June 9, 2009
Minutes #448

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:32 a.m.

Present: Trustees: Chairman, Donald Pinard, Jennie Angell, Richard Molan and Chuck Hungler. Kevin Barry arrived at 8:33 a.m. and William Sanders arrived at 8:39 a.m. MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mayor Frank Guinta

In Attendance: Attorney John Rich of the McLane Firm

Approval of the Public Hearing Minutes on Administrative Rule, Part 1, and Creation of Administrative Rules, Parts 10, 11, and 12: Trustee Molan moved to accept the public hearing minutes, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Hungler to approve the minutes of the May 12, 2009 board meeting, seconded by Trustee Molan and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Trustee Molan made a motion to accept the immediate meeting agenda, seconded by Trustee Hungler and passed unanimously by all those trustees present.

New Business:

Results of the Audit of 2008 and Delivery of the Draft Audited Financial Statements for 2008 - Chairman Pinard introduced Principal, Mr. Mark LaPrade of Berry, Dunn, McNeil & Parker who delivered the draft audited financial statements for 2008.

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Mr. LaPrade began by distributing the Draft, Required Auditor Communications and the Draft, Financial Statements. Referring to the Financial Statements, Independent Auditors Report, Mr. LaPrade explained that the MECRS Audit was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that the audit obtain reasonable assurance, not absolute assurance, about whether the financial statements are free of material misstatement. Mr. LaPrade explained that the audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Next, Mr. LaPrade reported that it is the opinion of Berry, Dunn, McNeil & Parker that the financial statements present fairly, in all material respects, the net assets available for benefits of the Retirement System as of December 31, 2008 and 2007, and the changes in its net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Moving on with the Management Discussion and Analysis, Mr. LaPrade reviewed the System's activities, noting that the value of Plan assets, after subtracting liabilities of the Plan, was $106,403,260 and $149,196,664 as of December 31, 2008 and December 31, 2007, respectively. For the year 2008, the Plan experienced a decrease in its net assets in the amount of $42,793,404. Total fund earnings had its first year of losses after five consecutive years in positive territory.

In addition, Mr. LaPrade provided a detailed listing of administrative expenses, noting a decrease in legal fees due to the reduction in litigation costs.

Mr. LaPrade commented that the Notes to the Financial Statements are consistent with prior years, and just highlighted a few of them. A 2% COLA was granted in 2008 to all retirees or beneficiaries retired as of July 1, 2007. The effect of the COLA was to increase the actuarial accrued liability at December 31, 2008 by $469,373. Mr. LaPrade noted that the increase will be funded over twenty-five years.

Chairman Pinard asked for clarification on the disclosure of the accrued liability amount.

Mr. Fleury commented that the confusion is with the determination of the employer contribution rate and the amount of the liability that results from granting the COLA.

Mr. LaPrade replied that the actuary determines the actuarial accrued liability, after reviewing the changes in the provisions of the Plan. Due to the granting of the 2% COLA, there was an increase in future liability by $469,373 which has been amortized over a 25 year period.

After brief discussion by the trustees, Attorney Rich suggested adding explanatory language within the Cost of Living Adjustments disclosure, to avoid any confusion of the accrued liability as well as the pre-funding amount.

Mr. LaPrade agreed to add the revision to the Financial Statement Notes.

Mr. LaPrade then directed the trustees' attention to the Contribution Notes, explaining the change in the funding mechanism for the City on Manchester's Employer Contribution. Beginning January 1, 2008, employer obligations for general fund city employees were paid semiannually in July and December in an amount determined by the actuary in March of 2008. Plan participants in enterprise funds, Manchester Water Works, Manchester Airport, employees of the Manchester Retirement System and participants in Manchester School District remained on a per pay period method of collecting the employer customary contributions.

Mr. LaPrade referred to the Deposit and Investment Risk disclosures, as it relates to talking about specific risks related to the Systems investment portfolio. The disclosures are consistent with prior years.

New to the Notes of the Financial Statements, Mr. LaPrade informed the board, are two additional disclosures, Funded Ratio and Actuarial Valuation Method and Assumption. Both of those disclosure items were added in response to a new governmental planning standard designated, GASB 50.

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.

One significant audit adjustment, Mr. LaPrade reported, was related to newly hired manager, Benchmark Plus. The investment manager provided a statement to the custodian, State Street Bank & Trust. When State Street recorded the investment's value, they entered an incorrect value. The value reported was approximately $600,000 higher then the account value for period ending 12/31/2008. During the course of the audit, in comparing the statements of the investment managers, State Street Bank and the investment consultant, the error was detected. Mr. LaPrade noted that due to the amount of the error, it is indicative as a potential internal control deficiency and classified as a material weakness for the 2008 financial statements. Moving forward Mr. LaPrade commented that he does not perceive this as an issue in the future, simply a learning curve in reading future statements.

