MINUTES
PUBLIC SAFETY RETIREMENT BOARD MEETING
March 27, 2012

Pursuant to public notice, a regular meeting of the Escanaba Public Safety Retirement Board was held on Tuesday, March 27, 2012 at 8:00 a.m. in Room 102 of City Hall, 410 Ludington, Escanaba, MI.

Board Members Present: Robert Valentine, Blake Cowen, Todd Chouinard, Darin Hunter, David Schaaf

Board Members Absent: None

Guests Present: Council Liaison Brady Nelson, Councilperson Pete Baker

Approval of Minutes – February 28, 2012

Board member Cowen asked that the minutes include a copy of written materials read by Councilmember Baker at the February meeting. Secretary Valentine advised that copies were not available. After further discussion, Board member Schaaf moved for approval of the minutes as written. Board member Cowen supported the motion. A vote was taken and the board voted unanimously in favor of the motion.

Approval/Adjustments to the Agenda

Secretary Valentine asked to have the agenda include a discussion of actuarial assumptions. Secretary Valentine advised that he received information from the Plan's actuary after the agenda package was sent out and that such information was "time sensitive" Board member Schaaf moved to amend the agenda as requested by Secretary Valentine. Board member Cowen supported the motion. A vote was taken and the motion carried unanimously.

Conflict of Interest Declaration

No conflict of interest declarations were made.

Unfinished Business

None.

New Business

Investment Performance

Secretary Valentine presented the following investment performance summary.

	01/31/2012 $ Value	02/29/2012 $ Value	% Total
BONDS			
Vanguard Bond Index	4,788,428	4,741,635	23.9%
Eaton Vance Bonds	2,016,937	2,057,496	10.4%

Total Bonds	6,805,365	6,799,132	34.3%
STOCKS			
Vanguard Stock Index	5,064,111	5,283,033	26.6%
Vanguard Sm Cap Gro Idx	2,070,837	2,150,900	10.8%
JP Morgan Mid Val	4,314,055	4,469,437	22.5%
DFA Int'l Value	1,079,493	1,135,081	5.7%
Total Stocks	12,528,496	13,038,451	65.7%
CASH			
Money Market Accounts	0	0	0.0%
Total	19,333,860	19,837,583	100.00%

	Feb-12	YTD	Trailing 3 mo	Trailing 1 year	Trailing 2 year	Trailing 3 year
BONDS						
Vanguard Bonds VBTSX	-0.0%	0.8%	1.9%	8.3%	13.7%	24.1%
Eaton Vance Bond Fund EVIBX	2.0%	6.8%	10.8%	6.0%	24.0%	90.2%
Escanaba Bond Composite	0.6%	2.6%	4.4%	7.7%	16.7%	37.4%
Merrill HY Master Index J0A0	2.3%	5.2%	7.8%	6.2%	24.7%	94.6%
Merrill BOA01 Index	-0.1%	0.9%	2.1%	9.3%	14.8%	25.8%
STOCKS						
Vanguard S&P 500 Index VIFSX	4.3%	9.0%	10.1%	5.1%	28.3%	97.3%
Vanguard Sm Cap gro Idx VISGX	3.9%	11.3%	10.7%	2.2%	41.6%	143.6%
JP Morgan Mid Value FLMVX	3.6%	7.8%	9.1%	5.4%	33.3%	111.1%
DFA Int'l Value DFIVX	5.1%	12.2%	9.2%	-13.3%	9.2%	90.2%
Escanaba Equity Composite	4.1%	9.2%	9.8%	2.8%	30.0%	107.6%
S&P 500 Index	4.1%	8.6%	9.5%	2.9%	23.6%	85.8%
EAFA Int'l Index	5.4%	11.0%	9.8%	-10.4%	4.7%	57.1%
Vanguard Reit Index EFT VNQ						
Russell 1000 : Mid Cap Index	4.1%	9.1%	9.8%	2.7%	24.5%	89.3%
Russell 2000: Small Cap Index	2.3%	9.5%	10.0%	-1.5%	29.0%	108.5%
Russell 3000: Broad Mkt Index	4.0%	9.1%	9.8%	2.4%	24.9%	90.7%
OVERALL						
Escanaba Portfolio Composite	2.8%	6.8%	7.9%	4.6%	25.7%	76.9%
Combined Passive Index	3.0%	6.5%	7.6%	4.7%	22.6%	67.9%

The board reviewed and discussed the equity allocation. Secretary Valentine pointed out that equities now represent 65.7% of Plan assets relative to a policy limit of 65%. The board discussed raising the limit to 70%, but after further discussion Board member Cowen moved to rebalance within existing parameters. Board member Schaaf supported the motion. There was further discussion about where funds would be taken from and moved to. Secretary Valentine recommended taking from the S&P Index Fund and moving to the Total Bond Market Index Fund. There being no further discussion, a vote was taken and the board voted unanimously in favor of the motion.

