



500 West Big Beaver  
Troy, MI 48084  
troymi.gov

# MINUTES

## Employees' Retirement System Board Meeting

Aug 9<sup>th</sup>, 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 **August 9<sup>th</sup>, 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  
Peter Dungjen  
John Foster  
Robert C. Maleszyk  
Mark F. Miller  
Mark Owczarzak

**Trustees Absent:** None

**Also Present:** Thomas Michaud – VanOverbeke, Michaud & Timmony P.C.  
Lori Bluhm – City Attorney  
Jeffrey Tebeau – GRS (Gabriel, Roeder, Smith & Co) Consulting  
Amy Cole – Morgan Stanley Graystone Consulting  
Rebecca Sorensen – UBS  
Mike Oleszkowicz - UBS  
Dee Ann Irby – Controller  
Cynthia Pavella – Administrative Assistant

### Public Comment

- None

### Minutes from the June 7<sup>th</sup>, 2023 Meeting

#### Resolution # ER – 2023-08-01

Moved by: Foster

Supported by: Bovensiep

**RESOLVED**, that the Minutes of the June 7<sup>th</sup>, 2023 meeting be **APPROVED**.

Yeas: - 6 – (Bovensiep, Brooks, Dungjen, Foster, Maleszyk, Miller)

Absent: - 0–



## **Motion Passes**

### **Retirement Requests**

- None

### **Regular Business:**

- **Review of 12/31/2022 Actuarial Report – Jeff Tebeau Gabriel Roeder Smith (GRS)**

- Tebeau, Chief Actuary from GRS, presented a draft of the results of the December 31, 2022 Annual Actuarial Valuation of the City of Troy Employees' Retirement System. The purposes of the valuation are to measure the System's funding progress and to determine the employer contribution for the fiscal year ending June 30, 2025.
- With the System closed to new hires, costs were computed using the aggregate cost method which is designed to target all benefits that are fully funded when the plan has no active members.
- The Present Value of Future Benefits (PVFB) is reduced by the funding (actuarial) values of assets and the present value of future member contributions. The remainder, if any, is financed by City contributions over the expected future working lifetime of the current active members. The City's required contribution for fiscal year 2024-2025 is \$0; which is unchanged since 2017.
- Tebeau noted the Funding Ratio of PVFB to funding increased to 132.2% since the last valuation of December 31, 2021 of 129.9%. This was chiefly due to lower than expected actuarial liabilities.
- The System experienced an actuarial loss of approximately \$0.4 million or 0.2% of the prior year's total liabilities. The total loss was comprised of a \$0.9 million loss due to recognized investment performance, and \$0.5 million gain in connection with System liabilities.
  - The \$0.9 million loss on assets corresponds to a recognized rate of return on the funding value of assets of 6.1% versus the 6.5% long-term assumption. The estimated market value rate of return was -16.5%.
  - The \$0.5 million gain due to liabilities was due to deviations from assumptions dealing with participant activities and is not related to investment performance. The primary source of gains was from lower than expected salary increases and retirement benefits for new retirees.
- Tebeau presented the Derivation of Funding Value of Assets report. The Funding Value of Assets exceeds the Market Value of Assets by \$16.6 Million; a ratio of 108% in 2022 compared to 85% in 2021. The Recognized Rate of Return is 6.09% compared to 13.61% in 2021.
- Under the current assumptions, the accumulated assets exceed the present value of all benefits earned and expected to be earned in the future by the current members. Future contributions may be needed if future experience



is less favorable than expected based on the current assumptions.

