

**City of Ann Arbor Employees' Retirement System
Minutes for the Regular Meeting
November 20, 2008**

The meeting was called to order by Nancy Sylvester, Chairperson, at 8:40 a.m.

ROLL CALL

Members Present: Boonstra, Crawford, Heatley, Kahan, Kaur, Nerdrum, Sylvester
Members Absent: Fraser, Hescheles
Staff Present: Kluczynski, Powell
Others: Michael VanOverbeke, Legal Counsel
Michael Asher, Attorney, Sullivan, Ward, Asher & Patton, PC
Cynthia Billings, Attorney, Sullivan, Ward, Asher & Patton, PC
Brad Armstrong, Gabriel, Roeder, Smith & Company
David Kausch, Gabriel, Roeder, Smith & Company
Stewart Nelson, City Resident
Jeremy Flack, Fire Employee
David Diephuis, City Resident

AUDIENCE COMMENTS

Mr. Nelson stated that he appreciates the Board letting him sit in on recent Board and Committee meetings, and he has enjoyed being able to get a glimpse of how things are happening on the Board. Mr. Nelson discussed the economic climate, and offered advice on the importance of laying out a reasonable assumption to City Council as to what the City can expect to pay out for retirements in the next few years, as well as what is expected for the VEBA Trust. Mr. Nelson believes that City Council should be brought up to speed on what has happened between June 30, 2008 and the present in order to fully understand the current condition of the System's funds, particularly before they go to their retreat so that they know how much of a hit the pension plan has taken.

A. APPROVAL OF REVISED AGENDA

Mr. Powell stated that the following items have been revised since the distribution of the agenda packet:

- C-6 Authorization for Payment of Invoices – additional invoices received
- D-2 Withholding Funding of Hedge Fund Managers – Letter from Gray & Co.

It was **moved** by Kahan and **seconded** by Boonstra to approve the revised agenda.

Approved

B. APPROVAL OF MINUTES

B-1 October 16, 2008 Regular Board Meeting Minutes

It was **moved** by Kahan and **seconded** by Crawford to approve the October 16, 2008 regular Board meeting minutes as revised.

Approved

C. CONSENT AGENDA

It was **moved** by Heatley and **seconded** by Kahan to approve the following consent agenda as submitted:

Preliminary Retirement Resolutions:

C-1 Preliminary Approval of Service Retirement for Eddie Collins

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Eddie Collins (Applicant)**, dated October 29, 2008, and

WHEREAS, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

RESOLVED, that said application for service retirement of **Eddie Collins** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

RESOLVED, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

RESOLVED, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

RESOLVED, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

C-2 Preliminary Approval of Service Retirement for Laurie Foondle

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Laurie Foondle (Applicant)**, dated November 4, 2008, and

WHEREAS, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

RESOLVED, that said application for service retirement of **Laurie Foondle** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

RESOLVED, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

RESOLVED, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

RESOLVED, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

C-3 Preliminary Approval of Service Retirement for David Whalen

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **David Whalen (Applicant)**, dated November 5, 2008, and

WHEREAS, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

RESOLVED, that said application for service retirement of **David Whalen** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

RESOLVED, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

RESOLVED, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

RESOLVED, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

C-4 Preliminary Approval of Service Retirement for Henry Wilson

WHEREAS, the Board of Trustees is in receipt of an application for retirement from **Henry Wilson (Applicant)**, dated October 22, 2008, and

WHEREAS, it appears, based on preliminary information provided, that said Applicant meets the eligibility requirements of the Retirement System and any applicable collective bargaining agreement, therefore be it

RESOLVED, that said application for service retirement of **Henry Wilson** is preliminarily approved subject to the adoption by the Board of a resolution approving the calculations of the actuary, and further

RESOLVED, that upon receipt of all required certificates/forms completed by said Applicant and following said Applicant's last date on the active payroll, a retirement calculation will be completed based upon the certified numbers from the City of Ann Arbor Finance Department, and further

RESOLVED, that the Board's actuarial program certified by the Board's actuary shall perform the retirement calculation and employer transfer to the retiree reserve fund to the Board of Trustees as soon as possible, and further

RESOLVED, that upon receipt of the retirement calculations completed by the Board's actuarial software, the Board of Trustees will consider adoption of a resolution approving payments of the applicable benefit amounts.

