October 12, 2010
Minutes #464

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman, Donald Pinard called the meeting to order at 8:31 a.m.

Present: Trustees: Chairman, Donald Pinard, Bill Sanders, Richard Molan, Paul Porter, Chuck Hungler and Jenny Angell arrived at 8:42 a.m.
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustees: Mayor Ted Gatsas

In Attendance: Attorney John Rich of the McLane Law Firm, Retirees, Leo Bernier, Tom Nichols and Joan Porter

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Molan to approve the minutes of the September 16, 2010 board meeting, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Approval of the Non-Public Session held September 16, 2010:

A motion was made by Trustee Hungler to defer the approval of the non-public session meeting minutes, held September 16, 2010 until the November 9, 2010 MECRS 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 Porter and passed unanimously by all those trustees present.

Report of the Executive Director:

Research Update on COLA Calculation Alternatives - At the request of the board, Mr. Fleury stated, he was asked to conduct research on alternatives to the present COLA computational methods. In conducting his research, Mr. Fleury came upon a paper available from the US Labor Department entitled "Experimental Consumer Price Index for Americans 62 Years of Age and Older, 1998-2009 and it was included in the trustee's agenda packets. The paper describes the different approaches taken in measuring inflation by method, those methods being the one presently used by the MECRS known as (CPI-U), an alternative urban wage earners method designated (CPI-W), and the experimental process addressed in the paper known as CPI-E. Mr. Fleury noted that the article compares the three methods side by side which may be helpful to the board in determining whether they wish to pursue an alternate formula from the one presently in use. Trustee Hungler asked about the availability of CPI for the Northeast region to which Mr. Fleury responded that although those computational results were available, they it would have reflected a higher COLA obligation based on southern New England as opposed to Manchester and the rest of New Hampshire. He also cautioned that details data on the CPI-E was not posted in the same fashion as other indices which could be problematic if board were to consider adopting that as a replacement standard.

The trustees continued to discuss the different formulas presented by Mr. Fleury and will review them further.

<u>Obama Care Provision to Effect MECRS Staff Insurance – </u>Next, Mr. Fleury stated that as the board is probably aware, health insurance for MECRS staff is provided by Local Government Center, (LGC) in Concord, NH. As a result of legislation which passed earlier in 2010, LGC was obligated to conduct public hearings on health insurance rates prior to setting the actual rates for the coming year.

Mr. Fleury informed the board that he attended one of the public hearings on September 30th. MECRS was not only made aware the average rate increase for 2011, (the average will be 4% with actual rates for each employer unit being announced on October 14th) but MECRS also was informed that existing health insurance plans will be obligated to make an election before January 1, 2011 when a particular phase of "ObamaCare" goes into effect, Each employer will need to decide whether to adopt coverage provisions mandated by the new federal program which may be more costly, or, because their plans were already in existence prior to the new federal program, they can elect to "grandfather" their existing benefit provisions. Should they so elect, cost sharing ratios and most essential provisions of the existing plan would be frozen. Employers would be obligated to abandon their grandfathered plan if there is a need to amend any plan provision, but adoption of the full slate of federal standards would be required under those circumstances. Mr. Fleury cautioned that since this information was recently received in a verbal presentation, the details may be of dubious accuracy. As a result, Mr. Fleury requested permission from the board to confirm the facts and be given the authority to elect the grandfathered provision. Mr. Fleury believed that this would be a less costly option for MECRS and that the board would not have to increase the budget to pay for the new federal standards.

Attorney Rich asked Mr. Fleury if LGC has material that could be circulated showing which provisions would be impacted if the board decides not to grandfather the current provisions.

Mr. Fleury replied that those details would be forthcoming when the rates are set on the 14th of October.

Chairman Pinard suggested delaying the decision of the board until the November regular board meeting subsequent to the boards' review of forthcoming information. Mr. Fleury agreed that such a delay would not be problematic and that the Chairman's recommendation would be followed.

