

GENERAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
REGULAR MEETING
NOVEMBER 19, 2014 – 8:15 a.m.
233 East Fulton Street

The meeting was called to order by Vice Chairman David Tryc. Other members present: Chairman J. Patrick Scripps, Mr. Martin Timkovich, Mr. Michael Hawkins, Mr. Walter Gutowski, and Mr. William Butts. Absent: Ms. Jane Hofmeyer.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement System, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Board, Mr. James Anderson of Gabriel Roeder Smith and Company, Ms. Deb Blacquiere and Ms. Chelsea Bierschbach of BDO USA, LLP, Ms. Rose Hockey, Ms. Alvina Hockey, Mr. Nicholas Sefchok of Wilshire Associates, Inc., and Ms. Sara VanderWerff, City Comptroller.

Mr. Gutowski made the motion to excuse the absence of Ms. Hofmeyer. The motion was seconded by Mr. Hawkins and carried.

Public comments regarding agenda items: Ms. VanderWerff asked if the actuary could address the difference in the actuarial assumed rate of return of 7.50% v. the expected return provided by Wilshire Associates of 6.7% as outlined in the GASB 67 report as of June 30, 2014. Mr. Sefchok explained that the 6.7% is the 10-year looking forward median expected rate of return and it does not include any alpha. He also stated that the actuary may utilize some different assumptions in their calculations which would also account for some of the variance. Ms. VanderWerff asked if “alpha” could be explained for lay people that are unfamiliar with the term. Mr. Sefchok stated that alpha is the return above the benchmark; Wilshire uses beta to calculate expected rate of return.

Mr. Hawkins made the motion to approve the minutes of the regular meeting of September 17, 2014. The motion was seconded by Mr. Gutowski and carried.

Mr. Timkovich made the motion to approve the purchase of credited service by the following General Retirement System members. The motion was seconded by Mr. Butts and carried.

Todd S. Bursley	\$8,509.58	24 months
John E. Koster	\$15,964.66	24 months

Mr. Timkovich made the motion to approve the following retirements: seven age and service, one deferred, and one early. The motion was seconded by Mr. Hawkins and carried:

Age and Service Retirements:

<u>Name</u>	<u>Credited Svc.</u>	<u>Ret. Date</u>	<u>Avg. Salary</u>	<u>Pension</u>
Andrews, Vern L.	29 yrs. 0 mo.	01/31/2015	\$52,068.00	\$2,758.20
Grabinski, Raymond	25 yrs. 7 mo.	11/01/2014	\$51,765.67	\$2,616.05
Kaminsky, Owen L.	30 yrs. 0 mo.	10/29/2014	\$57,736.33	\$3,897.20

Maier, Cheryl A.	30 yrs. 0 mo.	12/16/2014	\$67,186.33	\$4,355.85
Mason, Susan M.	30 yrs. 0 mo.	01/03/2015	\$55,668.67	\$3,757.64
Scheneman, Margaret A.	21 yrs. 6 mo.	11/18/2014	\$49,669.67	\$2,402.77
Schiele, Donald W.	23 yrs. 9 mo.	12/02/2014	\$49,794.67	\$2,212.64

Deferred Retirement:

Name	Credited Svc.	Ret. Date	Avg. Salary	Pension
Hoogterp, Barbra G.	8 yrs. 2 mo.	12/01/2014	\$34,802.67	\$609.22

Early Retirement:

Name	Credited Svc.	Ret. Date	Avg. Salary	Pension
Hayden, Scott L.	27 yrs. 4 mo.	11/01/2014	\$93,743.33	\$3,426.39

Mr. Timkovich made the motion to approve the payment of administrative expenses of \$12,739.59 for the period 09/01/14 – 10/31/14. The motion was seconded by Mr. Butts and carried.

Mr. Timkovich made the motion to approve the payment of the investment management invoices as listed below for the quarter ending 09/30/14. The motion was seconded by Mr. Gutowski and carried. Fee calculations, fees applied and stated amounts under management have been verified by the Retirement Systems office as correct:

- \$32,936.54 – Baird Advisors for management of fixed income assets
- \$8,841.94 – Northern Trust Asset Management for management of equity assets
- \$40,306.61 – CBRE Clarion for management of global real estate assets
- \$67,435.91 – Wellington Management Company for management of equity assets
- \$38,801.44 – Wellington Management Company for management of commodity assets
- \$42,610.90 – Western Asset Management for management of fixed income assets

Mr. Timkovich made the motion to approve payment of custody fees to Northern Trust for the quarter ending 09/30/14. The motion was seconded by Mr. Hawkins and carried:

Benefit Payments	\$6,244.01
Custody	<u>\$7,240.81</u>
Total	\$13,484.82

Ms. Korzen presented the Public Act 314 Asset Analyses showing a market value of \$417,815,378 on September 30, 2014 and \$424,494,517 on October 31, 2014. The reports were received and filed by the Vice Chairman. (Analyses on pages)

