March 10, 2009
Minutes #445

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:33 a.m.

Present: Trustees: Chairman, Donald Pinard, Kevin Barry, William Sanders, Jennie Angell, and Richard Molan arrived at 8:37 a.m.
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustee: Mayor Frank Guinta and Chuck Hungler

In Attendance: Attorney John Rich from the McLane Law Firm
Mr. Ken Alberts of Gabriel, Roeder, Smith and Co.
Thomas T. Barry, Esquire from Nixon, Raiche, Vogelman, Barry & Slawsky, PA, Mr. Robert Cartier and guest.

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Sanders to approve the minutes of the February 10, 2008 seconded by Trustee Angell and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Chairman Pinard then asked Trustee Sanders whether he had information about the likelihood of Mayor Guinta's attendance.

Trustee Sanders replied that he believed that the Mayor was aware of the board meeting and of the fact that the Systems' actuary would be present to deliver the 2008 Annual Actuarial Valuation Report.

In anticipation of Mayor Guinta's arrival, Chairman Pinard proceeded to New Business Item #3 rather than the Presentation of the 2008 Valuation.

New Business:

Request for Disability Retirement – Chairman Pinard recessed the meeting to go into Non-Public Session at 8:35 a.m. citing rule RSA 91-A: 3 II (c)to discuss medical data that might adversely impact the reputation of the member.

Ayes: Messrs. Pinard, Sanders, Angell, and Barry

Nays: None.

Motion carried unanimously.

Chairman Pinard entertained a motion to resume the public session at 8:40 a.m. (Before the meeting tape could be started again, the board took action and the identity of the trustee making the motion to resume public session and the second were not captured for the record.)

Chairman Pinard called for a roll call vote to seal the minutes of the Executive Session.

Ayes: Messrs. Pinard, Sanders, Angell, Barry and Molan

Nays: None.

Motion carried unanimously.

It was then moved by Trustee Sanders to approve the work related disability for Robert Cartier, seconded by Trustee Barry and passed unanimously by all those trustees present.

Mr. Cartier expressed his thanks to the Board of Trustees on behalf of himself and his family.

Report of the Executive Director:

D&O Coverage Non-Renewed by National Union/AIG: Mr. Fleury reported that the System had received a cancellation notice on December 15th from National Union, a subsidiary of AIG who has been underwriting the Systems' Director's & Officer's Coverage for at least the past year. The cancellation cited an excuse about increase potential for patent infringement as the reason for non-renewal.

Mr. Fleury noted that he immediately contacted Grady Crews at Ferdinando Insurance to express his opinion of the carrier and to ask if the System was therefore actually done doing business with them in the future. Mr. Fleury explained that he was quickly assured that the Ferdinando Agency would locate another carrier or straighten things out with National Union but that he continued to track the situation and on February 18th he contacted Mr. Crews once again to ask whether the System should expect to have coverage after the policy expiration period of March 31, 2009. Mr. Crews was again quick to reassure that we would be covered but as of the time of this report, Mr. Fleury informed the board, that he has absolutely nothing in writing to support the verbal assurances.

Trustee Sanders expressed his concern regarding the Retirement System not being able to obtain D&O coverage from another carrier if AIG went bankrupt.

Attorney Rich explained that this type of insurance typically pays legal fees in the event that there is an adverse proceeding against the trustees individually. It is not insuring against investment losses of the fund itself.

It was also noted that the statute indemnifies the trustees for liability. The D&O Coverage shifts that liability off of the pension fund and on to a private carrier to mitigate risk.

Mr. Fleury reported that he was in possession of assurances from the State Insurance Commission that AIG has sufficient reserves in NH to cover their liabilities and the viability of coverage need not be of concern to policy holders. He also reminded the Board that Insurance Companies are regulated by the states not by the federal government.

Trustee Sanders again expressed his concern over the importance of continued coverage, especially in the market environment that currently exist and he suggested that the trustees' should not be satisfied on any indemnification solely by the pension plan.

Mr. Fleury stated that he was informed by Ferdinando Agency that few companies are interested in writing D&O coverage, specifically for public pension funds and he noted that while AIG is not the most desirable carrier in light of recent publicity, renewing D&O coverage with that company for the coming year might be the only option but that he would continue to seek alternatives.

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Attorney Rich put forth a scenario and asked Mr. Fleury to address the question. If the board made an investment decision during 2008, while coverage through AIG was in effect, if a new carrier were to be brought in place in 2009, whether or not that carrier would be responsible for prior liabilities incurred on AIG's watch.

Mr. Fleury agreed to pursue the question and report back to the board.

Trustee Sanders requested that Ferdinando Insurance Broker attend the next board meeting to deliver a presentation to the board regarding the Systems' current coverage, limitations and what the remind the Board about renewal periods.

Mr. Fleury stated that he would invite Mr. Grady Crews from Ferdinando Insurance Agency to the next Board of Trustees' meeting in April, to speak to the issues.

