

**CITY OF OWOSSO  
EMPLOYEES RETIREMENT SYSTEM BOARD**

**JUNE 15, 2006**

**7:00 A.M.**

**CALL MEETING TO ORDER**

Vice Chairperson Kukulis called the meeting to order at 7:02 a.m.

**ROLL CALL**

**PRESENT:** Vice Chairperson Frances Kukulis, Trustees William Blanchett, Wilfred A. Farrell, Mark Owen, and James Treadway.

**ABSENT:** Chairperson Linda Robertson and Trustee Mark Mitchell.

**ALSO**

**PRESENT:** City Attorney William C. Brown; City Treasurer Ronald J. Tobey; City Accountant Patricia M. Skutt; Gabriel, Roeder, Smith & Company Consultant W. James Koss; Merrill Lynch Investment Consultant Marie Vanerian and Client Associate Maral Demir.

**APPROVE AGENDA**

Motion by Trustee Owen to approve the Agenda with the addition of the May statement from Chemical Bank and the correction of amounts listed for payment authorizations.

Motion supported by Trustee Farrell and concurred in by unanimous vote.

**APPROVE MINUTES OF APRIL 20, 2006 REGULAR MEETING**

Motion by Trustee Treadway to approve the Minutes of the April 20, 2006 Regular Meeting as presented with the correction of the attendance record to show that Trustee Owen was absent.

Motion supported by Trustee Owen and concurred in by unanimous vote.

**CITIZENS COMMENTS**

There were no citizen comments.

**APPROVE PENSION CHECK REPORTS**

Motion by Trustee Farrell to approve the Pension Check Reports as follows:

- |                |              |
|----------------|--------------|
| 1. April, 2006 | \$102,977.15 |
| 2. May, 2006   | \$ 99,377.47 |

Motion supported by Trustee Treadway and concurred in by unanimous vote.

**APPROVE STATEMENTS**

Motion by Trustee Owen to approve the following Statements:

1. Chemical Bank and Trust Company  
April and May, 2006

2. Tom Johnson Investment Management, Inc.  
March 31, 2006
3. City of Owosso Employees Retirement Fund  
April 30, 2006

Motion supported by Trustee Treadway and concurred in by unanimous vote.

**PAYMENT AUTHORIZATIONS**

Motion by Trustee Farrell to authorize the following payments:

<b>Payee</b>	<b>Amount</b>
<b><u>Chemical Bank Trust and Investment</u></b> Investment Management Services for the period 03/01/2006 to 05/31/2006	\$8,084.19
<b><u>Fifth Third Bank</u></b> Investment Management Services for period ending March 31, 2006	\$3,459.10
<b><u>Tom Johnson Investment Management, Inc.</u></b> Investment Management Services for Period 01/01/06 through 03/31/06	\$9,781.84
<b><u>Gabriel, Roeder, Smith &amp; Company</u></b> 2005 Actuarial Services	\$19,000.00
<b><u>Ronald J. Tobey, City Treasurer</u></b> Report of Checks Written – April, 2006 Report of Checks Written – May, 2006	\$113,210.02 \$105,325.43

Motion supported by Trustee Blanchett and concurred in by unanimous vote.

**COMMUNICATIONS**

1. Gail L. Schultz, City Clerk: Non-Union General City Representative Election Results

Mrs. Schultz reported that Frances Kukulis has been re-elected as the Non-Union General City Representative for a four year term. Mrs. Kukulis received all twenty-eight votes cast.

The following communications, publications and conference announcements are on file with the City Clerk – if you would like to read them, please contact her:

- Gabriel, Roeder, Smith and Company: April 2006 News Scan
- PlanSponsor: April and May 2006
- Miscellaneous Conference Announcements

## **OLD BUSINESS**

### **DONE AWAY FEES.** Marie Vanerian, Merrill Lynch.

City Treasurer Tobey commented regarding the status of done away fee charges. He reported that Merrill Lynch had covered the costs through December 31, 2005.

He reported the following amounts had been charged since that time:

January	\$200.00	5/3 Fixed	
February	\$200.00		
March	\$350.00		
April	\$450.00		\$25.00 Chemical
May	\$475.00		\$50.00

From January to May, a total of \$1,750.00 has been debited from our investments for done away fees.

### **STATUS REPORT – REVIEW OF INVESTMENT MANAGERS.** Marie Vanerian, Merrill Lynch.

Ms. Vanerian addressed the Board regarding the outline of the book of information distributed by Ms. Demir. She commented that she wanted the Board to have the “big amount of information” now to allow the Trustees time to review the information.

