

GENERAL RETIREMENT SYSTEM
and
POLICE and FIRE RETIREMENT SYSTEM

BOARD OF TRUSTEES
CITY OF GRAND RAPIDS
MICHIGAN

MINUTES
JOINT MEETING
DECEMBER 15, 2010 – 8:05 a.m.
233 East Fulton

The meeting was called to order by Chairman J. Patrick Scripps. Other members present: Mr. David Tryc, Mr. Martin Timkovich, Mr. Thomas VanderPloeg, Mr. James Stokes, Ms. Dianette Hight, Mr. Michael Hawkins, Mr. Philip Balkema, and Mr. Walter Gutowski. Absent: Mr. Craig VanderWall.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Ms. Elizabeth White, Deputy City Attorney and Legal Advisor to the Boards, and Mr. David Hoffman of Gabriel, Roeder, Smith and Company.

Mr. Balkema made the motion to excuse the absence of Mr. VanderWall. The motion was seconded by Mr. Hawkins and carried.

There were no public comments regarding agenda items.

Mr. VanderPloeg made the motion to approve the minutes of the Joint Meeting of November 17, 2010. The motion was seconded by Mr. Tryc and carried.

Ms. Korzen presented a request for renewal of the Business Owner's Insurance Policy underwritten by Citizens Insurance Company for the period 12/31/10 – 12/31/11. {Ms. Hight arrived at 8:07 a.m.} She stated that the annual premium remains unchanged at \$620. Mr. VanderPloeg made the motion to approve the renewal request of the Business Owner's Insurance Policy underwritten by Citizens Insurance Company for the period 12/31/10 – 12/31/11. The motion was seconded by Mr. Gutowski and carried.

Mr. David Hoffman of Gabriel, Roeder, Smith and Company (GRS) presented Trustees with a report on 13th Check related actuarial assumptions to assist Trustees in the decision to consider adopting investment return assumptions that recognize that some current and future retired members in the General and Police & Fire Retirement Systems will not participate in their System's 13th Check programs. {Mr. Stokes arrived at 8:08 a.m.} This would be accomplished by increasing the investment return assumption from 7.25% to 7.50% for these non-participating groups. He stated that in the past, there has been great variability in the 13th Check program for the two Systems with periods in which relatively large payments were made and extended periods with no payments. Chairman Scripps clarified that the approximate cost of the 13th Check is between 0.2% and 0.5% of assets for each system; Mr. Hoffman agreed. Mr. Hoffman noted that he does not know of any plan that has implemented two separate investment return assumptions; however, it is a reasonable recommendation. Mr. Timkovich asked which of the two groups involved have higher reserve transfer costs; Mr. Hoffman responded that the group with post-retirement increases have reserve transfer costs of about 15% more than those who do not participate in this program. Mr. Hoffman stated that the assumption will not be that Trustees will invest the assets any differently, but rather that not all of the funds are available in order to accommodate the 13th Check. He stated that the relative proportion between these two groups of people will change every year so if a blended rate is used,

this will change every year as well. Mr. Hoffman stated that the 13th Check has been modeled in the valuations in the past, but hasn't been adjusted for the people who don't receive guaranteed payments. Mr. VanderPloeg clarified that if Police & Fire Trustees elected to lower the investment return assumption for those members participating in the 13th Check program to 7.00%, it may result in a slightly higher employer contribution. If they elected to increase the investment return assumption for those members who don't participate in the 13th Check program to 7.50%, it may result in a slightly lower employer contribution rate. Mr. Balkema commented that he is not comfortable making any changes that would increase the City's contribution rate as it would be counter-productive; Mr. VanderPloeg agreed. Mr. Hoffman stated that the near term risk associated with making this change is that the Systems could remain in a period where investment returns remain low and little or no money is paid out in the form of 13th Checks; however, recognizing the difference in post-retirement benefit programs is reasonable and is possibly conservative at the 0.25%. He commented that regardless of how this program is modeled or when the elimination of the 13th Check program is recognized in GRS' modeling, if any savings do materialize they will be recognized as they occur in the development of the computed employer rates for both Systems. Mr. Timkovich asked if the investment return projection numbers that Wilshire Associates provides are gross or net of fees. Chairman Scripps noted that the investment return projections that Wilshire provides are what they expect the market to provide and the assumption is that the Retirement Systems' portfolios should fare better because of the active management of assets. Mr. VanderPloeg made the motion on behalf of the Police & Fire Retirement System to implement the recommendation in the Gabriel, Roeder, Smith report to increase the investment return assumption from 7.25% to 7.50% for those members not participating in the 13th Check program. The motion was seconded by Mr. Gutowski and carried. Mr. Timkovich stated his opinion that the General Retirement System should leave the investment return assumption as it is. Ms. Hight made the motion on behalf of the General Retirement System to implement the recommendation in the Gabriel, Roeder, Smith report to increase the investment return assumption from 7.25% to 7.50% for those members not participating in the 13th Check program. Mr. Timkovich stated that he was unsure that the General Retirement System should be the leader in making this type of decision due to a lot of plans lowering their investment return assumptions. Ms. Korzen commented that the majority of plans that are lowering their investment return assumptions had higher assumptions than the General Retirement System. Mr. Timkovich asked if the actuarial valuations would display a blended rate under the GASB section if Trustees have the two different investment return assumptions. Mr. Hoffman stated they could show the information either with a blended rate and a note explaining the two different assumptions, or they could list the two investment return assumptions separately. Trustees agreed with displaying the information as a blended rate with the separate explanation. Ms. Korzen stated this change would be effective with the June 30, 2010 actuarial valuation. Mr. Hoffman noted that if the two different investment return assumptions are used it would impact the option B factors if Trustees wanted it to; Trustees agreed not to change the option B factors with this investment return assumption change. Mr. Stokes asked what the 10 year rate of return has been for the Retirement Systems; Chairman Scripps stated the 23 year rate of return was 8.2% for the Police & Fire Retirement System and 7.5% for the General Retirement System as of 09/30/10. The motion was seconded by Mr. Hawkins and carried; Mr. Timkovich voted no.

Ms. Korzen provided Trustees with an update on the proposed changes to P.A. 314 and noted that if adopted, the foreign securities limit would increase from 20% to 30%, the basket clause would increase from 5% to 15% and the real estate limit would increase from 10% to 20%. She stated that the legislature is not due to act on this proposal until sometime next year.

Mr. Gutowski commented that at the last City Commission meeting they recognized Ms. Korzen and her family for their leadership and heroism they displayed when deciding to donate some of Ms. Korzen's husband's organs after he passed away in November. He stated that due to this action there was an immediate increase in organ donation registration in the area. He stated that she would be receiving a letter signed by all of the City Commissioners commending her and her family for this courageous decision.

Ms. White commented that the Executive Director's contract that was recently negotiated at the November 17, 2010 Joint Board meeting has been executed and will be effective 01/01/11. Chairman Scripps thanked Ms. White for her assistance in this matter.

The meeting adjourned at 9:02 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, January 19, 2011, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen
Executive Director
General and Police & Fire Retirement Systems