Final Retirement Resolutions:

C-5 Approval of Service Retirement for Darylin Green

WHEREAS, **Darylin Green** (Participant) has submitted an application for a service retirement to the Board of Trustees requesting an effective retirement date of October 18, 2008, and

WHEREAS, said Participant has been credited with 28 years of service credit, and

WHEREAS, the Board of Trustees has verified that the aforesaid Participant meets all those requirements for a service retirement as established pursuant to the provisions of the Retirement System and applicable collective bargaining agreement, and

WHEREAS, said Participant has provided all necessary data and certificates/forms to the Board of Trustees, and

WHEREAS, the Board of Trustees has provided all necessary personal and financial data to the Board of Trustees' actuary who has completed all necessary reports relating to Participant, and

WHEREAS, said Participant has elected to receive an Option III, 50% Modified Joint & Survivor (Pop-Up) form of benefit (and nominated Marjorie Green, mother, as option beneficiary), and

WHEREAS, said Participant has requested no annuity withdrawal under the provisions of the Retirement System and collective bargaining agreement, therefore be it

RESOLVED, that a service retirement is hereby granted to **Darylin Green** (Participant), effective October 18, 2008, and further

RESOLVED, that benefits be paid consistent with the foregoing, and further

RESOLVED, that copies of this resolution be forwarded to said Participant and the appropriate City representatives.

Resolutions:

C-6 Authorization for Payment of Invoices (\$226,048.85)

WHEREAS, The Board of Trustees is vested with the general administration, management and operation of the Retirement System; and

WHEREAS, Section 13(4) of Public Act 314 of 1965, as amended, provides that an

investment fiduciary may use a portion of the income of the system to defray the costs of investing, managing, and protecting the assets of the system, may retain services necessary for the conduct of the affairs of the system, and may pay reasonable compensation for those services; and

WHEREAS, the Board of Trustees is required to act with the same care skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, the Board of Trustees has previously approved a resolution at its regular meeting of June 19, 1997 to have accounts payable services provided through its custodian bank, The Northern Trust Company; and

WHEREAS, the Board is of the opinion that prompt payment to service providers for services rendered is appropriate and in the best interest of the plan; therefore be it

RESOLVED, that the Board of Trustees' custodial bank, The Northern Trust Company, is authorized and directed to provide payment to the following vendors and providers of service in the amount as indicated upon receipt by the Board of appropriate invoices or as required by lease agreements, subject to (a) review and approval of said invoices and lease agreements by appropriate Board representatives and (b) payment authorization signed by Nancy Sylvester/Chairperson, Chris Heatley/Vice-Chairperson, or Jeffrey Kahan/Secretary, and Willie J. Powell/Executive Director.

