



500 West Big Beaver
Troy, MI 48084
troymi.gov

MINUTES

Employees' Retirement System Board Meeting

June 7th, 2023 at 12:00 PM

City Council Boardroom

500 West Big Beaver Troy, Michigan 48084

(248) 524-3412

Roll Call

The monthly meeting for the Employees' Retirement System Board of Trustees was held on **June 7th, 2023** in the City Council Boardroom.

The meeting was called to order at 12:00 p.m. by Chairman Maleszyk who stated a quorum was present.

Trustees Present: Kurt Bovensiep
Theresa Brooks
John Foster
Robert C. Maleszyk
Mark F. Miller

Trustees Absent: Peter Dungjen
Mark Owczarzak

Also Present: Thomas Michaud – VanOverbeke, Michaud & Timmony P.C.
Lori Bluhm – City Attorney
Joe Warsecke, MBC Consulting
Dee Ann Irby – Controller
Cynthia Pavella – Administrative Assistant

Public Comment

- None

Minutes from the May 10th, 2023 Meeting

Resolution # ER – 2023-06-01

Moved by: Bovensiep

Supported by: Foster

RESOLVED, that the Minutes of the May 10th, 2023 meeting be **APPROVED**.

Yeas: - 5 – (Bovensiep, Brooks, Foster, Maleszyk, Miller)

Absent: - 1–

Motion Passes

Retirement Requests

Name	Michael Schlegelmann
Pension Program	DC
Retirement Date	June 10, 2023
Department	Water Dept - Classified
Service Time	40 Years 0 Months

Trustee Bovensiep said that Mr. Schlegelmann has seen a lot and contributed much in his 42 years of service. Controller Irby said his pension service time was adjusted due a lay-off period.

Resolution # ER – 2023-06-02

Moved by: Bovensiep

Supported by: Miller

RESOLVED, that the retirement request listed above be **APPROVED**.

Yeas: - 5 – (Bovensiep, Brooks, Foster, Maleszyk, Miller)

Absent: - 1–

Motion Passes

Regular Business:

• MBC Consulting Fiduciary Investment Review 457 / 401 – Joe Warsecke

- Warsecke presented an overview of the Q1 2023 report pointing out that U.S. equity markets rallied in the first quarter, rising 7.2% (Russell 3000) on moderating inflation. International equities rose to a lesser extent posting a 6.9% gain over the quarter (MSCI ACWI ex U.S.). The broad U.S. fixed income market showed continued improvement, up 3% (Bloomberg Barclays Aggregate). Large cap growth stocks had a strong quarter. Unemployment in March was 3.5%. The U.S. Federal Reserve (the Fed) raised interest rates 50 basis points during the first quarter. It is uncertain what will happen when the Fed meets on June 14.
- Warsecke reviewed the S&P 1500 Sector Indices noting that Information Technology and Telecommunication Services sectors led the way in the U.S. Equity market performing higher than the Dow. Utilities, Health Care, Energy and Finance sectors were down, however. Trustee Miller asked if equities matter now? Warsecke said the right allocation of equities to bonds is important. A conservative approach he said is to have a lower proportion of equities.
- Over the last year, Developed International stocks outperformed Emerging market stocks by 9.80%. For the first quarter, international stocks outperformed by 4.60%. Warsecke said International Equity is still needed in the portfolio because of the room for growth.
- In reviewing the Fixed Income category of bonds, mortgage-backed

securities and cash, Warsecke explained the inverted yield curve which is a graphic scenario in which short-term debt instruments have higher yields than long-term instruments of the same credit risk profile. A “normal” curve shows longer-term debt with a higher yield than shorter-term debt. Warsecke pointed out where the first part of the year was inverted compared to a year ago. It will continue to do so as short-term rates are up and the yield decreases the farther away the maturity date is. This may not always mean a recession because today’s economy does not make sense against historical rates of employment, interest rates, etc.

