

**MINUTES
SPECIAL JOINT MEETING OF THE
WASHTENAW COUNTY EMPLOYEES' RETIREMENT COMMISSION
AND THE
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

June 25, 2013 8:00 a.m.

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 8:03 am.

Peter Collinson called the VEBA meeting to order at 8:03 am.

Roll Call

Monica Boote called the roll.

WCERS Members Present: Kelly Belknap, Nancy Heine (8:06 a.m.), Scott Miller, Verna McDaniel, Deb Schmitt (8:25 a.m.), Conan Smith, Dan Smith

WCERS Members Absent: None

VEBA Members Present: Peter Collinson, Barbara Finch, Nancy Heine (8:06 a.m.), Conan Smith

VEBA Members Absent: Bob Stanton

Others Present: Monica Boote and Lisa Everton, Human Resources Retirement Office; Roberta Allen, AWARE Representative; Brian Green, Graystone Consulting (8:05 am); Larry Langer and Dan Levin (via telephone 8:05 a.m.), Buck Consulting; Tom Michaud, VanOverbeke Michaud & Timmony; Catherine McClary and Kirsten Osborn, Treasurer's Office; John Axe, Felicia Brabec, Greg Dill, Diane Heidt, Elaine Holleran, Andy LaBarre, Mary Morgan, Lisa Moutinho, Rolland Sizemore

Public Participation

None at this time.

Approval of Regular Agenda

Conan Smith seconded by Dan Smith motion to approve the regular agenda as presented. All in favor, motion carried.

REGULAR AGENDA

Unfinished Business

None

New Business

None

(Brian Green arrived)

(Dan Levin joined the meeting via telephone)

(Nancy Heine arrived)

A. Actuarial Experience Study

The Actuarial Experience Study was presented by Larry Langer and Dan Levin of Buck Consultants. Mr. Langer explained that this experience study was conducted to evaluate and make recommendations regarding appropriate actuarial assumptions and methods that will be utilized in the December 31, 2012 valuation.

A brief description of the basic pension funding equation was provided indicating membership data, benefit provisions, asset data, actuarial assumptions and funding methodology are utilized to determine the unfunded accrued liability, funded status and required annual contributions. Actuarial assumptions are generally split into demographic (people) and economic (monetary) categories. This study compares the previously developed expectations with the actual experience of these plans over the last five to ten years in order to develop trends and future expectations.

(Deb Schmitt arrived)

Demographic assumption changes recommended by Buck included:

- Increase the current retirement rates.
- Decrease the current termination rates for members with less than five years of service.
- Increase the current termination rates for members with more than five years of service.
- Updating the table from the 1994 GAM table with females set back one year to the RP2000 Blue Collar table, base year 2000, fully generational based on scale AA.
- Decrease the percent of Joint and Survivor annuitants for males from 80% to 70%.
- Amend covered spouse assumptions for males and females
- Amend the aging ERF to use the Petetril curve.

Discussion regarding the impact of Social Security eligibility and recent vesting requirement changes occurred relative to the recommendations. Mr. Langer clarified the study examines the actual experience of the plan, not necessarily the drivers of the change. However, he encouraged open communication regarding anticipated key factors that the trustees and/or Retirement Office may be aware of such as unintended retirement incentives that may alter normal assumptions.

Trustees expressed concern regarding the significant increase in retirements experienced in 2011, due to changes in collective bargaining agreements, and the possible impact on the assumption recommendation. Mr. Langer assured trustees that the data used was for the last 10 years and consideration was made regarding the anomaly in 2011.

Trustees asked how a nationwide mortality table correlates to the County and our unique demographics. Mr. Langer supported the use of standard tables as a benchmark that can be shifted based on the County's more specific demographics such as gender, residence, collar (blue vs. white), etc. and can be blended and modeled to the overall plan. There are multiple standard tables and Buck supports the use of RP2000 Blue Collar table as the table that fundamentally applies to the County population.

Economic assumption changes recommended by Buck included:

- Decrease the current salary increase assumption.
- Utilize an inflation assumption of 3.00%
- Lower the return assumption for WCERS by at least 25 basis points; and consider lowering the return assumption for VEBA for more conservatism.

Buck provided alternative assumption packages between the 25th and 75th percentile of projected returns, while acknowledging the potential impact on contribution rates and the unfunded liabilities. This prompted discussion regarding the current 7.75% assumed rate of return for WCERS and the difference in the actuarial and investment consultant recommendations and confidence in achieving the target. Brian Green indicated Graystone is comfortable and confident with the current 7.75% assumed rate target over the long term, however indicated a lower rate would be easier to achieve. Additional discussion took place regarding using a graded assumption, starting at 6.0% and increasing annually by 25 basis points until each plan returned to the original assumed rate of return.

Trustees discussed the recently negotiated labor contracts where employee contributions are expected to decline over the next ten years, and the resulting impact on the employer should the required contribution increase due to changes in the assumed rate of return and shortened amortization period. Some trustees expressed concern that decisions made by the WCERS and VEBA boards are directly and significantly impacting budgetary decisions for the County Board of Commissioners.

