 2014 (plan) or 2015 (employer). Although there will be other differences between the funding calculations and the reporting calculations, we recommend that the Board consider moving the funding to the Entry Age Actuarial Cost Method for all*

groups to minimize the differences between the funding calculations and the reporting calculations. We recommend implementing this change with the 2013 annual valuation.

For the Police Patrol and Fire groups, the difference between the accrued assets (net of the Retiree Contingency Reserve) and the accrued liabilities was amortized over a 10-year period as a level percent of payroll. For the Police Patrol, this had the effect of lowering the computed contributions because accrued assets currently exceed accrued liabilities. For Fire, this had the effect of increasing contributions because accrued liabilities exceeded accrued assets.

The City's contribution rate for the Police Patrol group is limited to 4% of covered payroll. This results in a calculated member rate of 8.23% of payroll for Police Patrol members for the fiscal year beginning July 1, 2013.

Comment B: Experience during the year was more favorable than assumed. The primary sources of favorable experience were:

- Gains related to investment activity (the recognized rate of investment return was 7.95% compared with the assumed rate of investment return of 7.50%);
- Gains related to pay increases (average pay increases for members active at the beginning and end was 1% compared with a 5.2% assumed increase);
- Gains related to turnover (6 members terminated service before eligibility for retirement compared with 2.2 expected terminations);

Gains were partially offset by losses due to retirements (5 members actually retired compared with 1.9 expected) and mortality (less benefits were removed from the rolls than assumed).

In total, the gains resulted in a decrease in the required employer contributions for all groups except Water. Most of the retirement loss occurred in the Water division, accounting for 2 of the 5 actual retirements (the other three were each in a different division).

Comment C: The System currently has a contingency reserve of approximately \$1.3 million. We recommend the following reserve transfers for the year ending December 31, 2012:

General Non-Union	\$119,468
WWTP Department	30,430
<u>Total</u>	<u>\$149,898</u>

Comment D: The Police Command Division is fully funded (as of December 31, 2012) and no employer contribution is required for FY 2014. Future experience losses could result in this division becoming underfunded in the future and resulting in an employer contribution requirement. Consideration should be given to continuing a small contribution to build up a reserve for adverse experience for this division. The Police Patrol division is fully funded (as of December 31, 2012). Assets in excess of the accrued liability were amortized over a 10-year period resulting in a full funding credit. The entire credit was used to lower the member contribution rate. The Fire division is 91% funded. The current amortization period is 10 years.

Comment E: The Board approved releasing one quarter of the contingency reserve as of December 31, 2011. This transfer was still in progress as of the date the asset information was provided to GRS for the December 31, 2012 valuation. GRS, therefore, estimated the effect on the assets reported as of December 31, 2012 based on the amount of the transfer shown in the December 31, 2011 valuation report. None of the contingency reserve was released for the December 31, 2012 valuation.

Comment F: It was discovered this year that a recent WWTP retiree was being paid from the Sewage division assets. We understand that assets will be transferred to correct this issue retroactively. We have included an asset transfer from the WWTP division to the Sewage division of approximately \$74,000 as of December 31, 2012 in this valuation. As a result, the experience from last year to this year does not track exactly as expected. Overall results for the entire plan are not significantly different after this adjustment.

Comment G: *The Appendix shows the development of the unfunded accrued liability using entry age funding for all groups, including the closed groups currently funded under the aggregate cost method. Under the new Governmental Accounting Standards Board Statements (GASB) No. 67 and No. 68, liabilities that will be reported on the plan sponsors balance sheet must be calculated using the Individual Entry Age Actuarial Cost Method.*

Comment H: *The only change in plan provisions reflected in this report from the 2011 valuation report is the payout of unused sick time for the Fire employees. This impacted the liability adjustment we applied to Fire final average compensations for redemptions at retirement. All other plan provisions remain unchanged from the prior valuation. Reported pays for Fire members were reduced to back out the one time payout of unused sick time.*

Comment I: *Page B-11 shows that the Funding Value of Assets is currently scheduled to recognize a loss of \$390 thousand in 2013, before accounting for the 2013 investment experience. Unless this amount is offset by experience gains during 2013, there will be upward pressure on contributions next year.*

Motion by Trustee Cook to accept the 2012 Annual Actuarial Report as presented.

