

**CITY OF PONTIAC, MICHIGAN
GENERAL EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
JANUARY 25, 2012**

A regular meeting of the Board of Trustees was held on Wednesday, January 25, 2012 at the City Council Conference Room, Second Floor, City Hall, 47450 Woodward Avenue, Pontiac, Michigan 48342. The meeting was called to order at 1:39 p.m.

TRUSTEES PRESENT

Shirley Barnett
Koné Bowman
Phyllis Long
John Naglick, Secretary
Tuesday Redmond
Patrice Waterman

TRUSTEES ABSENT

Charlie Harrison, Chair (*excused*)
Leon Jukowski, Mayor (*excused*)
Sheryl Stubblefield (*excused*)
Kevin Williams (*excused*)

OTHERS PRESENT

Cynthia Billings, Sullivan Ward
Sandy Rodwan, Rodwan Consulting
Ellen Zimmermann, Retirement Administrator
Jane Arndt, M- Administrative Assistant
Leonard Briscoe, Retiree
Claudia Filler, Retiree
Amanda Kellar
William Kellar, Retiree
Larry Marshall, Retiree
Linda Watson, Retiree

PUBLIC DISCUSSION/UNION REPRESENTATIVES

Retiree, Claudia Filler introduced herself and indicated that she is the President of the City of Pontiac Retiree's Association which was registered as a non-profit in August, 2011.

She expressed her concerns regarding the Board composition based on the changing demographics. The number of active employees is rapidly decreasing and she feels the representation should be changed. She spoke with Ms. Billings prior to the meeting and was informed that it is the Board's intention to change the composition

Ms. Billings stated that she spoke with Ms. Filler and indicated that the Board has the same concerns. She referred to her legal report which contains a letter sent to the Emergency Manager on August 12, 2011 along with other correspondence sent to his attorney regarding opening up the Employee Trustee positions on the Board to retirees. She has been following up with the Emergency Manager's attorney. They are working on it.

Trustee Naglick stated that the Emergency Manager is receptive to the Board's recommendation. Chairman Harrison had indicated that he would like to convene a committee regarding the change to the Board composition and come back with a recommendation.

Ms. Filler confirmed that the Employee Trustee positions in question will be distinguished between the Hospital and City and will only be filled by active, deferred and retired members from the City of Pontiac.

Trustee Naglick noted that the committee will come back with their recommendation.

Vice Chair Bowman said that the recommendation will be brought back at the March meeting.

Retiree, Linda Watson questioned why the recommendation would not be available at the February meeting. The manager review meeting is not held on the same day as the regular meeting.

Vice Chair Bowman indicated that everyone on the Board should be given ample opportunity to be on the committee. He did not feel that the pending committee would have a recommendation prior to the March meeting.

Ms. Watson questioned what the Pitney Bowes invoice was for and whether the Gray & Company invoice was their monthly invoice.

Ms. Zimmermann stated that the Pitney Bowes invoice was for the postage meter. The Gray & Company invoice included the quarterly investment management fees for large cap value and the large cap core portfolios for the period ending December 31, 2011 and the November and December consulting fee.

William Kellar stated that he is a retiree and was an employee of the City of Pontiac. He has some thoughts on how to get the City back on its feet. He wanted to make sure that his ideas were public record.

He stated that the City of Pontiac could learn from the City of Royal Oak which avoided bankruptcy. Royal Oak found a way to have their debt forgiven. He felt that forgiving the City's debts would help get the City back on their feet. He would like to see the City officials get together and launch a campaign to eliminate the debt.

He did not agree with either Governor Snyder who, during the State of the State Address, indicated that the State is helping Pontiac or President Obama, during the State of the Union, that outsourcing can help the economy. He noted that the well in Waterford could be opened to supply the City with water versus using Detroit water. Retired employees who have the knowledge and experience could be brought back at reduced wages.

Vice Chair Bowman said that these are good ideas but they should be presented to the City Council.

Trustee Waterman indicated that Mr. Kellar can voice his concerns at the City Council Meetings held every Thursday at 6:00 p.m. He would need to fill out a blue card and submit it. He would have five minutes to express his ideas and concerns.

