

**CITY OF OWOSSO
EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES
REGULAR MEETING
OWOSSO CITY HALL COUNCIL CHAMBER**

APRIL 27, 2016

7:15 AM

CALL MEETING TO ORDER:

Chairperson Farrell called the meeting to order at 7:19 a.m.

ROLL CALL:

PRESENT: Trustees Richard Brewbaker, Burton Fox, Elaine Greenway, Bobbi Jo Perry, Vice Chairperson Mark Sedlak, and Chairperson Wilfred Farrell.

ABSENT: None (one vacancy).

ALSO

PRESENT: Gabriel Roeder Smith Consultant Kenneth G. Alberts; City Attorney William C. Brown; Gabriel Roeder Smith Senior Actuarial Analyst Laura Pfeffer Frankowiak; Graystone Consultant Michael Holycross; City Clerk Amy K. Kirkland; City Treasurer Designate Andrea K. Smith; City Treasurer Ronald J. Tobey.

APPROVE AGENDA:

Motion by Trustee Fox to approve the Agenda as presented.

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

APPROVE MINUTES OF FEBRUARY 17, 2016 SPECIAL MEETING:

Motion by Vice Chairperson Sedlak to accept the minutes of the February 17, 2016 Special Meeting as presented.

Motion supported Trustee Brewbaker and concurred in by unanimous vote.

APPROVE MINUTES OF FEBRUARY 24, 2016 REGULAR MEETING:

Motion by Trustee Perry to accept the minutes of the February 24, 2016 Regular Meeting as presented.

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

CITIZEN COMMENTS:

There were no citizen comments.

**CITY OF OWOSSO EMPLOYEES RETIREMENT SYSTEM 71ST ANNUAL ACTUARIAL VALUATION:
KENNETH G. ALBERTS & LAURA PFEFFER FRANKOWIAK - GABRIEL ROEDER SMITH & COMPANY**

Ms. Frankowiak recapped the events of 2015 noting that the population of the system was stable, pay raises were lower than expected, deaths were higher than expected, contributions increased for Fire

Department members and decreased for Police. Overall the plan gained 1.31% for the year and the funding ratio increased to 90.3%. The City's annual contribution is budgeted at \$593,000.

Mr. Alberts then spoke to the Board noting several items the group may want to spend time considering:

1. Up to this point our actuarial valuations have assumed the City made its required contribution in installments throughout the year. In practice the City has made its contribution at the end of its fiscal year (June 30). The timing of the contribution has an effect on the system based on when those funds become available for investment. As a result, a contribution made earlier in the year should be somewhat smaller than a contribution made at the mid-year mark, and a contribution made at the end of the year should be somewhat larger than one made mid-year. The Board may want to consider charging the City an interest rate equal to the assumed rate of return on any payments made after the mid-year mark, or possibly asking the City to adjust the timing of their contribution.

City Treasurer Tobey indicated he had already informed the Finance Director of the issue.

2. Mr. Alberts noted the balance of the contingency reserve fund is currently \$814,000 for the police and fire units. The money may be used to reduce the City's contribution or saved for a rainy day. He said he was not recommending the release of any of this money at this time, in part due to the fact that the Plan would be recognizing \$700,000 in losses with the 2017 valuation and another \$600,000 in losses with the 2018 valuation.
3. Looking to the future Mr. Alberts noted that due to the small size of the System the general tables for mortality must be used in any valuation calculations and those tables are now being adjusted on an annual basis to account for increases in longevity. These adjusted tables will be used from this point forward.
4. Mr. Alberts went on to note that return expectations have started to move down for many plans, moving from the 7% range into the 6% range. He encouraged the Board to consider possibly beginning to make such an adjustment with the next valuation. He said the change was not warranted immediately and the adjustment would need to be modeled before he could make a solid recommendation.
5. Changes to the amortization period may also be warranted due to the small size of the system. The period is currently set at 13 years. Mr. Alberts recommended using two smaller 5-year periods in an effort to smooth future valuations and the corresponding contributions.
6. Lastly Mr. Alberts addressed the MERS transfers for the police department. When patrol members move to the command unit they are also moved from the City's pension system into the MERS system. Prior to the transfer of a member to the MERS system calculations are performed to determine how much money should be transferred. Historically the calculations reached by the City have been much larger than the calculations reached by MERS, resulting in a benefit to the System. Mr. Alberts cautioned the Board that continuing to do so may result in the MERS unit being underfunded creating the need for future contributions that are not built into the process. Chairperson Farrell indicated the Board was well aware of the discrepancy and had long sought resolution to the situation. Staff noted that City administration had been reminded of the issue on numerous occasions but the Board had yet to receive feedback on plans for a possible resolution.

Mr. Albert's concluded his remarks by saying there are a number of pieces in play that have the potential for upward pressure on contributions in the future.

The following are comments from the report:

Comment A: *The System was closed to General Union and Police Command Officers new entrants effective January 1, 2005 and General Non-Union new entrants effective January 1, 2006. The plan is open for Police Patrol and Fire groups.*

Comment B: The following plan provision changes are reflected in the valuation for the first time this year:

- Fire member contributions are 7.0% of annual compensation, 7.5% effective 7/1/2016, and 8.0% effective 7/1/17.
- Police Union member contributions are 12.0% of annual contribution, employer responsible for the remainder. Effective 7/1/2016 employees annual contribution will decrease to 11.0%, employer responsible for the remainder. Effective 7/1/2017 employees annual contribution will decrease to 10.0%, employer responsible for the remainder.

Comment C: Experience during the year was more favorable than assumed. The primary sources of favorable experience were:

- Gains related to investment activity (the recognized rate of investment return was 7.59% compared with the assumed rate of investment return of 7.25%);
- Gains related to retiree mortality (6 deaths compared with 3.4 expected);
- Gains related to pay increases for Fire and General divisions;
- Losses related to pay increases for Police; and
- Gains related to turnover for General members.

Comment D: The Retirement System currently has a contingency reserve of approximately \$814 thousand. This reserve is the excess of the Reserve for Retired Benefit Payments over the accrued liabilities for retirees and beneficiaries.

Comment E: With the consolidation of the Police Patrol (an open group with fluctuating member contributions) and Police Command (a closed group with no current active members), the employer contributions were determined separately and added together. As such, the retirement system may need to maintain assets separately for these two groups going forward, unless there is a re-opening of the Command group, to prevent Police Patrol member contributions from changing (up or down) as a result of the funded status of Command member liabilities.

Comment F: The computed Employer contribution effective July 1, 2016 is \$592,826, assuming periodic payments throughout the fiscal year or a lump sum payment in the middle of the fiscal year.

Comment G: The actuarial value of assets recognized a 7.59% rate of return, despite the market rate of return of (0.20)%. This difference is due to the 4-year smoothing. The portion of this year's loss recognized in the actuarial value of assets was offset by the gains from prior years continuing to be recognized this year. As recognition of those prior gains are completed, there will be upward pressure on contributions as the remainder of this year's loss is recognized over the next 3 years.

Comment H: Observations for next experience review:

- All assumptions continue to be reasonable.
- The industry trend on the mortality assumption is to move away from static projections of mortality improvements to generational projections of mortality improvement.

Comment I: The amount of the transfer to MERS on behalf of the Police Officer who was promoted to the Command group was less than the liabilities released. While this appears to be a gain for the System, it may ultimately result in increasing contributions to MERS if the methods and assumptions used for this valuation prove to be better estimates of future activity than those used by MERS.

At the conclusion of the presentation Trustee Perry asked Mr. Alberts if the Board should consider requesting the City pay the higher contribution amount this year to provide a little cushion in anticipation of the recognition of losses in 2017 & 2018. Mr. Alberts indicated there was a strong argument for doing so, but they should also keep in mind that the 2017 valuation will also have two more years of returns to factor into the final number.

Motion by Trustee Fox to accept the 2015 Actuarial Valuation as presented.

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

CONSENT AGENDA:

Motion by Vice Chairperson Sedlak to approve the consent agenda as follows:

1. **Approve Pension Check Reports:**

- a. February 2016 \$ 211,166.12
- b. March 2016 \$ 211,166.12

2. **Approve Statements:**

- a. Atlanta Capital (see the Performance Measurement Report booklet for this item)
As of March 31, 2016
- b. Franklin Templeton Investments (this item will be distributed at the meeting)
As of March 31, 2016
- c. Harding Loevner
March 1 - March 31, 2016
- d. Loomis Sayles
As of March 31, 2016
- e. MD Sass
As of March 31, 2016
- f. NFJ-Allianz (see the Performance Measurement Report booklet for this item)
As of March 31, 2016
- g. City of Owosso Employees Retirement Fund
As of February 29, 2016
- h. City of Owosso Employees Retirement Fund
As of March 31, 2016

