MINUTES
WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION
Board of Commissioners Meeting Room 220 N. Main St., Ann Arbor, MI 48107
March 26, 2013 8:30 am

Scott Miller called the meeting to order at 8:31 am.

Monica Boote called the roll.

MEMBERS PRESENT: Verna McDaniel Scott Miller, Deb Schmitt, Dan Smith, Nancy Heine (8:32 am)

MEMBERS ABSENT: Kelly Belknap (excused), Conan Smith

OTHERS PRESENT: Monica Boote and Lisa Everton, Human Resources; Brian Green, Graystone Consulting; Tom Michaud, VanOverbeke Michaud & Timmony; Catherine McClary, Treasurer's Office (8:32 am); Roberta Allen, AWARE Representative (8:59 am)

Public Participation
None

(Catherine McClary arrived)

Approval of Minutes – February 26, 2013

Verna McDaniel seconded by Deb Schmitt motion to approve the minutes of February 26, 2013 as presented. All in favor. Motion carried.

(Nancy Heine arrived)

Approval of Consent and Regular Agenda

Dan Smith seconded by Verna McDaniel motion to approve the Consent and Regular Agenda as presented.

A question was presented by Scott Miller regarding the monthly contribution/distribution report and the increased market value for this month of $48.8 million. Brian Green explained the increase was due to the termination of DE Shaw whose proceeds were paid in cash. Since this report had been generated, a large portion, about $45 million has been invested with Vanguard with a smaller portion kept in cash to fund pension obligations, for a current cash balance closer to$3.9 million. This report included the Vanguard ETF in the cash value.

All in favor. Motion carried.

CONSENT AGENDA

A. Communications

1. Washtenaw County Finance, STIF reports through 2/28/13

B. Communications on File

1. Alliance Bernstein, Account Summary, 2.28.13
2. Earnest Partners, Monthly Statement, as of 2.28.13
3. Enhanced RAFI International, Audited Financial Statements (Final), 2012
4. Loomis Sayles, Monthly Reports, 2.28.13
5. Munder, Appraisal of Assets, 2.28.13
6. J.P. Morgan, Fixed Income, Trade Transaction, 2.13.13
7. Robbins Geller Rudman & Dowd, LLP, Class Action Settlements due April 2013
8. Robbins Geller Rudman & Dowd, LLP, Litigation Report, 4Q12
9. Robbins Geller Rudman & Dowd, LLP, Portfolio Monitoring Report, 2.22.13
10. Santa Barbara, Form ADV Part 2A, Brochure, 3.1.13
11. Santa Barbara, Form ADV Part 2B, Brochure Supplement, 3.1.13

C. Payment of Bills

None

D. Service Retirement Application

Name	Department	Employee Group	Date	Type	Eligibility
Audrey L. Tisdale	CSTS	2733B	3/23/13	Service	Rule of 75, min age 50
Anne L. Varieur	Public Health	MNAI	5/18/13	Service	Rule of 75, min age 50

E. Service Retirement Finals
None

F. Intent to Purchase Prior Public / Military Service
1. **Prior Public**
2. **Prior Military**

G. Final Purchase Approval Resolutions – Prior Public / Military Service
1. **Prior Public**
2. **Prior Military**

H. Application for Refund of Contributions & Termination of Membership
None

I. Application for Deferred Retirement Benefit

Name	Termination Date	Department	Employee Group	Required Service for Vesting
Jonathan M. Kupec	11/05/11	Children's Services	2733 JD	8 years

J. Pension Benefit Changes

1. **Termination of Benefits**
Lore Jonas, deceased 02.24.13, retired 8.15.92. Option II: 100% JS

2. **Life Insurance – Death Benefit**
Lore Jonas, deceased 02.24.13, beneficiary Susan Jonas, $2,000

3. **Payment to Survivor**
Susan Jonas, beneficiary of Lore Jonas, 100% Joint Survivor

4. **Popup to Straight Life**
Eleanor F. Shaw, Survivor Beneficiary William M. Shaw deceased 11.22.12,
Option II – Pop Up to Straight Life

