CITY OF PONTIAC MICHIGAN
GENERAL EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING

A special meeting of the Board of Trustees was held on Wednesday, May 12, 2021 via remote conference. The meeting was called to order at 3:00 P.M.

TRUSTEES PRESENT
Sheldon Albritton, Chair arr @ 3:21p.m. – Auburn Hills, Oakland County, Michigan
Darin Carrington, Secretary (electronically) – Pontiac, Oakland County, Michigan
Robert Giddings, Vice-Chair – Auburn Hills, Oakland County, Michigan
James Miriani (electronically) – Oakland Township, Oakland County, Michigan
Walter Moore (electronically) – Lantana, Denton County, Texas
Billie Swazer – Auburn Hills, Oakland County, Michigan
Deirdre Waterman, Mayor (electronically) – Pontiac, Oakland County, Michigan
Patrice Waterman, City Council (electronically) – Pontiac, Oakland County, Michigan
John White (electronically) – Pontiac, Oakland County, Michigan

TRUSTEES ABSENT
Samantha Powell
James Walker

OTHERS PRESENT
Louise Gates, Gabriel, Roeder, Smith & Co. (electronically)
Linda Watson, Retiree (electronically)
Cynthia Billings-Dunn, Asher Kelly (electronically)
Steven Roth, Dahab Associates (electronically)
Mizuki Kanno, Executive Assistant
Deborah Munson, Executive Director

PUBLIC COMMENT: NONE

AGENDA CHANGES: NONE

VALUATION MARCH 31, 2021 OUTSTANDING QUESTIONS

Trustee Carrington began by stating that he will verbally give his responses to the questions from Ms. Gates and provide written responses following the meeting. He referred to the four questions attached to the letter from Ms. Gates dated April 21, 2021. He asked Ms. Gates whether question #4 had been addressed.

Ms. Gates responded that Ms. Billings-Dunn provided an opinion on question #4, specifically that former non-vested employees will not be vested and included in the March 31, 2021 valuation.

Trustee Carrington responded to question #3 regarding the assumptions and methods to be used for the March 31, 2021 valuation. He referred to the experience study and said that the City had agreed to utilize the assumption set C which had been approved by this Board at its February meeting. He stated that the settlement agreement required that the City and CPREA be given the opportunity to review and approve the assumptions. He said that the City had communicated with CPREA about the assumptions and gave notice of what the City's stance is. He said that he is not sure whether there has been formal communication from CPREA.

Trustee Moore stated that the CPREA Board met and approved the same assumptions set by the Retirement Board.

Trustee Swazer asked whether the City of Pontiac approved the same assumptions.

Trustee Carrington responded that the assumption set C had been approved at a prior GERS Board meeting, and that information was communicated to the City as well as CPREA. The City reviewed the assumptions that had been passed and agreed and signed off on them.

Trustee Deirdre Waterman requested that Trustee Carrington include this information from the City in the document he will be providing in written format after the meeting.

Trustee Carrington moved on to question #2 regarding the request for clarification of the two terms "liabilities" and "obligations". He stated that there is no distinction between those two terms. He explained that the reference to the language in the settlement agreement was drafted by the attorney, not by the actuary, and - in reviewing it with Ms. Kopacz - there was no intent to have those words mean something different.

Ms. Gates confirmed with Trustee Carrington that the term "obligations" is redundant and said that she will ignore the term for the purpose of the termination valuation.

Trustee Carrington moved on to question #1 and asked Ms. Gates to clarify what is being asked and the distinctions between the two approaches.

