

500 West Big Beaver
Troy, MI 48084
troymi.gov

MINUTES

Employees' Retirement System Board Meeting

September 13th, 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 **September 13th, 2023** in the City Council Boardroom.

The meeting was called to order at 12:06 p.m. by Chairman Maleszyk. The Chairman stated this is the first meeting of the restructured Board. He declared a quorum was present.

Trustees Present: Kurt Bovensiep
Theresa Brooks
John Foster
Robert C. Maleszyk, designee of City Manager Miller

Trustees Absent: Peter Dungjen
Mark Owczarzak, non-voting member

Also Present: Thomas Michaud – VanOverbeke, Michaud & Timmony P.C.
Joe Warsecke, MBC Consulting
Mark Woolhiser, MBC Consulting
Ray Fortin, MissionSquare
Dee Ann Irby – Controller
Cynthia Pavella – Administrative Assistant

Public Comment

- None

Minutes from the August 9th, 2023 Meeting

Resolution # ER – 2023-09-01

Moved by: Bovensiep

Supported by: Foster

RESOLVED, that the Minutes of the August 9th, 2023 meeting be **APPROVED**.

Yeas: - 4 – (Bovensiep, Brooks, Foster, Maleszyk)

Absent: - 1 – (Dungjen)

Motion Passes



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Motion Passes

Retirement Requests

Name	Gregory Schelesky	Beth Bowen
Pension Program	<i>DB</i>	<i>DB-deferred</i>
Retirement Date	September 15, 2023	October 3, 2023
Department	Police - MAP	MAP
Service Time	26 Years 6 Months	10 years, 3 Months

Maleszyk said after these retirements, sixteen active employees remain eligible for Defined Benefit pension when age/service requirements are met.

Resolution # ER – 2023-09-02

Moved by: Foster

Supported by: Brooks

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

Yeas: - 4 – (Bovensiep, Brooks, Foster, Maleszyk)

Absent: - 1– (Dungjen)

Motion Passes

Regular Business:

• Proposed Budget 2023-2024

- Controller Irby and Chairman Maleszyk presented an overview of the Proposed Budget for fiscal year ending 6/30/2024. Last year was the first time that a budget was prepared.
- They noted that the budget was prepared with estimates for investment income and retirement benefit payments, since it is difficult to predict the financial market and the number of new retirees.
- For the 2023-2024 Proposed Budget, the Revenue Total of \$30,845,000 is comprised of \$30,750,000 Investment Income (interest, dividends, gain on sale of investments, and income investment) and \$95,000 contributions from Active Employees.
 - This compares to Prior Year Actual revenue of \$24,224,359 which includes \$89,831 in contributions from Active Employees.
- For the 2023-2024 Proposed Budget, the Expenditure Total of \$13,553,000 is comprised of Professional Services (legal, administrative and professional, and actuary fees) of \$163,000,000, Consultant Services of \$565,000, Education & Training of \$25,000, Other of \$50,000 and \$12,750,000 Retirement Allowances Expense.
 - This compares to Prior Year Actual expenditures of \$13,379,717; \$12,639,161 was retirement benefit payments.
- Irby stated that the consulting fees payable to MBC Consulting are not included in this budget. Their consulting fee is paid from forfeited funds held at MissionSquare. Forfeited funds are the City's 401a contributions to

employees' who left the City prior to vesting. There is approximately \$200,000 on account as of June 30, 2023.

- For the 2023-2024 Proposed Budget, the Net Gain is \$17,292,000.
 - This compares to Prior Year Net Gain of \$10,844,642.
- Irby said the budget can be amended as needed throughout the year.
- Bovensiep asked how administrative fees are calculated and when are consultant expenses reviewed. Irby said that administrative fees are charged to the general fund to cover the cost of processing retiree payroll and benefits customer service. She noted that the dollar amount has been the same for several years, but the calculation will be looked at in the next fiscal year. Maleszyk said review of consultants is to be done every five years but the City of Troy has never done it.

Resolution # ER – 2023-09-03

Moved by: Bovensiep

Supported by: Brooks

RESOLVED, that the July 1, 2023 – June 30, 2024 budget for Employee's Retirement System be **APPROVED**.