Funding policy changes recommended by Buck included:

- Change general employees to an aggregate method, similar to the Sheriff members, as a result of the pending closure of the Plan.
- Amend the Asset Valuation Method to reflect assumed investment returns immediately instead of just realized returns to eliminate bias.
- Reduce the current twenty-seven (27) year amortization period to ten (10) years.

Mr. Langer discussed the recommendation to shorten the amortization period in accordance with standards of practice for closed plans, and recognized the resulting significant increase in the required contribution. He acknowledged, following a question from Dan Smith, that there is no law or governing body that requires a shorter period, but rather shortening the amortization period for a closed plan is a standard actuarial best practice.

Trustees questioned the figures associated with the VEBA UAAL in the report. Mr. Langer explained that the amortization schedule reflected was 20 – 25 years and that the report should have reflected a 10 year amortization schedule. This miscalculation will be corrected and presented in the final report having a much larger impact for VEBA.

Further discussion occurred regarding the significant impact decisions made by WCERS and or VEBA will have on the County's budget. Verna McDaniel indicated that during the last negotiated change in the Board structure, the result allowed for four administrative/employer representatives to address the possible influence and or impact on the County's budget.

Mr. Langer concluded his presentation and recommended each board adopt new discount rates, investment return assumptions, demographic assumptions, and create a policy for future experience reviews. Further he indicated a revised report will be provided by Monday, July 1, 2013, including the corrections associated with the VEBA UAAL for a ten year amortization. According to Mr. Levin, the VEBA employer contribution will likely double when the correction is made.

The chair provided another option for public participation, however no comments were received.

Mr. Miller called for a short recess at 10:19 am before calling a vote on the recommendations presented.

Trustees returned at 10:41 am.

Mr. Miller led the discussion and reminded trustees that since a revised report is forthcoming, it may be wise to limit the distribution of the current version and utilize it as a guideline for discussion. The report presented today will be considered a draft copy and when the final report is made available the updates will be noted.

Mr. Miller summarized the study stating there are recommend changes on a variety of assumptions and the discount rate or return rate offers a range of adjustments that may be open to discussion. The discussion will be broken into three components; demographic, economic and methodology.

There was some concern from trustees about how their decision may impact County's finances, and asked legal counsel for direction. Tom Michaud reminded trustees that their decisions today should be based upon the best considerations for the respective Plan's, based on actuarial sound recommendations. Their role today is as a WCERS or VEBA Trustee not as administrator, board of commissioner, union representative, etc. Some trustees expressed concern about their internal struggles with this and agreed that while their decision made here with this board would be in the best interest of the respective plan, subsequent decisions would be based on the best interest of their other responsibilities and may be singular.

Dan Smith seconded by Conan Smith motion to adopt the experience study recommendations to update the demographic, salary increases and asset valuation/smoothing method assumptions as outlined and presented for WCERS. All in favor, motion carried.

Conan Smith seconded by Barb Finch motion to adopt the experience study recommendations to update the demographic, salary increases and asset valuations/smoothing method assumptions as outlined and presented for VEBA. All in favor, motion carried.

Trustees expressed concern about moving away from a smoothing method that decreased contribution volatility. Mr. Langer stated the recommendations still utilize smoothing of assets and contributions. The current policy consistently lags behind the market and smoothing methods should be unbiased. This recommendation will remove bias based on new standards of practice.

The next recommendation for consideration was the investment return assumption. Currently WCERS and VEBA have different return assumptions. The investment consultant was asked if there would be any differences between each plans investments or would it be prudent to have the same rate of return for both plans. Mr. Green explained that while the portfolios will be similar there will be slight differences due to trustee philosophies and cash flow needs.

Conan Smith seconded by Dan Smith motion to adopt a 6.50% assumed/actuarial rate of return for WCERS.

Trustees debated the benefits of a much lower assumed rate of return for actuarial purposes, while targeting a higher return from an investing perspective. A lower return, similar to 6.50% is in line with the proposed investment target for the intermediary fund that would be used if the bond proposal is approved and implemented.

Deb Schmitt move to amend the motion to a 7.00% assumed/actuarial rate of return. The motion was not supported.

Trustees discussed how a lower rate of return for WCERS correlates to VEBA. Clarification was provided that the motion currently being discussed is specific to WCERS. The investment consultant confirmed a lower assumed rate of return optimizes the rate of success. Increasing the rate increases the risk and therefore raising the return.

Trustees questioned the scenario of outperforming a lower rate of 6.50% and the impact on the employer contribution. Mr. Langer anticipated that it would affect the annual actuarial valuation with a one year difference for contribution amounts and suggested that the Board may have two rates. One rate for the actuary and one for the investment policy reiterating that they have to both be smoothed.

County Treasurer, Catherine McClary thanked the trustees for their open thoughtful conversation and expressed discomfort with approving two rates as it may give the investment consultant conflicting direction.

