

Monroe County Employees Retirement System

840 South Roessler Street, Monroe, MI 48161-1557 (734) 241-1174



Monroe County Employees Retirement System Board of Trustees MINUTES

A regular meeting of the Monroe County Employees Retirement System Board of Trustees was held on October 27, 2014 at the Monroe County Board of Commissioners Chambers at 125 East Second Street, Monroe, Michigan.

Roll call as follows:

PRESENT

Nancy Bellaire
James Davies
Michael Grodi
George Jondro

Bobby Lambert excused at 8:16
Henry Lievens
Anne McCarthy
James Morgan

ABSENT

Joseph Hudson (excused)

ALSO PRESENT: Sandy Calkins, Retirement Specialist, Michael Bosanac, Retirement Secretary, Michael Cho, Investment Consultant, and Thomas Michaud, Legal Counsel

A quorum being present, the Board proceeded to transact business.

Chairman Grodi led the Pledge of Allegiance.

Motion by Trustee McCarthy to approve the agenda as submitted. Supported by Trustee Davies. All in favor. Motion carried.

Motion by Trustee Jondro to approve the minutes of the September 22, 2014 regular meeting and waive the reading of the minutes. Supported by Trustee Morgan. All in favor. Motion carried.

Retirements

1. Ronald Berns, Central Dispatch (deferred) August 28

Financial Reports

1. Boyd Watterson Asset Management Client Statement for the period ended August 31, 2014.
2. Boyd Watterson Asset Management Client Statement for the period ended September 30, 2014.
3. Brandywine Global Investment Management Portfolio for the period ended September 2014.
4. Brandywine Global Investment Management Portfolio for the third quarter 2014.
5. Winslow Capital Management Quarterly Report for the period ended September 30, 2014.

Communication

1. Robbins Geller Rudman & Dowd September 26, 2014 Settlement Report.
2. Robbins Geller Rudman & Dowd September 26, 2014 Monitoring Report.
3. Robbins Geller Rudman & Dowd September 26, 2014 International Portfolio Monitoring Report.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes
October 27, 2014 – Page 2**

Invoices

Motion by Trustee Lambert to approve payment for the following invoices, subject to house audit. Supported by Trustee McCarthy.

1. Invoice #406418 in the amount of \$5,005.02 from Comerica Bank for custodial services rendered for the period of July 1, 2014 – September 30, 2014.
2. Invoice dated September 30, 2014 in the amount of \$4,376.40 from Comerica Commercial Card Service for MAPERS Fall Conference hotel costs.
3. Invoice #410024 dated October 8, 2014 in the amount of \$12,974.00 from Gabriel Roeder Smith & Company for finalizing the December 31, 2013 valuation.
4. Invoice #410025 dated October 8, 2014 in the amount of \$3,162.00 from Gabriel Roeder Smith & Company for pension administration web hosting fee for 12 months starting August 1, 2014.
5. Invoice dated September 29, 2014 in the amount of \$1,000.00 from Diane Klisz-Karle, Ph.D. for an independent medical evaluation performed on Keith Turner.
6. Invoice #5596 dated October 10, 2014 in the amount of \$348.39 from Monroe County Library System for postage.
7. Invoice #3475 dated September 16, 2014 in the amount of \$250.00 from NCPERS for 2015 membership renewal.
8. Reimbursement in the amount of \$378.15 to James Davies for expenses incurred for the 2014 Fall MAPERS conference.
9. Reimbursement in the amount of \$368.77 to George Jondro for expenses incurred for the 2014 Fall MAPERS conference.
10. Reimbursement in the amount of \$113.04 to Joseph Hudson for expenses incurred for the 2014 Fall MAPERS conference.

Roll call for approval of the bills as follows:

AYES

Nancy Bellaire
James Davies
Michael Grodi
George Jondro

Bobby Lambert
Henry Lievens
Anne McCarthy
James Morgan

NAYS

ABSENT

Joseph Hudson (excused)

All in favor. Motion carried.

Retirement Refunds

Motion by Trustee McCarthy to approve the following retirement refunds. Supported by Vice Chairman Bellaire.
All in favor. Motion carried.

1. Dana Blair, Sheriff's Office

\$ 4,632.71

**Monroe County Employees
Retirement System Board of
Trustees – Minutes
October 27, 2014 – Page 3**

Retirement Payments

Motion by Trustee McCarthy to approve the following retirement payments. Supported by Vice Chairman Bellaire. All in favor. Motion carried.

- | | |
|--|-------------|
| 1. Ronald Berns, Central Dispatch | \$ 4,633.40 |
| *August \$280.80, September \$2,176.30 | |
| 2. Martha Falkenberg, General County | \$1,584.23 |
| *September \$365.58 | |

Communications – Board Action

Motion by Trustee McCarthy to accept and place on file the following medical report. Supported by Trustee Morgan. All in favor. Motion carried.

