

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

APRIL 23, 2014

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:20 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Burton Fox, Elaine Greenway, Paul Kleeman, Bobbi Jo Perry, Vice Chairperson Mark Sedlak, and Chairperson Wilfred Farrell.

ABSENT: None.

ALSO

PRESENT: Gabriel Roeder Smith Consultant Kenneth Alberts; City Attorney William C. Brown; City Clerk Amy K. Kirkland; Gabriel Roeder Smith Senior Actuarial Analyst Laura Pfeffer; City Treasurer Ronald J. Tobey; and Merrill Lynch Consultant Marie Vanerian.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda with the following addition to the Consent agenda:

- g. Merrill Lynch – Atlanta Capital
For period 04/01/14 through 06/30/14 \$ 3,210.84

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

APPROVE MINUTES OF FEBRUARY 20, 2014 REGULAR MEETING:

Motion by Vice Chairperson Sedlak to accept the minutes of the February 20, 2014 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizen comments.

CONSENT AGENDA:

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

1. Approve Pension Check Reports:

- a. February 2014 \$ 214,867.83
- b. March 2014 \$ 203,060.75

2. Approve Statements:

- a. Russell Investments
As of March 31, 2014

- b. City of Owosso Employees Retirement Fund
January 31, 2014
- c. City of Owosso Employees Retirement Fund
February 28, 2014
- d. City of Owosso Employees Retirement Fund
March 31, 2014

3. Payment Authorizations:

- a. Merrill Lynch – Loomis Sayles
For period 04/01/14 through 06/30/14 \$ 12,015.89
- b. Merrill Lynch - M.D. Sass
For period 04/01/14 through 06/30/14 \$ 12,485.82
- c. Merrill Lynch - NFJ
For period 04/01/14 through 06/30/14 \$ 4,307.36
- d. Merrill Lynch - WHV
For period 04/01/14 through 06/30/14 \$ 4,449.10
- e. Ronald J. Tobey, City Treasurer
Report of Checks Written – February 2014 \$266,418.52
- f. Ronald J. Tobey, City Treasurer
Report of Checks Written – March 2014 \$204,924.24
- g. Merrill Lynch – Atlanta Capital
For period 04/01/14 through 06/30/14 \$ 3,210.84

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

COMMUNICATIONS:

- o Vanerian Group, Merrill Lynch – *Dinner invitation, 2014 MAPERS Spring Conference*
- o Loomis Sayles – *Dinner invitation, 2014 MAPERS Spring Conference*
- o Gabriel Roeder & Smith – *NewsScan February 26, 2014*
- o Gabriel Roeder & Smith – *NewsScan March 14, 2014*
- o Gabriel Roeder & Smith – *NewsScan March 31, 2014*
- o Gabriel Roeder & Smith – *NewsScan April 15, 2014*

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, 2013 Q4 CD*
- Gabriel Roeder Smith: *Research Memorandum, Implementing GASB 68*

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT RECONSIDERATION

City Clerk Amy K. Kirkland explained that the standing report from Merrill Lynch stemmed from its 2009 merger with Bank of America. The intent was to allow for a periodic update on the merger so the Board would be aware of any material changes that may affect the relationship between the System and Merrill

Lynch. As time has gone by the two firms have settled into the relationship and there has been nothing new to report for many months. She suggested removing the standing item from the agenda noting the Board could always re-institute it should they desire.

Merrill Lynch Consultant Marie Vanerian noted that she has an obligation to the Board to report any material changes in the relationship immediately.

Motion by Trustee Fox to remove the Merrill Lynch Status Report standing item from the agenda.

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

DISABILITY RETIREMENT REVIEWS

This item was brought up at the request of Trustee Perry who had inquired whether the Board was required to review disability retirement benefits at any point. City Attorney William C. Brown said there was nothing in the ordinance or enabling acts that required the review of a disability pension. He added that such a measure may be prudent but was currently not required. City Treasurer Ronald J. Tobey indicated that no one that is currently receiving a disability pension has undergone a review. He also indicated that the Board may also want to consider what action they would take if malfeasance is discovered by such a review. Chairperson Farrell directed Board members to give the idea of a periodic review some thought and said he would like to hold another discussion on the matter at the next meeting.

NEW BUSINESS:

The Board decided to handle the other items of New Business prior to the presentation of the Actuarial Report.

