June 10, 2008
Minutes # 437

Minutes of the Board of Trustees' Meeting

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:41 a.m.

Present: Trustees: Chairman, Donald Pinard, Chuck Hungler, Jeff Duval and Bill Sanders. Jennie Angell arrived at 8:34 a.m. and Kevin Barry arrived at 8:55 a.m. and departed at 10:40 a.m.
MECRS Staff: Gerard Fleury, and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta

In Attendance: Attorney, John Rich of the McLane Law Firm as well as Mr. Mark LaPrade and Mike Jurnak, Principals of Berry, Dunn, McNeil & Parker

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the minutes of the May 13, 2008 seconded by Trustee Pinard and passed unanimously by all the trustees present.

Approval of the Immediate Meeting Agenda:

It was then moved by Trustee Duval to accept the immediate meeting agenda, seconded by Trustee Sanders and passed by all those trustees present.

Report of the Executive Director:

Status of Housekeeping Legislation - Mr. Fleury reported that on May 21, 2008, SB371 was signed into law by the Governor and subsequently became Chapter 90 Laws of 2008. In accordance with the provisions in the bill, most of it will go into effect on June 20, 2008 except for Section 3 which deals with minimum participation standards and which will become effective on August 19, 2008. The delay for Section 3 was written into the language to give us time to publicize the changes if it became necessary, but since the requirements of that Section mirror present practices, there should be no cause for concern regarding the different effective dates.

Pre-Retirement Seminar Scheduled – Next, Mr. Fleury informed the board that the biannual MECRS Pre-Retirement Seminar for 2008 has been scheduled for Monday and Tuesday, September 8th and 9th at the Executive Court Conference Center. Plan participants will be able to register for either of the four hour morning sessions. In addition to the MECRS, presenters will include: The Hartford, Benefit Strategies,

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the Social Security Administration, the McLane law firm and Northeast Planning Associates. Mr. Fleury noted that these sessions have been very well received in the past.

Meeting With New City HR Director – Mr. Fleury then notified the trustees that he met with the City's new Human Resource Director, Ms. Jane Gile, at her office and that he felt that the meeting was very productive.

Mr. Fleury stated that he and Ms. Gile were able to review the upcoming effective date for minimum participation standards resulting from SB371 and to discuss the fall Pre-Retirement Seminar. Ms. Gile expressed a willingness to continue accepting retirement related articles that are submitted for the city newsletter and is receptive to the concept of collaborations, moving forward.

Report of the Investment Committee:

Committee Chairman Hungler recapped the previous days Investment Committee Meeting where NEPC Representative, Mr. Kevin Leonard had been in attendance.

Committee Chairman Hungler referred to a handout entitled, "First Quarter Investment Review" which had been distributed to the trustees before the start of the meeting. A quick review of the accompanying Flash Report revealed the composite return for the first quarter to be negative 6.2% gross and negative 6.4% net of fees.

Committee Chairman Hungler then referred to page 6 of an Investment Market Update which had also been distributed, listing 15 different sectors of the market and he briefly explained the volatility within the market as a whole.

In conjunction with the review of performance and asset balances, NEPC had addressed a question, on where the MECRS should look to obtain funds needed to satisfy commitments made to Portable Alpha Investments. It was noted that $3.75 million would be needed within the week with another $3.75 million required later in the month or perhaps in June to fund two manager commitments may by the Board a month earlier. It was determined that the first funding would come from sale proceeds in Mellon Global TAA and that the second funding would come from redemptions from Vanguard, Cadence and SSgA in equal amounts.

Next, Committee Chairman Hungler reported that his committee has discussed the future of Private Equity Investments and that it was the Investment Committee's recommendation that the full board authorize its Investment Advisor, NEPC, to proceed with a Strategic Plan for Investment in Private Equity.

The Strategy would focus on the use of a "Fund of Funds' investment approach to Private Equity Investments while seeking to avoid "vintage year" risk.