	<u>PAYEE</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1	Gray & Company	8,713.12	Investment Consultant Retainer – September 2008
2	AT&T	311.56	Monthly Telephone Service – 6/14/08– 7/13/08
3	301 E. Liberty LLC	87.93	Monthly Electric Charge – 9/08/08 - 10/10/08
4	AT&T Long Distance	211.84	Monthly Long Distance Telephone Service
5	DTE Energy	594.54	Monthly Gas Fee dated November 10, 2008 (Oct/Nov)
6	DTE Energy	317.18	Monthly Electric Fee dated Nov. 11, 2008 (Oct/Nov)
7	Levi, Ray & Shoup, Inc.	8,568.00	Pension Gold Maint. Fee: 1/14/2009-1/13/2010
8	Coverall North America, Inc.	28.00	Office Cleaning Services for October
9	Gabriel, Roeder, Smith & Co.	18,782.50	2003-2008 Experience Study & Presentation
10	Allstar Alarm, LLC	90.00	Office Alarm Monitoring (November 08 – January 09)
11	Shred-It	87.95	Document Shredding
12	City of Ann Arbor Treasurer	13.50	Municipal Code Supplement
13	Kolosos Printing, Inc.	74.15	Retiree Signature Verification Letters
14	Printlink Palmer	230.73	Printed Return Envelopes w/new address
15	Staples Business Advantage	847.65	Miscellaneous office supplies (5 invoices)
16	Transition Imaging, LLC	266.50	Digital Imaging Services – Invoice #1164
17	Transition Imaging, LLC	1,093.75	Digital Imaging Services – Invoice #1165
18	Transition Imaging, LLC	710.00	Digital Imaging Services – Invoice #1166
19	Transition Imaging, LLC	490.00	Digital Imaging Services – Invoice #1167
20	Willie Powell	19.74	Reimbursement for Fall MAPERS Conference 9/08
21	Willie Powell	138.60	Reimbursement for NASRA Conf. 8/2008
22	Willie Powell	69.50	Reimbursement for Spring MAPERS Conf. 6/08
23	Judith Refalo	108.19	Reimbursement for Pension Gold Conf. 9/2008
24	Chris Heatley	148.47	Reimbursement for Fall MAPERS Conf. 9/2008
25	Bradford & Marzec, Inc.	38,339.48	Investment Manager Fees: 7/1/08-9/30/08
26	Fisher Investments	41,614.47	Investment Manager Fees: 7/1/08-9/30/08
27	Independence Investments	44,824.36	Investment Manager Fees: 7/1/08-9/30/08

28	Loomis, Sayles & Company	40,339.68	Investment Manager Fees: 7/1/08-9/30/08
29	Rhumblin Advisers	4,196.51	Investment Manager Fees: 7/1/08-9/30/08
30	Schwartz Investment Counsel	14,686.00	Investment Manager Fees: 7/1/08-9/30/08
31	Republic Parking System	44.95	Parking Validation Fees
TOTAL		226,048.85	

C-7 Reciprocal Retirement Act – Service Credit

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees acknowledges that, effective July 14, 1969, the City of Ann Arbor adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, to provide for the preservation and continuity of retirement system service credit for public employees who transfer their employment between units of government, and

WHEREAS, the Board acknowledges that a member may use service credit with another governmental unit to meet the eligibility service requirements of the Retirement System, upon satisfaction of the conditions set forth in the Reciprocal Retirement Act, and

WHEREAS, the Board is in receipt of requests to have service credit acquired in other governmental unit retirement systems recognized for purposes of receiving benefits from the Retirement System, therefore be it

RESOLVED, that the Board of Trustees hereby certifies that the following member(s) of the Retirement System have submitted the requisite documentation for the recognition of reciprocal retirement credit:

Name	Classification	Reciprocal Service Credit	Prior Reciprocal Retirement Unit
Kathleen McMahon	General	6 Years	Macomb Community College
Stephanie Sharpe	General	5 Years, 7 Months	City of Novi, Michigan

RESOLVED, that the Board of Trustees notes that pursuant to the Reciprocal Retirement Act, said reciprocal retirement credit may only be used for purposes of meeting the retirement eligibility requirements of the Retirement System and that retirement benefits will be based upon actual service rendered to the City and shall be made payable consistent with the City Charter, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended), and further

RESOLVED, that a copy of this resolution shall be provided to the appropriate City and Union representatives and interested parties.

Consent Agenda approved as revised

EXECUTIVE SESSION: Attorney-Client Privilege

Roll call vote:

Boonstra - Yes	Heatley - Yes	Kaur – Yes
Crawford – Yes	Hescheles - Absent	Nerdrum - Yes
Fraser – Absent	Kahan - Yes	Sylvester - Yes

Executive session time: 8:50 – 9:55 a.m.

