# MINUTES SPECIAL JOINT MEETING OF THE WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION AND THE

# VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION April 16, 2013 8:30 am

Board of Commissioners Meeting Room 220 N. Main St., Ann Arbor, MI 48107

# **Meeting Called to Order**

Scott Miller called the WCERS meeting to order at 8:33 am. Peter Collinson called the VEBA meeting to order at 8:33 am.

#### **Roll Call**

Monica Boote called the roll.

WCERS Members Present: Kelly Belknap, Nancy Heine, Scott Miller, Verna McDaniel, Deb Schmitt, Conan Smith,

Dan Smith

WCERS Members Absent: None

VEBA Members Present: Peter Collinson, Barbara Finch, Nancy Heine, Conan Smith

VEBA Members Absent: Robert Stanton

Others Present: Monica Boote and Lisa Everton, Human Resources Retirement Office; Brian Green (via

phone), Graystone Consulting; Larry Langer (via phone), Buck Consulting; Catherine McClary, Treasurer's Office; Kirsten Osborn, Treasurer's Office; Roberta Allen, AWARE

Representative; Tom Michaud, VanOverbeke Michaud & Timmony (8:35 am)

## **Public Participation**

None

## **Approval of Regular Agenda**

Conan Smith seconded by Kelly Belknap motion to approve the regular agenda as presented. All in favor. Motion carried.

### **REGULAR AGENDA**

#### **Unfinished Business**

None

#### **New Business**

## A. Request for Expedited Experience Study

Scott Miller turned the floor over to Kelly Belknap, Finance Director. Ms. Belknap began the discussion by submitting a request for the expedition of an experience study. The request is being made to ensure that the actuarial valuation utilizes the most recent and appropriate assumptions in order to provide the most accurate unfunded actuarial accrued liability. Ms. Belknap has in interest in ensuring the Washtenaw County Board of Commissioners has the most accurate financial forecast when considering the bonding proposal for WCERS and VEBA. Further, Ms. Belknap acknowledged that additional expenses above and beyond the cost of a regularly scheduled experience study may be incurred and those costs would be absorbed by the County.

Mr. Miller requested that Larry Langer of Buck Consulting, explain what an experience study is and what the report will produce. Mr. Langer discussed various assumptions used for valuations such as demographics,

assets, benefit structure, investment returns. An experience review study evaluates the assumptions at a set point in time and is ordinarily performed every 5-10 years. A typical study reviews assumptions vs. actuality and makes recommendations regarding assumptions specific to the plan's experience. Plan specific demographic assumption elements include the number of retirements, terminations, disabilities, and mortality rates (which can be found in standard tables). Other assumptions taken into consideration are economic such as; investment return rates, inflation and salary increases, etc. The last Board approved assumptions were adopted in 1999. Mr. Langer believes they are due to be reviewed making this study relevant. The production of the study will contain a summary of what was determined, a summary of assumption recommendations, and a snapshot of liabilities and contribution rates before and after any recommended changes. Typically only one set of demographic assumption recommendations are provided with economic assumption recommendations based on risk with 2 or 3 alternative investment assumptions provided and the expected outcome would be to adopt one of the assumption packages presented as a recommendation.

Mr. Miller broached the fact that the actuarial report and the experience study are intertwined and asked if there is an actuarial preference in regards to their order of completion or can they occur concurrently? Mr. Langer again explained that some of the assumptions could be updated especially in terms of mortality as people are living longer creating an additional financial need. The standard of practice for configuring mortality rates are to make them generational mortality rates whereby mortality is constantly improving. Mortality assumptions typically result in the greatest impact. Mr. Langer's preference would be to do the experience study first so that the most important assumptions of mortality, salary increases and investment returns could be reviewed. This would just be one level of experience review that could be completed within the time frame and be reported to the Boards for their June meetings and before the next valuation.