Ms. Gates explained that there are two measures typically developed for actuarial liabilities in the annual valuation of the GERS. The first measure is the Plan's Actuarial Accrued Liability which is the value of benefits earned to-date. She explained that - for current employees - the accrued liability refers to benefits that had been earned as of March 31, 2021. If someone's career with the City is 20 years and they had worked 10 years as of March 31, 2021, they have earned 10 years' worth of retirement benefit. The other measure is the Present Value of Future Benefits. She explained that for retirees and deferred members, the Actuarial Accrued liability and Present Value of Future Benefits are the same. However - for current employees - the Present Value of Future Benefits would be all benefits which are expected to be earned over the employees' projected career at the City. As an example, for an employee with 10 years of service on March 31, 2021 who will work 20 years for the City, the Present Value of Future Benefits represents the value in today's dollars of a 20-year benefit which will be payable for this person's entire lifetime when they retire. The accrued liability as of December 31, 2020 is about $287M and the Present Value of Future Benefits is almost $289M, a difference is about $1.5M. She noted that the actuary

does not make the decision of which method to use and that it is important that everyone understands the difference.
Trustee Giddings asked which method is normally used.

Ms. Gates responded that they both are used but in different ways. She explained that - based on the cost method currently being used for the Plan - the Actuarial Accrued Liability is used for funding purposes. She explained that on March 31, 2021 the System is going to vest all the employees currently working for the City who are not yet vested and the actuary projects how long these current employees are going to work for the City. The reason this is relevant is because there are additional liabilities associated with that future service and the impact is about $1.5M.

Trustee Moore asked who is expected to make that determination. He stated that he believes GERS should make the decision.

Ms. Gates responded that it goes back to how the settlement agreement and the Retirement System Ordinance are written.

Trustee Carrington stated that part of the question stems from the fact that neither the settlement agreement nor the Ordinance defines the term "liabilities", so the City has been asked to define the term.

Ms. Billings-Dunn stated that the Present Value of Future Benefits seems to be a part of the normal cost on a go-forward basis.

Ms. Gates explained that the Present Value of Future Benefits would be the total liabilities of the Plan; the Actuarial Accrued Liabilities are liabilities associated with service earned to-date and the present value of future normal costs is the difference between the two. The accrued liability plus the present value of future normal cost equals the Present Value of Future Benefits. She stated that another way of looking at this is that it would be a conservative approach to use the Present Value of Future Benefits to value the liabilities.

Miss Munson asked what the argument would be against using the Present Value of Future Benefits.

Ms. Gates explained that there is 0.5% of a difference between the two numbers.

Trustee Carrington stated that the way it was presented to the City, the actuary was looking for some clarification from the City because it was not clarified in the settlement agreement or the Ordinance.

Trustee Moore asked what the language specifically says in the settlement agreement.

Ms. Gates read the relevant part of the settlement agreement: "The City of Pontiac will terminate the General Employees' Retirement System Pension Plan (GERS Plan) and establish a new GERS Plan which will receive assets equal to 130% of the pension liabilities of the old GERS Plan."

Trustee Moore asked what are the pension liabilities of the old Plan.

Ms. Gates responded that it could mean the accrued liabilities as of March 31, 2021 or the Present Value of Future Benefits as of March 31, 2021.

Trustee Patrice Waterman requested that Ms. Gates give her recommendation to the Board.

Ms. Gates explained that the actuary's job in the coming months is to calculate 130% of the Plan liabilities. There are two choices. In terms of being conservative, which would mean a little more money would stay in the GERS trust, that would argue for using the Present Value of Future Benefits. The opposite of that is to use the Actuarial Accrued Liability where less money will stay in the GERS trust.

Trustee Patrice Waterman stated that it is necessary to ensure enough money remains in the GERS trust to pay the pensions.

Trustee Giddings agreed with Trustee Patrice Waterman.

Chairman Albritton asked whether it is the Board's responsibility is to ensure that the maximum amount possible remains in the new GERS to meet future obligations for the pensions of the retirees.

Ms. Gates stated that it is important from her perspective to have as much money as possible remain in the GERS trust to provide for the obligations of the Plan to pay the pension benefits to retirees.

Ms. Billings-Dunn stated that it seems like a reasonable interpretation of the pension liabilities in the settlement agreement.