- There were no changes in plan provisions or valuation assumptions for the December 31, 2022 valuation.
- The average future working lifetime of the current active members is approximately 3.0 years. Tebeau said the Board may want to consider reducing the asset smoothing period (currently five years) since the average future working lifetime has dropped below five years, with the goal of eventually using the market value of assets for funding purposes when there are no active members left. In addition, the Board should consider adopting an amortization policy once the plan reaches this point.
- At December 31<sup>st</sup>, there were 343 retirees and 24 active members. The Actives are comprised of 14 Public Safety and 10 General members. Chairman Maleszyk stated that quite a few members retired in 2023; leaving just 17 in the Plan.
- The System's cash flow needs are significant due to being closed to new members combined with the general maturity of the System. Cash flow needs will continue to increase over the next five years before declining, according to the current assumptions. The Board should consider how these increased cash flow needs will affect the investment strategy and asset allocation, which will in turn affect the assumed rate of investment return used in the valuation.
- Tebeau pointed out that some disabled and deceased members of the Defined Contribution plan have been allowed to annuitized their 401(a) account balances and became retirees of this DB System. For example, annuitization resulted from one disabled person in the last year and four deaths in the last five years. At present, an ad hoc cost approach is being taken but if this is expected to continue, GRS recommends a study be undertaken to ensure the conversion factors continue to be appropriate or are updated as necessary; review the risks associated with allowing this kind of activity in a closed plan; and, discuss the long-term funding implications of this kind of activity. Controller Irby said in her one-year tenure at the City there was one instance which resulted in a Surviving Spouse receiving a \$99 monthly DB benefit and a second instance where there was a \$0 DB benefit for the Surviving Spouse. This was due to the value of each Employees' DC 401(a) account balance, age of surviving spouse, years of service and personal investment performance.
- Maleszyk said the Board should appreciate the level of funding in the plan. No contributions are likely for the next 20 years.
- Trustee Owczarzyk asked if a Post-Retirement Adjustment is needed. One-time increases were granted in 1973, 1977, 1978, 1981, 1983, 1989 and 1999. Tebeau commented that the 1999 increase reflected the "dot com" days when the Plan was 140% - 150% funded. It was noted that Macomb County recently issued a one-time check. Attorney Michaud said the discussion of a COLA adjustment or 13<sup>th</sup> check is outside the



purview/authority of this Board. This is an item for City Council and/or union negotiations. Michaud said excess funds, per the IRS, must be 150% funded.

- Owczarzyk asked about the average retiree pension amount. Maleszyk said it was \$35,000 and Tebeau said \$36,400.
- Controller Irby complimented GRS on their quick yet thorough response to questions and situations posed by City of Troy staff; especially while handling the Volunteer Firefighter close out.

- **Correction of Errors Overpayments/Underpayments – Tom Michaud**

- Michaud presented the City of Troy Employees' Retirement System Policy re: Correction of Errors Overpayments/Underpayments and recommended the Board adopt it. Irby said the only change from discussion at the June 7th, Board meeting was to make the number of days consistent throughout, i.e. 60 days.

**Resolution # ER – 2023-08-02**

Moved by: Dungjen

Supported by: Bovensiep

**RESOLVED**, that the City of Troy Employees' Retirement System Policy re: Correction of Errors Overpayments/Underpayments be **APPROVED**.

Yeas: - 6 – (Bovensiep, Brooks, Dungjen, Foster, Maleszyk, Miller)

Absent: - 0–

**Motion Passes**

- **Pension Ordinance Amendment update – Lori Bluhm and Tom Michaud**

- City Attorney Bluhm reported that on August 7, 2023 City Council approved the structural change of the ERS Board of Trustees as outlined in the draft Revised Pension Ordinance. Maleszyk stated that the ERS Board will now have five members. One member is the City Manager who can name his designee which likely will be Maleszyk.
- Michaud presented the draft un-numbered Ordinance document dated 08/01/2023. It amends Title 1, Chapter 10 of the Code of the City of Troy, to incorporate modifications and accumulated changes to the Defined Contribution Retirement Plan of the City of Troy Employees' Retirement System, and to conform to applicable provisions of state and federal law.
- Michaud noted that the amendment to the structure was Phase I. He identified Phase II as a review and clarification of the following: Incorporate Plan Documents by reference; define Trustee powers and duties in the DC Plan; clarify administration and calculation of disability and death benefits; and EDRO administration.
- Michaud stated that the Board, not an individual, oversees the Plan.



Furthermore, the Board is responsible for investment decisions.

