

September 16, 2014
Minutes #506

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:41 a.m.

Present: Trustees: Donald Pinard, Richard Molan, William Sanders, Mike Woitkowski and Dianne Mercier arrived at 8:44a.m.
MECRS Staff: Gerard Fleury Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas and Trustee Bob Lynch

In Attendance: Ken Alberts of Gabriel, Roeder, Smith & Co. and Attorney John Rich of the McLane Law Firm

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of August 12, 2014.

Trustee Woitkowski moved to approve the board minutes of August 12, 2014, seconded by Trustee Molan 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 Sanders, and passed unanimously by all those trustees present.

Report of the Executive Director:

Update on 2014 Pre-Retirement Seminars: Mr. Fleury reported that the first Pre-Retirement Seminar for 2014 was held on September 9th as planned. The seminar was well attended and positive comments were received from those present. Registration for a second seminar began in August, immediately following the Board's directive that a second session be conducted to accommodate excess demand for the first session, for those who could not attend due to scheduling conflicts. Lining up the speakers for a second session was a challenge, Mr. Fleury stated, however, that date has now been scheduled for Thursday, November 6, 2014.

MECRS 2013 CAFR Distributed: At the August Board of Trustees meeting, Mr. Fleury informed the board that the Comprehensive Annual Financial Report for 2013 was being prepared for distribution. Mr. Fleury reported that that task has been completed and the membership should now be in possession of their CAFR's.

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MECRS Budget Development for 2015: Mr. Fleury then reported that work has begun on the budget for 2015. Keeping the budget in check, Mr. Fleury commented, will be especially difficult, due to increases in insurance cost and implementation of new accounting standards.

In addition, Mr. Fleury reported that the implementation of GASB 67 & 68 is expected to add to the cost of the actuarial valuation, the audit expense, and the cost of producing the CAFR. The objective is to have a draft budget no later than November so that a final version can be acted upon before the present budget year concludes .

Electronic Check Deposit Implemented: Mr. Fleury was pleased to report that after months of preparation, the hardware and software needed to facilitate electronic deposits to MECRS' custodial account at State Street has been received, installed, configured and implemented. The new system went live on August 18th and process documentation has been created and placed on file for annual review by our outside auditors. Mr. Fleury noted that time delays and uncertain delivery dates associated with Bank by Mail deposits has been replaced with online confirmation of deposits, sent electronically to the bank each day.

Consent Agenda:

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

New Business:

Gabriel, Roeder, Smith & Co - Chairman Pinard addressed GRS Representative Mr. Alberts, and asked that he present the results of the Optional Benefit Factors Assumption Study, commissioned by the board. Mr. Alberts began by stating that if the board decides to change the assumptions used for these factors, a date for the implementation of the updated factors should also be determined.

First, Mr. Alberts stated the Optional Benefit Factors Assumption Study was requested by the Board of Trustees to determine appropriate unisex blends by option and to illustrate the effect on the option factors of updating the mortality and interest rates to coincide with the newly adopted valuation mortality and interest rates adopted by the Board at their March meeting.

Mr. Alberts provided the trustees with background information of the retirement process, stating that the retirement system makes a promise to plan members on electing an option on various forms of payment, other than the straight life form of payment, which ends upon the retiree's death. Mr. Alberts elaborated on the types of alternate forms of payments available to plan members, which include a percent to survivor and period certain options.

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Mr. Alberts further explained the concept, stating that all forms of payment must be equivalent in value to the straight life form of payment. Therefore the straight life benefit is reduced by a survivor benefit reduction factor, often called an “option factor”, in order to produce the benefit payable to the retiree that maintains the equivalent value. The amount of the reduction depends on what is being provided to the beneficiary after the retiree’s death. Mr. Alberts stated that, like an insurance policy, the greater the value of the beneficiary benefit, the greater the reduction in benefits for the retiree.

Mr. Alberts noted that whether a member elects an optional form of payment is a personal decision. In general, men are more likely than women, and people who are married are more likely than single individuals, to elect an optional form of payment. Also, he stated that members who elect options are often not as healthy as members who elect straight life forms of payment, thereby creating an anti-selection opportunity. This anti-selection opportunity may argue for some conservatism in the selection of assumptions that are used for the calculation of benefit reduction factors.

Currently, Mr. Alberts noted that MECRS reduction factors are calculated using a 7.5% interest rate and the 1983 Group Annuity Mortality table. These factors were developed by MECRS’s prior actuary.