D. ACTION ITEMS

D-1 Declaration of Jeremy Flack for Fire Trustee

Mr. Powell stated that the City Clerk's Office has notified the Retirement Office that Jeremy Flack is the single candidate for the Fire Trustee seat on the Board. With the Board's approval, Mr. Flack will begin his term on January 1, 2009 through December 31, 2011. The Board welcomed Mr. Flack as the new Fire Trustee.

It was **moved** by Kahan and **seconded** by Nerdrum to acknowledge Mr. Flack as the new Fire Trustee beginning January 1, 2009.

Approved

D-2 Withholding Funding of Hedge Fund Managers

Mr. Heatley stated that Gray & Company has recommended that Blackrock be retained for the entire hedge fund of funds allocation based on the experience of their personnel, the strength of their portfolio construction process, and their historical performance. In addition, Gray & Company recommends funding the Blackrock strategy in February 2009 based on the temporary disorder in the hedge fund industry. Gray & Company believes the capital markets will have stabilized by February and offer a better entry point.

It was **moved** by Heatley and **seconded** by Boonstra to arrange a due diligence visit with Blackrock and hold off on funding this manager until at least the first quarter of 2009.

Approved

D-3 Resolution to Rebalance Plan Assets

Mr. Heatley stated that this resolution is brought to the Board per the Investment Policy Committee, and they recommend the following resolution be approved in order to rebalance Plan assets:

WHEREAS, the Board of Trustees is vested with the general administration, management and operation of the Retirement System, and

WHEREAS, the Board of Trustees is required to act with the same care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims; and

WHEREAS, the Board of Trustees has an approved Investment Policy Statement in order to effectively monitor its portfolio, and

WHEREAS, the Investment Policy Statement recognizes that from time to time the asset mix will deviate from the targeted percentages due to market conditions, and

WHEREAS, the Investment Policy Statement has established a range for each asset class to control risk and maximize the effectiveness of the System's assets, and

WHEREAS, when an asset class is outside of its allowable range, a reallocation should be made to rebalance that asset class back to the target allocation, and

WHEREAS, Gray & Company has advised the Investment Committee to rebalance assets from Schwartz Investment Counsel to the Northern Trust Russell 1000, S&P 500, Rhumblin, and Loomis Sayles in order to align these assets with their target allocations per the Investment Policy Statement, be it

RESOLVED, that the Board of Trustees authorizes the Executive Director to reallocate approximately \$4.662 million from Schwartz Investment Company and place approximately \$973,000 into the Northern Trust Russell 1000; \$636,000 into the S&P 500; \$1,811 million into Rhumblin and \$1,242 million into Loomis Sayles.

It was **moved** by Heatley and **seconded** by Kahan to approve the above resolution as submitted.

Approved

E. DISCUSSION ITEMS

E-1 Fiduciary Liability Insurance Policy

Ms. Sylvester stated that the legal opinion regarding Fiduciary Liability Insurance from 2003 has been submitted in the packet in order to refresh the Board on the policy and noted that it includes that the Policy does not provide for recourse by the Company against individual Trustees for their breach of fiduciary duty. Mr. VanOverbeke verified that there is no need for individual Trustees to secure a "non-recourse rider" to insure them from personal liability for breach of fiduciary duty. The individual Trustees are insured under the Policy which does not provide for recourse, so there is no need for Trustees to secure non-recourse riders. Mr. Crawford was asked to send a copy of the City's current Policy to the Trustees.

E-2 Revised Deferred Retirement Form & Employee Handbook Information

Mr. VanOverbeke advised the Board that the Administrative Policy Committee discussed this issue at their last meeting, and resolved that they are not ready to come forward with a recommendation on the language to the Board at this time. Mr. Boonstra stated that hopefully the APC will be able to wrap up this issue at its next meeting and bring it back to the Board at the December 18th regular meeting.

