

March 19, 2025
Minutes #628

Minutes of the Board of Trustees' Meeting -1-

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

Present: Trustees: Richard Molan, Richard Bunker, Sharon Wickens, and Peter Capano. Mathew Ciechon arrived at 8:35 a.m. and Michael Carpenter arrived at 8:39 a.m.

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

In Attendance: Attorney John Rich from McLane Middleton, Sebastian Grzejka from NEPC, and Samantha Edie from Berry Dunn

Linked Remotely: Kevin Noelke from Gabriel, Roeder, Smith & Co.

Absent: Mayor Jay Ruais

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous board meeting minutes of February 11, 2025.

Trustee Bunker moved to approve the minutes of February 11, 2025, seconded by Trustee Wickens, and passed by all those trustees present.

Approval of the Immediate Meeting Agenda:

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

Trustee Wickens moved to approve the immediate meeting agenda, seconded by Trustee Capano, and passed by all those trustees present

Report of the Executive Director:

2024 Year End: Ms. Murray reported that staff has been moving right along in the Year End process. The preliminary valuation will be presented later in the meeting. Also, she stated that the Annual Report has been preliminarily compiled, and a draft has been submitted to the auditors, including everything but the final valuation results.

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Pension Software Vendor: Ms. Murray was pleased to report that the outstanding programming issues have been completed and put into production last week. Those changes have incorporated the last details from the City's updated payroll export, so that process should go more smoothly going forward.

Benefit Fairs: In closing her report Ms. Murray informed the Board that the City Human Resources Department has scheduled their annual benefits fairs in May. The fairs will span different time periods, over a few days, with two held at the Department of Public Works and third one at the Health Department. MECRS will once again host a table to connect with members, provide information, and answer questions.

Trustee Capano asked Ms. Murray for the specific dates and times of Benefit Fairs, for which Ms. Murray provided the following schedule.

May 6th 12:00 – 4:00 at the DPW
May 8th 7:00 – 11:00 at the DPW
May 14th 10:00 – 2:00 at the Health Dept.

Report of the Monthly Cash Balance:

Ms. Murray reported a cash balance of just over \$9 million beginning the month of February. During the month she identified a number of distributions that were received. There were no capital calls. The month ended with a healthy balance of just over \$9.7 million. She noted that there have been a few capital calls so far in the month of March, including one of just under \$500 thousand relating to the new investment in Heitman.

Trustee Capano asked Ms. Murray to explain the capital call and distribution process.

Ms. Murray referred to the bottom portion of the Monthly Cash Management Report, Future Funding Commitments, where the managers are listed as well as their original funding amount. The balance column, she explained, indicates the amount yet to be called to satisfy the full funding. She stated that the investment manager requests, or "calls", on the original committed amount as they find suitable investment opportunities. Ms. Murray pointed out that the investment managers showing a zero balance have been fully funded.

Trustee Wickens moved to receive and place on file the Cash Balance Report, seconded by Trustee Ciechon, and passed by all those trustees present.

Consent Agenda:

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

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Trustee Bunker moved to accept the Consent Agenda, seconded by Trustee Capano, and passed by all those trustees present.

New Business:

Mr. Kevin Noelke from Gabriel, Roeder, Smith & Co was linked remotely to deliver the 2024 Preliminary Valuation results - Mr. Noelke first explained that the report calculates the employer contribution rate for the City's fiscal year ending June 30, 2026. Mr. Noelke reminded the Board that the funding objective of the Retirement System is to establish and receive contributions which, when expressed as 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.

Mr. Noelke went on to report the computed pension contribution rate for the City's fiscal year ending June 30, 2026 is 32.24% of covered payroll. The computed health subsidy contribution rate for the City's fiscal year ending June 30, 2026 is 1.62% of covered payroll, totaling 33.86%. These contribution rates, he stated, are sufficient to finance the employer Normal Cost and to amortize the Unfunded Actuarial Accrued Liability as a level percent of payroll over a period of 15 years for pension and health subsidy benefits. He referred to the chart on page 2 of the presentation, noting a funded status of 63.9% for Pension and 67.6% for Health.

Moving on to page 3, Contribution Rate Reconciliation, Mr. Noelke noted that this year's result 33.86% rate is a decrease from the prior year of 34.71%. He explained that the main reason for the decrease is that payroll increased more than expected, which means contributions were more than expected, resulting in a reduction of the contribution rate.

Mr. Noelke moved to the "Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule and Projected Funded Status (Pension Only)" chart on page 4, describing it as the "road map" for the future. He identified the MECRS objective of attaining 75% funding status by 2030 and 100% funding by 2042, with the funding projected to be at 97% by 2040. He highlighted the drop in estimated contribution rates after that benchmark. He noted the increase in the next two years is based on the impact of the phased in losses from 2022, adding that this is something being experienced by all pension plans. Mr. Noelke pointed out that while the contribution rate for out years is level, the required dollar contribution is projected to increase based on a 2.5% wage inflation assumption.