Status of Legislation for 2011 Session of NH Legislature – In concluding his report, Mr. Fleury informed the trustees that Senator Lou D'Allesandro has communicated his consent to act as sponsor for housekeeping amendments in the 2011 session of the New Hampshire Legislature. The bill, which had been presented to the board at an earlier meeting, was designed to clarify existing death benefit provisions in the Plan. The next step will be to send a letter to the Manchester Board of Mayor & Aldermen requesting a slot on their agenda at a November meeting to seek their concurrence for the measure.

Trustee Sanders suggested that Mr. Fleury also include an actuarial cost calculation for the death provision in his request to the Manchester BMA.

The trustees discussed the death benefit provision and the difficulties in determining its precise cost. Mr. Fleury was directed to include the cost calculation with his request to the BMA.

New Business:

Correspondence From Retirees, Leo & Virginia Bernier for Board Discussion and Consideration
Chairman Pinard recognized Mr. Leo Bernier in the audience and allowing him to address the board regarding his correspondence.

Retiree, Mr. Leo Bernier explained that several years ago when the voters of Manchester approved a health insurance subsidy by referendum, that dental coverage was not included in the language of the provision and that he is requesting that the MECRS board seek an amendment to the plan allowing for dental premiums to be eligible for the subsidy.

Mr. Fleury explained that an amendment to include dental insurance in the subsidy was drafted two years ago by the MECRS Advisory Committee and a sponsor had been secured at that time. When the proposal was taken to the BMA however, they majority would not support the amendment due to its implied cost. In a subsequent meeting, the Advisory Committee elected to withdraw the bill rather than pursue it with the knowledge that it would be opposed by the BMA.

The trustees continued to discuss the costs associated with including dental insurance on the list off subsidy eligible benefits. Their discussions also recognized the forfeiture of subsidy entitlements by retirees who cannot otherwise apply their entitlement because they are unwilling or unable to subscribe to City retiree health insurance and apply it there.

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Trustee Sanders noted that the utilization of the health subsidy currently approximates 50%, and if the dental is included, it would increase to 100% thus causing the city's employer rate to increase.

Trustee Porter reminded the board that the cost of the insurance for city retirees is extremely high and he anticipates the utilization to decrease because of recent significant increases in health insurance premiums. The request coming from Retiree Bernier would need to include a look at the actual impact on the employer contribution rate if dental were to become subsidy eligible because the dental premiums are dwarfed by medical premiums. As such, any retiree already applying their subsidy against health premium would not be affected by the change. While it is true that many not currently applying their subsidy against heath premiums would logically seek to apply it dental coverage because the subsidy would fully fund dental alone, there would still be some subsidy forfeiture because the entitlement exceeds the dental premium and the excess lapses to the city's benefit.

Chairman Pinard noted the Board's past practice of not advocating for benefit enhancements and limiting board initiatives to legislative housekeeping measures with little or no cost impact to the Plan.

After lengthy discussion on the matter, Trustee Porter moved to forward the request by Mr. & Mrs. Bernier to the attention of the Advisory Committee, seconded by Trustee Hungler and passed unanimously by all those trustees present.

Report of the Investment Committee:

Committee Chair Hungler reported that there was no Investment Meeting however he wished to address the issue of a request from RMK for a one year extension to the timber fund investment they manage. To refresh the trustees' memory, he stated that there are three investors in the timber investment and that all three must agree to extend the contract for another year or the agreement would be forced into liquidation. This request from RMK will be the second extension and the decision must be made before the first week in December. Trustee Hungler noted that there is an issue this year regarding fees which may be negotiable.

As was the case last year, RMK does not believe that liquidation of the agreement as called for in the contract would be in the best interests of investors. The board must make the decision at the November board meeting and Mr. Kevin Leonard from New England Pension Consultants will be present to make a recommendation at that time.

Citizens Comments:

Chairman Pinard asked if there were any citizens in the audience who would like to address the board.

Retiree, Joan Porter was present and wished to comment on the issue of the trustees' annual decision on whether or not to grant retiree COLA's.