APPLICATION FOR RETIREMENT – M. JUNGNITSCH

Motion by Trustee Brewbaker to approve the application for retirement from Marlene Jungnitsch effective May 10, 2014.

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

MAPPERS 2014 SPRING CONFERENCE

Chairperson Farrell again noted that attendance at any MAPERS Conference would be beneficial for new members. It was indicated Trustee Perry had expressed interest in attending but was still in the process of seeking time off. Chairperson Farrell directed interested parties to contact the City Clerk.

MONEY MANAGER REVIEW SELECTION

Chairperson Farrell noted that Atlanta Capital was scheduled to give a presentation at this meeting but had been supplanted by presentation of the Actuarial Report. He inquired if the Board was interested in hearing from Atlanta during the June meeting or if there was a desire to hear from another firm. Hearing no objections from the group Merrill Lynch Consultant Vanerian indicated she would reach out to Atlanta Capital to schedule them for the June meeting.

INVESTMENT CONSULTANT REPORT:

Ms. Vanerian indicated there was nothing to report as 1st Quarter numbers had not yet been compiled into a report. She did indicate that the System's fixed asset manager, Franklin Templeton, had requested an adjustment in the Investment Policy to add flexibility to the duration of their holdings. They requested increasing the duration +/- 25% with the intent of shortening the overall duration of the portfolio to better weather market conditions. Ms. Vanerian indicated Franklin Templeton had done a very good job of managing the System's money to date, including their management of a series of investments from the

System's former Fifth Third manager that could not be liquidated, and she felt the request was reasonable given the market conditions. She indicated there should be no increase in fees due to the change.

Motion by Trustee Fox to change the spread of the duration for the fixed asset portion of the portfolio from +/- 10% to +/- 25%.

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

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 69TH PRELIMINARY ANNUAL ACTUARIAL VALUATION
– KENNETH ALBERTS & LAURA PFEFFER, GABRIEL ROEDER SMITH & COMPANY

GRS Consultant Kenneth Alberts was on hand to present the preliminary actuarial valuation. He noted this valuation was different in that it incorporated an experience study as well. He went on to explain the concept of assumptions, the purpose of the experience study, and the idea that any deviations from the assumptions would result in a material gain or loss to the System because of the small size of the plan. Mr. Alberts and Ms. Pfeffer then detailed the demographic assumptions and economic assumptions, noting that page A-2 of the preliminary report contained a summary of the recommended changes.

There was a discussion regarding the adjusting the smoothing technique used to reduce volatility. In light of this discussion, it was decided that continuing the current smoothing technique would be advisable.

There was also discussion regarding setting the City contributions to the System 18 months in advance rather than 6 months in advance to allow the City the opportunity to more accurately budget for the expense. Finance Director Williams suggested adjusting the valuation date to reflect the City's fiscal year end, noting the action would require an extra valuation within the next 12 month period but would allow the City an additional 6 months of flexibility. All costs for the additional valuation would be absorbed by the City. Staff agreed to bring a formal proposal back to the Board for action.

Discussion then turned to combining the groups within the System to simplify the actuarial valuation. It was again noted that legally the monies of the System belonged to the collective System and not the individual groups within the System. There was confusion whether the Board had already taken action to combine the groups. City Clerk Kirkland pointed out the action taken by the Board previously was to combine the groups for the purposes of the experience study only.

Motion by Vice Chairperson Sedlak to combine the individual groups within the System to form three groups: General, Police, and Fire for the purposes of the actuarial valuation.

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

The discussion concluded with Mr. Alberts describing the recommended changes to the economic assumptions, their potential effects on the valuation, the Board's fiduciary duty to the System, and motions to accept various recommendations.

Motion by Trustee Fox to accept the proposed assumptions for: Mortality Rates, Withdrawal Rates, Disability Rates, Retirement Rates, and Salary Increase Assumptions as noted in Section C of the Preliminary Annual Actuarial Valuation, December 31, 2013; and the Final Average Compensation Loads as noted on page B-4 of the same as follows:

Post Retirement Mortality Rates

The mortality table used was the RP-2000 Combined Healthy Male and Female Tables projected to 2020 using Projection Scale AA.

Sample Attained Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$150.77	\$152.20	37.54	39.46
50	145.27	147.02	32.77	34.63
55	137.76	140.08	28.04	29.88
60	128.10	131.31	23.47	25.31
65	116.37	120.76	19.17	21.02
70	102.78	108.61	15.22	17.06
75	86.84	94.82	11.58	13.47
80	69.60	79.37	8.42	10.23

Disabled morality is based on the table above, set forward 10 years.