- Warsecke reviewed Asset Class Returns which show the volatility of returns from year to year. Bloomberg Commodities were the highest performing asset class in 2022 at 16.09 but now in 2023, they are the lowest performing at (5.36). This highlights the importance of diversification; striking the right balance/allocation. The Balanced Index appears to be the most level as it appears often in the middle of the Asset Class Returns high-low range from 2012 to YTD.
- The outlook for banking appears healthy despite the failure of First Republic, Silicon Valley, and Signature Bank early in 2023. A banking crisis is not indicated from a Tier 1 capital ratio perspective, according to Warsecke.
- Warsecke reviewed the Scorecards and Style Box reports which show Asset Allocation Strategies in five categories from low risk conservative to high risk/aggressive funds. All categories are filled and most funds are in 8, 9, or 10 Scorecard point categories so he has no recommendations for changes.
- He pointed out that the PIMCO change, approved by the Board on March 8, 2023, whereby funds will be transferred from PIMCO RAE U S Small Institution to CIT (Collective Investment Trust) Small Cap Value III R1 (PIMCO RAE SCV) will be completed on June 16, 2023.
- The Plan fund balance as of 4/19/2023 was \$146,914,784.77. The asset allocations were comprised 36.5% U.S. Equity, 26.8% Asset Allocation (Vanguard and Black Rock), 14.5% Cash Alternative, 9.9% International/Global Equity, 9.7% Fixed Income, and 2.6% Specialty. As of June 5, 2023, the fund amount was up \$648,000 to \$147,563,000. This compares to the Retiree Health Care (RHC) Benefit Plan and Trust Fund of \$8,403,000 which has 83% in Asset Allocation (Black Rock) where fees are lower. The RHC Fund is at \$8,654,000 as of June 5, 2023.
- Vice-Chairman Bovensiep stated that Mission Square uses Vantage Point for the Roth accounts. No one is responsible for oversight of MissionSquare’s selection of funds. A joint presentation was held recently with MissionSquare. Bovensiep thinks employees get confused about who is overseeing which plans and funds. He thinks employee training is still needed. Maleszyk said meetings are scheduled for November.
- The Board discussed dispensation of Retiree Health Care funds in event of a deceased employee. Currently the beneficiary is the City. Maleszyk is

looking into other options to make deceased employees whole. The Board also discussed Target Date Funds and what % for each fund, is the Board chasing the lowest fees, and does it make sense to focus on better performance instead. More information about GlidePath options and a due diligence review regarding costs will be provided at the next meeting. Maleszyk is concerned about EST issue.

- **401(a) Plan Document related to Normal Retirement Age (NRA)**

- Irby explained that the MissionSquare 401a Adoption Agreement determines Normal Retirement Age (NRA) to be age 65. This NRA limits our employees' ability to take advantage of the MissionSquare 457 Plan Pre-Retirement Catch-Up. This voluntary catchup provision allows a larger dollar amount to be deferred if the employee is within three (3) years of the NRA. Typically employees retire prior to age 62, therefore the constraints of the current Plan forbids employees from deferring their final payout of unused paid time off. Warsecke said their Police/Fire clients typically set their NRA at age 50 and 55 for large payouts at retirement. Bovensiepe said five-year vesting is a retention tool and changing the date will not impact retention.
- The Board reviewed the MissionSquare documents referenced above. Attorney Michaud explained that there are IRS rules which limit the age that may be specified as the Plan's NRA. The Adoption Agreement is the controlling document.
- Attorney Michaud provided information about 401(a) and 457 plans including Age 50 Catch-Up provisions for three years prior to NRA which, if lowering the age to 59 or 56 would allow more flexibility of options to employees to defer/catch up to age 62 or 59, respectively. The age parameters should correspond to the City's vesting schedule in the Defined Contribution plan. However, if an employee is hired at age 54, the five-year vesting would occur age at 59. The question is, how many employees age 55-56 are being hired? Many of the IRS regulations use age 59 ½ instead of age 62.
- The Board took no action.

- **Pension Ordinance review- Board of Trustees vacancy**

- Michaud stated that the Board of Trustees are vested with the power and authority to administer, manage and operate the retirement system in accordance with Chapter 10 of the Code of the City of Troy; commonly known as the Pension Ordinance (Ordinance). The Ordinance covers both Defined Benefit (DB) and Defined Contribution (DC) plans. The Ordinance is lean on DC plan details. Much of the DC information is contained in separate MissionSquare documents.
- The recent retirement of a Trustee creates an opportunity to review the composition, roles, and responsibilities of the Board. This is especially important since the DB Plan is closed to new hires and there may not be any DB

participants to sit on the Board. The Board reviewed Michaud's memo dated May 24, 2023 which provided four alternatives for the Board to consider.

- Alternative 1 is to remove the DB plan membership requirement in its entirety to allow both DB and DC members to nominate, run, vote, and serve in the Employee Trustee Representative position. Bluhm said this would solve the DB candidate eligibility pool.
- Alternative 2 is to restructure the Board, i.e. reduce the Board to five voting members. The role/responsibility of a Trustee is to oversee the Plan and not to represent or advocate for a specific constituency. The mix of members is by design. Bluhm stated it is key to provide education about the role of a Trustee.
- Alternative 3 is to allow retired former DB members to participate/serve in the Employee Trustee Representative position. It is uncommon to have a retiree representative who has no vote and does not count for establishment of a quorum. Bluhm said this position was helpful in the past for historical information to be shared with the Board.
- Alternative 4 is to reopen the Defined Benefit Plan which would require extensive plan design and actuarial discussion.
- The Board directed Michaud and Bluhm to draft language combining Alternative 1 and Alternative 2 as discussed. This recommendation will be brought back to the Board for final review and then to the City Council as an amendment to the Ordinance.