She is to e-mail to the City Clerk a spreadsheet (synopsis) of the information about prospective managers. This information will be forwarded to the Trustees as soon as it is received. Ms. Vanerian would like to spend time at the August meeting reviewing the information and putting together a list of candidates for interviews.

## **NEW BUSINESS**

### **GABRIEL, ROEDER, SMITH & COMPANY – PRESENTATION OF 2005 ANNUAL REPORT**

W. James Koss, Gabriel, Roeder, Smith & Company Consultant, gave the annual report presentation. He commented regarding his recommendation that the funding method should change when a plan is closed; that the City’s holiday from contributions is over; no projection on future costs for the city; the city’s normal cost is about 11% of payroll for the near future; and designing a contribution schedule to ramp up to anticipated amount of contribution costs to create a contingency reserve.

The following “Comments, Recommendations and Conclusions” are part of the written report:

**Funding:** *Accrued assets exceeded actuarial accrued liabilities by \$4,338,081. This amount was amortized as a level percent of payroll over 10 years and applied as a credit to the computed normal cost contribution. City contributions are once again required for many of the divisions for the upcoming fiscal year. It is important to note that as the accumulated credit (the difference between assets and accrued liabilities) is recognized, the computed rate will return to the level of the normal cost of benefits. As investment income losses that occurred in prior years are recognized in the funding value of assets, City contributions are anticipated to increase in the short-term.*

**Actuarial Experience:** *Overall experience of the Retirement System during the year ended December 31, 2005 was less favorable than assumed, generating a net experience loss of \$(1,738,081). This loss was primarily attributable to scheduled recognition of asset losses in prior years due to lower than assumed investment income.*

**Looking Ahead:** Due to market value investment returns over the past four years, the funding value of assets exceeds the market value by \$2,068,836. This \$2,068,836 figure represents adverse investment experience over the past four years that has not been fully reflected in the valuation. If we were to base the valuation on market value, the funded status would decrease from 115.5% to 108.1% and the contribution for the fiscal year beginning July 1, 2006 would have been about 5% of payroll or \$220,000.

**Plan Provisions:** Effective for this valuation, the General Union group became closed to new hires. The benefits for Police members were changed to a 2.8% multiplier for all years of service with an 80% of FAC maximum pension. The member contribution rate for Police Patrol group was changed from a fixed 6% of payroll annually, to the actuarially determined rate in excess of the City's contribution (the City's contribution shall not exceed 4%). The Police Patrol member contribution for the fiscal year beginning July 1, 2006 is 0%.

Five employees were listed in the data and valued in the 2004 report as employed by the Sewage division. It was determined this year that these individuals are actually employed by the Wastewater Treatment division. The individuals have been valued under the Wastewater Treatment division in the 2005 valuation.

All other provisions remain unchanged from the prior valuation.

**Plan Assumptions and Methods:** The General Union group was closed to new members effective with this valuation. The funding method for this group was changed to the Aggregate method. The aggregate method is designed to produce a level percent of payroll contribution that will fund System liabilities over the working lifetime of the group. There were no changes in plan assumptions for this valuation.

**Public Act 728:** On December 30, 2002 Michigan Public Act 728 became effective. This act sets new standards for all Michigan State and Local government retirement systems. In particular, the Act requires that supplemental actuarial analysis be performed by the System's actuary (including an analysis of the long term costs associated with any proposed pension benefit change) and provided to the Retirement Board and the decision making body that will approve the proposed pension benefit change. This analysis is required at least 7 days before a proposed benefit change is adopted. There are additional requirements related to the confirmation by the System of receipt of the required employer contributions.

**Certification:** We certify that the valuation is complete and accurate and was made in accordance with generally recognized actuarial methods. The actuarial assumptions summarized in Section C are in the aggregate a reasonable representation of the past and anticipated future experience of the System.

Motion by Trustee Owen to accept the 2005 Annual Actuarial Valuation report as submitted.

Motion supported by Trustee Blanchett and concurred in by unanimous vote.

*Clerk's note: The complete 2005 actuarial report is on file in the City Clerk's office.*

### **RECIPROCAL RETIREMENT ACT POLICY**

City Treasurer Tobey addressed the Board regarding the need for the proposed policy. The Public Act requires that a reciprocal unit have a policy in place for the implementation of the provisions of the Act.

Motion by Trustee Farrell to adopt the following resolution:

WHEREAS, the Board of Trustees is vested with the authority and fiduciary responsibility for the administration, management and operation of the City of Owosso Employees Retirement System ("Owosso Retirement System"); and

WHEREAS, the Board of Trustees acknowledges that the City of Owosso adopted the Reciprocal Retirement Act, Public Act 88 of 1961, as amended, on July 20, 1964 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 of Trustees recognizes that an eligible person may combine credited service with a preceding reciprocal retirement system with credited service acquired with a succeeding governmental unit for purposes of qualifying for an age and service retirement from either retirement system, provided the conditions of the Act are observed; and

WHEREAS, the Board is desirous of stating its policy as to the administration of the Owosso Retirement System provisions in conjunction with the Reciprocal Retirement Act.

NOW, THEREFORE, BE IT RESOLVED that the Board of Trustees hereby recommends that the Owosso City Council adopt a Reciprocal Retirement Act Policy as follows:

**City Of Owosso, Michigan Employees Retirement System**  
**Reciprocal Retirement Act Policy**

**Purpose**

The Reciprocal Retirement Act, Public Act 88 of 1961, as amended, was enacted to provide for the preservation and continuity of retirement system service credits for public employees who transfer their employment between units of government. An eligible person may combine credited service with a preceding reciprocal retirement system with credited service acquired with a succeeding governmental unit for purposes of qualifying for an age and service retirement from either retirement system, provided the conditions of the Act are observed.

The City of Owosso has elected to come under the provisions of the Reciprocal Retirement Act and accordingly is a "reciprocal unit" in accordance with the provisions of the Act.

**Policy**

It is the Policy of the City of Owosso to provide service credit transfers pursuant to Public Act 88 of 1961, as amended, as follows:

**I. Section 4 – Service Credit**

[Note: This Section of the Act is utilized to draw a retirement benefit from a retirement system in which an individual did not satisfy the vesting requirement of that system.]

Section 4 of the Reciprocal Retirement Act provides that if a member leaves the employ of the City and enters the employ of another governmental unit(s), he/she may receive a retirement allowance payable by the City of Owosso Employees' Retirement System ("OERS") subject to meeting the following conditions:

1. The former member must have had at least thirty (30) months of service credit in the OERS;
2. The former member has not withdrawn his/her employee contributions from the OERS or has re-deposited any withdrawn amounts plus interest within five years after employment with the succeeding governmental unit;

The interest rate shall be the assumed rate of return of the OERS, compounded annually, that was in effect had the contribution and credited interest remained in the system during that period.

3. The former member of the OERS must have been employed by a succeeding unit within fifteen (15) years after leaving The City of Owosso;
4. The former member's credited service in force with OERS plus the members credited service acquired in the employ of the succeeding governmental unit(s) equals or exceeds the minimum credited service required for age and service retirement in the OERS;
5. The former member has attained age 60 years; and
6. To document reciprocal service for purposes of utilizing it under the Reciprocal Retirement with The City of Owosso as the preceding reciprocal unit, the member should obtain the necessary forms from the City Treasurer. The member should provide the form to his or her succeeding governmental employer(s) to document service credit and upon completion, return the form to the City of Owosso Employees' Retirement System. The member may be required to sign a Release authorizing the Retirement Board or its representative to request and receive appropriate documentation directly from prior or subsequent employers to verify information.

An individual who satisfies the above requirements shall be eligible to receive a retirement allowance from the City of Owosso Employees' Retirement System based upon the formula, final average compensation and credited service in force with the City of Owosso Employees' Retirement System at the time of separation from service and shall be payable on the first day of the second calendar month immediately following the month in which proper written application is filed with the Retirement Board on or after the attainment of 60 years of age.

## **II. Section 5 – Service Credit**

Section 5 of the Reciprocal Retirement Act provides that if a member of the City of Owosso Employees' Retirement System previously acquired credited service as a member of another governmental retirement system, he/she may be entitled to a retirement allowance payable by the City of Owosso Employees' Retirement System subject to meeting the following conditions:

1. The member has 30 or more months of credited service, acquired as a member of the City of Owosso Employees' Retirement System; and
2. The member has attained the age but not the service requirement for age and service retirement; and
3. The member became a member of the City of Owosso Employees' Retirement System within 15 years of leaving the prior governmental unit; and
4. To document reciprocal retirement service for purposes of utilizing it under the Reciprocal Retirement Act with The City of Owosso as the succeeding reciprocal unit, the member should obtain the necessary documents from the City Treasurer. The member should provide the form to his or her preceding governmental employer(s) to document service credit and upon completion, return the form to the City of Owosso Employees' Retirement System. The member may be required to sign a Release authorizing the Retirement Board or its representative to request and receive appropriate documentation directly from prior or subsequent employers to verify information.

A member's retirement benefit shall be based only upon the service credit rendered to The City of Owosso.