1. Keith Turner, General County

Motion by Trustee McCarthy to accept and place on file the following communication from Gabriel Roeder Smith & Company All in favor. Motion carried.

2. Communication dated October 2, 2014 from Gabriel Roeder Smith & Company regarding their recommendation to close the amortization period.
3. Communication dated October 2, 2014 from Gabriel Roeder Smith & Company regarding the 5 year experience analysis.
4. Communication dated October 2, 2014 from Gabriel Roeder Smith & Company regarding Barbara Marsh's recalculation.

Motion by Trustee McCarthy to accept and place on file the following communication from Deborah Turner. Supported by Trustee Morgan. All in favor. Motion carried.

5. Communication dated October 2, 2014 from Deborah Turner, Monroe County Road Commission Human Resources Director recertifying Trustee Morgan as the Road Commission's representative.

Proposed Resolutions

Motion by Trustee Davies to accept and place on file the following deferred retirement resolution. Supported by Trustee McCarthy. All in favor. Motion carried.

1. Ronald Berns, Central Dispatch

Motion by Trustee Davies to accept and place on file the following disability retirement resolution. Supported by Trustee McCarthy. All in favor. Motion carried.

2. Martha Falkenberg, General County

Motion by Trustee Davies to accept and place on file the following disability retirant re-examination resolution. Supported by Trustee McCarthy. All in favor. Motion carried.

3. Keith Turner, General County

Consultant's Report

Mr. Cho reviewed the valuation report for the month ending September 30, 2014. The fund is valued at \$189,327,094.47 down \$5,257,504.76 from the previous month. The current asset allocation includes 58% in equities, 31% in fixed income, 4% in cash, 5% in alternative investments, and 2% in real estate. The Total Fund was down 2.48% for the month and up 2.89% year to date.

Attorney's Report

Mr. Michaud will comment as needed.

Old Business

1. Code of Conduct/Education/Due Diligence Policy and County Travel Policy 307.1

This policy will be placed on the next Administrative Policy Committee meeting.

2. Investment Policy Statement Review

This policy will be placed on the next Investment Policy Committee meeting.

3. Request for Proposal – Actuary Services

The request for proposals is due November 6, 2014 at 5:00 P.M.

4. Request for Proposal – Auditor Services

The request for proposals is due November 6, 2014 at 5:00 P.M.

Chairman Grodi would like to schedule a special meeting on Monday, November 10, 2014 to discuss the actuary and auditor proposals.

Trustee Lambert would like Bloomfield Capital to present at the same time Anchor Capital presents.

5. Agenda packet distribution

Only the retirement agenda and minutes will be posted to the website.

New Business

1. Summary Annual Report to Members

The report is being finalized and will be placed under old business for the next meeting.

2. Barbara Marsh's recalculation

Motion by Trustee Lambert to correct Ms. Marsh's pension amount and include a one-time retroactive payment of \$18,381.36 which includes interest. Supported by Trustee Davies. All in favor. Motion carried.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes**
October 27, 2014 – Page 5

3. Closed amortization period recommendation

Mr. Buis reviewed the recommendation to close the amortization period. Under this method, if all actuarial assumptions are met the unfunded liability is paid off after 20 years. The UAL contribution rate is scheduled to remain level, and the UAL contribution dollars increase from \$3.99 million to \$4.31 million in 2018.

Trustee McCarthy asked what impact this would have on retirees.

Mr. Buis stated there would be no impact on retirees.

Trustee McCarthy asked what impact this would have on the employers.

Mr. Buis stated it will impact actual contribution rates in the 2017 fiscal year.

Mr. Bosanac stated closing the amortization period would increase the County's contribution by approximately \$156,000.00 in the 2017 fiscal year and approximately \$318,000.00 in the 2018 fiscal year.

Mr. Bosanac asked if GASB requires closing the amortization period.

Mr. Buis stated closing the amortization period is not required by the new GASB standards, the new GASB standards do required a 100 year cash flow projection to determine the discount rate for reporting purposes.

Mr. Bosanac stated the increase will be an additional burden to the employers. He requested the Retirement Board hold off on closing the amortization period for at least two years.

Trustee Davies stated if the Retirement Board helps the employers and does not accept the actuary's recommendation they will be subject to criticism.

Mr. Buis stated the new normal for actuaries is moving to a closed amortization period.

Vice Chairman Bellaire questioned if this recommendation needs to be rushed.

Mr. Buis stated it is only a recommendation and ultimately it is the Retirement Boards decision.

Chairman Grodi asked if the Retirement Board does nothing will the amortization remain open.

Mr. Buis stated yes.

Trustee Davies stated he is in favor of helping the employers out and keeping contributions down.