Mr. Alberts referred to a handout of the mortality table used for the calculation of optional forms of payment and the impact on the benefits assumed to be paid to members and beneficiaries. The longer members are expected to live, the less likely it is that payments will be made to beneficiaries. Mr. Alberts explained that updating the mortality table to reflect longer life expectancies will generally result in increased benefits paid to members who elect options since the assumed value of beneficiary coverage is reduced. The mortality table currently used has been in place for many years and as we all know Mr. Alberts stated, mortality rates have been steadily decreasing in the US as life expectancy has increased.

Mr. Alberts then addressed the importance of periodically updating the mortality assumptions to reflect national trends in rates of mortality.

Mr. Alberts noted that GRS has recently updated the mortality assumptions used in the annual valuation and is recommending that the assumption also be updated for the option factors.

Continuing his presentation , Mr. Alberts stated that in 1983 the Supreme Court rendered a decision in what is commonly referred to as the Norris Case, requiring that retirement systems provide annuities on a unisex bases. As a result of that decision, most retirement systems developed a unisex blend of mortality rates to use for both male and female members. He explained that the blend is typically determined by looking at the percentages of males and

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females electing a particular option, so that the mortality used reflects the average mortality of the group.

Turning the trustees attention to page 3 of the study, entitled Unisex Percentage, Mr. Alberts explained that the illustration is a look at MECRS's experience in the past 5, 10 and 20 years, with most of the credibility on the 5 year history. The chart reflects the Retirement System's percentage of men and the percentage of women, who elected certain options at retirement.

Next, Mr. Alberts reviewed the illustration on page 5 of the study, entitled Optional Forms of Benefit Payment. The illustration provides a look at retirees and their beneficiaries, at a variety of ages, using the current mortality table and 7.50% interest rate and the proposed mortality table and 7.25% interest rate.

After a review of the Optional Forms of Benefit Payment illustration, Trustee Sanders asked Mr. Alberts a hypothetical question. If 2 members retire with all things being equal, except one member retires before the implementation of the new option factor and the other after the adoption of the new factor, would the member retiring after the change have a larger pension?

In response to Trustee Sanders', Mr. Alberts stated that updating the mortality table for longer life expectancies will generally increase the option factors (resulting in a smaller reduction) since survivor benefits are less likely to be paid. Decreasing the interest rate used for the calculation will decrease the option factors (resulting in a larger increase) because less of the cost of the present value of future contingent payments will increase as interest rate decreases.

Mr. Alberts explained that GRS is recommending that the System consider the adoption of the RP 2000 Mortality Table projected to 2020, and lowering the 7.50% interest rate to 7.25%, for purposes of computing option factors. In addition he stated, GRS is also recommending changing the unisex percentage to the revised table shown on page 4 of the study.

Trustee Sanders asked Mr. Alberts to explain the Unisex Percentage Recommendation, to which Mr. Alberts explained that the percentages used are a blended factor for mortality rates.

Mr. Fleury asked Mr. Alberts how the change would be administered if the board approves updating the option factors.

Mr. Alberts stated that GRS would simply provide an updated matrix inclusive of the replacement values which will be tested prior to the release to production.

Mr. Alberts informed the trustees of two additional elements to adopting the factors, with the first one being anti-selection, which is based on the average person electing an option and the non-average member electing an option.

The trustees continued to discuss the effects of the anti-selection option. During that discussion, Mr. Alberts stated that the mortality tables which GRS feels are an adequate fit for the MECRS,

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are based on a larger group and are not specific to the MECRS membership, due to the small data set of the Plan.

Trustee Mercier referred to Mr. Alberts earlier comment that the MECRS is not a Plan that statistically meets the law of averages due to the small size of the Plan, therefore, she felt that the board should have compelling evidence to change the mortality tables used to calculate optional factors.

Mr. Alberts replied that the main argument for changing the option factors would be the consistency with the valuation.

Trustee Sanders stated that the MECRS would be generating a gain, if it elected not to change the option factors of the Plan at this time. He also felt that, should the System not disclose the implementation of the changes, it might create unwanted issues and possibly an uncomfortable situation that the System should take into consideration in making the decision on whether or not to adopt the changes.

Mr. Alberts explained that the other element to consider in changing the factors is the mortality rates used in the valuation have a provision for future mortality improvement built in, which has not happened yet. The future mortality improvement should be a gain in the valuation system. Therefore, it could be argued not to change the factors until the mortality improvement actually happens in 2020.