Mr. Kellar said that he wanted to convey his ideas and thought they would be of interest to the Retirement Board.

Trustee Bowman stated that the Board has taken precautions to protect the Pension Fund for the members.

AGENDA CHANGES

Ms. Zimmermann distributed a disability appeal from member Bryant Vaughn to be added under New Business.

She also distributed a retirement application for Tuesday Redmond to be added to the Consent Agenda.

She also distributed to be included under New Business information pertaining to upcoming Trustee elections; cash flow rebalancing and Executive Orders regarding healthcare changes.

She also included a copy of the newspaper article for the Trustees' information regarding the reinstatement of retiree life insurance by the Emergency Manager at no cost to the retiree.

APPROVAL OF CONSENT AGENDA

A. Minutes of Regular Meeting: November 30, 2011

B. Minutes of Special Meeting: December 9, 2011

C. Communications

1. Correspondence from AMBS Re: December 2011 and January 2012 Newsletters
2. Correspondence from GERS / PFRS Re: Michigan Pension Tax Withholding
3. Correspondence from Loomis Sayles Re: Dan Thelens' Departure
4. Correspondence from GERS Re: Cessation of Securities Lending
5. Conference Information
 - a. NCPERS 2012 Legislative Conference – Feb. 5-7, 2012

D. Financial Reports

1. Financial Reports – November & December 2011
2. Securities Lending – October & November 2011
3. Capital Calls:
 - a. Invesco \$ 40,175.00
 - b. Invesco \$200,000.00
4. Accounts Payable
 - a. ADP \$3,201.22
 - b. Ambassador Capital 25,307.56
 - c. Artio Global 76,344.26
 - d. Chubb 26,000.00
 - e. Coffee Break 65.10
 - f. GE Capital (copier) 227.30
 - g. Gray & Company 132,109.12
 - h. Ikon 92.67
 - i. Northern Trust 48,896.83

| | | |
|---|--------------------|-----------------------|
| j. Office Depot | 328.82 | |
| k. Peritus | 97,373.23 | |
| l. Pitney Bowes | 459.30 | |
| m. Rodwan Consulting | 4,200.00 | |
| n. Sawgrass Asset Management | 140.00 | |
| o. Slade's Printing | 54,308.53 | |
| p. Stevens Records Management | 166.35 | |
| q. Sullivan, Ward, Asher & Patton | 47,958.31 | |
| r. Visa | 9,108.74 | |
| s. MES | 1,340.00 | |
| E. Due to / Due from – Q4 2011 | 161.33 | |
| F. Retirements, Refunds, Final Calculations, Re-Examinations | | |
| 1. Remove from the Rolls: | | |
| a. Josephine Garrett (deceased 12-31-11) | | |
| b. Emma Higgins (deceased 11-20-11) | | |
| c. Lillian Koren (deceased 12-08-11) | | |
| d. Nancy Montgomery (deceased 12-29-11) | | |
| e. Euriel Roberts (deceased 01-05-12) survivor benefit of \$730.44/mo. to Yasmine Roberts | | |
| f. Charles Sempere (deceased 01-15-12) | | |
| g. Clarence Simuel (deceased 12-17-11) | | |
| h. Merdis V. Turner (deceased 01-13-12) | | |
| i. Wava Green (deceased 01-14-12) | | |
| 2. Pop-up Effective | | |
| a. Barbara LaBarge (alt payee deceased); benefit increased to \$503.14 | | |
| 3. Application for Service Retirement: | | |
| a. Mark Hotz - Non Union | 14 years, 8 months | Age 56 (reciprocal) |
| b. Selwyn McGhee – PMEA | 20 years, 2 months | Age 63 (off deferred) |
| c. Gladys Roberts – Non Union | 14 years, 0 months | Age 60 |
| d. Tuesday Redmond - Teamsters | 29 years, 8 months | Age 49 |
| 4. Applications for Deferred Retirement: | | |
| 5. Final Benefit Calculations: | | |
| 6. Change of Retirement Effective Date: | | |
| a. Charles E. Anthony | | |
| 7. Disability Re-Examinations: | | |
| 8. Death Audit | | |

RESOLUTION 12-001 By Long, Supported by Waterman
 Resolved, That the Board approve the consent agenda for January 25, 2012 as amended.