Trustee Moore suggested that the Board adopt a resolution to recommend to the City Council.

Trustee Carrington stated that the City and CPREA need to get in agreement as to how that term is to be defined. He stated he will follow up with the City's legal counsel and requested that Trustee Moore contact CPREA.

Trustee Moore stated that he would contact the president of CPREA and she will get with their attorney.

Trustee Carrington stated that he will give feedback to Ms. Gates after the City and CPREA are in agreement.

Chairman Albritton stated that the System's goal moving forward is to try to maintain as much funds as possible for the new GERS. The main objective is to make sure there are adequate funds to meet current and future obligations to retirees.

Ms. Gates stated that she needs something in writing from decision makers indicating what the choices are.

Trustee Moore stated that the attorneys for the City along with the attorneys for CPREA would get together to agree that the Present Value of Future Benefits will be the measure that will be used to measure the liabilities in the termination valuation.

Chairman Albritton stated that GERS attorney should be part of this agreement with the attorneys for the City and CPREA.

Ms. Billings-Dunn stated that using Present Value of Future Benefits would be a reasonable interpretation of the settlement agreement, however, if the parties to the settlement agreement would like to finalize that and clarify that it is their intent, she would not have any legal issue with that.

Ms. Gates confirmed for the Board that it would not disrupt the proposed timeline if she could have the clarification requested in question # 1 within a week. The biggest hurdle in the preparation of the termination valuation is getting audited financial statements which will not be available until the middle of July. That report will show the value of the assets available to distribute.

Miss Munson asked Ms. Gates if she has clarification on the 4th bullet point in the email regarding the methodology for determining the amount of assets to transfer.

Ms. Gates explained that this is the methodology for allocating the assets and confirmed that this has not been clarified. She said that - for simplicity - it is easier to calculate the dollar amount. The System has approximately $550M in assets on a market value basis as of December 31, 2020. Approximately $373M would go to the GERS and the rest would go to the VEBA. This is the split based on the dollar amount as of that date. She continued that the next item and explained that - using those dollar amounts - 67% of the assets would go to the GERS but warned that 67% of the assets on the transfer date could be smaller. The System has $550M held in trust on December 31, 2020 but if the assets do not get transferred until September 1, 2021, the dollar amount might not be $550M anymore, it may be some other amount. Therefore, there are some risks to using the second method.

Ms. Billings-Dunn stated that the risk would be transferring less than 130% to the new GERS.

Mr. Roth reminded the Board that one of the questions which came up in a prior meeting is whether to use the actuarial value or the current market value of the assets as of March 31, 2021.

Ms. Gates said that, ultimately, the System has to be able to split up the assets and the most natural way of doing that would be to use the market value. The market value of assets is the value of all securities held in trust. The funding value of the assets (smoothed value) is used for calculating required contributions and some of the other information in the report and – right now – that is lower than the market value by about $42M. The issue with using the funding value is that instead of splitting up $550M you would split up approximately $508M and there is a disconnect between the value of the securities the Plan holds and $508M. She stated that retaining the $42M in the GERS would provide a greater level of security for pension payments.

Chairman Albritton stated that it is the best of the retirees to do whatever is necessary to make sure that the maximum amount is maintained in the new GERS.

Ms. Billings-Dunn asked why it makes a difference between using the market value versus the funding value when what has to be determined is 130% of the liabilities.

Ms. Gates explained that if the smoothed value of assets is selected as the amount to allocate, the GERS will get ~$373M and the excess asset amount of ~$135M would be transferred the VEBA. The issue which arises is that there is another $42M in securities which have not been accounted for. Those assets could potentially be kept in the GERS or transferred to the VEBA. The issue is that the term "assets" is not defined in the settlement agreement or in the Ordinance.