- Maleszyk pointed out Section 16 which states loans are not permitted by the Plan.
- Irby said there is no age requirement for an employee to retire under the Defined Contribution Plan. Michaud said that the vesting of a Participant's Employer Contribution Account remains at 100% in year five as shown in Section 8 Vesting.
- Vice-Chairman Bovensiep and Trustee Miller asked about retiree eligibility for the Retiree Health Care Plan. Michaud said eligibility for retiree health care is described in the City of Troy Retiree Health Care Benefits Plan and Trust plan document. Irby concurred that the Resolution to establish the City of Troy Retiree Health Care Benefit Plan and Trust clearly outlines eligibility by employee/union group. Miller said it is confusing because the employee manual combines DB/DC and RHC plans. The Employee manual is a point of reference however it does not supersede the RHC Plan documents.

- **Investment Policy Review – Dee Ann Irby**

- Irby reported that the Statement of Investment Objectives and Investment Policy Guidelines was adopted 4/8/1998 and revised 1/9/2002, 12/8/2004, 3/14/2007, 4/8/2009, 5/14/2014, and 4/13/2022. She inquired if the document should be discussed now or reviewed by Michaud for any changes in the law. Maleszyk said he will meet separately with Michaud, Morgan Stanley and UBS within the next month to discuss their recommendations for asset allocation, targets/ranges, asset guidelines and define private investments.

## **Investments**

- **Graystone Consulting – Amy Cole**

- Cole presented the Total Fund Performance report as of June 30, 2023. The year to date numbers show \$19 million in gains and \$8 million in retiree payments resulting in ending market value of \$209,242,093. Bovensiep noted that investment earnings are covering retiree payments.
- The Asset Allocation for Total Market Value is comprised 2% Real Estate, 26% Global Fixed Income, 1% REITs, 12% International Equity, 58% Domestic Equity and 0 in Alternative Investment.
- Cole described the report of Manager Performance – Morgan Stanley/Graystone to illustrate current quarter and YTD. In the Global Equities category, both Winslow Large Cap Grow and Aristotle Large Cap Value funds have outperformed over the past year. Global Fixed Income have experienced losses in the past quarter. Some private equity/credit firms have seen growth. A review of this class will be covered as part of the allocation revision policy discussion meeting with Maleszyk in the coming month.



- Cole said that July was a very good month.
- Cole present the Linear Growth Analysis of Asset Allocations. The report shows the Current Scenario of 0.4% in Cash compared to our target of 5.0%; Total Equities of 67.3% compared to our target of 49.0%. Equities has 46.5% in US Equities, 16.1% in International Equities, and 4.7% in Emerging & Frontier Markets where the targets are 40.0%, 14.2%, and 4.8% respectively. Fixed Income and Preferred Equities is currently at 25% and the target is 29.0%. The total of Alternative investments is 7.3% and the target is 7.0%. Cole discussed optional investment strategies; Mix 4 Tactical with Alternative Investments (AI), Mix 5 Strategic with AI, and Mix 5 Tactical with AI. Owczarzyk asked why the Board should look at Alternative Investments when the plan is so well-funded? An asset class review will look to see if there is a better portfolio.
- The Current Market Value of all Asset Classes Combined is \$93,564,596.14. In order to achieve the Policy Target and meet a \$3 Million need for cash, Cole directed the Board's attention to the Rebalance recommendations as of 8/1/2023. The recommendation is to reduce Domestic Equities by \$2 Million and International Equities by \$1 million.
- After reallocation, the portfolio would change from 67.0% Equities (46.5% Domestic and 20.6% International) to 63.8% (44.4% Domestic and 19.5% International). Fixed Income class changes from 29.0% to 25.2% which is (\$3,524,915.33). There are no changes in Fixed Income or Real Estate; portfolio remains at 25.2% and 7.3% respectively. Cash changes from a market value of \$357,004.36 or 0.4% of the portfolio with a target of 5% to \$3,357,004.36 which equates to 3.6% of total portfolio.

**Resolution # ER – 2023-08-03**

Moved by: Bovensiep

Supported by: Brooks

**RESOLVED**, that the portfolio be rebalanced in the amount of \$3,000,000 which is comprised of \$2,000,000 from Domestic Equities; specifically \$500,000 each from Winslow and iShares S&P 500 (IVV), and \$1,000,000 from Vanguard Total Market (VTI) and \$1,000,000 from International Equities; specifically \$500,000 each from ClearBridge International Growth and iShares MSCI EAFE (EFA) and whereby the \$3,000,000 be deposited into Federated Hermes GOVXX be **APPROVED**.