The trustees continued to discuss the pros and cons of adopting the actuarial recommendations in depth.

It was moved by Trustee Molan to receive and place on file the GRS Optional Benefit Factors Assumption Study, seconded by Trustee Sanders and passed unanimously by all those trustees present.

On a different matter, Trustee Sanders informed the board that the Manchester Aldermen are thinking about possible changes to the Plan and at the last Board of Mayor and Aldermen meeting, he was asked to recommend an actuary to undertake the task of holding an educational session with the BMA and explaining complicated actuarial issues that affect the City.

In response to the Aldermen's request, Trustee Sanders reported that he had contacted Mr. Fleury and Mr. Alberts to discuss the BMA request and to determine whether Mr. Alberts would consider additional travel and time to meet with the BMA.

Trustee Sanders then asked the board if they perceive any conflict of interest with Mr. Alberts participating in the endeavor. He added that he thinks very highly of Mr. Alberts and ever since

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Mr. Alberts and GRS has provided actuarial services for the MECRS it has resulted in open conversations regarding the actuarial liabilities that the System is confronted with.

Chairman Pinard asked Trustee Sanders if this endeavor is simply an informational project, to which Trustee Sanders replied, that the educational sessions would be only Q & A sessions and if the sessions should entail anything further, he will keep the board apprised of any additional steps taken.

Trustee Mercier stated that she would support Mr. Alberts working with the Aldermen as long as it was only on an informational basis.

Chairman Pinard noted how Mr. Alberts has the ability to tailor a presentation in such a fashion that it is readily understandable by his audience.

Attorney Rich stated that he is assuming that Mr. Alberts is comfortable with the request by Trustee Sanders to which Mr. Alberts stated that he is willing to meet with the BMA for informational sessions and that he would only be participating with the MECRS Board of Trustees permission.

Attorney Rich asked Mr. Alberts if there is any scenario where it would put him in the position where he couldn't continue to serve the MECRS as its actuary, to which Mr. Alberts responded that there is nothing that he can think of, however if that situation was created, he would immediately resign from the BMA project.

Trustee Molan stated that after having been through actuarial issues and processes at the State level, it makes sense to have an employee within an actuarial firm, that is held in high regard, providing the information to the BMA.

It was moved by Trustee Sanders that the MECRS Board acknowledge the City's interest in speaking with Mr. Alberts of GRS and also to give Mr. Alberts permission to provide informational sessions, without recommendation to the BMA, seconded by Trustee Mercier and passed by all those trustees present.

Trustee Woitkowski stated that as the employee representative of the System, he is in favor of the request as long as the BMA understands that the information belongs to the MECRS and Mr. Alberts will only provide them with answers to their questions, without recommendation.

Motion carried unanimously.

For the record Mr. Fleury stated that New Business #2 does not need to be acted upon because of the failure to adopt New Business #1 Optional Factors Assumption Study.

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Mr. Fleury reminded the Board that the Investment Committee should schedule a meeting to reaffirm the investment strategy for 2015 and to discuss a review of the asset allocation model. Also, Mr. Fleury stated that Investment Committee Chairman Molan has reminded NEPC of the need to meet with the existing investment managers periodically, for review. He stated that Wellington is one of the managers who have not been reviewed in some time. Finally Mr. Fleury stated that there is one particular manager who has not been able to beat their benchmark for some time, and that the committee may want to consider the short term future with this manager and be prepared to make a recommendation to the full board.

After brief discussion the board agreed to schedule an Investment Committee Meeting on Thursday, October 9, 2014 at 9:00.

Administrative & Accounting Committee Chairman Woitkowski referred to the MECRS 2015 budget and the need to schedule an A&A Committee meeting to review the draft, typically held the same day as the Board of Trustees meeting, the second Tuesday of each month.

Trustee Molan then informed the trustees that Veterans Day falls on the second Tuesday, in November.

After brief discussion of the trustees availability, Committee Chairman Woitkowski scheduled the A&A meeting on Tuesday November 18, 2014 at 8:00 a.m. and the trustees agreed to re-schedule the regular Board of Trustees meeting following the adjournment of the A&A meeting.

Other Business:

Motion to Adjourn:

Having conducted all the business of the day, Trustee Woitkowski moved to adjourn the meeting at 9:50 a.m. seconded by Trustee Sanders and passed unanimously by all those trustees present.

Respectfully Submitted

Gerard E. Fleury
Executive Director