Mr. LaPrade then addressed the Required Auditor Communications for December 31, 2008 stating that GASB 50 requires defined benefit plans to disclose certain information in note disclosures which had previously been listed as Required Supplemental Information (RSI). He went on to say that no other new accounting policies were adopted and the application of existing policies had not changed during 2008. It was also noted that no transactions had been entered into by the Retirement System during the year for which there had been a lack of authoritative guidance or consensus. Finally, there were no significant transactions that have been recognized in the financial statements in a different period than when the transactions actually occurred.

Mr. LaPrade noted that the audit team encountered no significant difficulties in dealing with management in performing and completing the audit.

Next, Mr. LaPrade turned the trustees' attention to Part III, Status of Prior Year Internal Control Matters relating to the Benchmark Investment issue. It was recommended that the Retirement System reconcile the statements received directly from the fund managers to information presented by the custodian. The reconciliation should include a comparison of the number of shares held, value at period-end, and the investment activity during the period. He then summarized internal control procedures for the valuation of alternative investments. All advisory comments are being reported as corrected for 2008.

Mr. LaPrade thanked the board for engaging his firm once again for the audit of 2008 and he departed.

Report of the Executive Director:

Public Relations Event - Mr. Fleury reported that on May 28th the MECRS participated in a televised series produced by Manchester Community Television entitled "Media Leadership". During that session, a media student asked a series of prepared questions about the Retirement System, things that affect the System and questions about management and investments which were thought to be of interest to citizens in general. Mr. Fleury noted that the program began running on Tuesday, June 2 and will be repeated periodically for a time on Local Cable Channel 16.

Insurance Report for Summer 2009 – Mr. Fleury stated that in response to interest by the board at its May 2009 meeting, Mr. Grady Crews of Ferdinando Insurance & Associates has agreed to prepare a brief written summary of insurance issues and coverage provisions and will come before the board again this summer to present his paper and to address any question on the subject. The timing of the presentation will be coordinated to fit within a generally slower summer schedule but will be made before fall budget formulation is completed to afford the opportunity to conduct a search for alternate carriers should industry conditions and events warrant such action.

Production of the 2008 CAFR & Audit Wrap-up for 2008 - Mr. Fleury informed the board that the production of the 2008 Comprehensive Annual Financial Report is awaiting the auditor's letter before going to press. A slight increase in the number of required copies of the report combined with four additional pages necessitated by expanded reporting requirements threatened to push production costs over budget. To meet production needs and stay within the budget Mr. Fleury noted that certain compromises in the print stock and production technique were made which are expected to keep costs within budget projections. The reports may be completed and distribution underway within a month.

NEPC Client Conference – Mr. Fleury commented that three representatives from MECRS attended Day 1 of the two day NEPC Client Conference in Boston on May 20th. Day 1 was selected because of its greater relevance to defined benefit plans where as day two tended to focus more on defined contribution or 401(k) sponsors. Speakers at the event were insightful and informative, making attendance at the client conference worth while. The chronology of events leading up to the disappointing market returns of 2008 were recounted in layman's terms by professionals in their fields. Mr. Fleury noted that the presentations not only helped to provide a better understanding of what transpired over the last 12 to 18 months but they also gave some insight as to reasonable expectations for the months to come.

Trustee's Jennie Angell and Dick Molan attended the conference as well and concurred with Mr. Fleury's remarks and felt that it was worthwhile and very educational.

Next, Mr. Fleury reported that the City had declared a group opening for retirees in their health insurance plan. An informational session had been held at City Hall regarding the group opening and that he had attended. Mr. Fleury also informed the trustees that a group mailing to MECRS retirees had been facilitated by the retirement system, notifying them of the open enrollment.

Mr. Fleury informed the trustees that HB149 passed the Senate, subsequent to passing the House. The current status of the bill is enrolled and will now go to the governor for his signature.

Finally, Mr. Fleury informed the trustees of a new encrypted computer back-up system now in operation at the MECRS. Daily encrypted back-ups are sent off site to the Info Systems Dept and this enhancement to the back up process protects mission critical data while also ensuring confidentiality of the data.

Previous Business:

Review of Investment Decisions From the May Board Meeting - Chairman Pinard noted that in May the board approved the hiring of two credit opportunity managers subject to review by legal counsel. He then turned the meeting over to Attorney Rich from the McLane Law Firm who was present to answer any questions regarding issues identified during the review process.

Attorney Rich stated that after a review of legal documents submitted by Eaton Vance and Seix Advisors, lengthy summaries had been prepared on each.

Attorney Rich reported that there is nothing, overall, that would cause legal counsel not to recommend that the board move forward with the two investments. Legal counsel however, does not perform any independent research concerning the managers; and that only the subscription agreements were reviewed. It is the responsibility of Systems Investment Consultant, New England Pension Consultants, to review the background of the suitability of the recommended managers.

For one contract review, Attorney Rich noted that Eaton Vance Investments is an investment in a Delaware Limited Liability Co. which is structured to provide a high total return. It is expected that the fund will make some investments in securities with companies that are in bankruptcy or trading at such a significant discount, essentially low grade investments. He cautioned that the documentation indicates that distributions can be made in kind and that these investments are not designed to be liquid investments. Routine distributions must be made in the normal course of a three month cycle and in the event that the System was to request a distribution, before December 31, 2012, a 1% redemption fee would also apply.

