

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

JUNE 16, 2011

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:18 a.m.

ROLL CALL:

PRESENT: Trustees Michael Erfourth, Mark Mitchell, James Treadway, Vice Chairperson Frances Kukulis and Chairperson Wilfred Farrell.

ABSENT: Trustees Benjamin Frederick and Michael McCloskey.

ALSO

PRESENT: City Attorney William C. Brown; City Clerk Amy K. Kirkland; Merrill Lynch Advisor Maral Thomas; City Treasurer Ronald J. Tobey; Merrill Lynch Investment Consultant Marie Vanerian; and various City Staff members.

APPROVE AGENDA:

Chairperson Farrell suggested a slight rearrangement of the order of the meeting to accommodate action items early in the meeting in case a board member needed to leave the meeting before adjournment.

Motion by Vice Chairperson Kukulis to approve the Agenda as presented with the addition of Consent Item h. City of Owosso Employees Retirement Fund - May 31, 2011 and move the Consent Agenda and New of Business 2. Application for Retirement & 3. Consideration of Interest Rate on Employee Contributions before the Special Presentation.

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

APPROVE MINUTES OF APRIL 21, 2011 REGULAR MEETING:

Motion by Trustee Mitchell to accept the minutes of the April 21, 2011 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizens comments.

CONSENT AGENDA:

Motion by Vice Chairperson Kukulis to approve the consent agenda as follows:

1. Approve Pension Check Reports:

a. April 2011	\$ 147,402.81
b. May 2011	\$ 147,402.81

2. Approve Statements:

- a. Aletheia LCG
As of March 31, 2011
- b. Alliance Bernstein
As of March 31, 2011
- c. Atlanta Capital Investments
As of March 31, 2011
- d. Wentworth, Hauser, and Violich
For period 01/01/11 through 04/30/11
- e. Bank of New York – ConvergEx Group
As of March 31, 2011
- f. Bank of New York – ConvergEx Group
As of April 30, 2011
- g. City of Owosso Employees Retirement Fund
April 30, 2011
- h. City of Owosso Employees Retirement Fund
March 31, 2011

3. Payment Authorizations:

- a. Wentworth, Hauser, and Violich
For period 01/01/11 through 03/31/11 \$ 4,660.00
- b. City of Owosso
2009-2010 Audit \$ 5,600.00
- c. Ronald J. Tobey, City Treasurer
Report of Checks Written – April 2011 \$178,737.37
- d. Ronald J. Tobey, City Treasurer
Report of Checks Written – May 2011 \$149,111.44

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

NEW BUSINESS (Items 2 & 3)

APPLICATION FOR RETIREMENT - TREADWAY

Motion by Vice Chairperson Kukulis to approve the application for retirement from James Treadway.

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

CONSIDERATION OF INTEREST RATE (CURRENTLY 5%) ON EMPLOYEE CONTRIBUTIONS

City Treasurer Tobey indicated the retirement ordinance requires the interest rate on employee contributions be set and affirmed by the Board each year.

Motion by Vice Chairperson Kukulis to keep the interest rate on employee contributions at 5%.

Motion supported by Councilperson Erfourth and concurred in by unanimous vote.

SPECIAL PRESENTATION:

CHANGES TO LOCAL PENSION SYSTEMS - ELLEN HOEKSTRA, MAPERS LOBBYIST

MAPERS lobbyist Ellen Hoekstra was on hand to explain some of the effects of recent legislation as they apply to the pension system and employee benefits.

She touched primarily on three areas: pension taxation, revenue sharing and the proposed Transparency Bill.

Pension Taxation – Ms. Hoekstra indicated the new legislation created 3 tiers with varying degrees of taxation. Those born before 1946 would see no tax on their pensions. Those born from 1946-1952 would receive a \$20,000 exemption with the remainder of their pensions taxed at 4.35%. Those born after 1952 would be taxed at 4.35% until the age of 67. After reaching 67 they would receive a \$20,000 exemption. Those making more than \$75,000 per year would receive no exemption.