Withdrawal Rates

Sample Ages	Years of Service	% of Active Members Separating within One Year		
		General	Fire	Police
ALL	0	20.00%	12.00%	20.00%
	1	15.00%	9.00%	15.00%
	2	10.00%	7.00%	10.00%
	3	8.00%	5.00%	8.00%
	4	7.00%	4.50%	7.00%
25	5 & Over	4.50%	4.50%	6.75%
30		3.90%	4.35%	5.85%
35		2.30%	3.50%	3.45%
40		0.90%	2.10%	1.35%
45		0.50%	1.00%	0.75%
50		0.50%	0.62%	0.75%
55		0.50%	0.50%	0.75%
60	0.50%	0.50%	0.75%	

Disability Rates

Sample Ages	% of Active Members Becoming Disabled Within Next Year	
	General, Water, WWTP & Sewage	Police and Fire
20	0.02%	0.05%
25	0.02%	0.08%
30	0.02%	0.12%
35	0.03%	0.21%
40	0.07%	0.31%
45	0.13%	0.46%
50	0.27%	0.73%
55	0.44%	1.23%
60	0.67%	1.77%
65	1.00%	1.58%

Retirement Rates

Percent of Eligible Active Members Retiring within Next Year

Retirement Ages	General, Sewage, Water, and WWTP		Police	Fire
	Non-Union	Union		
45-54			20%	20%
55	20%	20%	20%	10%
56	15%	15%	20%	10%
57	10%	10%	20%	10%
58	10%	10%	20%	10%
59	10%	10%	20%	20%
60	10%	10%	100%	100%
61	10%	10%		
62	15%	15%		
63	25%	25%		
64	30%	30%		
65	100%	100%		

Salary Increase Assumptions

Salary Increase Assumptions
For an Individual Member

Salary Increase Assumptions
For an Individual Member

Years of Service	Base (Economic)	Merit & Seniority General	Years of Service	Base (Economic)	Merit & Seniority	
					Police	Fire
1	3.0%	0.0%	1	3.0%	10.0%	5.0%
2	3.0%	0.0%	2	3.0%	5.0%	4.5%
3	3.0%	0.0%	3	3.0%	1.5%	4.0%
4	3.0%	0.0%	4	3.0%	1.0%	3.5%
5	3.0%	0.0%	5	3.0%	0.8%	3.0%
6	3.0%	0.0%	6	3.0%	0.5%	2.5%
7&Up	3.0%	0.0%	7&Up	3.0%	0.0%	0.0%

Final Average Compensation Loads

Table of Average FAC Loads to Account for Redemption at Retirement

	Assumption
Police	No Change
Fire*	No Change
General	8%

*7% load for pre 6/30/1993 hires; 4% load for post 6/30/1993 hires.

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

Motion by Trustee Brewbaker to accept the proposed economic assumptions shown in Alternative 1 of the chart comparing present and alternative assumptions on page B-1 of the Preliminary Report as follows:

<u>Economic Assumptions</u>	<u>Current</u>	<u>Alt. 1</u>
Investment Return	7.50%	7.25%
Wage Inflation	4.50%	3.00%

<u>Demographic Assumptions</u>	<u>Current</u>	<u>New</u>
Actuarial Accrued Liability	\$35,350,531	\$35,821,262
Funding Value of Assets	\$31,913,449	\$31,913,449
Unfunded Actuarial Accrued Liabilities	\$3,437,082	\$3,907,813
Funded Ratio	90.30%	89.10%
Contribution for 10- year amortization period	\$702,343	\$708,734
Contribution for 15- year amortization period	\$604,908	\$600,769

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

Motion by Trustee Fox to change the System's amortization period to a 15-year closed period. (With the knowledge this can be changed at any time.)

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

There was discussion regarding the Contingency Reserve fund. In light of the fact the Board has decided to combine the groups for actuarial purposes and adopt a fiscal lag period, resulting in an overall reduction in the City's contribution, Mr. Alberts recommended the Board leave the fund intact at this time.

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for June 19, 2014 at 7:15am

ADJOURNMENT:

Motion by Vice Chairperson Sedlak for adjournment at 9:41 a.m.

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

Amy K. Kirkland, City Clerk