

MUNICIPAL EMPLOYEES' RETIREMENT BOARD

2003 Motions

JANUARY 15, 2003

ELECTION OF BOARD OFFICERS p. 1

Chairperson Walker turned the meeting over to Ms. Wagner to conduct the annual election for Chairperson of the Board. Ms. Wagner opened nominations for Chairperson of the MERS Board. Mr. Klosowski nominated Dale Walker for Chairperson of the 2003 Board. Supported by Mr. Johnson. Mr. Gary Murphy moved that a unanimous ballot be cast for Mr. Walker. Supported by Mr. Dennis Murphy. Motion carried. Mr. Dale Walker will retain his position as Chairperson of the Board for 2003.

Mr. Walker opened nominations for Chairperson ProTem for 2003. Mr. Gary Murphy nominated Ms. Kristen Wade for Chairperson ProTem of the 2003 Board. Supported by Mr. Klosowski. Mr. Klosowski moved to cast a unanimous ballot for Ms. Wade. Supported by Ms. Fandell. Motion carried. Ms. Wade will retain her position as Chairperson ProTem of the Board for 2003.

COMPUTER REPLACEMENT p. 1

Mr. Klosowski moved that the Board follow the recommendations of CEO Wagner regarding replacement of computers. Supported by Ms. Wade. Motion carried. Ms. Wagner advised the Board that they should be prepared to leave their laptop computers at the February Board meeting and new laptops will be available at the March Board meeting.

DROPS—Mr. Alan Sonnanstine, GRS p. 2

Mr. Sonnanstine noted that DROPS will be discussed in more detail at the February Board meeting. He distributed information on the possible design and provisions of the DROP program. The following types of DROP Programs were discussed: Traditional Forward DROP, Back DROP and PLUS (Partial Lump Sum). He pointed out that the PLUS plan could be designed to be much simpler to administer and understand and could be designed to meet the desired objectives. Mr. Sonnanstine presented an overview of how the DROP+ program would work.

Mr. Dennis Murphy moved that Mr. Sonnanstine draft a proposed DROP+ Plan for discussion at the February 2003 Board Meeting. Supported by Ms. Fandell. Motion carried.

HEALTH CARE FEASIBILITY STUDY—PHASE II – Mr. Sheldon Freilich, GRS p. 2-3

Mr. Freilich presented an overview of the Phase II Health Care Feasibility Study. He reported that the structure of his presentation would cover:

- Background on the data collection phase of the study
- Findings analysis
- Representative group benefit coverage for retirees only or for active employees and retirees
- Types of health care plans that are being recommended
- Medical and pharmacy benefit designs
- Plan costs
- Recommended MERS sponsored health benefit program

The survey of participating employers conducted last fall identified a strong interest in a MERS-sponsored health care program. GRS was retained by MERS to do a feasibility study of offering a health care plan for active employees or for retired employees.

The key issues that were identified in Phase I were legal issues, collective bargaining, protection of MERS and financial risk, initial capital (seed money) and constitutional issues. The recommendation from Phase I was to proceed with data collection and enact an analysis phase.

Phase II Data Collection and Analysis was structured to gather plan design, demographic and experience data of MERS employers who indicated an interest in a MERS-sponsored health plan. The primary purpose of Phase II analysis is to see if a program can be designed that will attract a sufficient volume of participants and still be easily administered. Two questionnaires were developed by GRS—one for employers offering fully insured health benefits and the other for employers with self-insured health plans. There were 352 responses out of 560 questionnaires that were mailed to employers. This was a tremendous response rate from the initial survey. GRS developed a questionnaire in order to gather data from 276 of the employers who responded, both those who had self-insured health benefit plans and fully insured health benefit plans. Employers who had both fully insured and self-insured health plans were excluded. Nearly 150 responses were received back from this mailing, which is an overall response rate of 54%.

Following the report on the data collection and analysis of that information, Mr. Seymore moved to proceed with Phase III of the study. Supported by Mr. Dennis Murphy. Motion carried.

LEGAL UPDATE—Mr. Michael Moquin, General Counsel p. 3

Non-Standard Benefit Package. MERS is taking a look at the standard benefits in MERS that may be collectively bargained. In general, those are items such as modification of multipliers, items regarding compensation, vesting, retiree COLA. In all cases of non-standard benefits, they need to be submitted to MERS; if they are not something we will consider administering or we don't have the technological ability to implement them, we will not send those on to the actuary for a valuation (a confidential process). We will identify possible alternatives where they can be accomplished through a different method of what they were trying to do. This is the first time that this has formalized within the Initial and Supplemental Valuation procedure. In the December newsletter there was an article about modification of standard benefit programs, pointing out that the Board was considering this matter and would issue a statement in the near future. Ms. Fandell moved to accept the modifications as recommended by Mr. Moquin. Supported by Mr. Klosowski. Motion carried. Mr. Moquin stated that this would be publicized in the newsletter and will also be sent to each contact person in the municipalities. This will also be placed on MERS website.

