March 10, 2020
Minutes #567

Minutes of the Board of Trustees' Meeting -1-

Call to Order: Acting Chairman Sanders called the meeting to order at 8:30 a.m.

Present: Trustees: William Sanders, Harry Ntapalis, Robert Gagne and Richard Bunker

MECRS Staff: Gerard Fleury Sandi Aboshar and Suzanne Wilson

Linked by Phone: Chairman Dick Molan

Absent: Jeff Plourde and Mayor Joyce Craig

In Attendance: Attorney John Rich from McLane Middleton, Professional Association
Mark LaPrade and Tyler Butler from Berry Dunn
Ken Alberts and Kevin Noelke from Gabriel, Roeder, Smith & Co.
Sebastian Grzejka from NEPC

Approval of the Minutes of the Previous Board Meeting:

Acting Chairman Sanders entertained a motion to approve the minutes of the previous board meeting held February 11, 2020.

Trustee Ntapalis moved to approve the minutes of February 11, 2020, seconded by Trustee Gagne and passed unanimously by all those trustees present.

Approval of the Immediate Meeting Agenda:

Acting Chairman Sanders entertained a motion to approve the immediate meeting agenda. Trustee Gagne moved to approve the immediate agenda, seconded by Trustee Bunker and passed by all those trustees present.

Report of the Executive Director:

Report on Legislative Initiative: Mr. Fleury reported on the amendment to HB 1292-FN that was introduced in the House, which would revert the cost shift incorporated in that bill back to the City at the end of the amortization period for the unfunded actuarial accrued liability. Mr. Fleury stated that he was recently contacted by legislative services requesting an updated fiscal statement, which he provided. He indicated that at the time of the request, he took the opportunity to confirm that the clarifying language, approved by MECRS's counsel, will be added to the amendment to define the exact timing of the cost shift reversal. He then stated that the amendment was sent to both the sponsor and the Chair of the House ED&A Committee and that he would keep the board informed on the status of the initiative as events unfold.

In addition, Mr. Fleury reported that housekeeping bill, HB 1293 continues to move toward crossover to the Senate with an "Ought to Pass" from the ED & A Committee.

Sale of 1045 Elm Street Building**:** Next, Mr. Fleury informed the trustees that the Chase Block office building, currently leased and occupied in part by the MECRS staff, was sold at a public foreclosure auction on Monday, February 24th. The auction was over quickly and a Derry real estate broker/developer won the bid at $2.4 million. He informed the board that currently the MECRS office has not been contacted by the new owner or his representatives regarding future plans for the building. Mr. Fleury noted that Harbor One Mortgage Co, has occupied a large percentage of the building for over 15 years and will be officially vacated as of March 12th. He stated that the Board will be kept apprised as the situation unfolds.

Status of GL Replacement: Mr. Fleury informed the trustees that at the end of February, an account by account comparison of the legacy General Ledger accounts and the new software showed a perfect correlation. He indicated that work still remains to be done on one custom report but the requirements are well understood and work is underway. He also indicted that no specific timeline has been established for discontinuance of the old system and every precaution is being taken to be sure that the new software operates perfectly, before parallel operation of the legacy general ledger is discontinued.

Referring to the sale of 1045 Elm St. Chase Block, Trustee Gagne asked Mr. Fleury if the foreclosure sale of the building breaks the lease for the Retirement System's occupancy. Mr. Fleury responded that after a review of the lease agreement, he found no language in the current contract which addresses that issue. He noted that the contract was sent to legal counsel for further review. Counsel noted that he had advised Mr. Fleury that if the new landlord contacted the System, a detailed analysis of the System's rights under the lease could be undertaken.

Monthly Cash Balance Report:

Moving on to the next agenda item, Acting Chairman Sanders asked for a review of the Cash Balance Report for February, 2020.

Mr. Fleury reported a healthy cash balance of approximately $9.5 million for the period ending February, 2020. He indicated that routine capital calls have recently transpired with meaningful capital calls from two Investment Managers, Harbourvest and Searchlight. He also indicated that the Fund continues to receive distributions from maturing investments

Report of the Investment Committee:

Committee Chairman Ntapalis stated that Investment Committee will be scheduling an Investment Committee meeting in the middle of April, whereby the committee will conduct three manager interviews with non-core real estate/real asset managers, for a $5M commitment.

After brief discussion by the Investment Committee members and a review of their availability, it was agreed to schedule the next Investment Committee meeting for Thursday, April 16, 2020 at 8:30 a.m.

Report of Special Committee:

Succession Planning Committee Chairman Gagne reported that the committee had its first official meeting on February 11, 2020, whereby it was decided that competitive bids obtained through a Request for Proposal process will not be required. During that meeting, the Committee Chairman reported that the Executive Director was instructed to prepare a letter of recommendation on the firm he had drawn upon, for budget and planning purposes thus far. That requested letter and supporting documents, were subsequently provided to committee members via email on February 13th. Committee Chairman Gagne stated that after a review of all documentation, it is the consensus and the committee's recommendation for the full board's approval, that the Retirement System seek an engagement with the recommended firm to conduct the Executive Director search.