Motion supported by Vice Chairperson Mitchell and concurred in by unanimous vote.

CONTINGENCY FUND ALLOCATION

Chairperson Farrell noted that Mr. Alberts had earlier recommended the Board not allocate funds from the contingency reserve this year. He asked if all Trustees understood why he made that recommendation and if they agreed with it. No one expressed an interest in moving money from the fund.

Motion by Vice Chairperson Mitchell to leave the Contingency Reserve fund as is.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

CONSIDERATION OF INTEREST RATE ON EMPLOYEE CONTRIBUTIONS

City Treasurer Ronald J. Tobey explained the interest rate is the amount of interest credited to employee contributions when an employee removes their money from the system prior to being fully vested. He noted the rate had historically been set at 5%. Actuary Alberts noted that from his experience working with other systems the current 5% was common among those that do not reset their rate annually.

Motion by Vice Chairperson Mitchell to set the interest rate on employee contributions at 5% for the 2013-2014 fiscal year.

Motion supported by Commissioner Cook and concurred in by unanimous vote.

INVESTMENT CONSULTANT REPORT 1st QUARTER 2013

Merrill Lynch Advisor Thomas pointed out that as of today the System's large cap value growth portion of the portfolio was underweight and the large cap value portion was overweight. She recommended \$825,000 be moved from MD Sass to Loomis Sayles to correct this imbalance and bring the portfolio closer to the targeted weights for those asset classes.

Motion by Trustee Cook to move \$825,000 from MD Sass, the System's large cap value manager, to Loomis Sayles, the large cap growth manager.

Motion supported by Trustee Pearsall and concurred in by unanimous vote.

Merrill Lynch Advisor Thomas went on to give the Board updated investment results, indicating the overall portfolio was currently up 6.6% for the year.

Ms. Thomas presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 03/31/2013

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 3/93-03/13
Beginning Market Value	29,090		18,207
Net Contributions	-532		-19,078
Investment Earnings	1507		30,935
Ending Market Value	30,065		30,065

Trustee Cook expressed concern that the fund would not perform well in the second half of the year if the forecasts for rising interest rates prove true. A brief discussion ensued. Chairperson Farrell relayed that during the April manager review for Franklin Templeton Portfolio Manager Warren Keyser indicated the firm felt the portfolio would be stable if interest rates didn't experience an immediate spike but moved more slowly and they felt that the risk of an immediate spike was minimal. Trustee Cook indicated he felt comfortable with the manager and was more concerned with asset allocation. Merrill Lynch Advisor Thomas offered to prepare an asset allocation review for the August meeting.

Ms. Thomas also indicated she would need to secure new signatures from the members at the August meeting to comply with filing regulations.

The Board briefly discussed the agenda for the August meeting. They decided the following items should be addressed in August: organizational meeting, asset allocation review, and an item to decide if all groups should use the entry age funding method. A money manager review was tentatively scheduled for the October meeting.

CITIZENS COMMENT:

There were no citizen comments.

Chairperson Farrell inquired about the status of the individual that had not responded to repeated requests to remove his funds from the system. City Treasurer Tobey indicated he had tried one last time to contact the former employee with no response. He then asked the Payroll Department to issue and mail a check for the specified funds. He said the task would be completed prior to the end of the fiscal year.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 15, 2013 at 7:15am

ADJOURNMENT:

Motion by Trustee Cook for adjournment at 9:42 a.m.

Motion supported by Trustee Mitchell and concurred in by unanimous vote.

Amy K. Kirkland, City Clerk