F. REPORTS

F-1 Executive Report

RFP FOR FIDUCIARY AUDIT

A RFP for a fiduciary audit was issued on October 2, 2008. The deadline to respond was Friday, November 14, 2008. In addition to posting the RFP on the Retirement System's website and the MAPERS website, RFPs were sent to the following firms:

Ennis Knupp & Associates
 10 South Riverside Plaza, 16th floor
 Chicago, IL 60606

Independent Fiduciary Services
 805 15th Street, NW Suite 1120
 Washington, DC 2000

Rehmann Financial
 5750 New King Street, Suite 100
 Troy, MI. 48098

We received a RFP from Ennis Knupp & Associates and Rehmann Financial by the deadline.

CLEANING COMPANIES

The Retirement Office received cleaning bids from the following firms for a weekly cleaning of the office:

<u>Name of Firm</u>	<u>Cost</u>
A-1 Cleaning Services	\$281.00 per month
Coverall Cleaning Concepts	\$140.00 per month
Midwest Maintenance Services, Inc.	\$175.00 per month

Coverall Cleaning Concepts was selected. Legal counsel reviewed the contract and made some appropriate changes before it was executed.

RETIREE SIGNATURE VERIFICATION

The signature verification forms were mailed to retirees/beneficiaries requesting that they verify they are a recipient of a benefit payment through the City of Ann Arbor Employees' Retirement System. The form requested the retiree/beneficiary to have his/her signature notarized. The Board's policy is that this form be sent to all retirees/beneficiaries every three years.

F-2 Preliminary Investment Reports for the Month Ended October 31, 2008

N. Gail Jarskey, Accountant, submitted the Financial Report for the month ended October 31, 2008, to the Board of Trustees:

10/31/2008 Asset Value (Preliminary)	\$332,722,023
9/30/2008 Asset Value (Audited by Northern)	\$382,091,773
Calendar YTD Increase/Decrease in Assets (<i>excludes non-investment receipts and disbursements</i>)	(\$97,774,897)
Percent Gain <Loss>	-22.0%

November 19, 2008 Asset Value	\$ 297,648,638
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The Board discussed how to convey the current condition of the System's funding to City Council, and it was determined that a cover letter should be presented along with the June 30, 2008 Actuarial Valuation. Gabriel, Roeder, Smith & Company was asked to create a letter explaining what the System's asset value is today, and based on that projection, give a number of what the City could be looking at as far as future City contributions. GRS will submit a drafted letter to the Board of Trustees at the December 2008 meeting, which will include separate funding scenarios.

F-3 Investment Policy Committee Report – November 4, 2008

Following are the Investment Policy Committee minutes from the meeting convened at 4:46 p.m. on November 4, 2008:

Member(s) Present: Heatley, Hescheles, Kahan, Sylvester
 Member(s) Absent: None
 Other Trustees Present: Crawford
 Staff Present: Kluczynski, Powell
 Others Present: Larry Gray, Gray & Company
 Chris Kuhn, Gray & Company
 Stewart Nelson, City Resident

**RETIREMENT SYSTEM QUARTERLY REVIEW FOR THE QUARTER ENDED
 SEPTEMBER 30, 2008**

Mr. Kuhn reviewed the September 30, 2008 quarterly review. The Fund's total market value as of September 30, 2008 was \$366.18 million. The Fund had a return of -7.39% for the current quarter, and a return of -14.61% for the last year.

Mr. Kuhn reviewed the Summary of Assets as of September 30, 2008:

Managers	Market Value
Domestic Equity	\$ 195,548,000
International Equity	36,887,000
Fixed Income	96,998,000
Real Estate	32,796,000
Cash & Cash Equivalents	3,953,000
Total Plan	\$366,182,000

Mr. Kuhn noted that as of November 3, 2008, the Fund's total market value was \$331,265,000.