Discussion was held regarding whether or not the actuary, Buck, is aware that the current pension plan is proposed to be closed and the effect of the assumptions for the experience study? Mr. Langer responded that indeed Buck is aware that the current plan is proposed to be closed and in terms of the assumptions the time horizon over which the calculations are performed. Many assumptions can remain as if the plan were to remain open because the reality is it will take a long time before the benefits will expire. Eventually there will be some cash flow and liquidity issues as there are more retirees and less participants as we experience a lower return on investment but that is decades off into the future. Not a lot would change with regard to the assumptions for the purpose of closing the plan which is different than the funding policy which standards of practice say the unfunded liability should be paid off by the time the last active person leaves.

Currently the member contribution portion is at 10%. The fear is that the closing of the plan or the experience study might hasten the contribution rate rising and concern was expressed regarding any possibility to buffer the impact on employee contributions? Mr. Langer anticipates that the cost of contributions will increase due to updating mortality assumptions and plan closing with funding policy changes. Salary increases used as part of the valuation may hedge this. Decreasing the salary increase assumption may help mitigate the impact of the increase in mortality. Closing the plan and changing the funding policy to fully fund the policy as the last active member retires requires more discussion. The first set of numbers will be based on the current set of assumptions to compare. Currently members pay the majority of normal costs.

The question was raised that if the employee contribution rate should exceeds 10% then who is responsible? Ms. McDaniel responded that the County would be responsible.

Dan Smith left at 9:08 am

Trustees discussed general questions regarding the potential issuance of bonds to cover the unfunded liabilities, including difference in each plan's assumed rate of return in connection with the interest rate for the bonds.

Trustees asked how comfortable Graystone Consulting was with the current assumed rate of return. Brian Green indicated his firm is comfortable with the long term assumed rate of return for each plan. Long term would be defined over the career of an active employee and lifetime of a retiree. There may be 10 – 15 year time periods where the return will be difficult or not achievable, but the investment policy and asset allocation are designed for a longer investment horizon.

Mr. Langer answered additional questions regarding general concepts associated with bonding. Discussion confirmed WCERS and/or VEBA have authority over decisions regarding the assumptions; however the decision to bond would be at the discretion of the Board of Commissioners.

Conan Smith leaves at 9:25 am

Questions regarding the timing and urgency of the request to expedite the experience study were discussed. Ms. Belknap outlined the County's proposed timeline for BOC bonding education, State of Michigan application deadlines, and the County's budget cycle.

Trustees discussed the potential timing and depth of an experience study if they were to request an expedited deadline. Mr. Langer, indicated a typical experience study would re-examine the last five years, however since the plan changes in 2009 this will be a condensed study focusing on the key components (investment returns, mortality, wage inflation, and core demographics) with a more in-depth study scheduled at a later time.

Kelly Belknap seconded by Deb Schmitt motion to submit a request on behalf of WCERS for an expedited condensed experience review to be conducted by Buck Consultants to be presented at the 6/25/13.

Discussion regarding the payment logistics occurred. Mr. Langer and Ms. Boote will work collaboratively to ensure that any additional expenses associated with the expedited time line are outlined and presented to the County rather than WCERS and/or VEBA.

All in favor. Motion carried.

Barb Finch seconded by Nancy Heine motion to submit a request on behalf of VEBA for an expedited experience review to be conducted by Buck Consultants and to be presented at a special meeting on or around June 25, 2013. All in favor. Motion carried.

Mr. Miller thanked both Boards consultants for participating in today's special meeting.

Adjournment I/M

Motion by Verna McDaniel seconded by Kelly Belknap to adjourn the WCERS special meeting at 9:50 am. All WCERS members in favor. Motion carried.

Motion by Barb Finch seconded by Nancy Heine, to adjourn the VEBA special meeting at 9:50 am. All VEBA members in favor. Motion carried.

## **Upcoming Board Meetings**

- WCERS Regular Meeting, April 23, 2013, 8:30 AM BOC Conference Room, 220 North Main Street, Ann Arbor, MI
- VEBA Regular Meeting, May 2, 2013, 1:30 PM BOC Conference Room,
   220 North Main Street, Ann Arbor, MI