

March 10, 2026
Minutes #639

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Call to Order: Chairman Molan called the meeting to order at 8:28 a.m.

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

MECRS Staff: Melanie Murray, Kimberly Barrett and Karianne MacIntosh

In Attendance: Attorney John Rich - McLane Middleton
Sebastian Grzejka -NEPC

Linked Remotely: Chairman Richard Molan
Kevin Noelke -GRS

Absent: Mayor Jay Ruais

Chairman Molan noted that since he was out of state, he was participating remotely and confirmed that he was alone.

Approval of the Minutes of the Previous Board Meeting:

Chairman Molan entertained a motion to approve the previous Board meeting minutes of February 10, 2026.

Trustee Ciechon moved to approve the minutes of February 10, 2026, seconded by Trustee Wickens.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

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. Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

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Presentation to the Board:

Kevin Noelke from GRS, who was linked remotely, presented the preliminary Annual Actuarial Valuation report for the fiscal year ending December 2025. Mr. Noelke first explained the purpose is to evaluate the funding status as of the valuation date and determine contributions required for the City's fiscal year ending June 30, 2027.

Mr. Noelke directed the Trustees' attention to the computed pension contribution rates on page 2. He went on to report the main factor affecting this year's results was higher-than-expected payroll growth, which increased the estimated contribution dollars required to approximately \$27.4 million, equating to 35.98% of payroll. The valuation payroll for the current year was \$73 million, compared to the \$67 million last year. The funded ratio was reported as 64% for the pension plan and 59.9% for the health plan, with the unfunded accrued liability amortized over 14 remaining years. Mr. Noelke noted that the valuation includes an assumption of a 1% annual COLA. He explained that the impact of each 1% ad-hoc COLA above the assumed COLA will represent an increase to the unfunded accrued liability of approximately \$3 million and to the employer contribution rate of approximately 0.39%.

On page three, Contribution Rate Reconciliation, Mr. Noelke explained the components which make up the updated rates for pension and health. The incorporated changes from the experience study assumption changes had the largest impact to the pension rate at 1.79%, while the assumption changes decreased the health rate by 17 basis points, consistent with expectations. Payroll experienced higher-than-expected individual increases, averaging 7.5% versus the expected 4.5%, resulting in higher retirement benefit liabilities and an experience loss; however, because employer contributions are calculated as a percentage of pay, the higher payroll partially offset the rate impact. The fiscal year ending June 30, 2026, pension rate was 32.24% and health rate 1.62%, totaling 33.86%, The June 30, 2027 pension rate increased to 33.58% and the health rate to 2.40%, totaling 35.98%. The increase in total contribution is primarily attributable to payroll growth and increased insurance premiums.

At the bottom of page 3, Mr. Noelke pointed out the historical rates. The rows illustrate the contribution rates before and after the assumption changes from the recent experience study were applied. He explained that the pension contribution rate was 32.24% in the prior year and decreased to 31.79% before incorporating the updated experience study assumptions. After the experience study adjustments were applied, the pension rate reflected the updated assumptions, increasing it to 33.58%.

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Mr. Noelke added that for the health plan, the contribution rate increased from 1.62% to 2.57% and then decreased slightly to 2.40% after the experience study assumption changes were applied.

Moving on to page 4, Mr. Noelke reviewed the Unfunded Actuarial Accrued Liability (UAAL) Amortization Scheduled and Projected Funded Status (Pension Only), noting that they are consistent with last year's projections and reflect the plan moving one year closer to full funding, with the UAAL projected to be fully funded in 14 years.

Under the employer contributions, the current pension contribution rate is shown as 33.58%. He explained that the rate is projected to increase slightly next year due to the continued phase-in of asset losses from 2022, which affected most plans. Next year will be the final year of phasing in those losses. After that point, the contribution rate is projected to decrease for the following three years, reaching approximately 30.93%, as asset gains from subsequent years are phased in. Once the UAAL is fully funded, the employer contribution would consist only of the normal cost, currently projected at approximately 11.03%.

Mr. Noelke also pointed out the projected employer contribution in dollar amounts. Although the contribution rate may decrease in future years, the total dollar contribution is expected to increase gradually as payroll growth of approximately 2.5% annually, due to wage inflation. Payroll has increased more than expected in recent years, resulting in higher dollar contributions than originally projected, but increases in the total contribution amount are generally expected each year as payroll grows.