Yeas: - 6 – (Bovensiep, Brooks, Dungjen, Foster, Maleszyk, Miller)

Absent: - 0–

**Motion Passes**

• **UBS Financial Services – Rebecca Sorensen**

- Sorensen reported it has been an unexpectedly great year considering last year's events of rising interest rates and market volatility.



- Sorensen reviewed the portfolio performance as of June 30, 2023 noting:
  - The MTD Net Rate of Return Net of Fees: 4.73%
  - The YTD Net Rate of Return Net of Fees: 10.99%
- Sorensen presented the Asset Allocation Review report as of June 30, 2023 which shows Total Portfolio of \$117,686,502.07. Cash is 0.85% of the portfolio, while Fixed Income is 26.21% (US Fixed at 20.53%, Global Fixed at 4.77%, and International Fixed at 0.91%), and Equity at 72.94% (US is 57.34% and International at 15.60%).
- Given the robust (and somewhat unexpected) equity returns experienced over the first half of 2023, Sorensen recommends rebalancing the equity allocation while also reducing equities by \$8 million and move the proceeds to the Liquid Assets Government Fund, currently yielding 5.27%, in anticipation of the next twelve months' distributions. The reduction will bring equity exposure to 67% of the current portfolio. As future monies are withdrawn, the asset allocation will be reviewed for any needed changes along with a recommendation to take the withdrawal from the \$8 million set aside or from other portfolio assets.
- **International Equities-proposed rebalance**
  - FTSE ETF and Clearbridge from 7.57% and 5.69% to 7% and 4%, respectively with total percentage from 13.26% to 11% and an estimated total dollar reduction of \$2,897,400 (\$1,070,800 FTSE ETF and \$1,826,600 Clearbridge)
  - SmWorld from 4.26% to 3% and an estimated total dollar reduction of \$1,362,200.
- **US Equities-proposed rebalance**
  - S&P, MFS, and Loomis change from 15.27% to 16%, 15.91% to 17.0%, and 17.93% to 16.0% respectively with total percentage reduced from 49.11% to 49.0% and an estimated total dollar change of \$4,021,600 (\$629,400 S&P, \$390,800 MFS, and \$3,001,400 Loomis)
  - MidCap ETF, J Hancock, and MFS change from 6.86% to 8.0%, 6.88% to 8.50%, and 6.79% to 8.0% respectively with total percentage from 20.54% to 24.50% and an estimated total dollar value increase of \$1,577,700; which is an increase of \$373,800 MidCap ETF, \$767,100 J Hancock, and \$436,800 MFS.
  - Russell 2000, Allspring, and Columbia change from 4.43% to 4.0%, 4.14% to 4.50%, and 4.27% to 4.0% respectively with total percentage decrease from 12.83% to 12.50% and an estimated total dollar change of \$1,296,500 which is \$703,600 Russell 2000, \$35,300 Allspring, \$557,600 Columbia.

**Resolution #ER – 2023-08-04**

Moved by: Foster

Supported by: Dungjen



**RESOLVED**, that the portfolio be rebalanced in the amount of \$8,000,000 which is comprised of International Equities FTSE ETF and Clearbridge total of \$2,897,400, and SMWorld of \$1,362,200 and US Equities S&P, MFS, and Loomis for \$4,021,600; MidCap ETF, J Hancock and MFS \$1,577,700; and, Russell 2000, Allspring, and Columbia total of \$1,296,500 whereby the \$8,000,000 net proceeds be deposited into Liquid Assets Government Fund be **APPROVED**.

Yeas: - 6 – (Bovensiep, Brooks, Dungjen, Foster, Maleszyk, Miller)

Absent: - 0–

**Motion Passes**

**Other Business**

- None

**Adjourn**

The meeting adjourned at 1:44 p.m.

The next meeting is Wednesday, September 13<sup>th</sup>, 2023 at 12:00 p.m. in City Council Boardroom.



Robert C. Maleszyk, Chairman



Kurt Bovensiep, Vice Chairman