Ms. Korzen next presented Trustees with the Quarterly Report of Account Refunds for the quarter ending 09/30/14 that disclosed a withdrawal of \$108,188.80 by four former members; two were vested. The report was received and filed by the Vice Chairman. (Report found on page)

The Executive Director presented Trustees with the Quarterly Report of Income for the quarter ending 09/30/14. Total Securities Lending income for the period was \$4,712.82. Total Class Action Settlement receipts for the period were \$4,874.42. Vice Chairman Tryc received and filed the report. (Report found on page)

Trustees reviewed an Eligible Domestic Relations Order (EDRO) for Mr. Eric J. Friske. Ms. Korzen stated that an EDRO has been filed to assign a portion of Mr. Friske's retirement benefits to an alternate payee, Elizabeth A. Friske, in accordance with the Domestic Relations Order Act. The EDRO has been reviewed by the actuary and it was noted that it complies with the General Retirement System plan provisions. The EDRO will become part of Mr. Friske's file and will be paid according to its provisions. The order was received and filed by the Vice Chairman.

Mr. James Anderson of Gabriel, Roeder, Smith and Company (GRS) presented the 47th Annual Actuarial Valuation for the year ending June 30, 2014. Mr. Anderson noted that General Retirement System assets equal 83.6% of computed accrued liabilities. He also noted that the City's contribution rate for the fiscal year beginning 07/01/15 will be 24.38% of covered payroll, as specified in Section 1.221(3) of City Code. He provided a detailed report that included a ratio of active to retired employees of 0.6 to 1, a recognized rate of return of 13.77% compared to 7.50% projected, and an initial computed employer rate of 7.77% amortized over a period of 24 years. {Chairman Scripps arrived at 8:27 a.m.} He noted that liabilities exceeded assets (\$75,432,091 debit to unfunded actuarial accrued liability). He noted that the ratio of assets computed under funding value relative to the market value of assets is 90% and provided an overview on the projection of future amortization payments. Mr. Anderson reviewed the derivation of valuation assets and corresponding statistical data. Vice Chairman Tryc made the motion to approve the actuary's recommendation to transfer \$14,934,726 from the Income Expense Fund to the Employer Accumulation Fund. (Ending balances in each reserve fund as of June 30, 2014, were assumed to be: Member Deposit Fund - \$32,310,028; Employer Accumulation Fund - (\$5,206,163); Benefit Reserve Fund - \$290,106,889; Income-Expense Fund - \$0). Seconded by Mr. Butts, the motion carried. Mr. Timkovich asked if Trustees are comfortable with the 7.50% assumed rate of return; Trustees did not object. The report was received and filed by the Chairman.

Mr. James Anderson provided Trustees with a GASB 67 review and the GASB 67 Plan Report and Accounting Schedules as of June 30, 2014. He noted that the actuarial valuation determines funding status and contributions, and the liabilities are to reflect the funded status and the funding policy of the plan. Mr. Anderson reviewed the GASB 67 Plan Report and provided some background on the various tables contained in the report. He noted that the net pension liability as of June 30, 2014 was \$31,780,263 and the net position as a percentage of total pension liability was 93.10%. The single discount rate was 7.50%, as was the long-term expected rate of return. Mr. Anderson reviewed the schedule of changes in fiduciary net pension, changes in the employer's net pension liability, the schedule of employer's net pension liability, and schedule of contributions. He commented that Wilshire Associates' long-term expected return on plan assets as of January 1, 2014 was 6.7%; however, this excludes any alpha the plans experience and is based on expected inflation of 2.25%. He stated that the last experience study reconfirmed the 7.50% assumed investment rate of return that GRS has been using. The 6.7% return is based on geometric return v. arithmetic returns used by GRS, which are a little bit higher. Mr. Anderson stated he feels comfortable with Trustees utilizing the 7.50% assumed rate of return. He stated that if Trustees wish, they can revisit this topic before the next experience study is completed. Mr. Timkovich asked about the mortality tables that GRS is using compared to the tables that the IRS utilizes. Mr. Anderson explained the "set back" concept and noted that this is basically a mechanism built in to approach these assumptions more conservatively. The common practice among actuaries today is to utilize a fully generational table which is updated to 2014 information. He stated that moving to fully generational tables will increase costs; however, by implementing it sooner rather than later the impact will not be as dramatic.