Yeas: 6 – Nays: 0

CONSULTANTS

Re: Rodwan Consulting – 2010 Actuarial Valuation

Ms. Rodwan explained that the actuarial valuation assesses the data and assets and computes the liabilities associated with the benefits to be paid of behalf of the members and compares them to the accrued assets to determine the funding ratio and whether contributions are needed.

The accrued liabilities of the Retirement System as of December 31, 2010 were computed to be \$253 million.

The market value of assets increased from \$386 million in 2009 to \$419 million in 2010. The smoothed valuation assets were \$399 million in 2010 versus \$405 million in 2009. This was due to the market decrease in 2008.

The smoothed market value of assets spreads the gains and losses either realized or unrealized over five years and is built into the liability calculation.

The overall experience in 2010 was less favorable than expected based on the long-term assumptions.

She reviewed the participant data. In 2010 the number of active members was 207 which decreased compared to 269 in 2009. The active member payroll also decreased from 2009 by approximately \$3 million to \$9,493,229.00 in 2010.

As of December 31, 2010 there were 1,112 retirees with an annual payroll of \$19 million. There were also 187 vested inactive members accounting for annual pensions of \$1.2 million.

The contribution rates are represented as a level percent of active member payroll. The total normal cost is 18.62% of active member payroll with a temporary funding credit of 20.62% and administrative expenses of 2.0%. This makes the City's net contributions zero.

The funding credit excess of assets over liabilities was sufficient so excess was applied.

The actuarial accrued liabilities were \$253,866,554 with assets allocated to funding at \$399,573,669 which leaves an excess of \$145,707,115.

She described how the unfunded accrued liability was determined. The accrued liability for retirees and beneficiaries was \$209,720,255; for vested terminated members it was \$10,617,456 and for current active members it was \$33,528,843 totaling \$253,866,554. The present assets based on the valuation were \$399,573,669 which results in an unfunded accrued liability of (\$145,707,115). The result is a funded position of 157.4% which decreased from last year.

She noted that this is one of the few funds in the United States that is overfunded to this extent.

She reviewed the history of assets and accrued liabilities including the funded ratio. The funding value of assets decreased due to the smoothed 2008 investment losses that are showing up.

She indicated that the reserve for retired benefit payments was reported to be \$197,313,589. They recommend that the difference of \$12,406,666 be transferred from the reserve for employer

contributions to the reserve for retiree benefit payments which would be equal to the retiree liability as of December 31, 2010.

Trustee Naglick questioned this is just done on the financial statement.

Ms. Rodwan explained that the assets are moved anytime there are new retirees during the year.

She reviewed the economic assumptions used for the valuation. The actuarial assumption is 7.5% for investments. Most funds use 7% to 8% with 8% being the most common. The salary increase assumption is 4.5%. The real rate of return was 3%.

They used the 1983 mortality table which is more optimistic about women's mortality. The new table has a longer lifespan for men. It is an important assumption to watch.

She reviewed the percentage of expected active members retiring within one year of attaining age. If members go early it increases the cost.

She provided a breakdown of the funding value of assets. The total year investment income was \$44.8 million with a phased-in recognition of investment income of \$8.9 million. The decreased investment income was due primarily to the large investment losses in 2008. The recognized rate of return was 3.9% with an estimated market rate of return of 10.98%.

She provided an overview of the historical pensions being paid to retirees and beneficiaries by valuation date.

She described the chart detailing retired members and survivors by attained age and cost broken down by age and service retirees, survivor beneficiaries and disability retirees and the total cost. She told the Board that there are three retirees over the age of 100 still collecting a benefit.

She examined the chart with active members by age and years of service.

Trustee Naglick noted that this is an overfunded plan so the need for the actuarial valuation is not as critical. However, it has been more than a year and we are just reviewing the valuation for 2010. He would like to see the 2011 valuation done more quickly. He indicated that Ms. Zimmermann just received the list regarding the partial plan termination.