Ms. Billings-Dunn stated that 130% of the pension liabilities is what stays in and anything over and above that goes to the VEBA. She stated that - from a logical standpoint - the purpose of the funded value is to smooth the gains and losses over a 5-year period so there is no volatility in the required contribution, but the System still has $550M. The settlement agreement states that the new GERS Plan get 130% of the liabilities as of the termination date; anything over that should be considered excess which is how she looks at it.

Ms. Gates said that the issue is defining what amount is being allocated and what is the excess.

Trustee Patrice Waterman stated that what needs to be focused on is to make sure that the retirees have adequate money for their pensions. She requested that Ms. Gates, Ms. Billings-Dunn, and Mr. Roth get together and advise the Board on what needs to be done. It is important to make sure that the Plan has sufficient assets to pay pensions.

Mr. Roth stated that by using the actuarial funding ratio, which is $508, the System would keep more money, however from a practical standpoint, the market value makes more sense since it is not clearly defined in the Ordinance.

Trustee Carrington asked Ms. Gates if this is something she is looking for the City and CPREA to clarify and asked from whom she is seeking the guidance from.

Ms. Gates responded that it appears that Ms. Billings-Dunn is going to provide an opinion based on her comments.

Trustee Giddings asked Ms. Gates if there is any way to figure out a relevant ratio between the funded ratio and the actual assets so that the difference can be taken into account in the split of the money. He also asked how the assets will be smoothed out after the transfers

Ms. Gates responded that the smoothing period would continue to be 5 years, however the value of the assets would be reset. She said that that there is a smoothing method in place, the Board approved the assumptions, and the actuary will continue to follow it. She explained that the $508M smoothed value of assets is tied to a market value of $550M and the difference of $42M is unrecognized gains which would get smoothed into the asset value over the next 5 years. Because of the termination, some of the gains are getting transferred to the VEBA. Therefore, there will be a resetting of the smoothing method for the December 31, 2021 valuation.

Miss Munson noted that there is one additional question to which the City will need to respond for the auditors. The question is whether there are any special requirements for the IRS for the March 31, 2021 audit. She explained that the state of Michigan requires a March 31, 2021 audit as well as a closeout audit. Once the assets are transferred, the old GERS trial balance will be zeroed out and this audit must be filed with the State.

Trustee Carrington responded that there are not any specific requirements outside of the ordinary which must be done as it relates to the audits from the City's perspective and confirmed that this is based on feedback from the City attorney that there are no requirements or conditions the IRS has indicated to her.

Chairman Albritton requested that Ms. Billings-Dunn provide a legal opinion about the method for determining the value of the transferrable assets within one week. He also requested that Trustee Carrington respond in written format regarding the outstanding questions within one week.

Trustee Patrice Waterman requested clarification from the finance director about the $400 pension enhancement which the Mayor is proposing. She suggested that the Board schedule a special meeting to discuss this matter.

Trustee Carrington explained that Mayor Waterman made a proposal to enhance pension payments which is a separate proposal from retiree healthcare. The presentation was made during a webinar. This matter will be going to the City Council's finance subcommittee soon. He stated that he will make sure the information will be made available to this Board.

Trustee Moore concurred with Trustee Patrice Waterman that a separate special meeting be scheduled to discuss this matter.

Chairman Albritton requested Trustee Carrington attend the next finance committee meeting and provide updates.

ADJOURNMENT

RESOLUTION 21-042 By Moore, Supported by P. Waterman
Resolved, That the special meeting of the Board of Trustees of the Pontiac General Employees' Retirement System be adjourned at 4:15 p.m.

ROLL CALL:

Albritton – Yes	Moore – Yes
Carrington – Yes	Swazer – Yes
Giddings – Yes	P. Waterman – Yes

Miriani – Yes White – Yes

I certify that the forgoing are the true and correct minutes of the meeting of the General Employees' Retirement System held on May 12, 2021.

As recorded by Mizuki Kanno, reviewed and edited by Legal Counsel and the Executive Director