Yeas: - 4 – (Bovensiep, Brooks, Foster, Maleszyk)

Absent: - 1 – (Dungjen)

Motion Passes

• **MBC Consulting Fiduciary Investment Review 457 / 401 – Mark Woolhiser**

- Woolhiser presented an overview of the Q2 2023 report pointing out that large cap growth stocks had a strong quarter. On Monday, Bank of America stated the economy is in a recovery period and it looks to be more of a slow growth than a soft landing.
- There should not be too many more Federal Reserve interest rate hikes. The question is, can you live with 3% inflation or should it go to 2%? In an election year (2024), it is likely we will live with 3% inflation.
- The Bond Guru says no soft landing. One third of the US debt is due in the next three to six months which means the Feds will need to start easing for a slow growth going into 2024.
- In the U.S. equity market, Russell 1000 is up 29% YTD compared to 27.1% last year returning a positive 12.8% on the quarter. The market is being led by AI (Artificial Intelligence) "darlings" Meta, Google, Microsoft, Tesla, etc.
- International equities had a good rebound of 10% YTD. Maleszyk commented that at the Michigan Association of Public Employee Retirement Services (MAPERS) Conference held in September, discussion of equities was pro United States vs government-run countries.
- The Yield Curve in the broad U.S. fixed income market is a concern as it is more inverted since the 1970's. The inverted yield curve 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.

- Woolhiser reviewed Asset Class Returns which show the volatility of returns from year to year. Large Cap Growth is in better shape than a year ago and shy of where we were two years ago. Commodities was #1 last year and now it is at the bottom.
- The Top 10 Stocks include #1 Tesla and other AI “darlings” Google, Microsoft, and Meta. The graph P/E ratio of the Top 10 and remaining stocks in the S&P 500 from 1996 to present show the Top 10 is 145% of Average, with remaining stocks at 113% and S&P 500 at 116% of Average.
- Woolhiser reviewed the Scorecards and Style Box reports. They are very happy with Black Rock Large Cap and Vanguard Growth Index Admiral. He remarked that Small Cap Value III R1 (PIMCO RAE SCV) was replaced in June 2023. Mid Cap Growth R1 (BlackRock MCG) is on the Watchlist.
- The Plan fund balance as of 7/21/2023 was \$153,533,238. The asset allocations were comprised of 38.4% U.S. Equity, 26.9% Asset Allocation, 13.0% Cash Alternative, 9.9% International/Global Equity, 9.3% Fixed Income, and 2.6% Specialty.
- The Returns Analysis report shows that Mid Cap Growth R1 (BlackRock MCG) is on the Watchlist. It is an index fund which last year was a huge disappointment. It may rebound within the next 12 months. Maleszyk said it scored a 10 up until this quarter. There will be more discussion at the November meeting and next March.
- The RHS Plan Allocation by Investment Type shows \$9,201,743 in funds as of 7/21/2023. It is comprised of 83.1% Asset Allocation, 13.2% U.S. Equity, 2.5% Cash Alternative, 0.9% International/Global Equity, 0.3% Fixed Income, and 0.0% Specialty.
- Woolhiser presented information about Target Funds. Black Rock has done well and they are happy with their Target date funds for 2040, 2045, and 2055. He said to look at total returns and expenses when comparing to American Fund, Fidelity, and Vanguard.
- Woolhiser reviewed Glide Path, a formula determining the fund's asset allocation which grows more conservative as the fund approaches its target date. Factors such as when allocation change, the speed at which they change, the sub-asset classes included and the mix of active and passive investments affect the Glide Path. Woolhiser wants to spend time up to next March to start the evolution to Glide Path.
- In looking at Equity Glide Path (holdings-based), Black Rock would be better for younger people. Based on demographics, what is the best percentage of equity at time of retirement? Black Rock flattens out while Fidelity drops. Woolhiser reported that currently there are 66 people in the 2050 Year Black Rock. For the most part, Ray Fortin said people are where they should be,

i.e., 51 people in the 2030 and 51 people in the 2045. The suggestion is to dig deeper into the demographics. Are you comfortable with 40% equity? Fidelity says it should be 18%. What is best for the 450 people in the Plan? Woolhiser suggested inviting Fidelity to the December or March board meeting.