There was a general discussion regarding the merits of a DROP plan for the general membership of the plan.

Actuarial Assumptions

Secretary Valentine shared with the board the attached memorandum from Actuary Michael Gano. Secretary Valentine advised that the 6/30/2011 valuation is due to be completed before the April meeting. Mr. Valentine advised that the board would need to act on recommended changes at today's meeting if new assumptions are to be costed into the upcoming valuation. Alternately, Mr. Valentine advised that the board could opt to pay $1750 to have those costs calculated outside of the actuarial process. Secretary Valentine expressed that there are four recommended changes to the assumptions as follows:

1. An increase in the assumed rates of withdrawal (retirement).
2. An update to the mortality tables and inclusion of a factor to account for future improvements in longevity.
3. A reduction in the assumed rate of return from 8% to 7.5%
4. A reduction in the wage inflation assumption from 4.5% to an unspecified more realistic figure.

After discussing the relative merits of each of the above recommendations and and after discussing estimates of future wage increases and projected retirement rates, board member Schaaf moved to address the recommended changes as follows:

1. Leave the withdrawal assumption as it stands
2. Defer to Gabriel Roeder to implement the correct mortality table including an allowance for future improvements in mortality
3. Reduce the assumed rate of return to 7.5% from 8%
4. Reduce the wage inflation assumption to 4% from 4.5%

Board member Hunter supported the motion. A vote was taken and the motion carried unanimously.

General Public Comment

None

Announcements

None

Adjournment

The meeting was unanimously adjourned at 8:45

APPROVED:

ROBERT VALENTINE,	TODD CHOUINARD
SECRETARY	BOARD CHAIRMAN

ATTACHMENT TO THE MINUTES OF MARCH 27, 2012
MEMORANDUM FROM MICHAEL GANO TO ROBERT VALENTIINE
DATED 3/23/2012

From: michael.gano@gabrielroeder.com [mailto:michael.gano@gabrielroeder.com]
Sent: Friday, March 23, 2012 2:51 PM
To: bvalentine@escanaba.org
Cc: c0535@gabrielroeder.com
Subject: RE: Valuation Assumptions

Hi Bob,

Just taking a cursory look at recent experience, here are some recommendations:

Demographic assumptions:

Rates of withdrawal look a little high over the last 10 years. These may need to be reduced slightly. (upward effect on cont. rate)

Rates of mortality have not been updated since 1998. In addition, the actuarial standards of practice have been updated to encourage including provisions for future longevity improvements. This definitely needs to be reviewed/updated in the near future.

Other demographic assumptions look ok.

Economic assumptions:

Rate of investment return is currently 8.0%. This would appear to be high given historical experience. We would recommend a lower assumed rate of return (likely something closer to 7.5%). The current assumption is ok, but on the high side given that returns are unlikely to meet the assumed rate half the time. Let me know what the Board is comfortable with here.

Rate of wage inflation is currently 4.5%. Given historical trends, 4.5% is probably on the high side. We would recommend reducing the assumed rate of wage inflation.

Reviewing these assumptions and providing a separate letter showing the effect on the contribution rate would be $1,750. Alternatively, for no additional fees, we can review these assumptions while processing the June 30, 2011 actuarial valuation and update the assumptions in the valuation (without the Board seeing the effect of the change prior to inclusion in the valuation).

Assumptions should be carefully chosen and continually monitored. Use of outdated assumptions can lead to:

- Understated costs resulting in either an inability to pay benefits when due or sharp increases in required contributions in the future.
- Overstated costs resulting in either benefit levels that are kept below the level that could be supported by the computed rate or an unnecessarily large burden on the current generation of members, employers and taxpayers.

These assumption changes in total are likely to increase the computed employer contribution rate.

Let me know if you have any questions.

Michael