INDEPENDENCE INVESTMENTS / SMALL CAP MANAGER DISCUSSION

Mr. Kuhn stated that Independence Investments had a slight outperformance during the last quarter. Mr. Gray stated that he visited Independence Investments and spent a great deal of time going through all of their attributes, and believes that in the long term, they

are going to do exactly what the Committee hired them for, and they are going through a very tough period, as is everybody else right now. Mr. Gray stated that he would hold off on terminating them at this time, although they should remain on the watch list, and given the quality of the companies that they buy and given the fact that we have seen an indiscriminate sell off, and looking at the team and realizing that they have not changed any part of what they do, and since those fundamentals are still in place from a corporate standpoint, Mr. Gray advocates holding onto the manager. The Committee agreed to review Independence's performance at the February 2009 IPC meeting.

Ms. Sylvester asked Mr. Gray to provide an analysis of what our long-term returns have been, as well as the net figures for the December IPC meeting.

The Committee discussed whether to invest in the small cap growth area, and Mr. Gray believes that if value outperforms, the growth is probably going to pull back over a measurable period. The Committee also discussed core and core value managers.

REBALANCING

Mr. Powell stated that the purpose of this discussion is to transfer funds over for cash flow needs for the next four months, which comes to approximately \$8 million. Mr. Gray recommended taking approximately \$4.6 million from Schwartz Investment Counsel to be allocated to Northern Trust Russell 1000, the S&P 500, Rhumblin mid-cap, and Loomis Sayles, to bring them in line with their target allocation.

It was **moved** by Kahan and **seconded** by Hescheles to take approximately \$4.6 million from Schwartz Investment Counsel to be allocated among Northern Trust Russell 1000, the S&P 500, Rhumblin mid-cap, and Loomis Sayles, to bring them in line with their target allocation.

Approved

LISTING OF HEDGE FUND MANAGERS

Due to time constraints, the Committee decided to postpone this item until the December 2nd IPC meeting.

Mr. Powell asked Mr. Gray to compose a letter to the Board of Trustees to withhold the funding of Blackrock until after the first of the year.

ADJOURNMENT

It was **moved** by Kahan and **seconded** by Hescheles to adjourn the meeting at 5:32 p.m.

Meeting adjourned at 5:32 p.m.

F-4 Administrative Policy Committee Report – November 7, 2008

Following are the Administrative Policy Committee minutes from the meeting convened at 2:14 p.m. on November 7, 2008:

Committee Members Present:	Boonstra, Kaur, Sylvester
Members Absent:	Crawford
Other Trustees Present:	None

Staff Present: Powell, Refalo
Others Present: Michael VanOverbeke, Legal Counsel

DEFERRED RETIREMENT COMMUNICATIONS

Mr. VanOverbeke discussed language that he drafted for the employee handbook that explains deferred retirement and the annuity option. Mr. VanOverbeke stated that in order to understand the annuity option and how it applies to deferred retirees, you first need to understand how it applies to service retirees. Mr. VanOverbeke stated that he has revised the deferred retirement form after the Board's discussion, and then composed document language that could be included in the handbook as well as a supplement to the deferred form that explains how the annuity option works. Mr. VanOverbeke reviewed the drafted language with the Committee.

The Committee discussed deferred employees coming back to withdrawal additional percentages of their accumulated contributions after signing their paperwork, and Mr. VanOverbeke was asked to discuss this with the actuary and then write an opinion to avoid misunderstandings in the future, because doing this could result in a negative benefit allowance if all of their contributions are withdrawn. Mr. Boonstra advised the Committee that he had to depart at this time, but does approve of the form and language that Mr. VanOverbeke has submitted. The Committee determined that it is not ready to make a recommendation to the Board of Trustees at this time on this issue.

Due to Mr. Boonstra's departure, the quorum was lost and the meeting was adjourned.