Ms. Porter began by pointing out the difference between the old city pension system and the current MECRS, in that the old system was funded solely by the city and the MECRS is funded by the employee contributions as well as employer contributions. She felt that employee contributions made are significant in funding the pension system, however retirees, who have contributed while employed by the city, were not granted a COLA this past year.

She stated that this year city employees received a 3% pay increase in January, and in July, city employees received an additional 1.5% pay increase and retirees received nothing.

Her objective was to make the trustees aware of factors which the retirees face during retirement, such as rising cost of health insurance and the fact that they did not receive an increase in social security payments. Ms. Porter noted the importance of all the factors that the trustees need to consider while making retiree COLA decisions, however she felt that in light of the active employees receiving COLA's , she felt that retirees should have been afforded an increase in their pensions as well.

For the coming year, Ms. Porter simply asked the trustees to take into consideration all of the factors that retirees are faced with while trying to make ends meet in their "Golden Years" before deciding on whether or not to grant a COLA and also to take into consideration the relevance of active employees receiving a COLA.

Ms. Porter thanked the trustees for their time and consideration and the opportunity to address the board.

Report of the Administrative & Accounting Committee:

Committee Chair Angell reported that vendor interviews were conducted with the MECRS current vendor, Tyler Technologies, and with Pension Technology Group both making presentations.

Both vendors were offered the choice of conduct their presentation in non-public session pursuant to RSA 91-A:3,II(d), and both expressed their desire to do so.

Committee Chair Angell cited notable differences between the two presentations and stated that Mr. Fleury will be checking references from Tyler Technology clients who have had problems with their Tyler upgraded version and have since received corrective measures to address those issues.

The trustees continued to discuss the pros and cons surrounding both of the presentations and Mr. Fleury cautioned that at this point, the MECRS should complete its due diligence and await the committee's formal recommendation to the full board.

Consent Agenda:

Trustee Hungler moved to accept the Consent Agenda, seconded by Trustee Sanders and passed unanimously by all those trustees present.

New Business:

Summary Recommendation – Application for Disability Retirement – William Dubois – Mr. Fleury reported that a review of the member's application had been completed. Two independent medical evaluations had been conducted in accordance with established procedures and both concluded that the applicant was totally and permanently disabled. It was therefore his recommendation after reviewing the file for compliance, that the Board approve the applicant's request. It was moved by Trustee Molan to approve the disability pension, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Discussion on Continued Applicability of the 7.5% Earning Assumption on Investment for Actuarial Purposes – Trustee Sanders requested that the System's Investment Consultant, NEPC, provide the board with a report regarding the likelihood of reliably achieving the current 7.5% earnings rate assumption prospectively. Trustee Sanders stated that the choice of the rate has two effects on the MECRS. The first effect is that because the rate is an assumption about what the System expects to earn in the following year, employer contributions are adjusted accordingly to that earnings rate. If that rate is not met, the System experiences further shortfalls, and if the System beats the rate, then an actuarial gain occurs. The

Second effect the rate has on the System is that it becomes the discount rate that the actuary uses to discount liabilities. Trustee Sanders went on to say that he would like NEPC to provide estimates and forecast the range of returns which would are likely to result so that estimates can be obtained of what the different rates would do to the MECRS funding position for the coming year.

Mr. Fleury requested clarity on Trustee Sanders objective. He stated that he understood it to be the role of the asset allocation model to determining the how much the System should have in different classes to maximize the return and to minimize the risk. The 7.5% earnings assumption drives the composition of the portfolio via the allocation model which is revised over time in response to changing market expectations.

Trustee Sanders stated that he wants to show due diligence by calling upon NEPC to justify their comfort level with the assumption rate. In addition, he also wanted something in writing from the actuary which would detail the impact of a reduction in the earnings assumption if NEPC is unable to justify the current level of 7.5%. Mr. Fleury stated that both NEPC and Gabriel Roeder & Smith would have reports for the November meeting and that their presence had been requested.

The trustees continued with lengthy discussion regarding the current assumption rate before concluding on the subject.
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Motion to Adjourn:

Having completed all of the items of business for the day, Chairman Pinard entertained a motion to adjourn. Trustee Molan moved to adjourn at 10:08 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director