

June 9, 2015
Minutes #514

Minutes of the Board of Trustees' Meeting -1-

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

Present: Trustees: Donald Pinard, Dick Molan, Bob Lynch and Mike Woitkowski and Dianne Mercier
MECRS Staff: Gerard Fleury, Sandi Aboshar and Suzanne Wilson

Absent: Mayor Gatsas and William Sanders

In Attendance: Attorney John Rich of the McLane Law Firm as well as Retirees, Harry Ntapolis, Ron Ludwig, Leo Bernier, Joan Porter, Ruth Smith

Approval of the Minutes of the Previous Board Meeting:

Chairman Pinard entertained a motion to approve the previous board minutes of May 12, 2015.

Trustee Woitkowski moved to approve the board minutes of May 12, 2015, seconded by Trustee Molan and passed unanimously by all those trustees present.

Approval of the Amendments to Administrative Rule, Part 7 and By-Laws Article XVIII:

Chairman Pinard entertained a motion to approve the Public Hearing minutes regarding Administrative Rule 7 and By-Law XVIII.

Trustee Lynch moved to approve the Public Hearing minutes of May 12, 2015, seconded by Trustee Molan and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Previous Business:

COLA Decision for 2014: Chairman Pinard first entertained a motion to remove from the table, the Administrative & Accounting Committee's, 2014 Cost of Living Adjustment (COLA) recommendation of .8%, which was tabled at the May 12, 2015 MECRS board meeting.

Trustee Lynch moved to remove the A&A 2015 COLA recommendation of 8% from the table, seconded by Trustee Woitkowski and passed without objection.

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Trustee Lynch then motioned to continue discussion regarding the A&A recommended .08% retiree COLA, seconded by Trustee Woitkowski and passed without objection.

Chairman Pinard asked Mr. Fleury to brief the board of the current status of the 2014 COLA determination.

Mr. Fleury stated that the A&A Committee's recommendation is based on the review of factors that contribute to a COLA determination . Utilizing a new format which was accepted by the MECRS Board at the May meeting, Mr. Fleury summarized the 5 factors which resulted from a review of Chapter 218:20, and of Part 7 of the MECRS Administrative Rule on COLA as well as specific source documents used to calculate inflation and affordability as defined in Part 7 of the MECRS Administrative Rules.

Result #1 Mr. Fleury reported that the U.S. Department of Labor measurements indicate that the cost of living rose .76% in 2014.

Referring to result #2 Mr. Fleury stated that the values provided by the System's actuary in the 2013 and 2014 valuations determined that no funding attributable to "gain sharing" as defined in Rule 7 exists for 2015.

Mr. Fleury informed the trustees that result #3 is the System's actuary confirming that if a COLA of 1.25% is granted, that, all other actuarial factors being equal, there will be no change to the funded ratio or the employer contribution rate. Furthermore, Mr. Fleury added, the actuary has confirmed that any "ad hoc" COLA awarded in excess of the 1.25% level will increase the employer contribution rate and reduce the funded ratio. Conversely, not granting a COLA or granting one at less than the 1.25% rate will, all other actuarial factors being equal, result in a reduction in the employer contribution rate and an increase in the funded ratio.

Moving on to Result #4, Mr. Fleury stated that pursuant to the formula in Administrative Rule 7, if a COLA matching the 2014 CPI of .76 is granted; all other actuarial factors being equal, an actuarial gain would still be realized. Based upon values obtained from page A-7 of the 2014 valuation, a gain of \$325,200 and a reduction in the employer contribution rate of .0384% of covered payroll amortized over 25 years would exist.

Mr. Fleury reviewed an excerpt from Administrative Rule 7.3.2(a) which allows for the granting of a COLA given the present funded ratio of 64.3% if prudent to do so.

Mr. Fleury reminded that Board that at the May meeting there was discussion regarding other rates in addition to the .76% COLA which he had recently been advised, could merit thoughtful reflection and he called upon the System's Attorney, John Rich to explain further.

