March 15, 2021
Minutes #582

Special Mtg. Minutes of the Board of Trustees' Meeting -1-

Special Notice: Due to the COVID-19 outbreak, this meeting of the MECRS Board of Trustees was conducted exclusively as a conference call due to social distancing requirements.

Pursuant to RSA 91-A:2 III (B), Executive Order 2020-04, Section 8 and Emergency Order #12, Section 3, Chairman Molan has determined that an emergency exists due to the worldwide COVID-19 pandemic and, therefore, a physical presence of a quorum is not practical.

Conference call connection details will be provided to invited participants, and members of the public seeking to attend should email their request to WShea@ManchesterRetirement.org no later than noon on March 12, 2021. Please note that portions of this meeting may consist of a meeting with counsel or conducted in non-public session. Should that occur, anyone other than invitees will be disconnected from the call at that point in the meeting. Members of the public who wish to be connected back to the meeting at the conclusion of the non-public session should so indicate in their email request and they will be rejoined when the meeting re-enters public session.

Call to Order: Chairman Molan called the meeting to order at 8:33 a.m.

Before moving forward with the agenda items, Mr. Shea referenced the SPECIAL NOTICE regarding the COVID-19 Pandemic, and read it into the minutes.

Linked Via Conference Call:

Executive Director Shea conducted a roll call for those participating via conference call.

Participating Remotely: Chairman Molan, Trustee Ntapalis, Trustee Bunker, Trustee Ciechon Trustee Wickens and Mayor Craig. All trustees stated that they were alone during the remote session, with the exception of Mayor Craig and Trustee Wickens. Mayor Craig indicated that her Chief of Staff Lauren Smith was present and Sharon Wickens indicated that her Deputy Finance Officer Michele Bogardus was with her, during the remote session.

Also linked remotely in addition to the Executive Director Mr. William Shea were, MECRS staff member Suzanne Wilson, Attorney John Rich from McLane Middleton Professional Association, NEPC representatives, Mr. Sebastian Grzejka and Mr. Kevin Leonard, Berry Dunn Representatives Mark LaPrade and Tyler Butler, Gabriel Roeder Smith & Co. representatives Mr. Ken Alberts and Kevin Noelke, as well as retiree/citizen Mr. Gerry Fleury

Not Participating: Trustee Bozoian

Special Mtg. Minutes of the Board of Trustees' Meeting -2-

Gabriel, Roeder, Smith & Co – Mr. Ken Alberts was present during the remote meeting to deliver updated 2020 preliminary actuarial results, commissioned by the Board at the previous Board of Trustees meeting held on March 9, 2021.

Mr. Alberts first provided background information, stating that the report was prepared at the request of the Board and is intended for use by the Board and those designated or approved by the Board. He stated that the slide presentation contains alternative employer contributions determinations based on funding policies that would smooth the employer contribution change, due to the new methods and assumptions adopted by the Board pursuant to an experience study.

Referencing the actuarial presentation in the Board's packets, slide three, Mr. Alberts noted that actuarial assumptions and methods (which were adopted by the Board) were the same as those used for the December 31, 2020 preliminary actuarial valuation of the City of Manchester Employee's Contributory Retirement System. He summarized those assumptions as follows:

1. Assumed rate of return: 6.75%
2. Assumed wage inflation: 2.50%
3. Assumed price inflation: 2.00%
4. Assumed administrative expense: 1.25%
5. Assumed rate of mortality: Versions of the Pub-2010 General Mortality Tables with a 20-year static projection using the MP-2019 projection scales
6. Actuarial cost method: Individual Entry Age
7. Current amortization policy: Level percent of payroll, 19-year (remaining) closed period

Moving on to slide four, Mr. Alberts noted the current total employer contribution rate of 35.46%, delivered during the 2020 preliminary valuation as of December 31, 2020 in addition to three alternative options for the Board's consideration.

Mr. Alberts then provided detailed calculation results in developing each alternative. Under alternative one, he explained, the financing for unfunded actuarial accrued liabilities (UAAL) is broken into two layers as of December 31, 2020. Layer 1 is a 19-year closed amortization of the UAAL as of December 31, 2020 before including the additional liabilities resulting from the change in actuarial methods and assumptions adopted by the Board. Layer 2 is a 25-year closed amortization of the change in accrued liabilities resulting from the change in actuarial methods and assumptions adopted by the Board. Alternate one results in an employer contribution rate of 34.77%. Alternative two, which is a fresh start on the market value of assets would reduce the employer contribution rate to 33.33%. Alternative three, which is similar to Alternate 1 in that a layered approach is used, with a grading into the higher contributions over a 5 year period, would further reduce the employer contribution rate down to 32.00%.