FEBRUARY 12, 2003

ACTUARY REPORT—Mr. Alan Sonnanstine p. 1-2

Proposal to Increase Contributions for Closed Divisions within Open Municipalities

Mr. Sonnanstine provided background information on the history of previous Board action pertaining to closed municipality funding. In March 2002 the Board approved a new amortization policy as part of eliminating the Accelerated Funding Credit (AFC) program. In January 2000 the Board restated their policy on closed municipality's funded level. A closed municipality is one that no longer actively participates in MERS (and has no active members).

During the 2001 valuation process, GRS identified another group for future special funding treatment: a closed division (no active members, or no new hires entering the division) within an open municipality (the municipality still actively participates in MERS). Mr. Sonnanstine explained that it is appropriate to finance the unfunded accrued liability of such divisions over a shorter period than the standard 30-year amortization period. Since it is desirable to avoid abrupt increases in the employer contribution requirements for such divisions, GRS recommends the following funding method for these closed divisions: The maximum amortization period for positive unfunded accrued liabilities shall be:

- 28 years in the actuarial valuation in which a division is first closed (or in the December 31, 2002 valuation for divisions that became closed in earlier years).
- Reduced by two years in each subsequent annual actuarial valuation, compared to the preceding valuation, with a minimum amortization period of five years.

Following discussion of the proposed resolution, Mr. Dennis Murphy moved to adopt the recommendation as proposed by GRS. Supported by Mr. Johnson. Motion carried.

DROPS+ Plan p. 2

Mr. Sonnanstine presented an overview of a design for a MERS DROP+ Plan. Following discussion, Ms. Fandell moved to request that staff assess the feasibility of implementing this plan and provide the Board a report on the same at the March Board meeting. Supported by Ms. Wade. Motion carried.

CONSENT AGENDA p. 3

Mr. Dennis Murphy moved to approve the consent agenda. Supported by Mr. Gary Murphy. Motion carried.

CEO'S REPORT p. 3

Resolution to Honor Bruce Seymore—Mr. Moquin presented a resolution of tribute in memory of Bruce Seymore. The draft of the resolution was provided to Mr. Kim Rhead, MERS Legislative Consultant, for legislative sponsorship. Representative Hager from Port Huron will be presenting this tribute to Mr. Seymore's wife and family at a Port Huron City Council meeting in the future. A copy of the tribute will be posted in MERS' home office in the Bruce A. Seymore Board Room. Mr. Gary Murphy recommended that this tribute be forwarded to the Legislature with MERS' endorsement. Supported by Mr. Dennis Murphy. Motion carried.

CLOSED SESSION p. 4

Ms. Wade moved to go into closed session to discuss the CEO's annual evaluation. Supported by Ms. Fandell. Roll call vote was as follows: Ms. Wade—yes; Ms. Fandell—yes; Mr. Johnson—yes; Mr. Klosowski—yes; Mr. Dennis Murphy—yes; Mr. Gary Murphy—yes; Mr. John Murphy—yes; Mr. Walker—yes. A unanimous vote was cast to go into closed session.

OPEN SESSION p. 4

Mr. Klosowski moved to return to open session. Supported by Mr. Gary Murphy. Motion carried.

MARCH 12, 2003

GENERAL CONSENT AGENDA p. 1

Ms. Wade moved to remove the Investment Report from the consent agenda. Supported by Mr. Gary Murphy. Motion carried.

Items approved on the general consent agenda are: February 2003 Board Meeting Minutes, CEO Report, General Counsel Report, Financial Report, IS Web Usage Report, and New Computer Installation Report. Mr. Gary Murphy moved to approve the Consent Agenda as corrected. Supported by Ms. Wade. Motion carried.

INVESTMENT REPORT p. 2

Mr. Klosowski moved to terminate Lombard Odier Darier Hentch as investment manager of the international equity portfolio. Supported by Mr. Johnson. Motion carried. The Investment Department is authorized to conduct investment management searches for international mandates in growth, value and small cap strategies. In addition, the Board authorized the Investment Department to research additional fixed income strategies with a specific emphasis on international bonds.

