

December 12, 2017
Minutes #540

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Chairman Pinard called the meeting to order at 8:47 a.m.

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

Absent: Trustees: Bill Sanders, Dianne Mercier and Mayor Gatsas

In Attendance: Attorney John Rich, from McLane Middleton, Professional Association
Sebastian Grzejka from NEPC and Ken Alberts from Gabriel, Roeder,
Smith & Co.

Approval of the Minutes of the Previous Board Meeting:

Trustee Woitkowski moved to approve the minutes for the board meeting held October 10, 2017.
Trustee Molan seconded the motion and it was passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Report of the Executive Director:

**Manchester Employees' Contributory Retirement System Receives 2017 Award for Compliance
with Public Pension Standards:** Mr. Fleury was pleased to announce that for the last fourteen
years the MECRS has applied for and received the Public Pension Coordinating Council's
"Public Pension Standards Award".

Mr. Fleury stated that the award is given in recognition of meeting professional standards for
plan design and administration as set forth in the Public Pension Standards establish by the
Coordinating Council. To receive the award, Mr. Fleury explained plans must meet specific
criterion related to funding, financial reporting, member benefits, and actuarial and audit
practices. He also mentioned that the MECRS believes that being recognized for this award
demonstrates a continuing commitment to excellence on behalf of plan participants.

Status of New Manager Subscription Agreements: Next, Mr. Fleury reported that all portfolio
rebalancing and new contract commitments that were approved by the Board in earlier months
have been completed.

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Pending Tax Reporting for ACA: Mr. Fleury stated that for the past few years, small employers like the MECRS have been subject to reporting requirements of the Affordable Care Act and that requirement has been met. On November 2nd, he informed the trustees that summary recommendations for 2017 were received from HealthTrust NH via a webinar they sponsored, and MECRS will again undertake production and issuance of tax forms and their related reporting to the IRS.

Annual Death Audit of Pensioner Beneficiaries: In late November, Mr. Fleury reported that MECRS conducted its annual death audit of named beneficiaries. He explained that the audit is designed to detect any living retiree with a survivor option, whose named beneficiary has passed away, and subsequently not reported to the Retirement System so that the pop-up option is implemented. This year's audit, Mr. Fleury stated, resulted in only 1 unreported death of a named beneficiary. The pensioner record has been amended so that their tax record for the current year will be correct upon issuance.

Initial Funding for CarVal Completed: Moving on, Mr. Fleury reported that the first capital call, from CarVal Investors, in the amount of \$250,000, was received in late November and funded on December 1, 2017.

Confirmation of Richard Molan: Next, Mr. Fleury reported that the Board of Mayor and Aldermen voted to confirm Trustee Molan's nomination and reappointment for another three year term as a MECRS Trustee. He thanked Trustee Molan for his continued service on the MECRS Board.

In closing his report, Mr. Fleury informed the board that he has completed negotiations on the lease at 1045 Elm St. and the lease has been renewed for another 5-year term with two concurrent 5-year renewal options. In addition to the lease renewal, Mr. Fleury reported that at no cost the Retirement System, the carpeting will be replaced; several of the windows will undergo needed repairs as well as painting of the office space.

Report of the Administrative & Accounting Committee:

Acting Committee Chairman, Trustee Molan reported that on November 14, 2017, the Administration & Accounting Committee met and reviewed the draft MECRS Administrative Budget for 2018. After receiving a summary of budget changes since the prior year, he stated that the Committee voted unanimously to recommend the 2018 draft budget, as presented, to the full MECRS's Board for approval.

As Acting Chairman of the A&A Committee, due to illness of Committee Chairman Woitkowski on November 14th, Trustee Molan moved to approve the MECRS 2018 operating budget in the amount of \$911,475.21. He further stated that the amount is a decrease of \$70.21 from the 2017 appropriation and equates to a percentage decrease of 0.01%.

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Trustee Lynch seconded the motion to approve the 2018 operating budget for which the board voted unanimously by all those trustees present

Report of the Investment Committee Meeting:

Committee Chairman Molan stated that at the recommendation of NEPC, he moved that administrative staff be authorized to affect the orderly redemption of equity assets, in order to augment cash reserves for operations, and to fund continued capital calls from existing investment commitments. Committee Chairman Molan listed the redemptions recommended by NEPC, the MECRS Investment Consultant, as follows:

Pzena Large Cap Value Fund	\$ 500,000
Sands Large Cap Growth Fund	\$1,000,000
Vanguard S&P 500 ETF	<u>\$1,500,000</u>
Total redemptions	<u>\$3,000,000</u>

Trustee Lynch seconded the motion to approve NEPC's recommended redemptions, and the motion carried unanimously by all those trustees present.

Report of the Benefits Committee Meeting:

Committee Chairman Lynch reported that the Benefits Committee met as scheduled, to review the August 21, 2017 report received from GRS Retirement Consulting.

Committee Chairman Lynch stated that after considerable discussion of the report, Committee Member Molan offered a motion to delay any action on the August 21, 2017 report and to schedule another meeting to continue the review of that report in conjunction with reports provided in August and November of 2016, which provided the basis for the August 21st report. The motion received a second from Committee Member Pinard and an affirmative vote from the Committee.