Trustee Bowman asked if the valuation could be ready in March. Ms. Zimmermann explained that the Retirement Office puts together the data and it would be unlikely that the valuation could be done that quickly.

Trustee Naglick noted that the Fund is still overfunded which is good information for the Board.

RESOLUTION 12-002 By Waterman, Supported by Long
Resolved, That the Board accept and receive the 2010 Actuarial Valuation as presented.

Yeas: 6 – Nays: 0

REPORTS

Re: Chairman - None

Re: Secretary – None

Re: Trustees/Committees - None

Re: Administrator

Retirement Office Staff Insurance

Ms. Zimmermann reported that she was successful in obtaining insurance information quotes. She indicated that the System is also required to carry workman's compensation insurance. She referred to a copy of the quotes included under New Business.

2012 Annual Payroll Report

Ms. Zimmermann reported that the Annual Payroll Report Form 945 was filed on January 13, 2012.

2011 1099-R's

Ms. Zimmermann reported that the 2011 1099-R's were sent out to the retirees on January 13, 2012.

Larry Balowski Lawsuit

Ms. Zimmermann reported that she received a lawsuit filed by member Larry Balowski which states that he has the appropriate amount of seniority to receive a pension benefit. She has referred this to Ms. Billings.

City Payroll Transition

Ms. Zimmermann reported that the City is in the process of transitioning their legacy payroll system to ADP. She has requested that the Retirement Office continue to have access to both systems going forward so the office can continue doing pension calculations.

GERS Retirement Ordinance Amendment

Ms. Zimmermann reported that the Retirement Ordinance needs to be address with regard to the members that work for the Housing Commission and the Library. Currently, the members are not accruing service credit toward retirement. The Ordinance needs to be amended to reflect those changes. The Retirement Office also needs to have access to their payroll to verify service credit.

Trustee Naglick said that currently the Housing Commission is doing its own payroll. The Housing Commission Board is in the process of changing and there are some lose ends that need to be resolved.

The City is currently working with the Library on a separation agreement.

Ms. Zimmermann stated that there are two members of the Housing Commission that want to retire but cannot unless the Ordinance is amended to grant them service credit after separation.

Bryant Vaughn Disability Appeal

Ms. Zimmermann explained the disability appeal process noting that Mr. Vaughn and Ms. Croskey will both be advised of the process.

Large Cap Manager Union Heritage

Ms. Zimmermann explained that at the last meeting the Board voted to replace large cap core manager Union Heritage. The new large cap core manager is Ativo.

Larry Marshall left at 2:26 p.m.

Trustee Bowman recommended that legal stay involved with these issues.

Re: Legal

Nexos Private Equity Growth Fund

Ms. Billings reviewed the settlement agreement with the Board.

RESOLUTION 12-003 By Long, Supported by Waterman

Resolved, That the Board approve the Nexos Settlement Agreement and to accept the \$1.7 million return of investment.

Yeas: 6 – Nays: 0

Retirement Systems Staff Transition Process/SAEA Recognition and Assumption Agreement

Ms. Billings reported that the SAEA Assumption and Recognition Agreement was drafted by Gordon Gregory. However she spoke with Larry Marshall prior to the meeting and he would like to discuss the agreement with Mr. Gregory. She recommended that the Board table this issue. When the Board executes the document they can make it retroactive to February 1, 2012.

Partial Termination

Ms. Billings reported that she received the layoff list. She needs to check a couple of things with the law to determine if there was a 20% reduction in the workforce and if a representative of the City may simply issue a statement that it is a 20% reduction of the membership. Those members would then become 100% vested in the System.

First Eagle Global Value Fund, LP

Ms. Billings reported that there is a Side Agreement in process which should be finalized within the next week.

Senate Bill No. 797 – Proposed Changes to Public Act 314

Ms. Billings referred to a memorandum in the legal report dated November 30, 2011 regarding the proposed changes to Public Act 314. MAPERS has asked that pension systems in the state submit a letter to their State Senator in support of the bill. She briefly reviewed the proposed changes which include expanding the Summary Annual Report requirements to include investment information ten-year back posted on your website; it specifies that the Board can retain service providers; limiting trustee education to \$12,000.00 per trustee annually or \$150,000.00 in total, whichever is less; increasing the basket clause by 10% and requiring an annual audit of the respective pension system.

She also noted that the amount of a retiree's pension is exempt from FOIA and the Board can remove a member by majority vote in the event the trustee is convicted of a crime or is terminally ill.

Ms. Billings indicated that she has drafted a letter for the Chairman's signature to send to State Senator James Marleau.

Trustee Waterman was concerned that currently a retiree's pension amount can be disclosed through FOIA.

RESOLUTION 12-004 By Waterman, Supported by Long
Resolved, That the Board authorize legal counsel to send a letter in support of Senate Bill No. 797 with the proposed changes to Public Act 314 to State Senator James Marleau.

Yeas: 6 – Nays: 0

Bernstein Litowitz Advocate for Institutional Investors

Ms. Billings indicated that this is for the trustees' information.

Thomas Williams Retirement Effective Date

Ms. Billings reported that this is for the trustees' information. Mr. Williams received a retroactive retirement date.

Artio International Equity Group Trust Fund Adoption Agreement Amendment

Ms. Billings reported that there is a provision in the Artio International Equity Group Trust Fund Adoption Agreement that needs to verify that the investments are solely used for retirees and their benefits. She asked that the Board authorize the Chairman to sign the amendment to the agreement.

RESOLUTION 12-005 By Naglick, Supported by Waterman
Resolved, That the Board authorize the Chairman to sign the amendment to the Artio International Equity Group Trust Fund Adoption Agreement.

Yeas: 6 – Nays: 0

Shelton EDRO

Ms. Billings reported that she has reviewed the Shelton EDRO and forwarded it to the actuary.

GrayCo Alternatives

Ms. Billings reported that she is still working on the GrayCo Alternatives Agreement.

Board Composition – Refer to Public Discussion

The Cooper Companies, Inc. Litigation

Ms. Billings reported that The Cooper Companies issued false and misleading statements which concealed known quality control issues and defects at their overseas contact lens manufacturing facilities. They also downplayed a small voluntary recall on November 15, 2011 and were later forced to disclose a much larger product recall.

She noted that the Retirement System lost \$78,000.00. Given the significant losses they are recommending that the Board pursue lead plaintiff status.

RESOLUTION 12-006 By Barnett, Supported by Naglick
Resolved, That the Board authorize legal counsel to pursue lead plaintiff status in The Cooper Companies, Inc. Litigation.

Yeas: 6 – Nays: 0

RESOLUTION 12-007 By Naglick, Supported by Redmond
Resolved, That the Board approve to move to closed session to discuss pending litigation.

Roll Call:

| | |
|-----------------------|------------------------|
| Trustee Barnett – yea | Trustee Naglick - yea |
| Trustee Bowman – yea | Trustee Redmond - yea |
| Trustee Long – yea | Trustee Waterman - yea |

*The Board moved to closed session at 2:44 p.m.
The Board returned from closed session at 2:59 p.m.*

RESOLUTION 12-008 By Barnett, Supported by Naglick
Resolved, That the Board ratify the Secretary’s signature on the Delphi Litigation Retainer Agreement.

Yeas: 6 – Nays: 0

RESOLUTION 12-009 By Naglick, Supported by Waterman
Resolved, That the Board approve the closed session minutes for November 30, 2011.

Yeas: 6 – Nays: 0

Re: Union Representatives

UNFINISHED BUSINESS

Re: Citizen Trustee Appointment – Still Pending

Re: Board Composition – Still Pending (Refer to Public Discussion)

Re: Ordinance Amendment – Staff to Continue in GERS (Refer to Agenda Changes)

Ms. Zimmermann indicated that the approved copies were distributed.

Re: Staff Health Insurance - Refer to Administrator

Ms. Zimmermann explained that this is for the trustees' information. A recap of the coverage is included.

Re: Nexos Update – Refer to Legal

Re: Separation of Payroll

Ms. Zimmermann reported that the separation of payroll will be effective February 1, 2012.

