

**CITY OF OWOSSO  
EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES  
SPECIAL MEETING  
OWOSSO CITY HALL COUNCIL CHAMBER**

**MAY 29, 2019**

**7:15 AM**

**CALL MEETING TO ORDER:**

After waiting for the resolution of some technical difficulties Chairperson Farrell called the meeting to order at 7:25 a.m.

**ROLL CALL:**

**PRESENT:** Trustees Richard Brewbaker, Jerome Haber, Douglas Morrice, Andrew Reed, Vice Chairperson Mark Mitchell, and Chairperson Wilfred Farrell.

**ABSENT:** Trustee Susan Osika.

**ALSO**

**PRESENT:** GRS Consultant Kenneth Alberts; City Treasurer Katherine R. Fagan; GRS Consulting Actuary Laura Pfeffer Frankowiak; City Attorney Scott J. Gould; City Finance Director Cheryl A. Grice; and City Clerk Amy K. Kirkland; Graystone Consultant Brian Brice & Analyst Erik Burger (via telephone); Several General City Non-Union Members

**CITIZEN COMMENTS:**

Laurie Hendershot indicated she has worked for the City for over 24 years and is a part of the 7 remaining members of the General City Non-Union group. Speaking on behalf of the group she said they have many concerns about their possible transfer to MERS, particularly since they are not represented by a collective bargaining unit and have no real voice in the decision. There is fear that the provisions and calculations for retirement benefits will be changed as a result of the transfer. She stated that the non-union group has been overlooked in the past and asked that they not be overlooked now.

The following is a list of some of the questions and concerns that were expressed:

Who officially represents non-union employees in this transaction?  
Concern that MERS will not use the same figures to determine final average compensation  
Members that will be forced to continue contributions despite the fact their benefits are capped  
Ensuring that frozen pensions are handled correctly  
Ensuring that retiree raises are handled properly  
Ensuring annual 1099 adjustments are properly calculated and recorded  
Concern with the history of large fluctuations in contributions required of all parties

City Attorney Gould responded to Ms. Hendershot's question about representation, saying that because the members are not part of a collective bargaining group they are charged with representing themselves. He went on to clarify that he is responsible to the City first and the group was welcome to seek outside legal review. He encouraged members of the group to continue to attend meetings and voice their opinion.

Chairperson Farrell said he didn't believe the Board had the authority to address the concerns that were listed and directed the group to approach the administration and City Council.

Trustee Haber thanked Ms. Hendershot for relaying the group's concerns and said he doesn't want to see anyone's benefits get taken away. To that end he said he will keep gathering facts to consider when he and the rest of the City Council are asked to make a decision on the matter and he suggested concerned members continue to attend meetings.

## **NEW BUSINESS:**

### **Police Patrol Transfer to MERS – Development of Recommendation**

Discussion of the roll-forward calculations developed by GRS was led by Consultant Kenneth Alberts. He indicated it will be important for the Board include a method of calculation along with the computed amount of the transfer when making their recommendation to City Council. He went on to lay out the options for determining the transfer amount and detail the various small processes that each of the larger options consisted of, all of which is included as additional information in the final 2018 Actuarial Valuation.

The following is an excerpt from the Additional Information included in the 2018 Actuarial Valuation explaining the various computations and considerations before the Board:

*When “spinning off” or transferring liabilities and assets from a plan, the general industry standard is that the remaining participants in the plan should not be any worse if after the transfer than they were before the transfer. This is often tested by comparing the funded status of the plan before and after the transfer. However, the manner in which the funded status is computed can vary greatly. At the heart of maintaining a similar funded status before and after the transfer is the 1) computation of the accrued liabilities, 2) the computation of the assets to be transferred, and 3) the computation of the funded status.*

#### **Computation of Accrued Liabilities**

*Decisions around the computation of the liabilities generally revolve around two (2) areas:*

- *The discount rate (interest rate); and*
- *The method (such as entry age accrued liability or present value of accrued benefits).*

*Often times the assumed investment return from the annual actuarial valuation is used as the discount rate. However, certain circumstances could justify the use of a different rate, such as a “risk free” rate or short term investment rate (currently in the 3% - 4% range).*

*Circumstances that would justify this lower rate include:*

- 1) *The size of the transfer causing the asset allocation to change (post-transfer).*
- 2) *Money being transferred going to individuals (or a participant directed DC plan) if not able to be invested in a balanced portfolio.*
- 3) *A change in plan sponsor obligations (for either the transferring group or the remaining group).*

