MINUTES
PUBLIC SAFETY RETIREMENT BOARD MEETING
August 23, 2011

Pursuant to public notice, a regular meeting of the Escanaba Public Safety Retirement Board was held on Tuesday, August 23, 2011, 8:00 a.m. in Room 102 of City Hall, 410 Ludington, Escanaba, MI.

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

Board Members Absent: Todd Chouinard

Others Present: Brady Nelson, Kim Peterson and Michael Gano

Approval of Minutes –June 28, 2011

A motion was made by Boardmember Schaaf, seconded by Boardmember Cowen, to approve the meeting minutes of June 28, 2011. Ayes were unanimous.

Approval/Adjustments to the Agenda

No adjustments were made.

Conflict of Interest Declaration

No conflict of interest declarations were made.

Unfinished Business

None.

New Business

Consideration of an invoice in the amount of $7,500 from Gabriel Roeder Smith

A motion was made by Boardmember Cowen, seconded by Boardmember Hunter, to approve an invoice in the amount of $7,500 from Gabriel Roeder Smith. Ayes were unanimous.

Request for approval to retain Gabriel Roeder Smith for the 2011-12 fiscal year at a price of $7,600

Treasurer Valentine stated this was a $100 increase from last year.

A motion was made by Boardmember Schaaf, seconded by Boardmember Hunter to retain Gabriel Roeder Smith for the 2011-12 fiscal year at a price of $7,600. Ayes were unanimous.

Actuarial Report From Michael Gano of Gabriel Roeder Smith

Michael Gano, Gabriel Roeder Smith, gave an overview of the Forty-Fourth Annual Actuarial Valuation dated June 30, 2010.

Mr. Gano reviewed the objectives of the retirement system which are: To establish and receive contributions from the City that are paid over each member's lifetime should be sufficient to fund that person's benefit when they retire. Gabriel Roeder Smith goes about doing so when Treasurer Valentine sends information which includes the current active members, payroll, service, contributions, retired members benefits, and deferred members that will receive benefits in the future. All this information is combined with the assumption that have been approved by the Public Safety Retirement Board in the past and these assumptions include rates and investment returns, wage and rate inflation and other information like demographics. When a member becomes eligible and reaches 25 years of service, they become eligible for retirement and Gabriel Roeder Smith knows that not everyone will retire and they make assumptions based on when they believe people will retire and when people will become disabled or possibly die. Assumptions are also based on age and mortality. These are all combined together with a cost method and this basically takes the present value of each active member and their future benefit and assign a cost to each over their working lifetime.

Reviewed the financing diagram. The financing diagram shows the relationship between the two fundamentally different philosophies of paying for retirement benefits, which are: the method where contributions match cash benefit payments which is an increasing contribution method and the level contribution method which equalizes contributions between the generations.

Mr. Gano stated for year ending 06/30/10 the employer plus employee contributions were about $720,000 and the benefits paid out were $1.2 million.

Reviewed the Derivation of Valuation Assets for year ending 06/30/10. The market value at the end of the year was $16.5 million and the assume rate of return is 8%. Gabriel Roeder Smith expected the plan to earn $1.4 million for the year ending 06/30/10. The actual market value return was $2.4 million which was greater than what was expected. The difference is taken and brought in over five years and 20% will be recognized each year.

Reviewed the Contributions Computed to Meet the Financial Objective of the Retirement System for the fiscal year beginning 07/01/11.

Reviewed the Short Condition Test Comparative Statement along with the Computed and Actual City Contributions Comparative Statement.

Mr. Gano stated the valuation assets as of 06/30/10 totaled $17,831,177 while actuarial accrued liabilities (AAL) were $24,631,990. The valuation assets were lower than the AAL by $6,800,813. The policy currently in place calls for the amortization of this unfunded accrued liability over an open period of 30 years. For the fiscal year beginning 07/01/11 the amortization payment, was 18.11% of the payroll. Adding the amortization payment yields an employer contribution rate of 41.6% of payroll.

Mr. Gano stated the experience during the year ended 06/30/10 was less favorable than assumed. This was primarily due to investment losses and more retirements than expected. Year to year experience deviations are expected in the operation of a pension fund because the variability of the economy and individual member actions.

The rate of return based upon the funding value of assets was 4.5% for the valuation year ended 06/30/10. The rate of return based upon the market value of assets was 16.57% for the valuation year ended 06/30/10. The investment losses are scheduled for 2011 through 2013. Valuation assets currently exceed market value of assets by 8.3%. This will cause upward pressure on computed employer contributions in the upcoming years. For example, if the market value of assets were used to determine the employer contribution rate as of 06/30/10, the computed employer contributions rate would have been 45.3%.

As of 06/30/10, based on the funding value of assets the funded ration of the system was 72%. Based upon the market value of assets, the funded ration is 67%.