Committee Chairman Gagne then moved to contract with the recommended firm, (EFT Associates) to conduct the Executive Search, seconded by Trustee Ntapalis and passed by all those trustees present.

Committee Chairman Gagne then asked who is responsible for signing the engagement contract. Mr. Fleury responded that it is customary for the Chairman of the MECRS's Board to sign contracts.

Consent Agenda:

Acting Chairman Sanders entertained a motion to approve the consent agenda and asked if there were any items which the Trustees wished to remove. There being none, Trustee Gagne moved to accept the Consent Agenda, seconded by Trustee Bunker and passed unanimously by all those trustees present.

New Business:

Request for Transfer – Executive Director Fleury explained the housekeeping matter of transferring between accounts in order to have the 2019 Administrative Budget close out without any individual lines exceeding the appropriated amount. He requested that the board authorize the transfer of appropriations from areas of surplus to areas of deficit in the amount of $62,675.11.

Trustee Gagne moved to approve the requested housekeeping measure to transfer $62,675.11 from areas of surplus to areas of deficit seconded by Trustee Bunker and passed by all those trustees present.

Presentation of the 2019 Actuarial Valuation Preliminary Results – GRS Consulting Representatives Mr. Ken Alberts and Mr. Kevin Noelke were present to deliver the MECRS preliminary results of the 2019 Actuarial Valuation.

Mr. Alberts began by stating that the purpose of the valuation is to measure the System's funding progress and to calculate the employer contribution rate for the City's 2021 fiscal year. He explained that the valuation assumes the continuing ability of the Plan sponsor to make contributions necessary to fund the Plan.

He explained further, that the preliminary valuation results summarized in the report, involve actuarial calculations that require assumptions about future events. It is believed that the assumptions and methods used in the report are reasonable and appropriate for the purpose for which they have been used. However, he noted other assumptions and methods could also be reasonable and could result in materially different results. He also added that because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events.
Mr. Alberts asked the trustees to turn to page A-8 of the preliminary valuation booklet included in the board packets and noted that the computed employer contribution rate last year was 27.13% of covered payroll with a computed health subsidy contribution rate of 2.2% of covered payroll, total 29.33%.

Referring to the chart on page A-16, Mr. Alberts detailed the actual experience verses the expected experience of active members, members added to and removed from service, disabilities, and also highlighting the System's gains and losses. He noted that experience during the year ended December 31, 2019 was less favorable than assumed for both pension benefits and the health subsidy. He further explained that gains have downward pressure and losses have upward pressure on the contribution rate.

Mr. Alberts then detailed the payroll for the MECRS's Plan members in 2019 in the amount of $52,895,992 which is about 2.1% higher than the 2018 payroll, however, he indicated that the payroll did not increase as high as the 2.75% assumption because the City did not hire as many people as was assumed. Pay increased by 4.2% for those on the payroll. He further explained that the contribution rate is expressed as a percentage of payroll.

Turning the trustees' attention to the Development of Funding Value of Assets on Page A-4, Mr. Alberts addressed the differences between actual and assumed investment income, which are phased -in over a closed 5-year period. He explained that during periods when investment performance exceeds the assumed rate, the Funding Value of Assets will tend to be less than Market Value. During periods when the investment performance is less than the assumed rate, the Funding Value of Assets will tend to be greater than Market Value. He also noted that the Funding Value of Assets is unbiased with respect to Market Value. If actual and assumed rates of retirement income are exact for four consecutive years, the Funding Value will become equal to Market Value.

Mr. Alberts reported that the MECRS Market Rate of Return for 2019 was 16.2%, however due to the 5-year smoothing period, the Recognized Rate of Return is 5.6% compared to the 7% expected rate of return. Therefore, Mr. Alberts stated that from an actuarial value of asset basis, the Retirement System underperformed the 7% assumption, which was the biggest source of gains and losses, resulting in upward pressure on the contribution rate. Mr. Alberts continued by providing a detailed explanation on how the 5-year Phased-In Recognition of Investment Income attributed to the overall loss and upward pressure on the contribution rate. Mr. Alberts noted that the actuarial investment loss accounted for approximately one-half of the overall loss to the plan in 2019.

Referencing the Funding Value of Assets Chart and the $3.9M loss reported, Trustee Ntapalis asked Mr. Alberts to clarify the year of the $3.9M decrease in assets, to which Mr. Alberts responded that the loss in question was in 2015.

Referring to Comment G in the presentation, Mr. Alberts explained the load for the end of career payments affecting final average compensation is currently 10%. He then elaborated on these increases over the last 10 years, noting that the actual rate had been more than 12%.