Mr. Anderson next reviewed the draft City of Grand Rapids General Retirement System Funding Policy. The policy attempts to be consistent with City Code and state laws. He discussed the funding objectives, elements of actuarial funding policy, and risk management associated with the policy. He stated

that going forward the policy will be reviewed on the same schedule as the experience study. He reviewed the actuarial cost method, asset smoothing method, amortization period, and funding target. Ms. Korzen noted that the City has authority to set the amortization period and that the amortization language represents the Board's recommendation to the City Commission. The policy states that a funding plan shall be considered if the funded ratio falls below or is projected to fall below 75%. Chairman Scripps asked if it is state law that if the plan falls below 70% funded status, then a funding plan must be devised. Mr. Anderson stated that could be the case however this is an additional layer as this policy states that if the funded status falls below 75% then a funding plan shall be considered. Chairman Scripps stated this issue should be researched and if necessary the wording should be reflective of the state law that if this situation arises, a funding plan will be devised. Chairman Scripps asked if the City has a choice on whether or not to make a contribution to the plan if it is between 100% - 120% funded. Mr. Anderson agreed that they may have a choice however the policy should address having them make contributions to the plan in that situation. Chairman Scripps stated that Trustees cannot tell the City what to do. Mr. Anderson commented that this item should be consistent with City Code and that perhaps some revisions to the policy will need to take place after some additional research. Mr. Timkovich commented that with the comments GASB recently has made regarding the timing of contributions, he thought it might be prudent to have the funding policy state that it has been a long standing practice of biweekly contributions by both employees and employer; Trustees agreed. Mr. Gutowski commented that if Trustees wish, the Task Force that was recently put together to discuss the Retirement Systems office possibly moving, could look at this issue; Chairman Scripps stated he felt that would not be necessary. Ms. Korzen stated that she will research the issues that Trustees discussed regarding this policy and bring another draft to them at the December 17 regular Board meeting.

Ms. Deb Blacquiere and Ms. Chelsea Bierschbach of BDO USA, LLP presented Trustees with the annual audit for the fiscal year ending June 30, 2014. Ms. Blacquiere provided Trustees with highlights from the audit, related statements, and required supplementary information. Some of the highlights included BDO's responsibilities, a report on internal controls, significant audit findings, any difficulties encountered in the audit and any disagreements with management. Ms. Blacquiere and Ms. Bierschbach noted that the plan is being run efficiently, no unusual items were noted during their testing and there are no issues with the System's internal controls. Ms. Bierschbach also reviewed the Audit Wrap-Up report that was provided to Trustees. The reports were received and filed by the Chairman.

Ms. Korzen commented that due to the most recent changes in Michigan Public Act 314, there are some very strict regulations regarding disclosure from the plan's service providers in terms of fee compensation that the plan pays them directly and additional strict regulations on reporting political contributions. Mr. Thomas Michaud prepared a draft policy and disclosure forms for Trustees' consideration on this issue. These forms would need to be completed by the service providers annually. The draft policy provides the mechanism to cover the plan year ending June 30, 2014. This policy will be necessary to comply with Michigan Public Act 314. Mr. Timkovich asked if the applicable sections of the Act could be attached with the disclosures to the service providers to provide them with a quick point of reference; Ms. Korzen agreed. Mr. Timkovich asked what happens if one of the service providers is above the allotted political contribution amount. Ms. Korzen stated she will review the Act to ascertain what the penalties are. Chairman Scripps asked if there is a deadline for completing these disclosures; Ms. Korzen stated yes and it is a violation of Michigan Public Act 314 if service providers do not comply. Trustees were unsure of who the penalties would be against; Ms. Korzen stated the look back period is 24 months in the Act. Chairman Scripps suggested sending the disclosures as written by Mr. Michaud to the service providers and review the results when they receive them. Following Trustee discussion, Mr. Gutowski made the motion to adopt the disclosure policy as written. The motion was seconded by Vice Chairman Tryc and carried. (Policy found on page)

The Executive Director next presented a request for a non-duty disability retirement from Ms. Rose A. Hockey. Ms. Hockey requested to go into closed session. Mr. Gutowski made the request to go into closed session for the purpose of discussing Ms. Hockey's non-duty disability retirement request, information that is exempt from the Freedom of Information Act and is also medically privileged, and to include Ms. Rose A.

Hockey, Ms. Alvina Hockey, Ms. Korzen, Ms. White and Ms. Balkema. The motion was seconded by Mr. Butts and carried. Roll call vote: yeas: 6, nays: 0.

Executive Session began at 9:18 a.m. and ended at 9:46 a.m.

Vice Chairman Tryc made the motion to deny the non-duty disability retirement request from Ms. Rose A. Hockey based upon the majority opinion of the medical committee. The motion was seconded by Mr. Gutowski and carried.

There were no public comments on items not on the agenda.

Ms. Korzen commented that at the September Board meeting, it was unclear at that time as to which investment management account funds should be transferred from for Cash Account needs for November and December 2014. After recent review of the investment accounts, Mr. Bensur agreed with the Executive Director's recommendation to transfer \$1,250,000 from the PIMCO account and \$700,000 from the NTAM account to the Cash Account on November 3, 2014 and to transfer \$1,950,000 from the NTAM account to the Cash Account on December 1, 2014.

The meeting adjourned at 9:50 a.m.

The next General Retirement System Board Meeting will be held Wednesday, December 17, 2014, at 8:15 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General Retirement System