

March 21, 2023  
Minutes #605

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Chairman Molan called the meeting to order at 8:34 a.m.

**Present:** Trustees: Richard Molan, Richard Bunker, Mathew Ciechon, and Sharon Wickens

MECRS Staff: Melanie Murray, Kimberly Barrett, and Suzanne Wilson

**In Attendance:** Attorney John Rich from McLane Middleton, Professional Association, and Mr. Mark LaPrade from Berry Dunn

**Not Participating:** Donald Pinard, Michael Carpenter, and Mayor Joyce Craig

**Linked Remotely:** Kevin Noelke from Gabriel, Roeder, Smith & Co., Sebastian Grzejka and Kevin Leonard both from NEPC, and Retirees Gerard Fleury and Harry Ntapalis

**Approval of the Minutes of the Previous Board Meeting:**

Chairman Molan entertained a motion to approve the previous board meeting minutes of February 22, 2023.

Trustee Bunker moved to approve the minutes of February 22, 2023, seconded by Trustee Wickens. The motion was approved by all present.

**Approval of the Immediate Meeting Agenda:**

Chairman Molan entertained a motion to approve the immediate meeting agenda.

Trustee Bunker moved to approve the immediate meeting agenda, seconded by Trustee Wickens, and approved by all present.

**New Business:**

**2022 Preliminary Valuation:**

Gabriel, Roeder, Smith & Co. representative Kevin Noelke was linked remotely to deliver the 2022 preliminary actuarial valuation results and to discuss the proposed study regarding the actuarial basis for the optional forms of benefit payments, outlined in their February engagement letter.

First, Mr. Noelke reminded the Board that the Funding Objective of the Retirement System is to establish and receive contributions which, when expressed as a percent of active member payroll, will remain approximately level from year to year and will accumulate sufficient assets over each member's working lifetime to finance promised benefits throughout retirement.

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Mr. Noelke explained that the Retirement System is supported by member contributions, City contributions, and investment income from Retirement System assets. Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to cover the actuarial present value of benefits allocated to the current year and finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (i.e., the Unfunded Actuarial Accrued Liability).

Mr. Noelke reported that the computed pension contribution rate for the City's fiscal year ending June 30, 2024 is 33.24% of covered payroll, and the computed health subsidy contribution rate for the City's fiscal year ending June 30, 2024 is 2.86% of covered payroll, which results in a 36.10% total employer rate.

The contribution rates, Mr. Noelke added, are sufficient to finance the employer Normal Cost and to amortize the UAAL as a level percent of payroll over a period of 17 years for pension and health subsidy benefits.

Referring to page 2 of his presentation Mr. Noelke detailed the Computed Contributions for the City's fiscal year ending June 30, 2024 resulting in a pension funded status rate of 62.0% and the health funded status rate of 51.4%.

Page 3 of the preliminary valuation, Mr. Noelke stated reflects the computed contributions rate of 36.10%, a combination of the employer pension total and health contribution. The major factor in the rate increase Mr. Noelke reported is the experience loss of 1.24%.

Mr. Noelke then provided the trustees with historical computed contributions, pointing out the total rates from valuations of 2020, 2021 and 2022 as 35.46%, 34.86% and 36.10% respectively. He noted that the decrease in the rate in 2021 was mainly attributed to the positive financial situation, while the increase in of the rate in 2022 was mostly due to the investment losses.

Moving on to the Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule and Projected Funded Status, Mr. Noelke stated that the UAAL schedule estimates that the Plan will be 100% funded by 2041, which is before to the MECRS Funding Policy of 2042. Mr. Noelke noted that a goal was that the Plan would be 75% funded by 2030; however, the updated projection indicates that the Plan is projected to be 77% funded by 2034.

Mr. Noelke referred to page 6, Summary of Current Asset Information, highlighting the market value totals for 2021 as \$307,390,606 and 2022 as \$263,660,164, which is driving the results of the preliminary valuation.

Attorney Rich referred to the chart, Summary of Current Asset Allocation, new line item, Receivable and Tax Reclaims and he asked Mr. Noelke to explain.

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Ms. Murray explained that that line represents an investment from which the System withdrew was awaiting proceeds, which is not something that necessarily happens every year.