Committee Chairman Hungler informed the board that investments in Private Equity would employ a "dollar cost average" methodology and likely result in at least two Fund of Funds, Private Equity Managers being hired if the majority approved. The plan would be completed in time for the meeting of the full Board on July 8, 2008, at which time NEPC would make a formal presentation to the entire Board. If the Board approved the concept, there would be follow up interviews of Private Equity, Fund of Funds managers from NEPCs recommended list in the following month.

In conclusion, Trustee Hungler made a motion to authorize NEPC to proceed with a Strategic Plan for Investment in Private Equity, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Other Business:

Trustee Duval made a motion to approve amendments to Administrative Rule 7, pursuant to the Public Hearing which had been held earlier in the day, seconded by Trustee Hungler and passed by all those trustees present.

New Business:

Request to Postpone Regular Board Meeting Day in September – Mr. Fleury explained that in order to facilitate maximum participation at the semi-annual MECRS Pre-Retirement seminar, it was necessary to hold the two half day sessions for 2008 on September 8^{th} and 9^{th} to coincide with events in Manchester School District calendar. Given the normal timing of MECRS Trustees meetings, and given that a meeting would normally have been scheduled for September 9^{th}, the Executive Director respectfully requested that the September Board meeting be held on Tuesday, September 16, 2008, one week later than is customary.

The full board agreed to schedule the regular board meeting during the month of September, on September 16^{th} at 8:30.

Consent Agenda:

A motion was offered by Trustee Duval to accept the Consent Agenda, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Presentations to the Board:

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The Results of the Audit 2007 and Delivery of the Audited Financial Statements for 2007- Chairman Pinard introduced Principals, Mr. Mark LaPrade and Mr. Mike Jurnak of Berry, Dunn, McNeil & Parker who delivered the audited financial statements for 2007.

Mr. Laprade began by distributing the Draft, Required Auditor Communications and the Draft, Financial Statements. Referring to the Required Auditor Communications, Mr. Laprade explained that last year there was a change in the way that advisory comments were classified. The lowest level being advisory and the next level up is significant deficiency and the highest level is material weakness. This year there were only a few advisory comments.

Mr. Laprade commented that most of the audit was consistent with the previous year's approach, with one new piece, which he described as Qualitative Aspects of Accounting Practices. Mr. LaPrade explained that MECRS management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of the engagement letter, the auditors advised management about the appropriateness of accounting policies and their application. No new accounting policies has been adopted and the application of existing policies was not changed during 2007. Mr. LaPrade also noted, that there were no transactions entered into by the Retirement System during the year for which there was a lack of authoritative guidance or consensus. There were also no significant transactions contained in the financial statements related to a different period than when the transaction occurred.

Mr. Laprade went on to say that the disclosures in the financial statements are neutral, consistent, and clear. The most sensitive disclosures affecting the financial statements were:

The disclosure of the negotiated settlement with the City regarding the contributions for the general fund departments in Note 4 to the financial statements. Also, the disclosures required by Governmental Accounting Standards Board Number 40 – Deposit and Investment Risk Disclosures included in Note 7 to the financial statements.

Mr. Laprade then informed the board that the audit encountered no significant difficulties in dealing with management in performing and completing the audit.

Mr. Laprade noted that professional standards require auditors to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Referring to Part II- Internal Control Matters, Mr. Laprade commented on the Advisory Comments entitled, Reconciliation of Investment Funds Statements to the Custodian's Statement. He noted that Reconciliations should include a comparison of the number of shares held, the value at period-end and investment activity during the period.

In addition, Mr. Laprade informed the board that during the review of the internal control environment, it was noted that the Retirement System does not have a control in place that requires the review of recurring journal entries by the Executive Director prior to being posted into the accounting system. He recommended that the Retirement System implement a procedure that requires the Executive Director to perform a documented review of all journal entries posted in the accounting system.