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Attorney Rich pointed out that when the Administrative Rule 7.4 on COLA's was put in place, the board adopted guidance in the Rule on the amount of a COLA and whether or not the trustees should grant COLAs larger than the inflation rate. He noted that Administrative Rule 7.4 states that if COLAs less than the inflation rate have been awarded for multiple consecutive years, the board may consider making up the difference in addition to addressing inflation in the most recent year.

Attorney Rich referred to the 2013 COLA award of 1.5%, matching last year's inflation rate of 1.5%, which meant under Rule 7.4 that the COLA should be limited to the inflation factor unless the trustees were to take into consideration other factors that would suggest a COLA larger than the inflation rate should be granted. Attorney Rich did note however that in previous years there was no COLA granted in 2012 and in 2011 the COLA was less than the inflation rate.

Trustee Mercier expressed her concern with granting a COLA stating that the trustees should also consider other factors, such as the current funded ratio of the Plan, in making the retiree COLA determination.

Mr. Fleury concurred with Trustee Mercers' comment.

Trustee Lynch stated his belief that the .8% increase is low and that he would like to see a 1.25% COLA increase. The inflation rate was not met in 2012 and 2011 therefore he suggested providing a 1.25% COLA.

The board continued to discuss the implications of granting a COLA to try to equalize or negate past CPI. Mr. Fleury elaborated on the board's 2006 decision to commission the System's Actuary, Gabriel, Roeder, Smith & Co., to conduct a survey of past COLAs awarded to retirees. Mr. Fleury stated that any time there is a period of COLA awards that are not sufficient to negate inflation, a simple across the board percentage does not make it fair. The 2006 survey resulted in a list of retirees that had to be adjusted and made whole. A 2014 blanket COLA award may not be doing justice to all the retirees, Mr. Fleury stated and he suggested, the board might want to consider commissioning another survey by GRS before making their COLA decision.

Mr. Fleury then distributed a chart of CPI rates from 2000 to 2014 and the corresponding COLA awards. Mr. Fleury reported that the chart indicates that the System has not been keeping up with inflation and has fallen behind.

Trustee Mercier reiterated her earlier concern that the COLA decision needs to be contextual to make a good decision in light of the performance of the Plan.

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Trustee Molan stated that he does not agree that actual inflation in 2014 was .76% as reported by Mr. Fleury. He stated that a better measure of inflation was the Boston-Brockton-Nashua, which he believes shows inflation of approximately 1.6%. As a result, based on this higher measure of inflation and based on the actuarial information, he stated that he is inclined to support the 1.25% COLA.

Trustee Molan then moved to amend the motion based on the A&A Committee's recommendation of granting a 0.8% COLA, to a 1.25% COLA, seconded by Trustee Lynch. Motion to amend the motion carried with Trustee Mercier voting in opposition of the amendment.

Trustee Molan moved to approve the amended motion for a 1.25% retiree COLA, seconded by Trustee Lynch. Motion carried 3 to 2 with Trustee Mercier and Chairman Pinard voting in opposition.

Mr. Fleury asked Ms. Aboshar to state for the record the effective date of the 1.25% COLA award and also to state which retirees would be eligible based on the COLA rules.

Ms. Aboshar stated that the effective date of the 1.25% COLA award is July 1, 2015, to be reflected in the retiree's August 1, 2015 pension check, which will benefit those retirees who have been retired as of July 1, 2014.

Citizens Comments:

Chairman Pinard addressed those in attendance and asked if anyone would like to comment.

On behalf of all the MECRS retirees, Harry Ntapalis thanked the trustees for their consideration in the COLA Award of 1.25%.

Retiree Joan Porter also thanked the trustees for approving the 1.25% COLA Award.

Chairperson Comments:

Regarding the lengthy list of Request for Pensions on the June agenda, Chairman Pinard speculated that a considerable accumulation of institutional knowledge would be departing the City with the retirement of those City employees.

Report of the Executive Director:

PRISA Conference Call: Mr. Fleury reported that on May 13th he participated in the Annual PRISA Investor Conference Call. He noted that the call was a very optimistic reflection on the return for 2014 of just over 13%. He informed the board that the conference call was recorded and if any trustee would like to replay the call, he would be happy to provide them with the access password.

