September 10, 2013
Minutes #495

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 9:03 a.m.

Present: Trustees: Donald Pinard Richard Molan, Mike Woitkowski, and Dianne Mercier (Trustee Mercier departed at 9:45 a.m.)
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas, Bill Sanders and Robert Lynch

In Attendance: Attorney John Rich of the McLane Law Firm, Ken Alberts of Gabriel, Roeder, Smith and Co., Mark Laprade of Berry, Dunn and Guy Beloin of the City of Manchester Finance Department

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the minutes of the previous meeting. Trustee Molan moved to approve the board minutes of August 13, 2013, seconded by Trustee Mercier and passed unanimously by all those trustees present.

Approval of the Minutes of the Public Hearing on Administrative Rule, Part 2:

Trustee Molan moved to approve the public hearing minutes of August 13, 2013, seconded by Trustee Mercier and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

It was then moved by Trustee Molan to approve the immediate meeting agenda, seconded by Trustee Mercier, and passed unanimously by all those trustees present.

Consent Agenda:

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

New Business:

Representatives from Gabriel, Roeder, Smith & Co and Berry, Dunn, were present to discuss the changes to the Governmental Accounting Standards Board, GASB 67 & 68 and the implications on the Retirement System and on the City as an employer.–

Minutes of the Board of Trustees' Meeting -2-

Consultants from MECRS had been asked to appear before the board to summarize the key changes to GASB, to ensure regulatory compliance and to address the boards concerns regarding the impact of future valuations and audits. Mr. Guy Beloin of the City's Finance Department was also in attendance to ask any questions on the City's behalf, regarding the System's pension reporting requirements.

Under the new GASB standards, GASB 67 will impact the pension fund while GASB 68 will impact the municipalities who participate in those pension funds. Mr. Fleury had shared news of the higher cost implications of these changes with trustees at the August Board meeting. The board had agreed to invite the System's actuary and auditor to its September meeting to summarize the key changes to GASB, to explain how they were expected to work, and to also to help ensure regulatory compliance by 2014.

Mr. Alberts took up the presentation by directing the trustees' attention to page 6 of a handout which summarized the key changes to the GASB pronouncements. He explained that Defined Benefit Plans are classified as Single-Employer Plans, Multiple Employer Plans and Cost Sharing Multiple Employer Plans. A Plan should be reported as one DB Plan if all assets can be used to pay the benefits of any member. However, if plan assets are legally segregated to pay benefits for certain groups, then separate Defined Benefit Plans should be reported.

Trustee Mercier questioned if MECRS would be classified as the Cost-Sharing Multiple Employer Plans, to which Mr. Alberts responded, yes, in accordance with GRS' interpretation of the new rules.

Mr. Beloin concurred with Mr. Alberts, stating that the funds are submitted into a pool and not identifiable as to the School or City. Mr. Alberts pointed out that all of the funding backs all of the benefits, with no separate accounting.

Mr. Alberts went on to explain that under the GASB's current standards, there is a close link between the accounting and funding measures. Under the new statements, the two are disconnected. Overall, the changes will likely make the accounting measures more volatile than the funding measures, but may be more comparable from plan to plan.

Mr. Alberts then listed additional reporting measures and parameters used by GASB, noting that GASB 67 requires the reporting of the assets on current employees, not on future employees.

In developing its new standards, the GASB changed its perspective regarding pension accounting and as a result, the GASB decided the basic financial statement listing liabilities for pensions should include the unfunded pension obligation.

Chairman Pinard asked if GASB 67 will impact the balance sheet on the City, to which Mr. Alberts replied, yes, it will impact the City's balance sheet, but it will not have an impact on the balance sheet of the Retirement Plan. Statement 67 only affects the assets of the Plan reported as Required Supplemental Information.

Mr. Laprade explained that there will be a need for additional disclosures including the weighted average money rate of return on a Plan basis, not on an Investment basis. He further stated that the impact from GASB 67 on the MECRS will only be about half of the impact that pronouncement will have on the City's financial statements. In addition to reporting the Net Pension Liability (NPL) and pension expense in their basic financial statements, employers will also make disclosures in the notes to their financial statements and in required supplementary information (RSI).

Mr. Laprade further stated that while note disclosures and RSI are also required under the current standard, they are more extensive in the new standards and significantly different from the funding measures.