3. **Payment Authorizations:**

- a. Franklin Templeton Investments
For period 01/01/2016 through 03/31/2016 \$ 6,897.10
- b. Franklin Templeton Investments – former Fifth Third equities
For period 01/01/2016 through 03/31/2016 \$ 300.00
- c. Loomis Sayles/Natixis
For period 04/01/2016 through 06/30/2016 \$ 15,271.53
- d. M.D. Sass
For period 01/01/2016 through 03/31/2016 \$ 11,209.62

- e. Morgan Stanley – Graystone Consulting
 For period 04/01/2016 through 06/30/2016 \$ 20,057.21
 Consulting Fee \$ 15,514.05
 UMA Fee – Atlanta \$ 1,914.98
 UMA Fee – Harding Loevner \$ 2,628.18
- f. Ronald J. Tobey, City Treasurer
 Report of Checks Written – February 2016 \$ 285,779.90
- g. Ronald J. Tobey, City Treasurer
 Report of Checks Written – March 2016 \$ 246,600.29

4. **Death Acknowledgements:**

None.

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

COMMUNICATIONS:

- o Amy K. Kirkland, City Clerk – *Confirmation of Council Action*
- o Loomis Sayles – *Dinner invitation, 2016 MAPERS Spring Conference*
- o Gabriel Roeder & Smith – *NewsScan February 26, 2016*
- o Gabriel Roeder & Smith – *NewsScan March 10, 2016*
- o Gabriel Roeder & Smith – *NewsScan March 31, 2016*

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

- Morgan Stanley – *FYI 2Q2016*
- Gabriel Roeder Smith: *GRS Insight, March 2016*

OLD BUSINESS:

Large Cap Value Money Manager Comparison

Graystone Consultant Holycross indicated that this item was originally presented to the Board in October but was placed on the back burner when it became apparent that WHV needed to be replaced.

He asked to delay the discussion until after the Performance Measurement Report.

NEW BUSINESS:

MAPERS 2016 Spring Conference

Motion by Chairperson Farrell to authorize the attendance of 2 members to the MAPERS 2016 Spring Conference.

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

Application for Retirement – C. Hawn

Motion by Trustee Fox to approve the application for retirement from Christopher Hawn effective May 1, 2016.

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

INVESTMENT CONSULTANT REPORT:

1ST QUARTER 2016

Consultant Holycross distributed an updated Market Outlook & Commentary supplementing the commentary in the 1st quarter Performance Measurement Report. He also distributed an update to the Large Cap Value Comparison originally presented in October 2015. He then went on to detail his predictions for the remainder of the year saying he expected value stocks to outperform growth stocks, the year has started out rough and he is anticipating a global economic slow-down but not to the level of a recession, the U.S. economy will grow over the rest of the year, though modestly, and currently stocks appear to be undervalued.

The Plan's managers had a rough 1st quarter with only Atlanta Capital beating their benchmark, though it was his opinion that this was due to market concerns not management concerns. He specifically noted that NFJ has not outperformed its benchmark since inception, but they make a very good compliment to Harding Loevner.

In light of these conditions Mr. Holycross recommended the plan remain overweight in equities and underweight in fixed income. He suggested the Board consider taking funds from the large cap growth manager (Loomis Sayles) and adding it to the large cap value manager (MD Sass) portfolio to take advantage of the general undervaluing of stocks. He also suggested possibly taking a bit more money from fixed income and putting it toward equities.

There was discussion regarding how much money to transfer from the large cap growth manager to the large cap value manager as well as where to put the money since the Board is in the midst of a review of the current large cap value manager.

Motion by Trustee Fox to move \$1.5 million from Loomis Sayles to the Russell 1000 Value ETF.

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

Chairperson Farrell inquired whether Mr. Holycross had concerns about any of the other money managers for the Plan. He indicated he did not.

He then briefly detailed the updated Large Cap Value Comparison and said he planned to have the group take a closer look at MD Sass at the June meeting. He also said it may make sense to have them come to one of the next couple of meetings.

CITIZENS COMMENT:

There were no citizen comments.

NEXT BOARD MEETING:

The next board meeting is scheduled for June 22, 2016 at 7:15am

ADJOURNMENT:

The meeting was adjourned at 9:07 a.m.

Amy K. Kirkland, City Clerk