### **III. Section 6 – Transfer Of Service Credit**

The City of Owosso does not permit service credit transfer under Section 38.1106 of the Act.

### **IV. General Conditions**

All crediting of service time must be approved by the Retirement Board and shall be contingent upon the City of Owosso Employees' Retirement System's receipt of all appropriate documentation.

It is the individual's responsibility to contact the other governmental units to obtain appropriate documentation in support of requests for service credit.

The City Treasurer shall be responsible for the receipt and review of the necessary documents received by interested parties and shall have the authority to verify the amount and nature of service reflected in the application and supporting documentation.

Eligible individuals may have service credited up to the time of their retirement from the City of Owosso Employees' Retirement System.

The crediting of service shall be made consistent with the current Retirement Ordinance, applicable collective bargaining agreements, Retirement System policies/procedures, and applicable laws (specifically, MCL Public Act 88 of 1961, as amended).

### **V. Health And Welfare Benefits**

The intent of the Reciprocal Retirement Act was to allow an eligible person to combine governmental service credit for purposes of qualifying for a retirement allowance from either retirement system, provided the requirements of the Act are satisfied. A "Retirement Allowance" as defined in the Act, means the annuity, pension or retirement allowance payable to a member. The Reciprocal Retirement Act is specifically limited to payment of a retirement allowance from a retirement system. Life insurance, health insurance and other similar fringe benefits are not a retirement allowance and therefore would not be covered under the Act. Accordingly, individuals who retire pursuant to said Act, prior to satisfaction of the age and service or disability requirements of the Retirement System, are not eligible for said benefits.

Motion supported by Trustee Treadway and concurred in by unanimous vote.

### **CONSIDERATION OF INTEREST RATE (CURRENTLY 5%) ON EMPLOYEE CONTRIBUTIONS**

Motion by Trustee Owen to set the Interest Rate on Employee Contributions at 5%.

Motion supported by Trustee Farrell and concurred in by unanimous vote.

### **2005 SUMMARY ANNUAL REPORT AND LIST OF EXPENSES PAID BY SOFT DOLLARS REPORT**

Motion by Trustee Owen to accept the 2005 Summary Annual Report and List of Expenses Paid by Soft Dollars Report as follows:

CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM  
*2005 Summary Annual Report and List  
of Expenses Paid by Soft Dollars*

*The Public Employees Retirement System Investment Act requires the City of Owosso Employees Retirement System to prepare and issue a summary annual report and to publish and make available annually a list of all expenses paid by soft dollars. The following information is provided for the year 2005.*

The name of the retirement system is the City of Owosso Employees Retirement System. The Retirement System's investment fiduciaries are:

**BOARD OF TRUSTEES:** William Blanchett  
 Wilfred Farrell  
 Frances Kukulis  
 Mark Mitchell  
 Mark Owen  
 Linda Robertson  
 James Treadway

**INVESTMENT MANAGERS:** Fifth Third Bank  
 Chemical Bank and Trust  
 Tom Johnson Investment Mgt. Inc.

As reported in the actuarial valuation for the annual period ending December 31, 2005, the Retirement System's valuation assets were \$32,277,585 and its actuarial accrued liabilities were \$27,939,504, which produced a funded ratio of 115.5.

For the annual period ending December 31, 2005, the Retirement System's investment performance on a mark to market basis (net of manager fees and transaction costs) was 3.4%. On December 31, 2005, the market value of the assets was \$30,057,239.

For the annual period ending December 31, 2005, the Retirement System's non-soft dollar expenses were \$121,024 and benefit payments and member refunds were \$1,124,969. Expenses paid by soft dollars totaled \$8,850. Employer contributions required for the year covered by the report total \$95,731.

Motion supported by Trustee Farrell and concurred in by unanimous vote.

**INVESTMENT MANAGER REPORT**

**MERRILL-LYNCH: FIRST QUARTER 2006 EXECUTIVE SUMMARY REPORT**

Ms. Vanerian presented an overview of the following:

***Total Portfolio Performance Summary for Period Ending 03/31/2006***

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-03/06
Beginning Market Value	30,265		16,702
Net Contributions	-190		-9,416
Investment Earnings	1,122		23,911
<b>Ending Market Value</b>	<b>31,197</b>		<b>31,197</b>

**CITIZENS COMMENTS**

There were no citizen comments.

**NEXT BOARD MEETING**

The next board meeting is scheduled for August 17, 2006 at 7:00 a.m.

**ADJOURNMENT**

Motion by Trustee Blanchett for adjournment at 8:50 a.m.

Motion supported by Trustee Farrell and concurred in by unanimous vote.

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Gail L. Schultz, Owosso City Clerk