Due to the additional reporting measures, Mr. Alberts informed the board that he has been notifying GRS clients that for both standards, they should expect the first year additional costs to be about 80% of the current retainer with most of the increase attributed to GASB 68 requirements.

Attorney Rich asked Mr. Alberts, if, going forward, GRS would issue one actuarial report or two.

Mr. Alberts responded that reporting for the new rules would have to be separate; therefore, two reports would be issued.

Trustee Molan asked Mr. Alberts the estimated costs for GASB 67, to which Mr. Alberts responded, that GASB 67 would be about 30% of the retainer.

At that point, Mr. Fleury stated the importance of knowing the costs of the new GASB Standards in building the MECRS 2014 budget.

The trustees continued to discuss the timing of the budget projections and the effective dates of the GASB 67 & 68 pronouncements.

Mr. Fleury expressed concern that the scope of the MECRS Valuation and amount of time for completion could increase due to the new requirements.

Chairman Pinard commented that it appears that the GASB 68 cost is associated with the employer. Identifying who pays for the implementation, continues to be the question. Mr. Alberts noted that if GRS is hired directly by the City for the GASB 68 calculations, GRS will need to obtain the consent and a release from the System to use the System data for the GASB 68 calculations.

In conclusion, after lengthy discussion regarding the implementation of funding responsibility for both GASB 67 and 68, the trustees directed Mr. Fleury to first schedule a meeting with the

City's Finance Director to discuss the implementation cost of the new pronouncements prior to the approval of the City's July 1, 2014 fiscal budget. After seeking further clarification, it was determined that Mr. Fleury should request a meeting with Mr. Sanders and include Chairman Pinard and Attorney Rich in that meeting.

Mr. Fleury then reminded the trustees that a MECRS Investment Committee meeting is scheduled for Tuesday, October 1, 2013 at 8:30, to conduct interviews with a Private Debt and two Private Equity Managers.

Also, Mr. Fleury reminded the trustees that the Administrative & Accounting Committee is scheduled to meet the same day of the October Board of Trustees meeting, Tuesday, October 8th at 8:00 a.m., for a preliminary review of the MECRS Budget of 2014.

Report of the Executive Director:

Report on Operational Difficulties With the Custodian Bank - Mr. Fleury informed the trustees that a meeting was held with a client service representative from State Street Bank on August 22nd to address custodial service matters during the last quarter. The potential for possible overdraft situations and ways to avoid them were discussed as well as the need for greater efficiency. The custodial bank's primary recommendation was to consolidate accounts 2BY3 and 2BY4 by closing 2BY4 and merging the contents into 2BY3. After reviewing State Street's recommendation with MECRS staff, Mr. Fleury stated that he concluded that it will take more time to consider the implications of such a move and he informed the trustees that he would keep the board updated with any new developments regarding the resolution of custodial services with State Street Bank.

Reorganization of Materials on MECRS Website - Mr. Fleury mentioned that he recently completed a reorganization of the MECRS website. MECRS's forms that were available on the site were reorganized to make access more logical. All forms were migrated to a standard format and forms which are needed in conjunction with one another were consolidated into packets. As a result a single download by the member provides all of the necessary documentation in a single action. Also, Mr. Fleury stated that the disability application process now includes a checklist in the packet which provides step by step directions for the applicant, making the process easier to complete.

Status of Legislative Updates: In concluding his report, Mr. Fleury noted that draft language amendments have been written to change to the minimum participation standard and to address Defense of Marriage Act, (DOMA) changes. The draft has been submitted to counsel for preliminary review. Following the review by legal counsel, the draft will be sent to Senate members seeking a sponsor. Drafts have also been written seeking that sponsor and for the presentation to the Board of Mayor and Aldermen.

Trustee Mercier asked Mr. Fleury his general sense regarding his meeting with the MECRS custodial bank.

Mr. Fleury stated that, in his opinion, State Street Bank has recently engaged in cost cutting measures which resulted in the elimination of key staff members. Mr. Fleury is concerned that the consolidation of duties was not well planned or executed and has resulted in inadequate customer service.

Trustee Mercier then asked Mr. Fleury if he is considering alternatives to the problem if the issue is not resolved.

Mr. Fleury responded that if the issue is not satisfied with the corrective measures taken by State Street Bank, he will inform the board of the need to submitting an RFP.

Motion To Adjourn:

Having conducted all the business of the day, Trustee Mercier moved to adjourn the meeting at 9:49 a.m., seconded by Trustee Molan and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury