

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

A special meeting of the Board of Trustees was held on Monday, January 31, 2022 at City of Pontiac General Employees' Retirement System, 2201 Auburn Rd, Suite B, Auburn Hills, MI 48326. The meeting was called to order at 5:41 P.M.

TRUSTEES PRESENT

Sheldon Albritton, Chair
Darin Carrington, Secretary
Robert Giddings, Vice-Chair
Lisa King
James Miriani
William Parker Jr., City Council
Billie Swazer

TRUSTEES ABSENT

Tim Greimel, Mayor
Walter Moore
James Walker
John White

OTHERS

Louise Gates, Gabriel, Roeder, Smith & Co. (electronically)
Samantha Kopacz, Miller, Canfield (electronically)
Cynthia Billings-Dunn, Asher Kelly
David Lee, Dahab Associates (electronically)
Steven Roth, Dahab Associates (electronically)
Mizuki Kanno, Executive Assistant
Deborah Munson, Executive Director

PUBLIC COMMENT: NONE

AGENDA CHANGES: NONE

REVIEW OF ASSUMPTIONS USED IN TERMINATION VALUATION

Ms. Gates reviewed the spreadsheet of the effect on the liabilities of alternate interest rates as of December 31, 2020. She stated that she was asked last year to provide the value of GERS liabilities based on current benefit provisions and alternate discount rates. She explained that lowering the discount rate would increase the assessment of the pension plan liabilities. She also explained that it is expected to get less investment income in the future which means the value of the obligations are higher today. She went over the spread sheet stating that actuarial accrued liability shows what it looks like as of last funding valuation date based on different investment return assumptions, and that the value of actuarial accrued liability with 3.5% is assessed at \$370M. She stated that \$370M is a reasonable estimate of what the liabilities would be in the termination valuation before any benefit improvements.

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Trustee Swazer stated that VEBA is showing their valuation with 2% instead of a higher rate.

Ms. Gates stated that the City's actuary finds a value of VEBA's liabilities and that is what Miss Munson captured which was done at 2% discount rate. She explained that the liabilities are likely quite a bit lower which assumes that the investment allocation and portfolio would be comparable to GERS, then the discount rate used in the valuation would be quite a bit higher, therefore the liabilities would be smaller than what Miss Munson pulled from the report meaning the funding % is higher.

Vice-Chair Giddings stated that the Board members are fiduciaries and fiduciary responsibility does not change in any fiduciary section of seminars. The Board's job is to act in the best interest of the retirees, that is what the Board is supposed to do. The Board is allowed to hire experts such as investment consultants, attorneys, actuaries, and other people that are necessary in order to discharge that responsibility. He also stated that Ms. Billings-Dunn has reminded the Board on more than one occasion over the years when the Board was going against something that was recommended by GERS actuary that the Board should very carefully look at it for making a decision against it. GERS Board received a recommendation from the actuary for 3.5%, and nobody on the other side listened to what the actuary explained. The 6% that came out is completely irrelevant, and that 6% on annual valuation is to set the finance for the next year. He continued stating that the full-time horizon for the Plan has to be looked at for the termination and the reestablishment, which would command a different discount rate. He pointed out that even though Ms. Billings-Dunn said the Board negotiated, the Board is not in a position to negotiate as fiduciary. He explained that the Board was strong-armed, threatened with lawsuits, had people screaming over this. He also stated that one of the GERS Board members who represented the City, the former Mayor, is the one that was against it, and she made a motion for 4.5% where the Board went along with it. He does not believe it was a true negotiation and does not think the Board was right doing that which put the Board in a bad spot.

Ms. Billings-Dunn asked Ms. Gates if 4.5% which the Board previously adopted is reasonable.

Vice-Chair Giddings asked what the correct discount rate is. He pointed out that Samantha Kopacz recommended 3.5% in 2019 and that VEBA used 2%.

Trustee Carrington stated that it is not necessarily accurate to go back almost 3 years ago and to say Ms. Kopacz was the one who suggested 3.5% rate. In the memo, there are other things that Ms. Kopacz suggested.

Vice-Chair Giddings stated that what he meant is that this is not the first time where 3.5% was mentioned.

Ms. Gates responded to the question regarding what the right number is that should be used. She stated that the purpose of the termination valuation is to allocate assets. The right number would depend on the tolerance for risk, and it is necessary to have excess assets in the fund. She explained that the valuation has been done at 6%, however if the assets are allocated using a 6% discount rate, the investment risk cannot be reduced because the assets would be swapped out of equities into bonds or treasuries, and even though the value of assets does not change, the value of liabilities would change. She further explained that the value of liabilities would become a lot bigger which would be a problem

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because the City would be required to make a contribution. She stated that she recommended a lower discount rate for the purpose of termination valuation and that the right number is the lowest number that the Board would be comfortable with. She made it clear that it has to be 6%. Three and a half per cent (3.5%) was recommended by Miller, Canfield which is why it was chosen as a reasonable rate. She also stated that lower rate could be used which would be reasonable and defensible. She explained that treasuries are sitting at about 2% now, therefore the investment risk would be greatly reduced if all the money is put in treasuries. She reiterated that the right number is what the Board is comfortable with which has to be lower than 6%, and that 3.5% was chosen because it is significantly lower and recommended by Miller, Canfield.

Miss Munson reported that the Chair of the CPREA Board had sent an email at 5:00 p.m. today requesting to know the amount to be transferred with the pension increase and without it. She stated that this appears to be some progress where CPREA may consider the \$400. If the transfer occurs tomorrow, CPREA does not have the opportunity to consider funding the \$400.

There were additional discussions.

The Board reserves the right to enter closed session to review matters in accordance with Michigan Public Act 267 of 1976 (Open Meetings Act).

There was no closed session.

SCHEDULING OF NEXT MEETING/ADJOURNMENT

Regular Meeting: Wednesday, February 23, 2022 9:00 a.m.

RESOLUTION 22-021 By Swazer, Supported by Miriani

Resolved, That the special meeting of the Board of Trustees of the Pontiac General Employees' Retirement System be adjourned at 6:47 p.m.

Yeas: 7– Nays: 0

I certify that the forgoing are the true and correct minutes of the meeting of the General Employees' Retirement System held on January 31, 2022.

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