Trustee Lambert stated he has had several conversations with Mr. Bosanac and if the Retirement Board closes the amortization period it will negatively affect the County.

Motion by Trustee Lambert to table the recommendation to close the amortization period until the experience study is complete. Supported by Trustee Davies. All in favor. Motion carried.

Presentations – George Vitta, Asset Strategies

Mr. Vitta clarified that he is not going to go through the defined benefit plan analysis report. He stated both active employees and retirees voiced their concern at the Monroe County Board of Commissioners meeting. What needs to be done is a corrective plan of action by November 27, 2014. He referenced a Monroe News article and stated actions speak louder than words. Retirement Board Trustees owe it to retirees and active employees to be proactive.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes
October 27, 2014 – Page 6**

Every Trustee has a financial and legal responsibility to the retirees and active employees. He stated the County of Monroe has made the required contribution every year.

Mr. Vitta indicated the evaluation was over a 15 year period and in that 15 year period there are negative trends.

Trustee McCarthy asked Mr. Vitta if he would be getting to the report and reviewing facts instead of stating his opinion.

Chairman Grodi stated he has questions regarding the report. The recommendation was to meet with the investment consultant to get explanations. He really would like to get something positive from the report.

Trustee Lambert confirmed that he has seen the power point presentation of the report.

Chairman Grodi requested Mr. Vitta to review the report.

Mr. Vitta informed the Retirement Board that his recommendations and conclusions will not change. His job was to try and find solutions and move forward. He stated he has no financial or emotional attachment to the report.

Trustee McCarthy referenced the request for proposals that was sent out regarding the pension analysis. In the proposal it stated analyze the historical investment returns of the assets, and compare to similar Public Act 314 Retirement Systems of similar asset size and demographics. The analysis shall include a review of cash flows, asset allocation and manager performance over the most recent 15 year historical period. She then asked what criteria were used to determine what made them comparable.

Mr. Vitta replied the request was to look at the peer group.

Chairman Grodi questioned how a \$900 million plan compares to a \$189 million plan.

Trustee McCarthy again referenced the request for proposal stating it said similar size and demographics.

Mr. Vitta stated all plans are subject to state statute.

Vice Chairman Bellaire acknowledged the intent was to have apples to apples comparison with similar size and demographics.

Mr. Vitta replied these are the only plans that agreed to participate in the comparison.

Chairman Grodi stated all plans in the state of Michigan are subject to the freedom of information act. He asked Mr. Vitta if his firm filed any freedom of information requests.

Trustee McCarthy expressed her appreciation for the report. She stated this is an opportunity to review what has been done in the past and review what is being done now and look at improving. She would like true facts that would allow the Retirement Board to make informed decisions.

Chairman Grodi confirmed the pension evaluation committee did not approve Mr. Vitta's final draft of the report. He emailed Mr. Vitta with questions and concerns on September 28 and Mr. Vitta did not respond. He stated Commissioner Turner did not want this report to be rushed as he wanted it accurate. The committee feels as though the report was rushed and published before it was complete. Chairman Grodi stated there are at least 20 plans in the state of Michigan that are considered more comparable. He had the opportunity to speak with the pension administrator at St. Clair County and during her tenure the funding ratio has significantly decreased. In 2003 it was 118% and the funding ratio in 2013 was 80%. He informed the Retirement Board that Asset Strategies is St. Clair's investment consultant. Chairman Grodi stated MAPERS is always available to assist with information. Michelle Doran at MAPERS was never contacted for information.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes
October 27, 2014 – Page 7**

Trustee McCarthy stated she doesn't want retirees and future retirees to think their pension will not be available to them.

Trustee Davies asked Mr. Vitta if he was St. Clair's investment consultant.

Mr. Vitta said yes.

Trustee McCarthy asked Mr. Vitta how the plan did in 2008 by being conservative.

Mr. Vitta stated the plan suffered a substantial loss.

Trustee McCarthy asked how other plans did.

Mr. Vitta replied all plan suffered a substantial loss.

Trustee McCarthy wanted specifics.

Mr. Vitta stated the plan suffered a loss around 19% and the average loss was around 30%.

Chairman Grodi had the opportunity to speak with Washtenaw County's pension administrator and she advised him that she provided Katherine Ghannam with all of the information, yet the report reflects N/A. Chairman Grodi stated he is not being critical but he does expect answers. Also, the active and retired members were incorrect on the report. He questioned the validity of the report.

Mr. Vitta indicated the incorrect active and retired members were a typing mistake.

Ms. Ghannam stated the Washtenaw information was not relevant to the report.

Trustee Davies questioned the investment policy recommendation. Mr. Vitta stated the investment policy needs updated but he did not give any specifics on what needed updated.

Trustee McCarthy is concerned with the comparisons used. Asset Strategies did not use systems similar asset size and demographics.