K. EDRO / DRO
None

<u>REGULAR AGENDA</u>
Investment Consultant's Report – Brian Green

A. February 2013 Performance Update

Brian Green led the February 2013 performance discussion. This has been another positive month, as of February 28th, gaining .43% just trailing the Policy Index of .63%. A few changes have occurred including the total Vanguard investment completed at the tail end of February and in fixed income the Brandywine and Loomis Sayles transactions will have been implemented in March. Also, new Manning & Napier and CRM agreements are also being executed. In the month of February there have been positive results in the domestic equity and fixed income markets with negative results in the international equity markets. Mr. Green discussed the current events concerning Cypress' bailout funding and its impact to the EU. In their attempt to raise funds for an EU bailout, the government of Cypress originally sought a tax on individual state owned bank deposits of 6.6% to 9.9%, which has now been changed to be levied only on deposits in excess of $100,000 Euros which would be above and beyond FDIC/EU limits. This impact will be felt mostly by foreign depositors, especially Russian depositors. Cypress is a relatively small nation globally with only about .3% GDP of the Euro. But, in the midst of this chaos other nations may see this as a blueprint to seize personal monies to fund government bailouts which is not a strong model/technique to adopt. The other interesting recent news event is discussion of preliminary rules within the EU regarding banking and investment management restricting bonuses. Currently salaries are only a small portion of these professional's income with bonuses making up the bulk of their earnings. These new bonus regulations may require all professional bonuses to be no more than an individual's base salary which may further result in businesses relocating and creating additional economic impact.

Dan Smith led a discussion regarding policy asset allocation and the cash component. Should a change in policy be considered to adjust the policy asset allocation and account for a cash allowance as the actual asset allocation provides? Mr. Green, as the investment consultant is comfortable with the current policies in place keeping as little cash on hand as possible. There are differences between intentional and unintentional or incidental cash balances. Intentional cash balances are necessary to cover reoccurring pension allocations and expenses. Cash balances also fluctuate depending on the individual money manager's cash balance in their individual portfolios. There is always incidental or unintentional cash on hand because of scheduled dividend payments, stock sales, reinvestments, etc therefore it is always fluctuating. Mr. Smith is questioning the difference between the policy and the actual cash balance allocation. Should the policy be reflective of the true asset allocations to be compliant with the objectives of the policy? According to Mr. Green the actual asset allocations are sufficiently and legally compliant with the policy.

Mr. Smith also questioned the preservation of the value of assets over time. There are several assets that help with inflation such as TIPS, commodities, precious metals, etc, and our portfolio is more indirect, should we be moving that way over time to hedge inflation while it is relatively inexpensive? Mr. Green addressed this with the ability of the fixed income portfolios of JP Morgan and two new additions of Brandywine and Loomis Sayles managers to purchase TIPS or Treasury Inflation Protection Securities whose value rises as inflation rises to protect purchasing power during an inflationary period. These TIPS are actually negatively valued at the moment and since inflation is currently low at the moment this is more of a long term solution. Currently investing in commodities is part of the short term solution and as the investment consultant, specific long term solutions are being researched.

Legal Advisor's Report – Tom Michaud

A. New Disclosure Policy, Act 314, Draft Policy

Tom Michaud led a discussion highlighting the amendments to the Michigan Public Employee Retirement System Investment Act, Public Act 314, in particular the new disclosure requirements. The disclosure provisions within Act 314 now require that any outside service professional that provides a service to this Board and not employed by the County; including investment consultants, actuaries, attorneys, money managers, etc.; to disclose annually any and all contributions made to any Washtenaw County elected official. In addition, any investment service provider must also disclose annually their compensation from any fees, commissions, etc. as it relates to WCERS. Mr. Michaud presented to the Board a draft policy and forms that will be provided to the WCERS money managers and Graystone Consulting for feedback that will impart an efficient disclosure system to remain compliant with Act 314's limitations.

Members of the Board questioned the distinctions between district and county-wide elections. Mr. Michaud explained that the service providers as defined in the Act have to be an eligible voter either in the district or county depending on the type of election in regards to contribution limits. Those who are eligible voters are limited to a contribution of $350 and those who are non-eligible voters are limited to a contribution of $150 per election cycle. Interpretation by VMT indicates the limits are for a whole firm or agency basis not per individual within. Those employees / contractors / firms / agencies who contribute in excess of these limits will now be barred from working in the County for a 24 month period.

(Roberta Allen, Aware Representative arrived)

B. Summary Annual Reports, Model Outline

Mr. Michaud provided a model outline of a Retirement System Summary Annual Report that is detailed and based upon an actuarial foundation. The noted components should be considered the minimum guidelines that include actuarial concepts, assumed rates, smoothing methods, etc. Mr. Michaud also reports that this report will now need to be published online for transparency purposes. The information is currently available but with these guidelines in place all of the previous separate information will be distilled and published in a single format online which is now mandatory. There is no specific implementation date however this information must now be reported annually on a calendar basis. The Board questioned the due date requirements and the current reporting schedule. Monica Boote reported that the 2011 Annual Report had just been received from the previous actuary, GRS and Mr. Michaud assured the Board that the next normally scheduled update would be satisfactory.

After Mr. Michaud's report, Scott Miller, requested a summary of current litigation that WCERS is engaged in to be included on the next Legal Advisor's Report at the April 23, 2013 meeting to which Mr. Michaud agreed to provide.