Revenue Sharing – For the first time State shared revenue will be tied to 3 demands. Municipalities will receive 1/3 of their revenue sharing based on reaching each of the demands. Municipalities will be required to create a “dashboard report” as developed by the Governor’s Office. This report is designed to provide clear answers as to the fiscal health of a community and allow for comparison between communities. The second demand requires service consolidation between municipalities. The details of this requirement are still being worked out. The last demand requires all new hires to be placed in a retirement plan that caps the municipal contribution at 10% for those with health care and 16% for those receiving no health care after retirement. There will also be restrictions on the computation for final average compensation.

Transparency Bill – While this bill has not become law it is anticipated it will see little to no opposition as it moves through both houses. The bill will require an annual report, budget and listing of all expenditures for each municipality be available on the web to the public for a period of at least 6 years. It bears noting that as written the bill does not require individual pensions be listed on the site.

Ms. Hoekstra went on to answer questions from the group and promised to research questions to which she did not know the answer.

COMMUNICATIONS:

- Gabriel Roeder & Smith – *NewsScan April 2011*
- Gabriel Roeder & Smith – *NewsScan May 2011*
- Amy K. Kirkland, City Clerk: *Fire Department Election Results (to be received at the meeting)*
- Merrill Lynch – *Market Focus, 1st Quarter 2011*

NEW BUSINESS (continued):

PRESENTATION OF THE 2010 ANNUAL ACTUARIAL REPORT

W. James Koss, Gabriel Roeder Smith & Company Actuary, gave the annual report presentation. He noted that the System continues to realize losses from 2008, attributing to the steep increase in the City’s required contribution. He cautioned that because of the 2008 losses as well as a number of members retiring earlier than expected the City can expect its contribution for the coming year to increase again. Though the System again recognized a loss for the year it was

Mr. Koss's assessment that the City of Owosso Retirement System rates well against other systems in the State.

There was discussion regarding how potential legislation at the State level could affect the system, the changing behaviors of system members (primarily earlier than normal retirements), long term savings vs. short term increases in the City's required contributions, performing a worst case scenario study for planning purposes, and the City's contributions to the System over the last 25 years.

City Manager Crawford asked the Board to receive the report so as not to lock the City into a particular millage levy. City Attorney Brown indicated the Board does not have the authority to allocate money from the General Fund, thus there should be no concern that acceptance of the report locks the City into tax levy.

The following are comments from the report:

Funding: *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 funding method. The Aggregate funding method is designed to produce contributions that are a level percentage of payroll (if all actuarial assumptions are met) and that will be sufficient to fund System liabilities over the working lifetimes of members of these groups. Note that, if all assumptions are met, the level percent of payroll contributions applied to a declining payroll will produce dollar contributions that are designed to decline over time as the size of the covered active population decreases. The total employer contribution for the closed groups for the fiscal year beginning July 1, 2011 is \$428,034, which is higher than the computed employer contribution for these groups of 287,942 for the prior fiscal year.*

Contributions for Police Patrol and Fire, groups that are open to new entrants, are based on the Entry Age Funding Method. For the Police Patrol and Fire groups, accrued assets (net of the Retiree Contingency Reserve) exceeded actuarial accrued liabilities by \$458,211. This amount was amortized as a level percent of payroll over 10 years and applied as a credit to the computed normal cost contribution, resulting in a City contribution of \$22,736 for the Police Patrol group and \$99,914 for the Fire group for the fiscal year beginning July 1, 2011. The computed employer contribution for these groups was \$62,657 for the prior fiscal year. It is important to note that as the accumulated credit (the difference between assets and accrued liabilities) is recognized, the computed rate will return to at least the level of the normal cost of benefits.

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 1.27% of payroll for Police Patrol members for the fiscal year beginning July 1, 2011.