Status of Rothschild Subscription Agreement: Mr. Fleury informed the trustees' that the agreement with Rothschild was signed on February 17th after having received a satisfactory review of the subscription agreement from legal counsel. Liquidation of the Systems' holdings in Vanguard was accomplished during the week of February 23rd and funding of the Rothschild agreement was accomplished on March 2, 2009. The amount of the investment based upon proceeds from the closure of the Vanguard account was $6,372,133.87.

Status of CAFR for 2008 - Proceeding with his report, Mr. Fleury stated that the first draft of the 2008 CAFR is now complete but will still need a few items from the 2009 valuation as well and a number of minor final adjustments to the ending values in light of the receipt of final and revised statements which are traditional for certain asset classes. All of these materials are expected to be ready for review by the audit team when they arrive on March 16th.

Preparation for Annual COLA Review - Next, Mr. Fleury indicated that the Administration & Accounting Committee should plan to meet within the next two months but not before final 2008 inflation statistics are made available by the US Labor Department, Bureau of Labor Statistics in order to review COLA requirements for 2009. COLA deliberations usually extend beyond a single meeting so the Trustees should plan to have a decision no later than the meeting of the full Board, tentatively scheduled for Tuesday, June 9th, 2009.

Request to attend 2009 Public Funds Summit – East – In closing his report, Mr. Fleury respectfully requested the board's permission for the Executive Director to attend the 2009 Public Funds Summit in Newport, Rhode Island on July 8, 9 & 10. Cost to attend the summit will be limited to mileage and two nights lodging.

Chairman Pinard stated it is the sense of the board is that there is no opposition to the Executive Director's attendance at the 2009 Public Funds Summit in Newport.

Report of the Investment Committee:

Mr. Fleury noted that in Committee Chairman Hungler's absence, the committee is scheduled to meet Monday, April 13, 2009 and the purpose of the meeting is to review the Systems' present fixed income investments. Fixed income manager Loomis Sayles will be present for that meeting, and the Committee also expected to receive first quarter preliminary investment results.

Consent Agenda:

It was moved by Trustee Molan to approve the Consent Agenda, seconded by Trustee Barry and passed unanimously by all those trustees present.

New Business:

Presentation of 2008 Valuation - Mr. Ken Alberts of Gabriel, Roeder, Smith & Co was present to deliver the valuation results and answer any questions the trustees may have.

Mr. Alberts began by referring to the Annual Actuarial Valuation Report, distributed to the trustees at the start of the meeting. He stated that the employer contribution rate last year was 14.75% of payroll. This year the proposed employer contribution rate will increases to 19.75% of payroll if approved as presented. The primary increase in the employer cost is attributed to disappointing investment returns for 2008. Investments losses alone increased the rate by 3.24% for the pension component of the valuation and 0.03% for the health component. Last year the System's assets were valued at approximately 150 million dollars, whereas this year the fund is closer to 100 million dollars. Mr. Alberts explained that a -30% rate of return is what was experienced, instead of a positive 7.5% rate of return used for assumption purposes.

Mr. Alberts explained that a key objective in operating the Retirement System is to receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year and will not create a financial burden for a future generation of taxpayers.

Referring to a graph in the valuation report, Mr. Alberts noted that the computed contribution rate needed to finance benefits is determined from a given schedule of benefits and from the data furnished by the System. The contribution rate is calculated by means of an "actuarial valuation" – a term which represents the technique of assigning monetary values to the risks assumed in operating a retirement system.

Mr. Alberts provided the trustees with a detailed explanation of the flow of money through the Retirement System and the impact on the accrued liability, unfunded actuarial accrued liabilities and actuarial assumptions.

Moving on, Mr. Alberts noted that as of the end of 2008, the Retirement System is 59.9% funded for pension benefits and 21.0% funded for health subsidy benefits. The pension Unfunded Actuarial Accrued Liability (UAAL) of $84,423.699 is being amortized over a remaining 25-year period, while the health subsidy UAAL of $9,820.788 is being amortized over a 27-year period.

Effective with the December 31, 2004 valuation, the Board adopted the use of a 2% post-retirement COLA assumption to be phased in incrementally over 4 years. The final phase-in was scheduled to be included with the December 31, 2007 valuation. However, on March 11, 2008, the board elected to recognize the final phase-in over a two year period, beginning with the December 31, 2007 valuation. Results contained in the December 31, 2008 report recognize the full 2% post-retirement increase assumption.

Mr. Alberts referred to the March 11, 2008 board meeting, where the trustees requested that the health care utilization percentage for future retirees be reviewed and lowered, if warranted by experience. The post-retirement health care program has only been in effect for 3 years. Therefore, experience is limited and may not fully reflect the long term trend. He provided a table indicating that 50% of new retirees' are utilizing the post-retirement health care subsidy benefit. Based on this information, plus an expectation that utilization will increase as the program ages, the utilization assumption has been set at 60% effective with the December 31, 2007 valuation. The assumption remains at 60% for the December 31, 2008 valuation.