*Circumstances 2 and 3 do not apply to the Owosso Employees Retirement System.*

*Circumstance 1 may or may not apply. While it is not currently believed that the transfer will mandate a change to the asset allocation, the group transferring is one of the two open groups. We understand the other open group (Fire) is also under consideration to be transferred. When a plan is completely closed to new members, its cash flow needs change as it moves toward an all retiree group. At some point, the asset allocation for a closed group has to change as the covered population moves to retiree status and the cash flow needs change. Whether or not this situation and the potential movement of the Fire group justifies using a lower rate if returned as the discount rate is a matter of Board Policy. We are, therefore, showing liabilities under two different discount rates.*

The argument relative to the method for determining the accrued liabilities generally focus on the plan's or the plan sponsor's obligations. In cases where there may be a change in plan sponsor obligation or a freezing of benefits, the present value of accrued benefit method (or unit credit method) is generally the preferred method. However, in this situation there is no change in benefit accruals or plan sponsor. Essentially, this is just a change in the trust from which benefits will be paid. As such, it makes sense to determine the liabilities using the method upon which funding was based. The actuarial valuation that develops the employer contributions has used the entry-age actuarial cost method for the past several years. We have, therefore, showed liabilities under this method (for each of the two interest rates).

**Computation of Asset Transfer**

We have seen different approaches to determining the value of the asset transfer. Generally, the method chosen attempts to allocate assets to the transferring group that is representative of the funding for that group and leaves the remaining members' plan in a funded position after the transfer that is at least as good as it was before the transfer. Frequently, this is accomplished by determining the funded status immediately before the transfer for the plan as a whole, when transferring assets equal to the funded status multiplied by the liabilities for the transferring group (as discussed in the next section, the funded status could be a single number or multiple numbers). The following sample example illustrates this method:

1) Accrued Liability for Transferring Group	\$ 500,000
2) Accrued Liability for Remaining Group	\$ 2,000,000
3) Total Liability (1)+(2)	\$ 2,500,000
4) Market Value of Assets	\$ 2,000,000
5) Plan Funded Status (4) / (3)	80%
6) Assets Allocated to Transferring Group (5)-(6)	\$ 400,000
7) Funded Status after Transfer [(4)-(6)] / (2)	80%

There are frequently variations on this method such as capping the transfer at 100% of the transferring group's accrued liability or looking at funded status categorically (see next section).

Historically, the Owosso Employees Retirement System has tracked assets by group. We understand from the Board's legal counsel that this is an administrative decision and not a legal decision. In other words, the assets allocated to any group can be changed at any time. However, the current asset allocation has been used for many years to develop the employer contribution in the annual actuarial valuation. This tracking could be used through the transfer date to determine the value of the assets to be transferred. We believe either method is reasonable. There may be other reasonable methods as well. By using the assets that have been administratively allocated to the transferring group, the funded status of the remaining groups (based on the assets administratively allocated to them) should be relatively unaffected.

**Computation of Funded Status**

If the amount of the asset transfer is based on the administratively allocated assets, the determination of the funded status becomes less important. However, if the amount of the asset transfer is based on the funded status, then how it is calculated is critical. There are two main approaches that we have seen (both are based on the market value of assets):

- 1) Determine overall plan funded status.
- 2) Determine the categorized funded status.

The overall funded status is the total market value of assets divided by the total plan liabilities. When using the method to determine the asset transfer, the total plan funded status is generally maintained. However, if the ratio of actives to retirees of the transferring group differs from the remaining group, the categorized funded status could change.

*To determine the categorized funded status, liabilities are ordered and assets are applied to that order. The first assets generally go to member contributions. Next, assets are allocated to liabilities for participants in pay status. Finally, assets are allocated to actives and inactive. The concept is that members fund their contributions and the funding for participants in pay status should have occurred in the past, leaving any unfunded amounts to be associated with current active members. Using this approach, a funded status for each category is determined and an asset transfer for each category is determined. This method then preserves the categorized funded status after the transfer.*

*To assist the Board with their evaluation, we have projected plan liabilities to May 31, 2019 and June 30, 2019 using roll-forward techniques. The projections are performed on the valuation assumed discount rate and a "risk free" rate. In addition, we have also added a chart showing the categorized funded status.*