Next Mr. Noelke referenced the graph on page 5, Summary of System Liabilities and Resources. He explained that the graph provides a snapshot of the pension and health liabilities and resources as of the valuation date. He explained that the graph demonstrates that the retiree and vested terminated liabilities are almost fully covered by the current assets, and the active accrued

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benefits make up the Unfunded Liability, and the active future benefits make up the future contribution amounts. He noted the graphical depiction is quite similar for Health.

Turning to page 6, Mr. Noelke indicated the Valuation assets increased from \$311 million in 2023 to \$328 million in 2024. The recognized rate of return, or smoothed return, decreased from 7.0% in 2023 to 6.4% in 2024. Because the rate is less than the assumed rate of 6.75%, resulting in a slight investment loss. He explained the smoothing in further detail on the next page, identifying the Market Rate of Return for the year at 10.1%. He reiterated that this is common throughout all the plans they service, because of the losses experienced in 2022. He highlighted that the 2022 loss will continue to impact the funding value of asset for the next two years.

Mr. Noelke referenced pages 8 and 9 demonstrating the slow, but sure, progress of the funding, with pension increasing from 62.7% funded in 2023 to 63.9% in 2024. On page 10, he explained the expected Actuarial Liability as compared to the actual, with an experience loss of nearly \$5 million for pension.

Mr. Noelke then referenced the Comments section of the presentation which provides the details of what happened this past year. Comment B indicates that experience was less favorable than assumed, mostly because of higher than expected salary increases. In addition, there was a very small loss due to retiree mortality. Liability losses were slightly offset by small gains due to more terminations than expected and lower benefits at retirement than expected for new retirees. The Plan experienced a recognized investment loss, as explained earlier.

Mr. Noelke referred to Comment D stating that there were no assumption or method changes for this valuation. However, he stated, GRS is recommending that a 5-year Experience Study be completed, with implementation prior to the December 31, 2025 valuation. The prior Experience Study was done after completion of the December 31, 2019 valuation. Mr. Noelke referenced the earlier comments regarding the Actuarial Liability experiencing consistent losses and explained that it is an indication that the experience should be studied and assumptions would likely need to be adjusted accordingly.

Mr. Noelke continued to Comment E, explaining the assumption for end of career payments was increased last year from 12 to 13%. He referenced the history of the previous 10 years with the average exceeding the assumption. However, he referenced the earlier Comment B regarding benefits being lower than expected. He explained that something else is driving that trend, and the experience study would look at that as well as the other assumptions. He referenced another example on page 20, where there were 246 actual out of 264 expected retirements, and 524 actual versus 430 expected withdrawals.

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In concluding his report, Mr. Noelke stated that he recognizes that a study would likely result in an increase to contributions, adding that if the Board chooses to forgo the study this year, GRS will likely recommend it again next year.

Attorney Rich asked about the Investment Return references in Comment G and whether GRS would likely recommend a decrease in the assumed rate of return. Mr. Noelke offered that he has noticed the price inflation is lower for MECRS than other plans, and they could consider recommending keeping it or even increasing it, which is not common.

Trustee Ciechon asked about the impact of the implementation of the City employee Compensation Study. Chairman Molan confirmed that depending on the action of the BMA, salaries could increase significantly.

With no further questions, Chairman Molan excused Mr. Noelke, who thanked the Trustees for their time and offered his availability should any questions arise. Executive Director Murray advised she would be in touch regarding the Board's resolution on the Preliminary Valuation as well as the Experience Study.

Request for Transfer – Ms. Murray explained that she is requesting overall transfers of \$28,145.24 among budgeted accounts to close out the 2024 Administrative Budget, without any individual lines exceeding the appropriation. She noted that this is an annual, customary event to transfer previously approved and budgeted amounts from areas of surplus, to areas where expenses have exceeded expected and budgeted amounts in 2024. She noted impacted areas were mostly due to the increase in attendance of conferences as well as the legal costs associated with the proposed legislation.

Chairman Molan asked the Board if they had any questions regarding the transfer, of which there were none.

Trustee Ciechon moved to accept the Request for Transfer as stated by Executive Director Murray, seconded by Trustee Capano, and passed by all those trustees present.

Chairman Molan entertained a motion to accept the Preliminary 2024 MECRS Valuation. Trustee Wickens moved to accept the 2024 Preliminary Valuation, seconded by Trustee Bunker, and passed by all those trustees present.

After brief discussion regarding the GRS recommendation of an Experience Study, Trustee Wickens made a motion to request GRS conduct the recommended 5-Year Experience Study, seconded by Trustee Capano, and passed by all those trustees present.

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Ms. Murray asked Committee Chairman Ciechon to schedule an Administrative & Accounting Committee meeting to form a recommendation for the annual retiree COLA. After a review of the committee members' availability, A&A Committee Chairman Ciechon agreed to a meeting on Tuesday, April 1, 2025 at 9:00 a.m.

Motion to Adjourn:

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

Trustee Capano moved to adjourn the meeting at 9:14 a.m., seconded by Trustee Bunker, and passed by all those trustees present.

Respectfully Submitted,

Melanie Murray
Executive Director