- **Defined Contribution Plan update – MissionSquare Retirement**

- Fortin announced that Rola Ismail has moved into another position with MissionSquare. Doug Featherstone is her replacement. He is an experienced retirement plan advisor. Featherstone has been introduced to the Finance and HR Department staffs. An announcement will be emailed to all full time City employees as soon as a schedule of meeting dates has been confirmed.
- MissionSquare can provide the City with an *Employer's Guide to SECURE Act 2.0* a printable document which contains important provisions impacting the City and its employees including high-level descriptions, optionality, and effective dates.
- Fortin reviewed the following provisions requiring immediate attention:
 - Age-based catch-up contributions must be Roth, starting in 2024 for employees with wages exceeding \$145,000 in the prior year (indexed for inflation).
 - Any other employee must be permitted (but not required) to elect to have catch-up contribution made on a Roth basis. The City implemented a Roth plan several years ago.
 - Special catch-up contribution rules for 457(b) and 403(b) plans exempt.
- Fortin said the 457 Plan has \$1.1 million contributions pre-tax year to date where \$113,000 was Roth.
- In Notice 2023-62, the Internal Revenue Service (IRS) announced a two-year administrative transition period (delay) extending until 2026. MissionSquare Retirement and their trade partners lobbied for the two-year delay implementation of the new required Roth "catch-up" contributions rules due to compliance systems redesign needed before the January 1, 2024 original date.
- Bovensiep asked if it was the responsibility of the City to inform employees about the \$14,000 wage amounts? Yes, the City, as Plan Sponsor, is responsible. The City's Payroll Specialist, Shannon Louwaert, is attending this meeting to learn more.
- Fortin reported that new Certified Financial Planner webinars will be held monthly in 2023 to help participants on their journey to and through retirement. Employees are directed to the MissionSquare website to see the 2023 schedule. There is no cost to view recorded webinars. There is no data at this time as to how many City employees have viewed previous webinars because access is driven by the employee log-in and not by employer group.
- Currently there are over 100 employees with over \$700,000 in their funds.
- MissionSquare is working with Maleszyk and Irby about educating high income

- employees who have access to a Certified Financial Planner (CFP).
- Fortin described how QDROs (Qualified Domestic Relations order) are difficult to process. MissionSquare has established a contract with QDRO Consultants Co., an outside vendor, to help segregate assets due to a QDRO and to provide expert support for those who may need it. Plan participants will have 24/7 access to online tools.
 - Fortin announced that beginning in August, participants have the ability to roll in assets online using the Digital Rollover Form available via the participant website. This process replaces the paper External Asset Movement Form.
 - The Total Balance as of July 31, 2023 is \$165.7 million with 1,439 participant accounts.
 - 401 fund balance is \$110,449,705 with 510 participant accounts with an average balance of \$216,568
 - 457 fund balance of \$44,349,779 with 404 participant accounts with an average balance of \$109,777
 - RHS fund balance of \$9,324,408 with 382 participant accounts with an average balance of \$24,409
 - IRA fund balance of \$1,567,063 with 143 participant accounts with an average balance of \$10,958
 - The Plan's Cashflow (401a and 457) as of July 31, 2023 is (\$3,974,845) as there is more going out than coming in. The cashflow was also negative for 2022 (\$4,683,157) and 2021 (\$4,601,996).
 - Bovensiep said there were a lot of unanswered questions on RHS from employees at MissionSquare meetings. Maleszyk said the DPW employees have a meeting scheduled in November, Police will be held in May, and City Hall employees will have a meeting at 10 a.m. and 1 p.m. on Thursday, October 12.
 - Attorney Michaud said a session, at the MAPERS Conference, for defined benefit pensions highlighted the concepts of actuarial mortality, specifically the impact of life expectancy and mortality tables. Due to longer lifespans, retirement can last longer than age 65 sometimes going into age 80s and 90s. Many people retire at age 50 instead of the previous standard age of 65. Cash allocation is a concern when the Plan is closed (to new retirees) but still paying out benefits to current retirees. The City will be "doing business" for decades. There was a fair amount of discussion of putting back/implementing Defined Benefit (DB) pension plans as a means to recruit employees. This becomes a personnel discussion and a financial discussion because in the market of today, people (particularly Gen-X and 18-35 year-olds) are not chasing equities for their Defined Contribution (DC) plans. Twenty-five years ago, there was a shift to DC from DB during union negotiations. Now, it is do not pay now, pay later.

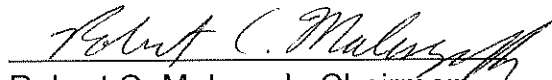
Other Business

- None

Adjourn

The meeting adjourned at 1:14 p.m.

The next meeting is Wednesday, November 8th, 2023 at 12:00 p.m. in City Council Boardroom.


Robert C. Maleszyk, Chairman


Kurt Bovensiepe, Vice Chairman