

**CITY OF OWOSSO
EMPLOYEES RETIREMENT SYSTEM BOARD**

AUGUST 16, 2007

7:17 A.M.

CALL MEETING TO ORDER

Chairperson Farrell called the meeting to order at 7:17 a.m.

ROLL CALL

PRESENT: Chairperson Wilfred A. Farrell, Vice Chairperson Frances Kukulis, Trustees Mark Mitchell, Linda Robertson, and James Treadway.

ABSENT: Trustee Mark Owen.

ALSO

PRESENT: City Attorney William C. Brown, Clerk's Assistant Roxane Cramer, City Treasurer Ronald J. Tobey; Merrill Lynch Investment Consultant Marie Vanerian, Merrill Lynch Client Associate Maral Thomas; Gabriel Roeder Smith & Company Actuary W. James Koss.

APPROVE AGENDA

Motion by Trustee Robertson to approve the Agenda as presented with the addition of Consent Agenda item as follows:

- 2f. City of Owosso Employees Retirement Fund
July 31, 2007.

Motion supported by Vice Chairperson Kukulis and concurred in by unanimous vote.

APPROVE MINUTES OF JUNE 14, 2007 REGULAR MEETING

Motion by Vice Chairperson Kukulis to approve the Minutes of the June 14, 2007 Regular Meeting as presented.

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

CITIZENS COMMENTS

There were no citizen comments.

CONSENT AGENDA

Motion by Trustee Robertson to approve the consent agenda as follows:

Approve Pension Check Reports:

- a. June 2007 \$ 111,753.45
- b. July 2007 \$ 111,753.45

2. Approve Statements:

- a. Franklin Templeton Investments
As of June 30, 2007

- b. MD Sass
As of June 30, 2007
- c. Rigel Capital
As of June 30, 2007
- d. City of Owosso Employees Retirement Fund
June 30, 2007
- e. City of Owosso Employees Retirement Fund
June 30, 2007 Year End Statement
- f. City of Owosso Employees Retirement Fund
July 31, 2007

Payment Authorizations:

Payee	Amount
<u>MD Sass</u> For period 04/01/07 through 06/30/07	\$ 12,650.79
<u>Franklin Templeton Investments</u> For period 04/01/07 through 06/30/07	\$ 9,743.51
<u>Rigel Capital, LLC</u> For period 07/01/07 through 09/30/07	\$ 14,891.34
<u>Ronald J. Tobey, City Treasurer</u> Report of Checks Written – June, 2007	\$153,806.04
Report of Checks Written – July, 2007	\$124,710.74

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

COMMUNICATIONS

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

- Merrill Lynch: *1st Quarter AIM Report* – CD format
- Rigel Capital: *Large Cap Growth, 2nd Quarter Comments*
- Rigel Capital: *Small Cap Growth, 2nd Quarter Comments*
- Gabriel, Roeder, Smith & Company: *News Scan, May, June, & July 2007*
- Gabriel, Roeder, Smith & Company: *GRS Research Memorandum, July 2007*
- iShares: *Annual Report –2007*
- CMA Money Fund: *Annual Report - 2007*
- Corporate Governance: *3rd Quarter 2007*
- National City: *Corporate Insights, Summer 2007*
- Plan Sponsor: *Special Issue 2007*
- Institutional Investor: *June and July 2007*

Note: Old Business was skipped, pending the arrival of Mr. W. James Koss of Gabriel Roeder Smith & Company.

NEW BUSINESS

APPLICATION FOR RETIREMENT – Stanley P. Jelinek

Motion by Vice Chairperson Kukulis to approve the application for retirement from Stanley P. Jelinek effective September 29, 2007.

Motion supported by Trustee Treadway.

Roll Call Vote.

AYES: Trustees McCloskey, Mitchell, Robertson, Treadway Vice Chairperson Kukulis, and Chairperson Farrell.

NAYS: None.

INVESTMENT POLICY REVIEW

Marie Vanerian, Merrill Lynch

There were questions regarding individual changes suggested for the policy. Many of the suggested changes were made to reflect the changes in the money management structure and the hire of the new money managers. Almost all the suggested changes were readily accepted by the Board. Specifically, Ms. Vanerian indicated she would further research the removal of the "prudent investor standards" found on page 6 and possibly change the wording on page 10 referring to target benchmarks to avoid the use of fixed percentages. She also indicated the policy would need to be reviewed by the City Attorney prior to its presentation to the Board for formal adoption.

OLD BUSINESS

MERS SYSTEM TRANSFERS – STATUS REPORT AND RECOMMENDATIONS W. James Koss, Gabriel Roeder Smith & Company

Mr. Koss reviewed the issue originally brought to the Board by Treasurer Ronald Tobey at a previous meeting. He described the problem as pitting one retirement group against another by under funding one and over funding another, explaining that when police officers transfer from our retirement system to the MERS system MERS requires less funding to be transferred. Thus resulting in MERS being less than 100% funded and the police retirement group being over funded.

After significant discussion regarding the Owosso Retirement System's liability for the issue and MERS ability to come back on the system and request more funding it was decided to have the City Attorney examine the issue and report back to the Board at the next regular meeting.