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New Reporting Requirements - Affordable Care Act: As a result of the Affordable Care Act, Mr. Fleury explained that there are new employer reporting requirements in place for 2015 which require the generation, issuance and reporting of new Federal Tax forms. He further explained that after investigating the potential for outsourcing the requirement to a third party administrator, that course of action did not seem attractive. He informed the trustees of his decision to handle the new ACA requirements in house and assume responsibility for Federal reporting unless the Board objected and that a trial reporting has been prepared in anticipation of a live round at the end of 2015.

Status of Asset Liability Study: Next, Mr. Fleury stated that as of May 1st, GRS provided NEPC with information needed to continue work on the Asset/ Liability Study requested by the Board at the March meeting. Delivery is tentatively scheduled for July depending upon how quickly the study can be completed. After discussions with Mr. Leonard of NEPC, Mr. Fleury reported that it was agreed that receiving the results of the study and then reviewing investment objectives associated with that study, while simultaneously addressing the rebalancing exercise for 2015, would be too aggressive a schedule for one day. Mr. Fleury indicated the need to schedule an Investment Committee meeting later this summer to address rebalancing of the MECRS portfolio.

Final Distribution from Boston Millennia Partners: On May 27th, the System received the final distribution from its Private Equity investment with Boston Millennia Partners. That investment dated back to the "dot.com bubble days" and consisted of residuals, which were illiquid for the most part. The complete buyout of the remaining assets in that fund allowed the System to complete the exit from that investment.

Attendance at NEPC Client Conference: Mr. Fleury then thanked the Board once again for allowing him to commute to Boston for the first day of the NEPC Client Conference. As usual, Mr. Fleury stated, the conference was excellent and afforded him the opportunity to share thoughts and concerns with peer administrators and trustees from other public funds. He reported that he was also able to focus on investment areas germane to MECRS in breakout sessions which followed keynote presentations.

Trustee Mercier asked Mr. Fleury his take away from the conference, for which Mr. Fleury elaborated on different keynote speakers followed by individually elected breakout sessions which he attended regarding the status on investments in hedge funds, the merits on investment in equities, as well as a session on investments in energy, all which were very informative.

Results of 2014 Audit: Next, Mr. Fleury reported that representatives from Berry Dunn McNeil & Parker are expected to be present at the July meeting to deliver the results of the 2014 audit.

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Mr. Fleury reiterated the need to seek a website hosting firm, which will also require an increase in the 2016 MECRS budget.

Trustee Mercier suggested that Mr. Fleury and the board consider two Manchester based web developers, Silvertch and Wedü. Trustee Mercier stated that she would like to see the Manchester based firms considered, to replace the current hosting firm, Go Daddy.

Proposal for Information Technology Risk Assessment: In concluding his report, Mr. Fleury stated that in the past few months, efforts have been underway to assess the vulnerability of MECRS information to unauthorized access. Although he has a high degree of confidence in existing systems and procedures, he believed that it was appropriate to engage an outside vendor to assessment. Included with the informational items in this month's board packet, was a copy of a proposal requested from McGladrey for a risk assessment of information technology systems and practices. Mr. Fleury stated that he is open to questions on this topic and interested in the Board's disposition with respect to the cost of a risk assessment being included in the 2016 MECRS budget. The Board agreed that including the scope of services and cost of a risk assessment in the next MECRS budget would be advisable.

Trustee Molan referred to the earlier discussion regarding the study on future retiree COLAs and the impact on retirees. He asked Mr. Fleury to inquire with GRS on the cost to repeat the study for 2016, to which Mr. Fleury responded that he would be happy to inquire as to the cost of a repeat study with GRS and that he would report his findings when they became available and also in the budget for 2016.

Consent Agenda:

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

The trustees briefly discussed the high number of Request for Pensions and the impact of replacing those City positions in the future.

Next Meeting Schedule:

The next MECRS Board of Trustees Meeting is scheduled for July 14, 2015 at 8:30 a.m.

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Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:22 a.m. seconded by Trustee Molan and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director

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