STATUS OF PENSION GOLD SOFTWARE

This item is postponed until the December 2nd APC meeting.

ADJOURNMENT

Meeting adjourned at 3:20 p.m.

F-5 Audit Committee Report – November 3, 2008

Following are the Audit Committee minutes from the meeting convened at 4:39 p.m. on November 3, 2008:

Committee Members Present: Crawford, Kaur, Nerdrum, Sylvester
Members Absent: None
Other Trustees Present: None
Staff Present: Powell, Refalo
Others Present: David Kausch, Gabriel, Roeder, Smith & Co.

REVIEW OF PRELIMINARY JUNE 30, 2008 ACTUARIAL VALUATION RESULTS

Mr. Kausch presented a summary of various demographic scenarios for this year's Actuarial Valuation, including new benefits with duty death provisions, new benefits with new economic assumptions, new benefits with new demographic assumptions, and new benefits with new demographic and economic assumptions. Mr. Kausch noted that the funding for the Special Retirement Window, which is being spread out over 26 years, is going to have to be accelerated in order to comply with GASB overall, which is why the

numbers in the charts look a little more expensive than the numbers that were previously presented. The Committee compared the various scenarios.

Mr. Kausch stated that GRS' recommendation is to go with the "New Benefits Plus New Demographic and Economic Assumptions" scenario, which indicates 14.34% of payroll and \$7,916,541 as the City's contribution rate because they feel that their analysis supported both the demographic and the wage inflation assumption and the wage inflation is a long-term assumption, and because they are anticipating a 2-3% increase in contributions next year without asset recovery, the fund will be hit with another 2-3% (\$1 million). After discussing what to present and recommend to the Board of Trustees, the following motion was made:

It was **moved** by Crawford and **seconded** by Kaur to adopt the "New Benefits Plus New Demographic Assumptions" scenario (13.76% of payroll and \$7,559,781 in City contributions) and request that a full report be presented to the Board of Trustees as the Committee's interpretation with the alternatives being available for discussion at the November Board meeting.

Approved

ADJOURNMENT

It was **moved** by Sylvester and **seconded** by Kaur to adjourn the meeting at 5:39 p.m.

Meeting adjourned at 5:39 p.m.

F-6 Legal Report

Mr. VanOverbeke stated that House Bill 6500, which is Treasuries Amendments to Public Act 314, has been adopted by the House despite various attempts to change it. It has been introduced to the Senate and the goal is to have it enacted before the end of the year. This Bill provides funding for private equity out of the basket clause as well as giving Plans more room in real estate.

G. INFORMATION

G-1 Communications Memorandum

Mr. Powell stated that he has received no communication correspondence to convey to the Board for November.

G-2 December Planning Calendar

The December Planning Calendar was received and filed. Mr. Boonstra requested that the APC meeting begin at 12:00 p.m. on December 2nd rather than at 1:00 so that they have more time on their agenda, and Ms. Nerdrum asked that the Audit Committee meeting be held on Wednesday, December 17th rather than on December 2nd. The Board agreed to revise the Committee changes as requested.

G-3 Vendor Contacts

The Vendor Contacts information was received and filed.

G-4 Status of Pending Projects Report

The Status of Pending Projects Report was received and filed.

G-5 Attorney General Opinions Regarding Public Act 28

Mr. VanOverbeke reviewed the Attorney General Opinions (#6290 & #6631) regarding Public Act 28 and excess investment earnings as well as interest earned issues.

Ms. Sylvester stated that the Board has retained the services of the law firm Sullivan, Ward, Asher & Patton to review the PA 28 for the Board, and asked Mr. VanOverbeke to feel free to work with them on their review. Mr. VanOverbeke agreed that he would do so.