(Returned to the remainder of New Business)

NEW BUSINESS, CONTINUED

GABRIEL, ROEDER, SMITH & COMPANY – PRESENTATION OF 2006 ANNUAL REPORT W. James Koss, Gabriel Roeder Smith & Company

Mr. Koss detailed the annual Report for 2006 indicating the major change to the plan was all groups except the police and fire are now closed to new members. This change allowed for use of a different actuarial technique which accounts for the idea that you do not require contributions for a group that is no longer active. Despite this closure to new members Mr. Koss indicated he anticipates the City will have to start contributing to the fund once again.

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

Funding: *The System is closed to new entrants effective with this valuation, except for the Police Patrol and Fire groups. Contributions are required for all groups except Police Patrol and Fire, based on the Aggregate funding method. The Aggregate funding method is designed to produce contributions that are a level percentage of payroll and that will be sufficient to fund System liabilities over the working lifetimes of members of these groups. Note that level percent of payroll contributions applied to a declining payroll will produce dollar contributions that will decline over time as the size of the covered active population decreases.*

For the Police Patrol and Fire groups, accrued assets exceeded actuarial accrued liabilities by \$2,618,302. This amount was amortized as a level percent of payroll over 10 years and applied as a credit to the computed normal cost contribution, resulting in a City contribution of \$0 for these groups. 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.

Actuarial Experience: *The overall experience of the Retirement System during the year ended December 31, 2006 was less favorable than assumed, generating a net experience loss of \$(899,591). This loss was primarily attributable to scheduled recognition of asset losses in prior years due to lower than assumed investment income on a funding value basis.*

Looking Ahead: *Due to market value investment returns over the past four years, the funding value of assets exceeds the market value by \$122,374. This \$122,374 figure represents adverse investment experience over the past four years that has not been fully reflected in the valuation. In the absence of offsetting favorable experience, contribution increases are likely in the near term.*

Plan Provisions: *Effective for this valuation, the General Non-Union group, all Union and Non-Union members of Sewage, Water, Waste Water groups, and all members of the Police Management group became closed to new hires.*

All other provisions remain unchanged from the prior valuation.

Plan Assumptions and Methods: *The General Non-Union group, all Union and Non-Union members of Sewage, Water, Waste Water groups, and all members of the Police Management group were closed to new members effective with this valuation. The funding method for these groups was changed to the Aggregate method. There were no changes in plan assumptions for this valuation.*

Reserve Transfers: *The actuarial present value of retired benefit payments in the Waste Water Treatment Plan group is greater than the balance in the Retired Benefits Payment reserve by \$1,157. It is recommended that this amount be transferred from the reserve for Employer Contributions to the Retired Benefit Payment reserve. This is a bookkeeping recommendation that does not affect valuation results.*

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 pension benefit change is adopted. There are additional requirements related to the confirmation by the System of receipt of the required employer contributions.*

Motion by Vice Chairperson Kukulis to accept the 2006 Annual Actuarial Valuation report as submitted.

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

Clerk's note: The complete 2006 actuarial report is on file in the City Clerk's office.

FUNDS TRANSFER - WASTEWATER TREATMENT PLANT GROUP W. James Koss, Gabriel Roeder Smith & Company

As detailed in the Comments section of the 2006 Annual Actuarial Valuation it was recommended \$1,157.00 be transferred from the reserve for Employer Contributions to the Retired Benefit Payment reserve. Mr. Koss indicated the transfer would bring the retirement benefit fund equal to the retirement benefit liabilities for the Wastewater group. He also indicated the transfer was only bookkeeping in nature, no money would be changing hands.

Motion by Vice Chairperson Kukulis to approve the transfer of \$1,157.00 from reserve for Employer Contributions to the Retired Benefit Payment reserve for the Wastewater Treatment Plant group.

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

SECOND QUARTER 2007 EXECUTIVE SUMMARY REPORT Marie Vanerian, Merrill Lynch.

Ms. Vanerian presented an overview of the following:

Total Portfolio Performance Summary for Period Ending 06/30/2007

	Source of Funds Thousands of Dollars		
	Quarter		Cumulative 12/91-06/07
Beginning Market Value	32,550		16,702
Net Contributions	-340		-11,049
Investment Earnings	1,395		27,952
Ending Market Value	33,605		33,605

Chairperson Farrell suggested the Board start the searches for the remaining money managers now.

Trustee Robertson indicated she had been contacted by MD Sass regarding their request for permission to purchase American depository receipts (ADR's). Ms. Vanerian defined ADR's as foreign owned companies that are commonly traded in the U.S. (Daimler Chrysler for example). She indicated ADR's are typically included with domestic stocks and some investments of this type would be fine. She said she would examine the issue more closely, set some parameters and contact MD Sass before the next meeting.

CITIZEN COMMENTS

City Treasurer Ronald Tobey shared his concerns regarding the June 30th Franklin Templeton statement, indicating it appeared many of the old Fifth Third investments had not yet been liquidated. Ms. Vanerian indicated she had not been contacted by Franklin regarding further difficulties in selling the items and felt it was safe to assume things were progressing well. She said she would contact them for an update prior to the next meeting and forward any responses to Chairperson Farrell and City Attorney William Brown.

NEXT BOARD MEETING

The next board meeting is scheduled for October 18, 2007 at 7:00 a.m.

ADJOURNMENT

Motion by Vice Chairperson Kukulis for adjournment at 9:30 a.m.

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

Amy K. Kohagen, Owosso City Clerk