Next, Mr. Noelke referenced the graph on page 5, of the Summary of System Liabilities and Resources. He explained that the graph provides a snapshot of the relationship between pension and health liabilities and resources. Pension valuation assets were reported at approximately \$322 million. He explained that the visual representation indicates the current asset level is sufficient to cover the liabilities associated with retirees and vested terminated members and extends slightly into the active member accrued liability.

Turning to page 6, Mr. Noelke summarized the Plan's Assets for the valuation indicating an increase from \$328 million in 2024 to \$348 million in 2025 and an increase in the recognized rate of 6.4% in 2024 to 6.9% in 2025. He noted that a minor adjustment identified during the review will increase the required contribution by two basis points, which will be reflected in the final report.

On page 7, Mr. Noelke explained the Funding Value of Assets five-year asset smoothing method used to recognize investment gains and losses, noting that each year the plan receives credit for the assumed rate of return, while deviations above or below the expected return are phased in

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over five years. For 2025, the schedule reflects a \$12 million loss from 2022, offset by gains from the other years, resulting in a recognized gain of \$428,000 for this valuation.

Looking ahead, Mr. Noelke noted the phased in recognition results in a projected loss to start for next year, as the final year of the 2022 loss is recognized, followed by solid gains in subsequent years. The market rate for the last three years exceeded 10%, with returns of approximately 14% this year, 10% last year, 12.8% the prior year. Due to the smoothing method, the recognized rate of return for the current year is 6.9%, slightly above the benchmark. Mr. Noelke emphasized that this demonstrates how smoothing affects the recognition of gains and losses.

Attorney Rich inquired whether the projected increase in the contribution rate assumes the plan earns the assumed 6.75% return. Mr. Noelke confirmed that even if the plan earns the assumed return, the contribution rate is still projected to increase, primarily due to previous losses that continue to phase through the smoothing method. It was noted that a significant return would be required to offset those losses enough to lower the rate.

Mr. Noelke turned the Board's attention to page 9, the Actuarial Accrued Liabilities and Valuation Assets, adding the pension funded ratio increased from 63.9% last year to 64.9%, before the assumption adjustments, indicating progress in funding the plan. He also noted that on a market value basis, the plan would be approximately 67% funded, meaning the remaining impact of the 2022 market loss is temporarily lowering the reported funded ratio.

Moving onto page 10, Mr. Noelke summarized the experience gain and loss analysis. Referring to line 9, the expected unfunded actuarial accrued liability for pension at the end of the year was \$171.8 million. However, the actual was \$180.8 million, resulting in a \$9 million actuarial loss. This loss represents about 2% of prior year liabilities. He noted the primary driver of this loss was higher-than-expected salary increases, which significantly impacted accrued pension liabilities.

Referring to left side of the chart at the bottom of the page, Mr. Noelke stated that recent actuarial losses related to salary growth prompted the experience study and assumption updates, including revisions to the salary increase scale. Mr. Noelke reported that updating these assumptions should reduce the likelihood of similar losses in future valuations if salary increases remain elevated.

Mr. Noelke briefly referenced pages 11 and 12, historical information on COLA adjustments and prior assumptions changes.

Turning to page 13, Mr. Noelke explained the Comments section of the presentation provides a bit more detail of valuation factors. Under Comment B, he explained the higher-than-expected payroll growth, noting that individual salaries increased by approximately 7.4% among

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continuing active members, while total payroll increased by over 9%, partly due to an increase in the active member population of about 40 employees compared to last year. He explained this growth exceeds the valuation assumption of approximately 2.5% payroll growth, contributing to the actuarial loss. There were minor losses related to terminations and retiree mortality, but these were relatively small compared to the impact of payroll growth.

Mr. Noelke noted that one-fifth of this year's experience investment gain is being phased under the actuarial smoothing method. As a result, the pension plan's funded status increased slightly, improving from 63.9% to 64% on the pension side, even after accounting for the updated assumptions from the experience study.