Special Mtg. Minutes of the Board of Trustees' Meeting -3

Mr. Alberts also reported the estimated contribution dollars for each alternative. He stated that the effects that these alternatives have on the total contribution is limited to the portion of the contribution for the amortization of the Unfunded Actuarial Accrued Liability (UAAL). The normal cost portion of the contribution, which has increased after the results of the recent experience study, is not affected by any of these alternatives.

Mr. Alberts pointed out that Alternative one and Alternative three do not change the expected present value of future employer contributions, which means that the decrease in employer contributions in the first year will result in increased future employer contributions. Alternative two would result in missing out on the recognition of investment income in the future that the employer contributions would have received otherwise.

Mr. Alberts noted that utilizing a layered approach would have been recommended at some future point in any event to avoid contribution rate volatility. Trustee Ntapalis asked Mr. Alberts to clarify the amortization period of each alternative presented.

Mr. Alberts directed the Trustee's attention to slides six, seven, and eight of the presentation, inclusive of charts of the amortization schedules and projected funded status and he then provided a detailed explanation of each alternative.

Mayor Craig asked Mr. Alberts, what the estimated increased cost would be for the City for the upcoming fiscal year, for each of the alternatives, to which Mr. Alberts responded, that for the first fiscal year, the employer contribution is estimated to be about $18M.

Mr. Fleury stated that the MECRS tracks the contributions between the City and the enterprise funds, therefore the cost could be calculated between Airport, Water Works, EPD, Parking and the City as a whole.

Trustee Wickens informed the Board members that she calculated the City's estimated cost for alternative two, resulting in $1.16 million as well as the estimated cost for alternative three, which resulted in $715,000.

Trustee Wickens then referred to alternative two and the next fiscal year and asked if that increase would be for the next 5 years.

Mr. Alberts stated that the increase for alternative two would double each year.

Mayor Craig stated she wants the MECRS Board to have a full understanding of the three alternatives presented and the significant impact that any of those alternatives would have on the City's budget.

Special Mtg. Minutes of the Board of Trustees' Meeting -4

Regarding the smoothing process for public pension plans, Trustee Ntapalis asked Mr. Alberts which alternative presented would least negatively impact the System and its membership over time.

Mr. Alberts responded that it is difficult to answer that question because it's contingent on future experience. Mr. Alberts did state however that his preference would be alternative two, the asset smoothing option and his second preference would be alternative one.

Mr. Alberts noted the complexity of the presented alternatives and stated that one of the important things the Board should recognize is that each of these alternatives are contingent on no future gains or losses. The downside would be slowing down contributions and if the Plan were to experience losses during the upcoming years, it may amplify those contribution rate increases that are currently being experienced.

Attorney Rich asked Mr. Alberts, if in the next year, the MECRS Fund was not to have investment performance that would meet its assumption rate, coupled with the Board selecting alternative two when would the 5-year smoothing be instituted to mitigate the impact of the investment loss?

Mr. Alberts explained that the Assets Valuation Method would not change. Alternative two resets the initial period to December 31, 2020 and resets the Funding Value as of December 31, 2020 to the Market Value as of December 31, 2020. In subsequent valuations, the current method will be used to determine the Funding Value of Assets.

Mr. LaPrade from the audit firm Berry Dunn referred to page 7 of the Alternative Funding presentation and he asked Mr. Alberts for confirmations that selecting alternative two would not create the future volatility that alternative three does, to which Mr. Alberts stated is a correct observation.

Mr. Alberts stated that he is confident in stating that if either alternative one or alternative two were adopted that there would not be an impact on the Government Accounting Standards Board (GASB) reporting and he asked Mr. LaPrade to confirm his statement.

Mr. LaPrade stated the fact that market value cannot be changed, therefore alternative two should not impact the GASB accounting, however if total pension liability is changed in any way, that is where GASB accounting could be affected. Alternative three could be considered an assumption change for GASB 68. He recommended that the City consult with its auditor if Alternate three is selected.

Mr. Alberts asked the Board to turn to page 11 of the slide presentation which detailed a chart on the pros and cons of each alternative Employer Contribution Determination and he summarized each option.

Special Mtg. Minutes of the Board of Trustees' Meeting -5

Trustee Ntapalis asked Mr. Alberts if alternative three was a non-standard method and was asking if we are just looking at alternatives one and two. Mr. Alberts noted that he would gravitate away from alternative three but it was not unreasonable.