Discussion continued regarding written internal procedures for the valuation of alternative Investments and the ongoing monitoring. Mr. Laprade also touched on safeguarding against unauthorized access to personal and computer files noting a Berry, Dunn, McNeil & Parkers recommendation that the Retirement System use a lock for the server room and implement procedures to ensures that the file cabinets are locked at the end of each business day.

After brief discussion and Trustee Angell's inquiry regarding the procedure of safeguarding the daily back-up of computer records and files. Mr. Fleury acknowledge that while back-ups were being performed daily that the media were not being shipped offsite daily but he agreed to implement the off-site recommendation of daily back-ups to the Information System Department immediately.

Mr. Laprade directed the trustees attention to the Management's Discussion and Analysis, Special Disclosure Relative to the City's receivable being settled as well as the a table relative to the funded ratio which has been expanded to include, not just the pension trust, but also the medical trust, moving forward.

Mr. Laprade continued reviewing required supplemental information and schedules of the development of the unfunded actuarial accrued liability for the pension trust and the medical trust.

Trustee Sanders requested that future MECRS Audit include a summary of the total amount of employer contributions that are paid by the City, the employer contributions paid by the School District and the total employee contributions paid by the members.

Mr. Fleury commented that the source of the funds are not differentiated by department, however the employer contribution line item could be broken down further and he agreed to look into the matter.

Chairman Pinard referred to page 22 of the Financial Statements and asked for clarification of the 97.3%, Unfunded Liability to Covered Payroll.

Mr. LaPrade replied that it is calculated as the Unfunded Liability which is the $46 million (Unfunded Actuarial Liability-Surplus) divided by the annual covered payroll, $47.5 million.

Mr. Mike Jurnak, Principal of Berry, Dunn, McNeil & Parker summarized the audit of 2007 by thanking the Board and the System for engaging his firm again for 2007. In closing, he also announced that Mr. Mark LaPrade had recently been voted in as a Principal at BDM & P.

Report of the Administrative & Accounting Committee:

Committee Chairman Barry reported that at it's meeting of June 9, 2008, the Administrative & Accounting Committee had formulated a pair of recommendations for adoption by the full Board. First, the Committee recommends that the selected findings of the Gabriel, Roeder, Smith & Co. study, (updated as of April 28, 2008 to reflect valuation data submitted as of December 31, 2007) be implemented by granting prospective COLA's to adversely affected pension recipients retired prior to 1983 thus bringing their pensions up to the 85% purchasing power level. It was then moved by Trustee Hungler to approve the A& A Committee's recommendation, seconded by Trustee Duval.

Board Chairman Pinard stated that the cost to bring the selected pension recipients up to the 85% level will cost the City $127,075 over 26 years, will affect over 20 pensioners, and then he called for a vote. The motion passed unanimously by all those trustees present.

Committee Chairman Barry the continued his report by stating that the A&A Committee also recommends that the full board grant an across the board 2.8% Cost of Living Adjustment to all eligible retirees effective July 1, 2008. The 2.8% figure relates to the 2007 effect of inflation on the cumulative multi-year average.

It was moved by Trustee Duval to grant the 2.8% COLA to all eligible retirees. Motion was seconded by Trustee Angell for discussion purposes.

Mr. Fleury explained that the amount available from the pre-funded COLA is $1,352,750. Based on the first motion having passed, a pre-funded balance of $1,225,675 is all that could be awarded without affecting the City's contribution rate. He calculated the cost of the 2.8% COLA on the table to be $2,164,440 which means that the increase to the City, over a 26 year period, would be $938,725 and that it would increase the employer contribution rate as a percentage of salary beginning July 1, 2009 by .109%.

Trustee Duval stated that he was the one who had made the motion at the previous days A&A Committee Meeting and that he would like to explain his reasoning.

After recommending the restoration of purchasing power for selected adversely affected pensioners in keeping with the findings of the 2007 GRS report, Trustee Duval stated that he felt that if the 2.8% COLA is not granted, then the pension recipients who are being brought up to the 85% level would once again fall back in purchasing power. He expressed his belief that this was an important factor in granting the COLA.