Mr. Noelke then reviewed the detailed chart of page 7 entitled "Development of Funding Value of Assets". He explained that differences between actual and assumed investment income are phased-in over a closed five-year period. For 2022, this results in a recognized rate of return of 4%, with a Market Rate of Return of -13.4%

Continuing through his report, Mr. Noelke explained the Allocation of the Funding Value of Assets year ended December 31, 2022, noting that for pension the funded status went down by .2% to 62% and health increased from 49.3% to 51.4%.

Page 9, Mr. Noelke stated, simply provides a historical schedule of the Plan's funded status over the last 10 years.

Mr. Noelke detailed the derivation of the experience gain (loss) on page 10, along with a year-by-year comparative schedule. He reported a loss of 8,812,433 for pension and a loss of 108,356 for health, again attributing it to the 2022 investment losses.

Wrapping up his report, Mr. Noelke referred to the Comment section of the report which provides the Board with an additional description of certain items. He reviewed Comment E relating to end of career payments noting that the 12% load is close to the 13.1% 5-year average. Mr. Noelke asked if there were any comments regarding his report.

Trustee Bunker inquired about the assumed COLA is for 2023, to which Mr. Noelke responded the assumed COLA is set at 1% and the actual COLA amount in 2022 was 1.15%.

Concluding the delivery of the preliminary valuation, Mr. Noelke referred to the proposed Option Factor Study included in the valuation engagement.

As a reminder, Mr. Noelke stated that every 5 years GRS reviews the calculation of retirement benefit amounts which involves the computation of survivor benefit options. He listed the benefit payment options in addition to the 10-year certain and life option. He explained that if a retiring member elects an optional form of benefit, the straight life benefit is multiplied by the appropriate option factor to produce the optional form of benefit. The factors are based on actuarial assumptions intended to generate present values that are roughly equivalent to the present value of the straight life benefit. Currently, option factors for survivor benefits are calculated using a 7.5% interest rate assumption and the 1983 Group Annuity Mortality Tables, with a unisex blend that varies by option.

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Mr. Noelke commented that the Board may wish to revise the actuarial basis for the optional forms of payment to correspond to the mortality and investment return assumptions adopted for valuation purposes. He stated that the engagement letter dated February 6, 2023 outlines the scope of services for this purpose.

After brief discussion by the Board, Chairman Molan stated that the trustees will discuss the proposed study and Ms. Murray would be getting back to Mr. Noelke on their decision.

Mr. Noelke provided a timeline and stated that upon approval of the preliminary valuation result, he will then proceed with the final valuation, which would be submitted within a month and he will begin work on the GASB reports, which would be submitted by April or May. Chairman Molan thanked Mr. Noelke, who then logged off of the meeting.

Chairman Molan entertained a motion to approve the 2022 preliminary valuation results.

Trustee Wickens moved to approve the 2022 preliminary valuation, seconded by Trustee Ciechon and the motion passed unanimously by all those trustees present.

**Citizens Comments:**

Chairman Molan asked retirees Mr. Fleury and Mr. Ntapalis if they had any comments to which they responded that they had no comments.

**Report of the Executive Director:**

2022 Year-end Processes: Ms. Murray reported that she had finished preliminary preparation of the annual report for 2022, with the exception of the valuation information. Once the Board accepts the results from GRS, she stated that she will update that last section. Ms. Murray also noted that the annual audit is scheduled for the week of April 17<sup>th</sup>, and that the System will be well prepared for their review.

2023 COLA: Ms. Murray reminded the Administrative & Accounting Committee that they will need to meet to discuss the 2023 COLA, now that the Board has accepted the valuation results. She reported that she has already received a letter from one retiree, urging the Board to award an amount more in line with inflation. She informed the Board that she did assure the retiree that, while sympathetic to his concerns, the Board must maintain fiduciary responsibility and work within the limits of the Administrative Rules regarding the matter.

Office Lease Renewal: In closing her report, Ms. Murray informed the Board that the lease for the System's current office space was established in 2018 for a 5-year term with two renewals. As we are quickly approaching the end of the initial term, Ms. Murray reported that she has

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reached out to the leaseholder to secure the renewal. At this time, she noted that she is awaiting their follow up.