Discussed closed amortization periods. Mr. Gano stated these periods are used closed to a point. For example, if you wanted to go down to a 25 year or 20 year amortization period, you could change it right to a 25 year or a 20 year open amortization period or you could switch to a closed period now and next year let the amortization go to 29 and the following year 28, etc. and when you get to whatever you want you would close it. Each year new tax rolls have gains or losses. At 30 years the gains or losses have a smaller affect than they do with a shorter amortization period. If you had one year left on your amortization period and rolled in additional gains or losses, the affect would be huge.

Treasurer Valentine questioned what Mr. Gano believed to be the best outcome of GASB. Mr. Gano stated there would be significant changes. Currently GASB which is the Governmental Accounting Standards Board and doesn't set policies on how you fund plans. It sets the policy for accounting purposes. You currently have to show the required contribution rates and use a 30 year or less amortization period. There is a preliminary draft of changes and they will start making the City report a version of the unfunded accrued liability on the City's financial statements. It is unsure on how this will work out and affect cities in particular.

Treasurer Valentine questioned what the best guess on what the version would be and if it would include the number in its entirety or calculated based on market value. Mr. Gano stated it would be calculated a little differently and believed to be calculated at a market value, but you could include the gains or losses. Mr. Gano stated another change would be to restrict the amortization period to the average working lifetime of the active member. Instead of 30 years it would be much closer to 15 years or what the average work lifetime is. Brady Nelson questioned what the impact to the City would be. Mr. Gano stated it would be an impact to the City's financial statement. Gabriel Roeder Smith does not have to change anything on how they determine this contribution rate. The unfunded accrued liability as of the current report is $6.8 million and a number similar would have to be shown as a liability on the City's statement. Treasurer Valentine questioned whether this would be reminiscent of the City's Fund Balance and it could wipe out the City's Fund Balance and this would also be the same for the MERS plan and could have the potential of bankrupting the City. Mr. Gano stated this would be a huge change and the rationalization by GASB is that there is always liability out there and in theory, bond agencies right now should be looking at cities and their unfunded accrued liability as this is not always on the City's actual financial statement. This is anticipated to take effect in 2013. The new regulations are similar to how private industries work.

Treasurer Valentine questioned whether Mr. Gano could see plans in place or just have the GASB provisions adopted for their formatting of their evaluations. Mr. Gano stated most have already gone to the contribution rate on their report equal to their annual contribution rate for GASB. This will not be likely in the future. If the amortization period is reduced now, the trade off there would be a higher contribution rate for the City and also trend back towards 100% quicker because you are paying off the unfunded accrued liability over a shorter period.

Treasurer Valentine questioned whether the amortization period would have to mirror the average working career. Mr. Gano stated this is what GASB is going to have and the advantage to lowering the amortization period at this point isn't necessarily a mirror of what GASB is going to do, but the advantage would be to get back towards 100% quicker and if you don't have that unfunded accrued liability it would be a smaller number to be on the City's financials.

Treasurer Valentine questioned what would happen if the City started to back off their amortization period. Mr. Gano stated it would be a .6% for each year. Treasurer Valentine questioned whether it would be an approach to do one year off the amortization period each year. Mr. Gano stated this would be his recommendation and if you want to lower the amortization period he would recommend to do a closed and then let it go and when it gets to 25 years they can revisit it or let it keep going, but wouldn't go less than 20 years. This will be revisited by Treasurer Valentine and Mr. Gano upon completion of the next evaluation.

Compared the City to other clients on where they sit. Mr. Gano stated the City is 72% funded and is still okay and they like to see above 80%. The City was a little below the downside and a little below the upside. The City did no loose as much as everyone else and didn't gain as much either. The City's investments are a little more conservative.

Mr. Gano stated the report may be impacted in the future is the assumptions and at some point the City may want to consider dropping to 8% of the returns.

Investment Performance Review

Treasurer Valentine reviewed the investment performance. Month of July 2011 was off 1.5%. Passive strategy was off .8%. Total assets $19,278,712. The City is still within all of the parameters in terms of the equity fixed income allocations.

Fall MAPERS Conference Registration

Treasurer Valentine will be attending the Fall Mapers Conference.

Discuss draft records retention policy

Treasurer Valentine stated this could be tabled until next meeting. VanOverbeke Michaud and Timmony, P.C. have recommended the Board's adoption of a records retention policy.

Review GASB Exposure Draft dated 06/27/11

Treasurer Valentine stated the draft is getting close to what their final set of rules will be. This has been foreseen for some time.

GENERAL PUBLIC COMMENT

None was heard.

ANNOUCEMENTS

None were heard.

ADJOURNMENT

A motion was made by Boardmember Hunter, seconded by Treasurer Valentine to adjourn at 9:01 a.m. Ayes were unanimous.

APPROVED:

ROBERT VALENTINE,
SECRETARY

TODD CHOUINARD
BOARD CHAIRMAN