Trustee Sanders stated that in his capacity of the Financial Officer of the City, after having worked through the recent budget process, and given the state of the economy, he could not support any COLA amount in excess of the pre-funded levels currently in place.

Trustee Angell indicated that she had also been through the budget process in the City Information Systems Department and that she felt that at this point and time, to approve a COLA that is more than what is pre-funded and more than the raises that City Employees are receiving, was not something she could support. Therefore, she would not be in favor of a 2.8% COLA.

Trustee Duval reminded everyone that the Finance Director is an ex-officio member of the MECRS Board of Trustees by virtue of his position and he expressed concern over Trustee Angell's comment regarding her department's recent budget process. He suggested that it was not completely relevant to the issue and should not be a predominant factor in her decision in voting for the cost of living adjustment.

Trustee Duval further noted that as the Aldermanic Appointee to the MECRS Board, he had not received any inquiries or concerns from the Board of Mayor and Aldermen regarding the COLA deliberations.

Attorney John Rich was asked whether Chapter 218 required an annual COLA and in what amount? Attorney Rich reminded the Trustees that the statute contemplates that there will be COLA's in order for member's incomes to keep pace with inflation. The statute also contemplates that there will also be financial accountability on the part of the Board of Trustees in reviewing all factors for consideration of whether to grant a COLA in any year and the amount of any COLA's.

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After continued discussion of the criteria used in determining a COLA's, the Chairman called for a roll call vote of the motion on the floor, granting a 2.8% COLA to all eligible retirees.

Roll call vote:

Ayes: Messrs. Duval, Barry

Nays: Messrs. Angell, Sanders, Hungler and Pinard

Motion failed.

Trustee Sanders moved to grant the pre-funded amount, 1.58%, to all eligible retirees, seconded by Trustee Hungler.

Roll call vote:

Ayes: Messrs. Sanders, Angell, Hungler

Nays: Messrs. Duval, Barry and Pinard

Motion failed as a majority of one is required for a motion to pass.

Board Chairman Pinard asked, what the City's cost would be in granting a 2% COLA to all retirees eligible.

After computing the figures, Mr. Fleury replied that a 2% increase would cost roughly $324,660 over a 26 year amortization period.

It was then moved by Chairman Pinard to grant a 2% COLA to all eligible retirees, seconded by Trustee Barry.

Roll call vote:

Ayes: Messrs. Pinard, Duval, Barry, Angell, Hungler

Nays: Messrs. Sanders,

Motion passed

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Previous Business:

Recommendation of Legal Counsel on Favored Affiliation with Members First Credit Union - Pursuant to Trustee Angell's request at last months meeting, Attorney Rich addressed the implications of a joint promotion between MECRS and MFCU on service credit upgrade loans. Trustee Angell stated that she would like to provide assistance to the member in seeking funds to enhance their retirement benefit.

Chairman Pinard recessed the meeting for Attorney/Client Privileged Session at 10:25 a.m.

Chairman Pinard reconvened the meeting at 10:40 a.m.

Trustee Sanders suggested that rather than endorsing a specific financial institution, communications should be sent to all members with a list of financial institutions that are willing to finance for service credit upgrades.

After brief discussion by the BOT and consultation with legal counsel, Mr. Fleury offered to speak to the issue at the upcoming Retirement Seminar scheduled for September 8 and 9th at the Court Yard Conference Center, without recommending a specific financial institution. That compromise appeared to satisfy everyone's concerns on the subject and brought discussion to a close.

Next Meeting Schedule:

Chairman Pinard noted that the next meeting of the Board of Trustees is scheduled for July 8, 2008 at 8:30 a.m.

It was then moved by Trustee Pinard to adjourn the meeting at 10:48 a.m. seconded by Trustee Hungler and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director