Dan Smith seconded by Nancy Heine to move the previous question. All in favor, motion carried.

Conan Smith seconded by Dan Smith motion to adopt a 6.50% assumed/actuarial rate of return for WCERS. Roll call vote. All in favor: Kelly Belknap, Verna McDaniel, Conan Smith. All opposed: Nancy Heine, Scott Miller, Dan Smith, Deb Schmitt. Motion failed.

Kelly Belknap seconded by Verna McDaniel motion to adopt a 7.00% assumed/actuarial rate for WCERS. Roll call vote. All in favor: Kelly Belknap and Conan Smith. All opposed: Verna McDaniel, Nancy Heine, Scott Miller, Dan Smith, Deb Schmitt. Motion failed.

Trustees continued discussion about the different rates and their considerations to reach a consensus.

Conan Smith seconded by Dan Smith motion to adopt a 7.25% assumed/actuarial rate of return for WCERS. Motion carried. Scott Miller opposed.

Barb Finch seconded by Nancy Heine motion to adopt the current 7.50% assumed/actuarial rate of return for VEBA.

Discussion was held by the VEBA Trustees. Trustees requested clarification regarding the recommendation for VEBA. Mr. Langer confirmed the current rate is acceptable, both the actuary and the investment consultant are comfortable, and lowering the rate would be act for more conservatism. Mr. Green explained historically health care funds utilized a lower rate of return due to the differences in accrued pension liabilities vs. the trend of health

inflation. Some Trustees expressed concern with VEBA being more volatile in their unfunded liability because of medical cost fluctuations and a safer and more secure direction would appropriate.

Roll call vote. All in favor: Barb Finch and Nancy Heine. All opposed: Pete Collinson and Conan Smith. Motion failed.

Conan Smith seconded by Pete Collinson motion to adopt a 7.25% assumed/actuarial rate of return to be aligned with WCERS. Roll call vote. All in favor: Pete Collinson and Conan Smith. All opposed: Barb Finch, and Nancy Heine. Motion failed.

(Dan Smith exited at 11:50 am)

VEBA Trustees had further discussion regarding the topic that included the finite nature of the ongoing liability and utilizing the expert opinions of the actuarial and investment consultants. The assumed rate of return remained at 7.50%

Trustees discussed the final recommendation to lower the amortization rate to 10 years for the unfunded liability.

Verna McDaniel seconded by Conan Smith motion to keep the current amortization schedule of 27 years for WCERS.

Trustees discussed amortization schedules for open vs. closed plans. Mr. Langer clarified the amortization periods for open plans typically have longer periods and closed plans have shorter periods. The amortization period should fund liabilities over the active employment period of members. During this period most of the unfunded liability should be realized as the active members decrease. An alternative option was proposed, as utilized by the Municipal Employees' Retirement System of Michigan (MERS), to decrease the amortization schedule in two year increments. Clarification was provided indicating potential bonding will not change the amortization schedule but rather changes the funding source.

Monica Boote, Retirement Administrator, informed Trustees that approximately 7 to 8 years ago the Sheriff division was amortized over a ten year period, however was subsequently increased to lessen the pressure on employer contributions while still meeting the actuary's funding recommendation. Amortization schedules can be changed if necessary. An alternative to such a short schedule may be a graduated schedule that produces the same net result.

Nancy Heine seconded by Deb Schmitt motion to amend the motion to include a 2 year graduated annual reduction to the current 27 year amortization schedule for WCERS. Motion carried. Scott Miller opposed.

Trustees noted that this will decrease the employer contribution by a third and provide modest increases according to Mr. Langer.

Conan Smith seconded by Barb Finch motion to amend the current 26 year amortization schedule for VEBA to include a 2 year graduated deduction on an annual basis. All in favor, motion carried.

In consideration of the time, the experience study policy will be discussed as unfinished business on the next WCERS and VEBA regular meeting agendas.

Trustees wanted clarification of the time frame for the updated and final report. Mr. Langer reiterated that it would be available by the beginning of next week if not by the end of this week. Mr. Langer also advised Trustees that this updated information would not affect the unfunded accrued liability (UAAL) calculations that were needed to assist the Finance Department in preparing the documents for the bonding proposal.

Adjournment

Deb Schmitt seconded by Conan Smith motion to adjourn the WCERS special meeting at 12:32 pm. All WCERS members in favor, motion carried.

Barb Finch seconded by Nancy Heine motion to adjourn the VEBA special meeting at 12:33 pm. All VEBA members in favor, motion carried.

Upcoming Board Meetings

- WCERS Regular Meeting, June 25, 2013, 10:15 AM
BOC Conference Room,
220 North Main Street, Ann Arbor, MI
- WCERS Regular Meeting, July 23, 2013, 8:30 AM
BOC Conference Room,
220 North Main Street, Ann Arbor, MI
- VEBA Regular Meeting, August 1, 2013, 1:30 PM
BOC Conference Room,
220 North Main Street, Ann Arbor, MI