- **Pension Ordinance review- Clarify Defined Contribution language**

- Michaud provided draft language to expand DC plan provision, add clarity and be more user friendly.
- Michaud said the MissionSquare documents need to be updated for IRS changes and other provisions.
- The definitions of Board, Trustee, Administrator and the like need to be consistent between documents; MissionSquare Plan Documents, Pension Ordinance, CBAs, Employment Agreements and Administrative Memos. We need to be clear about who is responsible for what, what are the powers and duties, who pays the cost to administer the Plan, who selects third-party providers. Examples of third-party providers are actuaries, outside legal counsel and investment consultants. Currently there is a mix of third-party contracts with the City, but consultants are reporting to the Pension Board.
- Employee Manuals and Agreements do not amend the Ordinance; only Collective Bargaining Agreements (CBAs) do. Bovensiepe asked why employee and employer contributions for union groups were detailed in the Ordinance if it is the CBAs that is what determines eligibility. Michaud said he kept it in the draft language so as not to cause concern for employees.

Michaud said CBAs need to be amended as well in order for all documents to be consistent.

- Board members discussed the definition of retiree as it related to DC employees who meet vesting requirements. Some DC retirees may be eligible for retiree health care, but there is confusion about where their eligibility is defined. Michaud noted that the priority was to first clarify DC pension benefits.
- Bovensiepe asked if the Retiree Health Care plan is included in the Pension Ordinance? Michaud said the Pension Ordinance is for establishment and administration of pension benefits and the Retiree Healthcare Benefits Plan and Trust Resolution, is a separate legal document and will be a topic of discussion for that Board. He noted that both documents should have definitions of retirement and eligibility for benefits.
- Michaud commented on duty and non-duty death and disability pension provisions which are not clear in the current document. He offered draft language for the Board to consider. Any amendments to the Ordinance will be recommended by the City Attorney for City Council's approval.
- Michaud advised the Board to look at the documents and proposed changes to see if it aligns with how the Board is operating and the Plan is currently being administered. He suggested that employees and third party consultants be informed of the changes.

Other Business

- **Comerica Bank for retiree social security number verification.**

- Irby asked the Board if they are interested in engaging Comerica Bank to run a check on retiree social security numbers to confirm that all participants are still active. Sometimes deaths occur, the Finance Department is not notified and pension payments continue. She will contact the Bank to inquire of the fees. The Board will then determine if the service should be implemented and at what frequency.

- **Overpayment of certain retirees**

- Irby reported that during the annual review of pension data and preparation for the Annual Actuarial Report, it was determined that ten retirees have been paid incorrectly. Nine retirees have been and continue to be overpaid and one has been and continues to be underpaid. In addition, one recently deceased retiree still owes \$7,400 from a payment recoupment arrangement. She asked the Board for guidance on making the corrections and possible recoupment.
- Michaud said this is not uncommon in pension plan payments. Processes/procedures however need to be in place to address the over/underpayments. It is the responsibility of the Board to establish the process/procedure in a consistent and prudent manner. For example, what is the amount of overpayment when should we seek recoupment? When and how

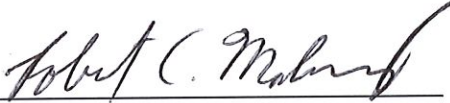
should a request be made of a retiree or their estate? Bluhm said a payment plan against future benefits could be implemented. Michaud reminded the Board that there is a fiduciary liability insurance policy which could be used to repay the Retirement System if overpayments are not recoverable.

- The Board directed Michaud to create an over/under payment policy for consideration at the August meeting; thereafter a plan of action will be established. Irby said she will take no corrective action until a policy is established.

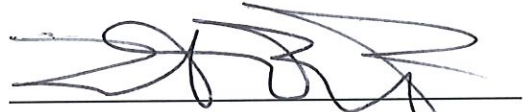
Adjourn

The meeting adjourned at 1:50 p.m.

The next meeting is Wednesday, August 9th, 2023 at 12:00 p.m. in City Council Boardroom.



Robert C. Maleszyk, Chairman



Kurt Bovensiepe, Vice Chairman