As Mr. Alberts proceeded to lay out all the options Chairperson Farrell interjected, saying that it was his understanding that the City intended to transfer all members and assets to MERS, and asking whether the calculations in question would become moot should it come to fruition. The question spawned discussion of the following ideas: whether calculating an allocation for each group and transferring them separately opens the Board/City up to litigation; if the Board has the authority to halt the transfer until contract negotiations are concluded; asking the Council to approach the unions about making the transfer in one transaction; whether waiting is truly possible; and creating a back-up plan if it's not. Discussion continued regarding how the City might feel about such a request; if there was a cost difference to moving piece-meal or all at once; and hitting minimums with money managers and being forced to lower the return rate of the portfolio. Chairperson Farrell suggested transferring Patrol and Fire by July 1, 2019 (it was noted the Fire contract was not yet in writing) or moving retirees with a portion of the assets and waiting for the outcome of the AFSCME contract.

Switching gears slightly, City Attorney Gould inquired about the status of the contingency reserve, noting that if the transfer was made all at once the conversation about who gets the contingency reserve could be avoided. Consultant Alberts suggested holding back the contingency reserve as a means of protecting the remaining groups, until such time when all the groups have been transferred. The City Attorney endorsed the idea saying it is his position the contingency reserve does not have to move until the entire system is moved. Trustee Reed indicated the Patrol group feels the portion of the contingency reserve that has been allotted to their group in the actuarial report belongs to them.

Motion by Trustee Brewbaker to have the contingency reserve moved with the appropriate unit.

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

Consultant Alberts encouraged the group to return back to the task at hand saying the Board must determine a process today, the dollar amount and the contingency reserve can be dealt with at a later time. The Board expressed an interest in moving some of the money to MERS now and settling up at a later time. Finance Director Grice noted that once the plan of action is determined her office would need about two weeks to perform the appropriate calculations and Graystone would need an additional two weeks to raise the cash. In an effort to speed up the entire process it was suggested the Board select a process and provide a range of dollars for transfer for City Council to consider instead of waiting until a definitive dollar amount can be calculated. There was further discussion after which Chairperson Farrell summarized the following process: using a valuation date of April 30, 2019, compare the actuarially accrued liabilities for the Patrol unit to that of the total system to determine a funding ratio; apply that funding ratio to the market value of assets on June 30, 2019 to calculate the dollar amount to be transferred; inform Graystone of the transfer amount and they will make the process happen as soon as possible. It was agreed this process would be keeping things consistent with what has been done in the past and would take into account the fact that the entire system will eventually be moved. Finance Director Grice commented that MERS would not have the funds in time to pay retirees their July payment. Chairperson Farrell suggested that \$400,000 - \$500,000 could be transferred to MERS by July 1<sup>st</sup> to pay the retirees, with the balance being transferred as investments are liquidated. Mr. Brice noted that the

portfolio should remain intact and fees should remain the same after the transfer of the Police Patrol unit and its retirees.

Consultant Alberts thanked the Trustees for bearing with him and working through a difficult and highly technical discussion.

Motion by Chairperson Farrell to recommend that City Council direct staff to move Police Patrol assets to the MERS system in an amount determined by calculating the funded status on April 30, 2019 (Police Patrol accrued liabilities / Total System accrued liabilities) multiplied by the market valuation of System assets on June 30, 2019; estimated to be between \$4,700,000 - \$5,600,000.

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

The above recommendation to be presented to City Council when MERS is ready to present their recommendation.

Motion by Chairperson Farrell to direct Graystone to raise the initial amount of \$500,000 cash for transfer to MERS by July 1, 2019 to cover Patrol retiree benefit payments, with the remaining amount to be transferred as investments are liquidated.

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

Chairperson Farrell noted that he will not be available for the June 26, 2019 meeting, but could possibly call in if needed.

Consultant Brice noted that the asset allocation study would be ready for the June meeting.

Chairperson Farrell thanked Mr. Brice and company for their hospitality Sunday evening at the MAPERS Conference.

GRS Consultant Alberts noted that City staff may need some support as they proceed through the transfer process. He asked for the Board's explicit permission to do so. The support was granted.

Mr. Alberts went on to say that this may be their last meeting with the Board given the anticipated transfer of all the assets to MERS. He thanked them for their many years of business, noting that the Board had worked with GRS so long that it was identified as Account No. 40.

Various Board members thanked Mr. Alberts and Ms. Frankowiak for all their efforts in educating and guiding the trustees over the years.

**NEXT BOARD MEETING:**

The next board meeting is scheduled for June 26, 2019 at 7:15am

**ADJOURNMENT:**

The meeting was adjourned at 10:01 a.m.

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Amy K. Kirkland, City Clerk