Attorney Rich highlighted other risk factors within the Eaton Vance documentation but none were as significant as those mentioned above.

Mr. Fleury explained that Attorney Rich had recommended that side letter provisions be requested of Eaton Vance giving the System a "Most Favored Nations Status" and "best effort" in avoiding "distributions in kind", both of which Eaton Vance had agreed upon.

Next, Attorney Rich briefed the board on the Seix Advisors Contract. Seix is a Delaware Limited Partnership Investment with liability issue very similar to Eaton Vance. As a result, Side Letter Agreements were requested relative to most favored nation status and in kind distributions. Unlike Eaton Vance, Seix distributions require simply a 60-day notice prior for redemption and that the proceeds would be available in a lump sum. One provision in the Seix agreement requests the withdrawing limited partner to bear the costs and expenses related to a redemption request.

<u>Ratification of Revised Investment Policy –</u> Mr. Fleury referred to exhibits included in the trustee's agenda packets, which identified recently hired managers as there needs to be an exhibit for each manager, and explained that these additions were required to keep the Investment Policy current. He also noted that the policy additions had been crafted with the assistance of NEPC.

It was moved by Trustee Sanders to adopt the new exhibits to the Investment Policy, for each of the new managers, seconded by Trustee Molan and passed unanimously by all those trustees present.

Consent Agenda:

It was moved by Trustee Hungler to approve the Consent Agenda and remove items #4 Financial Statements, and #6 Requests for Pension, seconded by Trustee Molan and passed unanimously by all those trustees present.

Regarding Consent Item #4, Trustee Hungler asked if the accrued pension liability is adjusted once a year.

Ms. Aboshar, Executive Assistant replied, that the pension liability is generally adjusted only once a year because more frequent adjustments would consist of values so small that they would be immaterial. The System therefore makes a single cumulative adjustment which is what the Board is seeing this month.

Trustee Hungler suggested researching the option of adjusting the pension liability quarterly or semi-annually.

Mr. Fleury agreed to research the issue further.

Referring to Consent Item #6, Trustee Hungler, asked about the two Requests for Pension from the School Dept. as those cases were receiving a retro pension payments.

Mr. Fleury responded that those pensioners were not informed of their right to retire upon reaching the age of 60 due to their non-vesting status of less than 5 years of service. Those members were subsequently notified of the oversight and they were given the options to receive a retirement benefit or a lump sum payment and chose the retirement benefit.

It was then moved by Trustee Hungler to approve Consent Agenda Items #4 & 6.

Before a second could be offered, Trustee Barry inquired about a Request for Pension by Cathy Wallace, and specifically about the way in which her early retirement reduction was being calculated.

Ms. Aboshar, Executive Assistant, explained the reduction factor and the calculation methodology, and it became clear to Trustee Barry how Ms. Wallace's benefit was determined.

The motion to approve Consent Items #4 & 6 was seconded by Trustee Molan and passed unanimously by all those trustees present.

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New Business:

Summary Recommendation – Application for Disability Retirement Benefits for Paul Doumousiaris – Mr. Fleury explained to the trustees that this request for disability retirement was unusual. After a review of the applicant's Independent Medical Examine results, it was observed that the case was not at a "medical end point", which left open the possibility that there may be some future development including possibly improvement.

Mr. Fleury went on to explain that since those IME results were received, the applicant was subsequently examined by one of the same doctors who performed the first IME and was determined to have reached a "medical end point". With that status now attained, all other eligibility requirements had been met and there was no basis to deny the requested benefit.

Mr. Fleury stated that it is therefore his recommendation that the board approve the applicant's request for disability based upon evidence submitted and compiled.

It was moved by Trustee Sanders to approve the work-related disability benefit for Paul Doumousiaris, seconded by Trustee Molan and passed unanimously by all those trustees present.

Other Business:

Mr. Fleury directed an inquiry to City Finance Director, Trustee Sanders on the status of the semi-annual billing of the City for employer normal contributions in July of 2009. Mr. Fleury reminded everyone that the City had promised to provide the actuary with an alternative salary estimate for 2009 to replace values contained in the March 2009 valuation which Trustee Sander had thought to be too high. The City was to have provided those alternative salary estimates once it had its budget completed and he noted that the Retirement System was still waiting to receive those alternate salary values. He cautioned that absent such values which he could submit to the actuary to obtain a recalculated semi annual payment amount, that the March 2009 value of $2,928,058 would need to stand.

Trustee Sanders replied that he would be sending over the revised salary estimates which resulted from the completion of the City's budget process.

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Next Meeting:

Chairman Pinard noted that the next scheduled board meeting will be Tuesday, July 14, 2009 at 8:30 a.m.

Having no further business to discuss, Trustee Angell moved to adjourn the meeting at10:16 a.m., seconded by Trustee Hungler and passed by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director