Mr. Vitta stated all plans are different.

Trustee McCarthy addressed Mr. Vitta's statement regarding the Retirement System's actuary. He said the actuary didn't serve the Retirement System well because they recommended a 7% assumption. He stated the recommendation shouldn't have been followed by the Retirement Board.

Mr. Vitta stated he was just letting the Retirement Board know that this could be a place for improvement. Actuary recommendations are complex. Although, he knows a lot about actuarial information, he is not a licensed actuary and therefore, cannot give actuary recommendations.

Trustee McCarthy questioned why the report didn't acknowledge early retirement incentives and the ability to purchase universal service credit. She also wanted to know why changes that have already taken place were not included in the report.

Mr. Vitta stated they used December 31, 2013 as the cut-off date.

Trustee Davies stated the majority of the recommendations point the finger at the investment consultant. He would like to hear what they have to say.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes
October 27, 2014 – Page 8**

Mr. Holycross stated the change in the assumed rate of return from 7.5% to 7.0% caused 8.8% decline in funding ratio. The early retirement incentive in 2010 caused a 6.8% decline in funding ratio. The two items together account for a 15.6% decline in funding, which is 39% of the overall funding ratio decline in the last 10 years.

Trustee Davies asked why Morgan Stanley only used five years for their presentation. Mr. Green stated that was readily available in the short timeframe.

Mr. Green informed the Retirement Board that their performance is right in line with their peers. As the investment consultant they would love to hit 7% returns every year. But it is not going to happen every year. They are investing for the long term.

Mr. Green reviewed the investment results. Total fund returns have consistently outperformed policy and manager allocation index over the long term. True long term returns well exceeds the 7.0% assumed rate of return by a margin of 1.15%. Interim returns are a product of a market environment that did not provide opportunity for returns greater than 7.0%. Long term results on a 10 year and 15 year basis have not met the 7.0% long term return assumption. This isn't a problem specific to Monroe County, but a systemic issue across all public pension funds. In the last 15 years, median return was only 5.83%.

Trustee Jondro asked how the plan would have done in 2008 if it was more aggressive.

Mr. Green stated it would have been down around 30%.

Chairman Grodi stated this Retirement Board has been slow to react.

Mr. Holycross agreed. He said the slow reaction caused lost potential.

Trustee Davies asked what would happen if the Retirement Board moved to an 8% assumption.

Mr. Green stated it would have been more aggressive and the funding ratio would decline further.

Trustee Davies addressed the manager terminations. Terminating one per year is not a bad thing. It is being proactive.

Mr. Holycross stated no manager gets it right 100% of the time. That is reason for the underperformance manager policy.

Trustee Lievens replied that this report proves how easy it is to go in someone else's kitchen and tell them how to cook.

Mr. Holycross stated he is trying to put things in context.

Trustee Davies addressed Morgan Stanley's custodial services. He was not aware until last year that they offered custodial services.

Trustee Lambert asked if the Retirement System is paying for custodial services.

Mr. Holycross stated it is included in the fee. It is a bundled service.

Trustee Lambert stated then it was being paid twice.

Chairman Grodi replied that is why it was addressed last year.

**Monroe County Employees
Retirement System Board of
Trustees – Minutes**
October 27, 2014 – Page 9

Mr. Green reviewed the fee structure. The .12% investment consultant fee includes trading, custody and manager fee negotiations.

Mr. Green stated early retirement incentives are a cost shift. The cost gets shifted to the Retirement System.

Chairman Grodi asked what happens to the contribution rate because of early retirement incentives.

Mr. Buis stated the contribution rate will increase.

Mr. Holycross stated they are giving the Retirement Board proactive advice. There are a number of changes that have already been made.

Mr. Vitta addressed the Retirement Board. He stated good steps are been taken. The loss in 2008 was not as bad as many other systems due to the conservative Retirement Board. The Retirement Systems travel budget is substantially less than state law. The Retirement System has lower administration costs than many other systems and the contributions have been stable over time.

Trustee Comments

Trustee Jondro, Trustee Morgan, Vice Chairman Bellaire, and Trustee McCarthy thanked all parties for their time and information. It was very informative.

Trustee Davies stated the report was money well spent. There are changes that can be made to improve the Retirement System.

Chairman Grodi thanked all parties. He stated it was not a good idea to have an investment consultant review another investment consultant's work. A response will be submitted to the Monroe County Board of Commissioners as requested.

Chairman Grodi stated the next meeting is November 24, 2014 at the Mary K. Daume Library Service Center.

Motion by Trustee McCarthy to adjourn. Supported by Trustee Morgan. All in favor. Motion carried. Meeting adjourned at 8:35 P.M.

Respectfully Submitted,

Michael Grodi, Chairman
Monroe County Employees Retirement System
Board of Trustees