H. PRESENTATION – Report of the 62nd Annual Actuarial Valuation for the Year Ended June 30, 2008

Mr. Kausch and Mr. Armstrong reviewed the Actuarial Valuation for the year ended June 30, 2008. Below is a summary of the report and subsequent motions by the Board:

COMMENT A: The Retirement System's financial experience was favorable during the year ending June 30, 2008. The experience gain was primarily the result of lower than expected active salary increases. The computed City contribution rate decreased this year and the funded percentage increased before benefit and assumption changes. Due to unrecognized investment losses scheduled to be phased in over the next four years, the contribution rate is likely to increase in the absence of market investment returns significantly above 7%. Valuation assets are currently 104.4% of market value. Based on the market value of assets, the funded ratio would be approximately 4% lower and the contribution rate would be approximately 3% of payroll higher.

COMMENT B: As a result of the May 31, 1994 amendment to Section 1:580 of the Retirement System Ordinance, the Retirement System has "first call" on the millage revenue.

COMMENT C: There were no retiree health care expenses paid out of the Retirement System during the last two years.

COMMENT D: The June 30, 2008 actuarial valuation reflects the changes to duty death benefit provisions. These changes increased the computed contribution rate by 0.06% of payroll.

COMMENT E: The June 30, 2008 actuarial valuation reflects the new demographic assumption changes as recommended in the City of Ann Arbor Employee's Retirement System 5-Year Experience Study for the period July 1, 2003 through June 30, 2008 issued October 9, 2008. The assumption changes increased the computed contribution rate by 1.68% of payroll and decreased the funded ratio from 100.1% to 99.6%. It is our understanding that the Board will address whether or not to adopt assumption changes during the presentation of this report. Multiple results are presented on page B-2 and B-3 to show the relative effects of adopting new economic assumptions, demographic assumptions or both.

CONCLUSION: The employer contribution requirement to the Retirement System after adopting demographic assumption changes, for the fiscal year beginning July 1, 2009 is

\$7,559,781 as indicated on page B-1. The employer contributions as shown DO NOT include any provision for the payment of federal social security taxes. It is the actuary's opinion that the required contribution rates determined by the most recent actuarial valuation are sufficient to meet the System's financial objective, presuming continued timely receipt of required contributions.

The Board discussed the Valuation, suggesting minor changes to the report as well as the idea of putting a topic on the next Board Retreat agenda to discuss the funding amortization period.

It was **moved** by Nerdrum and **seconded** by Crawford to acknowledge receipt of the Actuarial Valuation including the demographic assumptions that were included in the 5-Year Experience Study, and to note that the June 30, 2008 Valuation Report be amended to reflect solely the demographic and duty-death assumptions, and the removal of the footnote that references the 80%-120% corridor on page D-9.

Approved

It was **moved** by Crawford and **seconded** by Heatley to direct that a copy of the Valuation Report, once received as amended, be forwarded to City Council along with the Audit Report and the cover letter from GRS as discussed earlier in the meeting.

Approved

I. TRUSTEE COMMENTS

Mr. Kahan asked about the status of the Temporary Buy-Back Ordinance language, and Mr. Powell informed him that approximately three of the drafted Ordinances have been forwarded to the Attorney's Office, and they have indicated that they are in the process of re-writing the Ordinance, but have not relayed any information regarding the submitted language as of this date.

Ms. Sylvester stated that Mr. Boonstra's term will be ending on December 31, 2008, and she proposed that the Board host a dinner in honor of his service on the Board of Trustees. Mr. Boonstra thanked the Board for the thought but declined the offer in light of the current market conditions. Ms. Nerdrum stated that she would be willing to host a gathering at her house for Mr. Boonstra, and it was decided that this would be considered within the next month.

Mr. Crawford stated that he appreciates Mr. Boonstra's work on the Committees and the Board of Trustees.

J. ADJOURNMENT

It was **moved** by Kahan and **seconded** by Nerdrum to adjourn the meeting at 11:53 a.m.
Meeting adjourned at 11:53 a.m.

**Willie Powell, Executive Director
City of Ann Arbor Employees' Retirement System**