**Report of the Cash Balance:**

Ms. Murray reported that the cash balance starting the month of February was slightly over \$7 million, ending the month with a balance of slightly over \$6 million. Ms. Murray noted that February was the first month that pension payments exceeded \$2 million. She mentioned that March is a 5-week payroll month with more contributions coming in and there has been only one capital call request so far in March.

**Report of the Investment Committee:**

Committee Chairman Bunker stated that he would be delivering two Investment Committee meeting reports and he began with the meeting of February 22, 2023, reporting that the Investment Committee met as scheduled on Wednesday, February 22, 2023 to review the asset allocation and updates to the portfolio with advisors from NEPC.

While there were no recommendations to modify the asset allocation structure at that time, he stated, there was a suggestion by NEPC that MECRS could achieve a lower fee structure for similar returns on the index funds by moving the S&P 500, International Equity, and TIPS investments from Vanguard to Fidelity. After discussion, a motion was made by Trustee Wickens, seconded by Trustee Pinard, and unanimously affirmed by all members present to recommend that the Board of Trustees approve the transition of the 3 index funds from Vanguard to Fidelity. Specifically, transfer the investment in Vanguard Institutional Index Fund to the Fidelity 500 Index Fund, the Vanguard Total International Stock Index Fund to the Fidelity Total International Index Fund, and the Vanguard Inflation Protected Securities Fund to the Fidelity Inflation Protected Bond Index Fund.

Additionally, he reported, NEPC proposed four alternatives for the System's investment in small cap equity. The committee will meet in March to evaluate three of the four, with the goal of selecting one to replace the investment in Rothschild.

Trustee Bunker then moved to accept the recommendation of the Investment Committee to transition of the three index funds from Vanguard to Fidelity. Specifically, transfer the investment in Vanguard Institutional Index Fund to the Fidelity 500 Index Fund, the Vanguard Total International Stock Index Fund to the Fidelity Total International Index Fund, and the Vanguard Inflation Protected Securities Fund to the Fidelity Inflation Protected Bond Index Fund. Trustee Ciechon seconded the motion, and it passed unanimously by all trustees present.

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Moving on, Committee Chairman Bunker reported the Investment Committee met on Monday, March 20, 2023 at 9:00 a.m. to conduct manager interviews of Boston Trust Walden, Earnest Partners, and Segall Bryant, as recommended by advisors at NEPC.

Committee Chairman Bunker reported that all three small cap fund managers provided an overview of their firms and presentations of their funds. The interviews were conducted in non-public session. After the completion of the presentations and returning to public session, Committee Chairman Bunker informed the board that a motion was offered by Committee Member Molan to make a recommendation to the Board of Trustees that MECRS liquidate investment in Rothschild of approximately \$16 million, and commit those funds as investment in Boston Trust Walden, subject to satisfactory review by legal counsel. This drew a second from Committee Member Pinard. The vote was all in favor (Wickens, Pinard, Ciechon, Molan, and Bunker).

Committee Chairman Bunker then moved to accept the recommendation of the Investment Committee to liquidate investment in Rothschild of approximately \$16 million, and commit those funds as investment in Boston Trust Walden, subject to satisfactory review of the investment documents by legal counsel. Trustee Wickens seconded the motion and it was passed unanimously by all those trustees present.

**Consent Agenda:**

Chairman Molan entertained a motion to accept the Consent Agenda items.

Trustee Wickens moved to accept the Consent Agenda, seconded by Trustee Ciechon, and passed unanimously by all those trustees present.

Chairman Molan asked Mr. Grzejka from NEPC if he had any comments before the adjournment of the meeting.

Mr. Grzejka mentioned that for the upcoming meeting he would have a recent performance report for the Board. He also stated that the MECRS portfolio may see more capital calls due to the current market environment. Also, he stated that next month the Board may also take a look at rebalancing the portfolio.

Chairman Molan then informed the trustees that he would not be available for the next Board of Trustees meeting on April 11, 2023. The trustees continued to discuss their availability and they were all in agreement to re-schedule the next BOT meeting on Wednesday, April 19, 2023 at 8:30 a.m.

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**Motion to Adjourn:**

With no other business to come before the Board, Chairman Molan entertained a motion to adjourn the meeting.

Trustee Bunker moved to adjourn the meeting at 9:16 a.m., seconded by Trustee Wickens, and passed unanimously by all those trustees present.

Respectfully Submitted,

Melanie Murray  
Executive Director