

June 12, 2012
Minutes #482

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Whereas Chairman Pinard had not arrived for the meeting and a customary 5 minute waiting period had expired, Trustee Paul Porter consented to act as Chairman and called the meeting to order at 8:35 a.m.

Present: Trustees: Paul Porter, Richard Molan, William Sanders, Dianne Mercier and Mayor Theodore Gatsas. Chairman Donald Pinard arrived at 8:49 a.m.

MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Trustee Michael Woitkowski

In Attendance: Attorney John Rich of the McLane Law Firm and Mr. Kevin Leonard and Sebastian Grzejka, both of New England Pension Consultants

Approval of the Minutes of the Previous Board Meeting:

A motion was made by Trustee Sanders to approve the minutes of May 8, 2012, seconded by Trustee Molan and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

A motion was made by Trustee Molan to approve the immediate meeting agenda, seconded by Trustee Sanders, and passed unanimously by all those trustees present.

Executive Director's Comments:

Reprint of MECRS Law Books - Mr. Fleury began by reporting that the 5 ½" by 8 ½" MECRS law books were reprinted in May and new versions have been distributed to the trustees present. He explained that Chapter 218 Laws of 1974, as amended, are only compiled internally and that the law books in question are provided to trustees and to counsel while others who require copies of the law are referred to the MECRS web site where an Adobe compilation of 8 ½" by 11" pages are available. Mr. Fleury informed the trustees that the version of the law book for trustees was discovered to have an omission, (Chapter 218:16 III was missing) and a duplicated reference to an effective date for Chapter 41 Laws of 2005 needed to be eliminated. In addition, the booklet version provided to the trustees had become crowded and was in need of reformatting. All of those changes are included in the new version which now consists of 39 pages in comparison to the previous version which only had 35 pages. Most of the page

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differences consist of revised fonts and spacing.

Problem with Custodial Services - Mr. Fleury informed the trustees that it is with some reluctance that he felt compelled to report that the timeliness of custodial reporting services from State Street Bank have become unacceptably slow. The time delay associated with the receipt of monthly statements has become so great that the retirement office does not even have cash statements 30 days after the close of the previous period. Complaints had been logged and it is hoped that the situation can be resolved, but if the time delays are not reduced significantly and soon, he may suggest that the Board consider issuing an RFP for custodial services.

NEPC Client Conference - Mr. Fleury noted that he had attended day one of the 2012 NEPC Client Conference in Boston on May 15th. The conference lived up to its usual reputation for excellence because of the keynote speakers and subject area breakout sessions which NEPC scheduled. A copy of the materials used for the sessions, has been made available and have been placed on file for interested trustees who were not able to attend.

Standish Webinar on Risk Parity – Next, Mr. Fleury briefed the board on a webinar entitled, “Risk Parity-An Active Management Approach to Risk Balance” which was conducted by Standish Mellon and that he participated in on May 22nd. Standish has made a replay of the event available for interested parties and trustees need only indicate their desire to view the session and Mr. Fleury stated that he would provide the link to them via email.

Moving the Usual Date of the MECRS September Board Meeting - Before concluding his report, Mr. Fleury explained that 2012 is the scheduled year for the MECRS Bi-Annual Pre-Retirement Seminar and in order to ensure the maximum number of attendees, this year’s session needs to be conducted on Tuesday, September 11th. Since that day is the second Tuesday of the month, and normally a board meeting day, he requested the boards’ approval to move the regularly scheduled meeting day from September 11th, to the third Tuesday, September 18th.

In order to accommodate the scheduling of the Bi-Annual Pre-Retirement Seminar on September 11th, it was moved by Trustee Sanders to re-schedule the September board meeting, to September 18, 2012, seconded by Trustee Porter and passed unanimously by all those trustees present.

Report of Investment Committee:

Committee Chairman Molan stated that at this time, he had nothing to report. He did note however, that he had also attended the NEPC seminar which Mr. Fleury had attended, and he elaborated on the quality of keynote speakers and expressed his opinion that the seminar was worthwhile.

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Consent Agenda:

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

New Business:

Acceptance of Application for Membership - Mr. Fleury stated that from time to time, a request is received from one of the few city employees who remain in the "Old Retirement System", seeking membership in the MECRS. On this occasion, Mr. Denis Compagna has requested membership into the MECRS and has satisfied all the requirements, pursuant to Chapter 218:7 III. As a result, Mr. Fleury is recommending approval of Mr. Compagna's request.

Trustee Mercier inquired as to the circumstances of the member's request to enroll in the MECRS.

Trustee Sanders provided a brief history of the creation of the MECRS in 1974 and the option given to the city employees to enroll in the new System at that specific time or, to remain in the non-contributory Retirement System with the option of converting at a future date. He also explained a number of benefits to joining the MECRS and the funding obligation required of someone seeking membership who did not opt to join back in 1974.

It was moved by Trustee Molan to accept Mr. Denis Compagna's application for membership into the MECRS, seconded by Trustee Sanders and passed unanimously by all those trustees present.

Previous Business:

Report of Fiduciary Related Issues – Attorney Rich recommended that the board discuss a follow-up report regarding fiduciary related issues in attorney client privileged session.

Acting Chairman Porter recessed the meeting at 8:47 a.m.

While the MECRS Board of Trustees was in recess to meet with counsel, Chairman Pinard arrived at 8:49 a.m.

Chairman Pinard having arrived during the recess, he thanked Trustee Porter for having Chaired the meeting in his absence and he concluded recess at 9:20 a.m.

Report of the Administration & Accounting Committee:

Due to the absence of Committee Chairman Woitkowski, Mr. Fleury briefed the board on the results of the A&A Committee meeting, held June 6, 2012 in which the committee deliberated on

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the annual COLA question. He informed the trustees that it was the committee's decision to bring the COLA question before the full board, without a committee recommendation.

In addition, Mr. Fleury stated, he was instructed by the committee to compile information in such a way as to provide a guideline handout for the determination of COLA affordability for this meeting. He noted that the requested handout had been completed and had been provided to the trustees at the beginning of the meeting.

Mr. Fleury explained that the updated table on the first page of the handout calculates the cost of living determined by the US Department of Labor, Bureau of Labor Statistics, for calendar year 2011. The handout then lists the existing regulations used in the determination of sufficient earnings for the awarding of a COLA. He noted the current Administrative Rule 7.2, which consists of four segments, sites when a COLA can be deemed to be affordable and that three of the four sections require a 7.5% return in the previous year, which the fund did not achieve. As a result, only section 7.2.4 which does not require the 7.5% return and allows the trustees to still consider an increase by the assumed level of 1.75% remains viable.

Mr. Fleury further referenced the chart on page 2 of the handout entitled MECRS Financial Impact of Possible COLA Actions on UAAL (unfunded actuarial accrued liability) & Employer Contributions and explained five scenarios which might result from various COLA actions.

Chairman Pinard asked what percentage of the employer contribution is attributed to the 1.75% assumed or pre-funded COLA, to which Mr. Fleury replied, roughly .19%. Mr. Fleury then informed the trustees that the Systems actuary, Gabriel, Roeder, Smith & Co., is on stand-by to answer any questions or concerns posed by the trustees regarding the COLA decision, should they deem it necessary or desirable.

Chairman Pinard stated that if the 7.5% assumed rate of return is not met, that in fact, the 1.75% assumed COLA rate is not adequately funded to preclude an increase in the UAAL or subsequent employer contributions rates.

Mr. Fleury concurred with Mr. Pinard's statement that absent achieving the earnings target, earnings would not be adequate to preserve the UAAL and the employer contribution rate. Trustee Mercier also concurred.

The trustees discussed the potential for confusion associated with use of the term "pre-funded" in connection with the actuarial assumption of the 1.75% COLA.

Trustee Mercier moved not to approve a retiree COLA for 2012, seconded by Trustee Sanders.

Trustee Molan stated that he agrees with the motion, given the current level of the System's funding, the instability of the markets, and the Fund's disappointing performance in 2011.

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Trustee Porter referred to the MECRS Financial Impact Chart and asked Mr. Fleury to explain the impact of granting Option C, which would grant only the pre-funded amount of 1.75%

Mr. Fleury explained that if the variables that are used in determining the employer contribution rate were static and if the 7.5% earnings were met, that it would not affect the City's costs and it would not affect the UAAL but he noted that attaining those précised amounts is a rarity.

Chairman Pinard asked if there is a percentage of the .19% that the fund has attained.

Trustee Sanders responded that the .19%, which is attributed to the 1.75% pre-funded COLA, assumes that the fund will achieve a 7.5% investment earnings every year and that has not been the case.

Mr. Fleury in an attempt to clarify the matter stated that at this time, technically, without knowing the end of year 2012 market results, it is not possible to answer the question.

Trustee Sanders stated that he will not be voting for a COLA due to the funded status of the Plan. He felt that working with the System's actuary in the coming months, to work to strengthen the Plan's funded status and determine a more certain method of achieving an anticipated rate of return is his top priority.

The trustees continued to discuss the plan's funded status and whether sufficient funds were available for a COLA until Chairman Pinard called for a vote.

The motion not to grant a 2012 COLA carried, with Trustee Porter being the sole dissenting vote.

Trustee Porter expressed his concerns regarding the term, pre-funded, used in Administrative Rule 7.2.4. He expressed his belief that to the layman, the term suggests that the pre-funded COLA of 1.75% is guaranteed each year, when in fact there are other criteria which the trustees need to review and consider in determining whether or not there will be a COLA.

Trustee Porter also suggested drafting a detailed explanation of the term "pre-funded" for the retirees, therefore eliminating any confusion that they may have regarding COLA entitlements. He further suggested that use of the term "pre-funded" be eliminated prospectively to avoid future confusion over the expression.

Trustee Molan suggested that simply striking the term "pre-funded", may eliminate confusion among the retirees.

Mr. Fleury stated that he agrees with Trustee Porter and that the term pre-funded is interpreted by many retirees as an entitlement, which was not the intent of the use of the term. He stated

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that since he understood the confusion around the use of the term, that with the trustee's indulgence, he would draft a communiqué, clarifying the COLA criteria and striking the use of the term pre-funded from future use. There was no objection.

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 9:35 a.m., seconded by Trustee Sanders, and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director