Committee Chairman Lynch then noted that the exact day and time for the next Committee meeting has not yet been determined.

November and December Consent Agenda:

Trustee Molan moved to accept the November and December Consent Agendas, seconded by Trustee Woitkowski and passed by all those trustees present.

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New Business:

Mr. Ken Alberts from Gabriel, Roeder, Smith & Co Delivered the Results of the 5-Year Experience Study: Mr. Alberts first distributed his presentation booklet entitled, "5-Year Experience Study" results. He stated that the study was conducted for the purpose of reviewing and where necessary, updating the assumptions used in the MECRS's actuarial valuation model. He noted that the investigation was based upon the statistical data furnished for annual active member and retired life actuarial valuations during the period January 1, 2012 through December 31, 2016.

Every 5 years, Mr. Alberts explained that GRS looks back and reviews assumptions, versus what actually happened and tweaks the assumptions or makes major changes to the assumptions. The assumptions are split into two different categories, Demographic and Economic. He then provided the board with descriptions of each assumption.

Referring to the demographic assumptions, Mr. Alberts directed the trustees to page D-10 of the presentation booklet, Early Retirement Experience.

The graph indicated the actual experience present assumptions and proposed assumptions for which Mr. Alberts explained in detail, that if the trend were to continue, the Plan would experience a loss.

Chairman Pinard asked Mr. Alberts, about the affect that the early retirement option had on the cost of the Plan, to which Mr. Alberts replied that it resulted in a very small affect on the contribution rate.

Working through the presentation booklet, Mr. Alberts detailed mortality experience; merit and longevity pay increase assumptions, as well as the history of pension gains and losses.

Directing the trustees to turn to page B-7 of the presentation study results, Contribution Calculation Comparison, Mr. Alberts reviewed the actuarial results of utilizing alternate demographic assumptions.

Mr. Fleury noted the objective is for the Fund to reach 100 % funding in less than the 23 years remaining in the amortization schedule.

Reviewing the valuation data ending 2016 and looking at proposed alternative demographic changes moving forward, Mr. Fleury expressed concern over the significant impact on the current employer contribution rate of 24.45% if any of the proposed alternatives were adopted.

Mr. Alberts explained that 90% of the increase in the employer contribution comparisons is due to the proposed final average compensation lump sum load increase from the current 9% to

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12%. The trustees and Mr. Alberts discussed the impact of the \$13,000 lump sum early retirement incentive subsidy that ended June 30, 2016. Referring to page B-5, Mr. Alberts noted that actual final average earnings had been 14.2% higher than expected over the past five years as a result of lump sum severance payments. Mr. Albert's indicated that he would expect the fund to have a loss every year if the 9% load factor was not increased.

As Mr. Alberts next reviewed the results of each of the proposed demographic alternatives which included reducing the earnings assumption from the current 7.25% to as low as 6.50%. Referring to page C-7, he explained that the 7.25% earnings assumption was too high based on the Capital Markets Assumption Modeler that GRS uses which has an average expectation of 6.92%. He stated that although he would sign-off on a 7% earnings assumption at the current time, these assumptions are constantly monitored by GRS so he could not guarantee that he would be comfortable with a 7% assumption until the next experience study.

Chairman Pinard questioned what effect reducing the lump sum load from 12% to 10% would have, to which Mr. Alberts estimated, a 1% of payroll reduction and that he would provide an complete analysis of Chairman Pinard's question, when he returns for the January Board meeting.

Trustee Molan requested the breakdown of employer contributions from the enterprise funds, for which Mr. Fleury responded that he will provide that information in time for the January Board of Trustees meeting.

Mr. Fleury questioned the composition of MECRS's asset allocation with respect to the fixed income allocation. He noted that according to NEPC's reports, fixed income has not achieved the 7.25% objective and he questioned the wisdom of that allocation.

NEPC Representative Grzejka responded that NEPC believes that the fixed income component is important to diversification and should be retained.

Chairman Pinard then expressed his concern regarding future cost-of-living adjustments.

Mr. Alberts stated that given previous experience and future expectations of wage and price inflation, GRS believes a reasonable range for the cost of living assumption would be between 0.80% and 1.40%. He further explained that GRS is recommending that the board consider the current economic conditions and likelihood of future COLA's before adopting a specific assumption. Given the recommendation to lower the price inflation assumption, it would be reasonable to lower the COLA assumption to 1% from the current 1.25%.

After lengthy discussion regarding the Experience Study and due to the absence of two key board members, Chairman Pinard motioned to table any action regarding the proposed

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alternatives presented, until the January BOT meeting, when all board members are in attendance.

Trustee Woitkowski seconded Chairman Pinard motion to table the GRS Five-Year Experience Study.

Mr. Alberts agreed to return to the MECRS's Board meeting in January for a continued review of the 5-Year Experience Study and to address any concerns that the trustee's may have.

Motion passed unanimously by all those trustees present.

Report of the Monthly Cash Balance - It was then moved by Trustee Lynch to accept and place of file the report of the monthly cash balance, seconded by Trustee Woitkowski and passed by all those trustees present.

Before the conclusion of the meeting Mr. Grzejka of NEPC reported that through October, 2017 a total asset value of \$229M, an increase of 13.6% with November ending as a very positive month.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 10:54 a.m., seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director