Experience during 2008 was less favorable than expected, resulting in an experience loss of $28,491.353. The primary source of this loss was investment return (7.5% assumed versus (10.1)% recognized. As a result, the pension funding status declined from 74.2% to 61.8%, before reflecting the final phase-in of the COLA assumption.

Next, Mr. Alberts briefed the trustees on the population within the System and the effect that will have on the utilization. He explained that actual experience will never (except by coincidence) match exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. Mr. Alberts referred to a chart on page B-10 of the valuation and cited a number of areas where variances existed between assumed values and actual results. He reminded the Trustees that the payout of sick and vacation time at retirement had not been recognized for valuation purposes until just a few years ago and that the estimated impact of such payments was still subject to some degree of variance. Also affecting assumptions was a lower than expect rate of retirements which he suggested should be adjusted in the next experience study.

Trustee Sanders stated that he would like to have the employer contribution be more reflective as the best estimate for the projected payroll, stated in the valuation report. The City budget is currently pending and will be presented to the Board of Mayor and Aldermen the second Tuesday in June. Mr. Sanders suggested that the Board of Trustees adopt a contribution rate and leave the specific calculation of the projected payroll for the City, which will be determined when it presents its budget in June.

Trustees Sanders also expressed his concern on the way in which the projected salary number is determined by the actuary, citing what he believed may be a variance between the projected salary shown in the valuation and actual salary paid by the city which requires consideration for the enterprise groups. Mr. Sanders was concerned that lack of such consideration might result in an actuarial gain or loss.

Attorney John Rich asked Mr. Sanders for clarification on his proposed acceptance of the actuarial report subject to utilization of the 19.25% rate and his desire to provide the board with a more accurate projected payroll in June.

Trustee Sanders replied that yes, he would provide the trustees with the projected payroll after the presentation of the City's budget because in inaccurate projection would result in an incorrect amount for the semi-annual lump sum payments to be made by the City.

Continuing with his presentation, Mr. Alberts referred to the Development of the Funding Value of Assets and explained that the funding value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, the Funding Value of Assets will tend to be less than Market Value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If actual and assumed rates of investment return are exactly equal for 4 consecutive years, the Funding Value will become equal to Market Value. For the December 31, 2004 valuation, the Funding Value of Assets was reset to the Market Value, as adopted by the Board pursuant to a review of methods and assumptions performed in November, 2004

Mr. Alberts noted that pension plans are facing real budget issues all over the country and that there are a couple of options that the board might consider for Manchester. If the CPI is determined to be zero, and no COLA is awarded to the retirees this year, it would produce a gain next year of about 20 basis points. Another option could be to reset the amortization period of 25 years to 30 years.

After lengthy discussion regarding the granting of a COLA to the retirees and a review of the Administrative Rules regarding the 3 criteria used in determining the granting of a COLA, it was moved by Trustee Sanders that the board agree not to grant a COLA in 2009 to the MECRS Retirees. The motion was seconded by Trustee Angell and passed unanimously by all those trustees present.

Also, Trustee Sanders moved to eliminate the final step of the COLA phase-in for the current year, pending the results of the actuarial experience study, should the trustees vote to commission the study. The motion was seconded by Trustee Angell and passed by all those trustees. The effect of this motion was to end the prefunding COLA amortization at 1 7/8 percent in place of the original target of 2%.

Mr. Fleury stated that the fall of 2009 will mark the five year anniversary of the last MECRS Actuarial Experience Study and he is recommending that the board consider commissioning a subsequent study. He expressed his opinion that performing such a study is the mark of good fiduciary practice and there is some money in the System's budget for services beyond the annual valuation should the board decide to proceed.

After brief discussion regarding the Experience Study, it was the sense of the board to commission the study in the fall of 2009, subject to receipt and formal acceptance of a price quotation for the study.

The board continued to discuss the uncertainty of all the factors in determining the final valuation results.

Mr. Fleury asked Mr. Alberts when the board can expect to receive the replacement values such as the employer contribution rate as a percentage of payroll which will result from actions previously taken.

Mr. Alberts replied that at his earliest opportunity, he will be able to issue the new report with the revised employer contribution rates to the board and that that should happen by the end of the month.

Mr. Fleury recommended that Mr. Alberts plan to be available for a conference call with the board during their monthly board meeting, April 14, 2009 to address question which would likely arise following receipt of the revised valuation results. Mr. Alberts agreed to do so.

Mr. Albert commented on the Contribution Rate Reconciliation, citing several factors for determining the rate, such as Employer Portion of SB 402 Purchases and the Normal Retirement Eligibility Correction resulting from a discovery in preceding year.

Trustee Molan moved to table the adoption of the valuation, pending the revised factors, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Mr. Alberts thanked the board for their time and left the meeting.

Chairman Pinard noted that the next scheduled board meeting will be Tuesday, April 14, 2009 at 8:30 a.m. with an Investment Committee Meeting on April 13, 2009 at 8:30 a.m.

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Having no further business to discuss, Trustee Sanders moved to adjourn the meeting at 11:16 a.m., seconded by Trustee Molan and passed by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director