Re: SAEA Contract – Refer to Legal

RE: Partial Plan Termination – Refer to Legal

NEW BUSINESS

Ms. Zimmermann indicated that the Gray & Company performance books are for the trustees' files.

She also noted that there are a number of relevant articles under Reports for the trustees' information. There is an article that hit Plan Sponsor regarding the System's lawsuit against the Delphi Financial Group over its buyout of Tokio Marine. The next article refers Judge Rakoff who has rejected the SEC's settlement in the securities fraud case against Citigroup. There is also an article regarding proposals to reform the credit-rating firms coming up short and lastly, a timely article regarding certain private equity investments referred to as zombie funds.

Re: Request for Medical Board of Review

Ms. Zimmermann reported that Renee Croskey and Bryant Vaughn have requested a hearing before the Medical Board of Review to appeal the decision of the Medical Director. She explained the process and indicated that the member has the right to agree or disagree. There are a number of steps. She has provided the required information to the individuals. She will keep the Board advised.

Re: Filler Proposal to Change Board Composition – Refer to Public Discussion

Re: Emergency Orders Regarding Retiree Healthcare

Ms. Zimmermann referred to the Executive Orders from the Emergency Manager regarding the changes to retiree healthcare.

Re: Tottingham Request for Separate Pension Payments

Ms. Zimmermann indicated that retiree Don Tottingham has requested that the COLA payment be separated from the pension payment. By including the two in one check it results in higher withholding. He asked that the process be changed as well as the date of the check. He asked for the Board's consideration. She questioned whether the Board would like her to draft a response.

Vice Chair Bowman said that Ms. Zimmermann could indicate that the Board understands the issue but they will have to look into the issue. He questioned whether this would create more work for the Retirement Staff.

Trustee Long asked how much it would cost the System to run an additional payroll.

Ms. Zimmermann stated that it would cost approximately \$2,000.00 to \$3,000.00 to run an additional payroll

There was discussion on whether other retirees are affected or have contacted the office regarding this issue. They also discussed how much additional tax is withheld when the two payments are combined. Ms. Zimmermann indicated that there is no way to determine the members' average tax burden.

Trustee Naglick questioned why the System would incur the additional cost to run the extra payroll if in the end there was no tax savings for the retirees.

Re: Employee Trustee Election

Ms. Zimmermann explained that the following trustee positions are up for re-election: Trustee Redmond's position needs to be filled due to her retirement, Trustee Long's term is ending on March 31, 2012 and Trustee Barnett's term is ending on March 31, 2012.

She has drafted an election calendar for the Board's review. She proposed that the two Employee Trustee positions be done in one election.

Trustee Redmond recommended that the issue be tabled until the Board makes the decision on the composition of the Board.

Trustee Naglick questioned whether the Board should go through with an election since they are considering changing the composition of the Board. If the Board waits would it not be similar to Trustee William's position and the current trustee would continue serving.

Ms. Zimmermann told the Board that they can postpone the election.

RESOLUTION 12-010 By Naglick, Supported by Barnett

Resolved, That the Board table the election calendar until the next meeting.

Yeas: 6 – Nays: 0

Re: Cash Flow Rebalancing

Ms. Zimmermann requested that the Board approve the cash flow rebalancing plan as recommended by the consultant.

RESOLUTION 12-011 By Waterman, Supported by Barnett

Resolved, That the Board approve the transfer of \$4,500,000.00 from Ambassador Capital; \$4,500,000.00 from Munder Core Fixed Income and \$4,000,000.00 from Peritus High Yield to fund benefits and operations for the next six months.

Yeas: 6 – Nays: 0

SCHEDULING OF NEXT MEETING

Special Meeting: February 21, 2012 @ 8:00 a.m. – Marriott at Centerpoint

Regular Meeting: February 22, 2012 @ 1:30 p.m. – City Council Conference Room

ADJOURNMENT

RESOLUTION 12-012 By Waterman, Supported by Naglick

Resolved, That the meeting be adjourned at 4:07 p.m.

Yeas: 6 – Nays: 0

I certify that the foregoing are the true and correct minutes of the meeting of the General Employees Retirement System held on January 25, 2012

Secretary, John Naglick

As recorded by Jane Arndt