Furthermore, Mr. Noelke discussed the health portion of the valuation, explaining that Medicare Advantage premiums increased over 36% and now exceed the maximum health subsidy, which increases by 4% annually. He reported that in prior years, when premiums were significantly lower, retirees were receiving only a portion of their eligible subsidy amount, which had temporarily reduced liability estimates. With premiums now exceeding the subsidy maximum, liabilities increased and results returned closer to prior levels.

Lastly, Mr. Noelke reviewed the assumption changes on pages 14 and 15. Comment D summarizes the adopted assumption changes from 2020-2024 experience study, including updates to the merit salary scale, which was adjusted to better reflect trends. Comment E, refers to end of career payments, affecting final average earnings, noting a five-year average of 15% and a ten-year average of 13%, with the new assumption set at 14%.

With no further questions of Mr. Noelke, he thanked the Trustees for their time and offered his availability should any questions arise.

Trustee Capano moved to accept the preliminary actuarial valuation as modified, and direct GRS to finalize the valuation. The motion was seconded by Trustee Ciechon.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

Chairman Molan thanked Mr. Noelke for his presentation and he signed out of the meeting at 8:53 a.m.

Report of the Executive Director:

Ms. Murray reported the Mayoral nomination of John Clayton to the MECRS Board was made at the March 3rd BMA meeting, with confirmation expected on March 17, 2026. As such, Trustee Bunker's term continues until then. Ms. Murray expressed her appreciation for his continued participation. She noted she had an opportunity to meet with Mr. Clayton, to review the

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particulars of the Plan and the MECRS operation and added Mr. Clayton is eager to get involved once his confirmation is finalized.

Ms. Murray reported the 2025 Year End process is moving right along. The preliminary valuation was presented earlier during this meeting by Mr. Noelke. She stated the Annual Report has been preliminary complied, and a draft will be updated once the valuation finalized. Ms. Murray added that most of the deliverables have already been submitted to the auditors so they can begin their fieldwork for the 2025 audit.

Ms. Murray reminded the board that an Administrative and Accounting Committee meeting will need to be scheduled, preferably before the April Board of Trustees meeting, to discuss the 2026 COLA. Ms. Murray informed the Trustees she has the required documents complied for the meeting.

The A&A Committee members agreed to meet on Tuesday, March 24, 2026 at 9 a.m.

Report of Monthly Cash Balance:

Ms. Murray reported the cash balance started the month ending January 31, 2026 with just over \$9.1 million. She added that a fair number of distributions were received, along with two capital calls that were satisfied, resulting in an end-of-month balance of just over \$9.2 million. She noted that there are a few scheduled capital calls for March, which still leaves a quite healthy balance.

Chairman Molan entertained a motion to accept the Cash Balance Report.

Trustee Ciechon moved to accept the Cash Balance Report, seconded by Trustee Wickens.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

Consent Agenda:

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

Trustee Wickens moved to approve the Consent Agenda, seconded by Trustee Ciechon.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

Request for Motion:

Ms. Murray explained that she is requesting a motion to tie out the 2025 Administrative Budget. She reminded the Trustees this is an annual, customary event to transfer previous approved and budgeted amounts from surplus to areas where expenses have exceeded expected and budgeted

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amounts in 2025. She identified transfers totaling just over \$60,000 with the largest adjustments including actuarial expense for the experience study and the new line item establishing a Capital Improvement Reserve. Overall, there was no bottom-line impact.

Chairman Molan entertained a motion to accept the Request for Transfer.

Trustee Bunker motioned to accept the Request for Transfer, seconded by Trustee Capano.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

New Business:

Sebastian Grzejka, from NEPC, provided an update on the Investment Performance. He reported the portfolio began the year on a strong note, with performance remaining solid through most of February before some late-month volatility driven by developments in the Middle East. Despite short-term fluctuation, the plan reached a new high-water mark with a total value of approximately \$376 million. The portfolio generated a 2.3% return in January, reflecting strong outperformance from several managers. Overall, the report reflects positive performance and continued strength in the pension portfolio.

He noted that an Investment Committee meeting will follow the board meeting, during which Boston Trust will provide an update on performance, positioning, and an overview of their outlook based on the past six to seven months.

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 9:02 a.m., seconded by Trustee Bunker.

Executive Director Murray conducted a roll call vote, and the motion passed unanimously.

Respectfully submitted,

Melanie Murray
Executive Director