Mr. Alberts asked Attorney John Rich if, once the Board adopts an employer contribution rate, does the City has any legal recourse.

From the legal perspective, Attorney Rich stated that under the current statute the Board adopts the valuation and the City makes the contribution based on the valuation. The MECRS's Board has to be comfortable that the actuarial valuation is done according to sound actuarial valuation principles.

After a total review of all alternatives on the table, Mr. Shea asked Trustee Wickens if she was comfortable in understanding how each alternative would affect the City contribution rate moving forward.

Trustee Wickens replied that she understood the methodology of each alternative and the impact it would have on the both the Retirement Fund and the City budget.

Mr. Alberts had stated that the Board may want to consider extending the period between the valuation date and the effective date of the contribution rate. Trustee Wickens stated that a delay may add value, but that the reduction in the plan's rate of return is also affecting the City's rate.

Mayor Craig stated that she agreed with Trustee Wickens and it's important to note that an COVID-19 has impacted City vacancies, hiring, and non-essential spending, and that there is a tax gap of $4 million between City and schools. Trustee Ntapalis asked Mayor Craig if the stimulus will help the schools. She noted that the stimulus will help the schools but that the City cannot use one-time funds to fund operations.

Trustee Bunker asked Mr. Alberts what other municipalities were doing in regards to their funding needs and amortization schedules. Mr. Alberts noted that there have been some changes in the industry, that over time and that the amortization period should be smaller than the employers' average working years for its employees, and that twenty-five years is reasonable. Executive Director Shea asked Mr. LaPrade to confirm Mr. Alberts statements regarding practices in other municipalities. Mr. LaPrade stated that he agreed with Mr. Alberts assumptions.

Trustee Ntapalis asked Chairman Molan to provide his thoughts on the alternatives since they are unprecedented.

It was noted by Executive Director Shea that Chairman Molan had lost connectivity to the meeting.

Before Mayor Craig had to leave the remote session, Mayor Craig stated that she felt the presentation to be worthwhile and she appreciated all the work that went into the presentation results. She then indicated that she was hoping the three alternative determinations would result in more of a savings, but that she was confident that the Board decision would be the best option for both the City and the Retirement Fund.

Trustee Ntapalis asked if a roll call vote could be conducted later in the day since Chairman Molan was no longer present in the meeting. Mr. Shea noted that a quorum was currently present and that a motion would need to be made to move the meeting to the afternoon. Mr. Rich stated that if the City wants certainty of the contribution rate, that the Board can adopt either the current proposal or one of the alternatives right now, or that there could be further discussions at the April meeting. Trustee Bunker stated to Trustee Ntapalis that the Board should move forward. Trustee Wickens stated that she agreed to have a vote this morning since a delay to April isn't going to "do the Mayor any good."

Trustee Ciechon asked what the best alternative or solution would be for the City. Mr. Alberts stated that his first responsibility is to the trust and that the best approach is the current recommended policy without adopting either Alternatives one through three.

At this point in the meeting Mr. Shea asked former Executive Director Fleury to comment on the proposed alternatives, to which Mr. Fleury responded that he would not be in favor of alternative two, with a funding status of 62.8% and it may create an appearance of a higher funded status, but that alternative two looked to be the best option if he had to choose an alternative.

Trustee Ntapalis moved to adopt the 2020 preliminary valuation inclusive of the current funding policy, with the employer contribution rate set at 35.46%, which was seconded by Trustee Bunker and passed by all those trustees present.

Executive Director Shea conducted the roll call vote.

Ayes: Trustee Ntapalis and Trustee Bunker.

Abstentions: Trustee Ciechon

Nays: Trustee Wickens

Motion Carried

Mr. Alberts asked the Board if they would like to consider extending the period between the valuation date and the effective date of the contribution rate to two years and instituting the year and six month delay in the process.

After a brief discussion, the Board directed Mr. Alberts to present the present a pros and cons chart inclusive of the impact of extending the time period of setting the employer contribution rate for which Mr. Alberts agreed to do so and stated that he will include a comment in the final valuation relative to possibly extending the time period for the funding policy.

Motion to Adjourn:

Trustee Bunker moved to adjourn the meeting at 9:28 a.m., seconded by Trustee Wickens.

Executive Director Shea then conducted a roll call vote.

Ayes: Trustee Ntapalis, Trustee Bunker, Trustee Wickens and Trustee Ciechon

Nays: None

Motion Carried

Respectfully Submitted,

William T. Shea
Executive Director