Actuarial Experience: *Experience of the System was less favorable than assumed. The experience loss is primarily attributed to an unfavorable asset return. This experience loss was partially offset by gains on active liabilities due to lower than expected pay increases. Experience losses due to earlier than expected retirements in the General Non-Union and Water Department divisions increased the employer contribution rates. The employer contribution rate for the Fire Department increase due to a decrease in the full funding credit (caused by the scheduled recognition of the 2008 asset loss and the use of the full funding credit to offset the Employer Normal Cost in prior years).*

Plan Provisions: *All plan provisions remain unchanged from the prior valuation.*

Plan Assumptions and Methods: *As recommended by the actuary, the actuarial value of assets was allocated among the various subgroups of the System, such that asset gains or losses are*

assigned in proportion to the relative size of each subgroup's assets. This method results in an even allocation of asset returns when expressed as a percentage of allocated assets. The prior asset allocation method, based on book value, did not produce an equitable allocation of asset gains or losses. There were no other changes in the actuarial assumptions or methods for this valuation.

Looking Ahead: The funding value of assets used to determine both the funded status and the required employer contribution, is based on a 4-year smoothed value of assets. This reduces the volatility of the valuation results. As of December 31, 2010 the funding value of assets was 103.5% of market value. This means that meeting the actuarial assumption in the next few years will require average future market returns that significantly exceed the 7.5% investment return assumption.

To gauge the magnitude of the possible employer contribution required in the short term if future gains do not occur, it is instructive to look at the contribution rate that would have resulted if the valuation was based on the market value of assets. If the December 31, 2010 valuation results were based on market value of assets instead of smoothed funding value, the funded percent of the plan would be 98% (instead of 101%), the employer contribution requirement would be 17.7% of payroll, or \$682,543 (instead of 14.3%, or \$550,684). Also, effective with this valuation the total contribution for the Police Patrol group again exceeded 4%, requiring member contributions for this division to be 1.27% of annual compensation. As the scheduled asset loss that occurred in 2008 is recognized in full, both City and Police Patrol contributions are expected to increase, unless offset by greater than expected asset returns.

Motion by Trustee Treadway to accept the 2010 Annual Actuarial Valuation report as submitted.

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

OLD BUSINESS:

MERRILL LYNCH STATUS REPORT

Merrill Lynch Consultant Vanerian reported there was no news on this front.

In light of a recent letter from Aletheia regarding SEC sanctions as well as an article in Pensions & Investments magazine detailing issues at the company the Board inquired what their course of action should be on the matter. Merrill Lynch Consultant Vanerian indicated she felt the issue had been blown out of proportion by the media, saying the Pensions & Investments article contained some false information. She went on to say that the SEC investigation started as the result of a routine audit and during the course of the investigation three administrative issues were discovered which resulted in SEC sanctions. She said the issues were entirely administrative in nature and did not directly effect management of funds within the portfolio. Merrill Lynch will be meeting with Aletheia representatives on Monday to determine if the company will remain on their list of recommended managers. Ms. Vanerian indicated she will report back to the board immediately with the results of the meeting, as well as bring the Price Waterhouse Cooper report on Aletheia to the August Board meeting.

The Board asked to be informed of any articles published about any of the System's money managers.

INVESTMENT CONSULTANT REPORT – 1st QUARTER 2011

Merrill Lynch Consultant Vanerian indicated the global economy continues to be challenged by issues within the Euro Zone, the earthquake and tsunami in Japan, and the Middle East/North African revolution. At home not much has changed, though corporate profits are on the rise.

She noted the System had earned \$1.1 million for the quarter.

Ms. Vanerian presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 03/30/2011

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-03/11
Beginning Market Value	30,446		16,702
Net Contributions	-428		-15,941
Investment Earnings	1,194		30,450
Ending Market Value	31,212		31,212

Ms. Vanerian distributed copies of the Investment Policy and encouraged the Board to schedule a period review of the document.

CITIZENS COMMENT:

There were no citizen comments.

On the occasion of his retirement Chairperson Farrell thanked Trustee Treadway for his time and effort on the Board.

NEXT BOARD MEETING:

The next board meeting is scheduled for August 18, 2011 at 7:15am

ADJOURNMENT:

Motion by Vice Chairperson Kukulis for adjournment at 9:44 a.m.

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

Amy K. Kirkland, City Clerk