Mr. Alberts called attention to Comment D in the presentation booklet entitled, Retiree Health Benefits. He stated that post-retirement health care benefits are funded in part by retired members (via co-pays, deductibles, etc.) but mostly by employer contributions to the Retirement System that are permitted, (up to certain limits) by the Internal Revenue Code. He then reported on the computation of how that health care contribution rate was determined, resulting in a rate of 2.29%.

Directing the board members to turn to page A-7, Mr. Alberts detailed the Computed Contributions for the City's Fiscal Year 2021. He reported a Health Care Contribution Rate of 2.29%, and an Employer Pension Rate of 28.20%, resulting in a Total Employer Contribution Rate of 30.49%.

Moving on, Mr. Alberts referred to previously adopted legislation, (SB 402) which allows members to upgrade their benefit multiplier under Chapter 159 from 1.5% to 2.0% per year for service rendered prior to 1999, if the members chooses to exercise that option. He reported that liabilities increased by $342,654 as a result of members electing to purchase this benefit during 2019 and he also noted an additional $171,327 in member contributions as a result of those elections.

Trustee Sanders asked Mr. Alberts, if the computed preliminary employer contribution rate include assumptions for the pending legislative initiative passing, to which Mr. Alberts responded that it does not include such assumptions. Trustee Sanders stated that he is assuming that the passage of the pending legislation would result in gains in future valuations. Mr. Alberts responded that all other things being equal, the new legislation would result in either a lower contribution rate or improved funding percentage if the Board chose not to reduce the contribution rate.

Mr. Alberts then called attention to the section of the valuation report that addresses the cost implications of any COLAs which are awarded. He noted that for each 1% ad-hoc COLA increase above the assumed COLA, the Unfunded Actuarial Accrued Liability will increase by approximately $2,129,000 and the employer contribution rate will increase by approximately 0.29% (based on the current payroll and a 20-year amortization period). He explained that in developing these costs for the ad-hoc COLA increase, it was assumed that the increase would be a one-time permanent increase to all members retired as of December 31, 2019 and the additional liability would be amortized over 20 years. It was also assumed the increase would be effective on January 1, 2020. He then reported the Pension Funded Status, slightly down from last year, at 61.9% and the Health Funded Status at 48.0%, increased from 46.3%.

Mr. Alberts stated that if no COLA were to be granted, it would impact the rate but not as an experienced gain. He explained that a gain or loss refers to the computation of accrued liability and he provided the board with different scenarios in how the pending legislation could have a bearing on the future computed employer rates.

The board and the GRS representatives continued to discuss at length, the remaining amortization period as well as other variables which drive the future contribution rate and the funded status of the Plan.

Attorney Rich asked Mr. Alberts to elaborate on the chart entitled Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule and Projected Funded Status.

Mr. Alberts explained that the chart is the 20-year amortization schedule for the pension only. The chart does not include gains or losses, including the gains and losses on the assets, and is simply a theoretical schedule going forward of how the funded status is expected to grow.

Attorney Rich referred to the comment on Page 7 of the presentation, whereby it states that the computed contributed rate of 30.49% is in compliance with the Board's Funding Policy. He then referenced the chart on page A-22, highlighting the projected funded status of the Plan to be 100% in the year 2041.

Attorney Rich stated that the current MECRS's Funding Policy says that the Board has an objective to reach 75% funding on or before December 31, 2025, however, the amortization schedule, indicates a 66.8% funded status in 2025. He then asked Mr. Alberts if the Board should revisit the current funding objective in the Funding Policy and if the 75% funding is now unattainable.

Mr. Alberts reminded Attorney Rich that the amortization chart is theoretical however, he suggested that the Trustees might want to review their Funding Policy.

Trustee Gagne asked Mr. Alberts of all the assumption used in the valuation, which one has been consistently different and has the biggest impact on the valuation results.

Mr. Alberts responded that the rate of return has the biggest impact and has been the biggest driver of any losses. He directed the trustees to turn to page A-4, Development of Funding Value Assets, which provides the board with the history of recognized rates of return.

Mr. Alberts stated that following the last experience study, the Trustees had discussed doing an experience study in three years rather than five especially if the load for the end of career payments did not track the revised 10% assumption as has been the case. The Trustees discussed with Mr. Alberts a new experience study. Mr. Fleury noted that a new experience study was not in the 2020 MECRS budget. Trustee Ntapalis moved to do an experience study in 2020 as described by Mr. Alberts, seconded by Trustee Gagne and passed by all those trustees present.

Mr. Alberts having concluded his presentation and there being no further questions from the board, Trustee Gagne moved to accept the preliminary valuation results as presented, seconded by Trustee Bunker and passed by all those trustees present.

Mr. Alberts and his colleague thanked the trustees for their time and departed.

Motion to Adjourn:

Having conducted all the business of the day, Trustee Gagne moved to adjourn the meeting at 9:51 a.m., seconded by Trustee Bunker and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury
Executive Director