Other Advisor's Comments

Catherine McClary, Washtenaw County Treasurer, inquired whether or not if the Administration representation, would be making a report to this Board regarding recent union contract negotiations. Verna McDaniel, Washtenaw County Administrator and WCERS Trustee, reported that this type of report is not generally done as it has already been distributed within the organization and posted online unless it is requested. Ms. McDaniel went on to explain that in general terms the new union contracts have closed the defined benefit program (WCERS) to new hires as well as the retiree health care program (VEBA) to employees hired on or after 1.1.2014. A defined contribution plan has been adopted and will open to employees on 1/1/14. Ms. McDaniel can provide a more detailed report for this Board if it is warranted or requested. With this new amendment, a new defined contribution Board of Trustees will have to be created as well as a RFP for a new plan administrator. Any current employee enrolled in the WCERS plan may opt into the newly created defined contribution plan between 1/1/14 and the mutually agreed upon deadline of 2/28/14.

Questions regarding the impact to the WCERS Board were discussed, and if there have been any communications regarding this change to the new actuary, Buck. Scott Miller, Board Chair, would like the 2012 actuarial report submitted first before there is any such discussion with Buck since this transition period has already had its own issues. Buck is aware that the closing of this benefit may be imminent and will be notified of the changes after June.

Legal Counselor, Tom Michaud did weigh in with the legalities of these changes. In accordance with Public Act 728, there must be a seven day advance written notification before any changes can be implemented by way of a separate report calculating the financial implications of said changes. The current annual actuarial report, which had been completed before this modification was ratified, would not be impacted since this separate report needs to be outlined by the actuary and reviewed seven days before actual changes are authorized with all parties involved notified of its financial implications. Concern was expressed regarding the timelines associated with ratification and BOC approval absent this report. This Board will need to ensure that changes are not implemented until this report is completed and received. Expenses associated with this report's preparation should not be paid by the Plan, but rather the parties exploring the change.

How will this affect the new contract? Mr. Miller has asked that Ms. Boote approach Buck about the report and discuss with Diane Heidt, Director of Human Resources / Labor Relations, in regards to who will be responsible for the payment of the report. According to Ms. McDaniel, Buck provided education prior to the resolution and the BOC was aware there might be possible costs associated with any necessary reports and that County Administration would be financially responsible for said costs. Mr. Miller requested that the report process commence immediately and be expedited if possible. Mr. Michaud reiterated that anytime there is a change to the pension plan, this actuarial report needs to be completed as a legal requirement and to provide any technical corrections to any proposed changes. Mr. Michaud will consult the Board in relation to these procedures for the corrections.

Unfinished Business
None

New Business
None

Retirement Administrator's Report – Monica Boote

A. Administrative Review Policy

Monica Boote reported on the request to reassess the Administrative Review Policy. The first policy was developed in 2007 with a schedule that dictated that at least two RFP's be completed every year on a cyclical basis. Since this policy's inception all of the current service providers have been reviewed within the last 3 to 4 years. Since a request has been made to consider extending the Request For Proposal (RFP) process, Ms. Boote proposed changes to the time schedule as well as changing the level of review required by including an informal Request for Information (RFI) to be conducted within seven years of contract commencement. This proposal will provide flexibility broadening the range to 5 to 7 years from the most recent agreement while allowing immediate reviews of a new provider. The implication to the current schedule would provide a 2-3 year extension with the current providers before having to consider their next review.

Scott Miller requested that the Trustees review this proposal drafted by Ms. Boote individually and forward their suggestions and/or comments to Ms. Boote for discussion and action at the next scheduled meeting on April 23, 2013. Nancy Heine questioned the time range proposed for the reviews and wondered if the Board could choose any time frame to which Ms. Boote responded that the Board could choose any time range and that following the county cycle would create consistency for auditing purposes.

On another note, the Buck transition continues with work on the database. The valuation process is still on track to be available to the Retirement Office by the end of May which will then be reported to the Board in June. The transition continues to be seamless.

Report of the Chair

Scott Miller commented on the new union contracts in relation to the new changes. Mr. Miller noted that Buck should be apprised of the adjustment in contribution limit caps that will occur moving forward. Mr. Miller also stated that previously when the County had implemented a similar defined contribution plan, that plan's Board (MPPP), had not formally disbanded and wanted to stay intact in anticipation of any unforeseen pension plan changes. The Board membership criterion was discussed and there may not be any eligible members left because you have to be a member of the plan in order to represent.

(Verna McDaniel left at 9:32 am)

Issues, Concerns and Trustee Comments

Deb Schmitt reported that she will not be attending the April 23, 2013 meeting.

Adjournment

Dan Smith seconded by Deb Schmitt to adjourn at 9:33 am. All in favor. Motion carried.

Upcoming Board Meeting

- Regular Meeting, May 28, 2013 at 8:30 am
  BOC Conference Room,
  220 North Main Street, Ann Arbor, MI