MID-CAP MANAGER SELECTION PRESENTATIONS p. 2

The following funding allocations will be drawn from the S&P 400 mid-cap index. This will align the mid-cap equity portfolio with the strategy for other asset classes in the portfolio with a 66% allocation to active management and 33% to the passive index.

Mr. Dennis Murphy moved to give Wellington Management \$50 million to manage a mid-cap core strategy with a growth bias. Supported by Mr. Klosowski. Motion carried.

Mr. Johnson moved to give Ariel \$50 million to manage in the mid-cap value style. Supported by Ms. Wade. Motion carried.

EXCESS BENEFIT PLAN—New Plan Section 55A p. 2-3

Following Mr. Moquin's explanation of the Excess Benefit Plan, new Plan Section 55A, Mr. Gary Murphy moved pursuant to the Board's authority as trustee and fiduciary under Section 36 of the MERS Plan Document, and the March 11, 2003 memorandum of General Counsel:

The Board approve addition of Section 55A with immediate effect; and authorizes General Counsel to direct Tax Counsel to formally advise IRS of the Board's addition of Section 55A, and request that Section 55A be included within the scope of the pending application for which the Letter of Favorable Determination is sought.

Supported by Ms. Wade. Motion carried.

PLAN SECTION 46B—Request for Board Repeal p. 3

In late February the IRS concluded it would not approve Section 46B, which would permit excess defined benefit assets over 120% of liabilities be used by a municipality to make DC contributions for their employees. Section 46B was passed by the Board in 1999, expressly stating that it shall not take effect until the IRS approves this provision (will not cause MERS to be an unqualified pension plan). In effect, the Board gave this section conditional approval. In terms of MERS pending request to qualify the entire MERS Plan, including Section 55A, the IRS has indicated that they will not look at that until the issue with 46B is resolved. Presently, MERS has the right to appeal internally this decision that the IRS has

made. It is not felt it would be advantageous to appeal because this will cause a substantial delay with a slim chance of success; on two occasions the IRS has looked at this and said they will not approve it.

Mr. Gary Murphy moved that pursuant to the Board's authority as trustee and fiduciary under Section 36 of 1984 PA 427, as amended; MCL 38.1536, and Section 36 of the MERS Plan Document, and the March 11, 2003 memorandum of General Counsel:

The Board repeals Section 46B in its entirety, as it has never taken effect in the absence of IRS' approval as required by Section 46B; General Counsel is authorized to promptly direct 46B Tax Counsel to formally communicate to IRS the repeal of Section 46B, MERS' withdrawal of the 46B portion pending request, or any other IRS review based upon 46B; and further, General Counsel is authorized to direct Tax Counsel which filed the pending total MERS Plan determination request to formally advise IRS of the Board's repeal of Section 46B, and that any reference to Section 46B in the pending request shall be disregarded.

Supported by Mr. Klosowski. Motion carried.

NO APRIL 2003 BOARD MEETING

MAY 14, 2003

CONSENT AGENDA p. 1

Items approved on the general consent agenda are: March 2003 Board Meeting Minutes, CEO Report, Chief General Counsel Report, Investment Report, Information Services Report, Administrative Services Report, Member Services Report, First Quarter Financials, Document Delivery System, and Vehicle Purchase. Mr. Dennis Murphy moved to approve the Consent Agenda. Supported by Mr. Gary Murphy. Motion carried.

EXCESS BENEFIT PLAN AND TRUST—Mr. Alan Sonnanstine, GRS p. 2

There are two processes in progress with regard to the Excess Benefit Plan: (1) Section 55A that was adopted by the Board at the March 2003 Board meeting was sent to the IRS in order to be included in the Letter of Determination process, and (2) in anticipation of the Board adopting the Excess Benefit Plan itself, the Private Letter Ruling request has been submitted. This is all in an attempt to get this approved and operational during this year, so that the Excess Benefit Plan can be used towards the end of 2003 to pay benefits in excess of the PA 415 limit outside the qualified MERS plan.

Mr. Gary Murphy moved approval of the Municipal Employees' Retirement System of Michigan Excess Benefit Plan and Trust. Supported by Ms. Wade. Motion carried.

DROP+ PLAN—Mr. Alan Sonnanstine p. 2

In February 2003 the Board approved in concept, the DROP+ Plan, which allows members to take a reduced lifetime retirement allowance and a lump sum in addition to their allowance.

Mr. Sonnanstine reported that both MERS's and GRS's staff, in conjunction with outside tax counsel, Ice Miller, have reviewed the DROP+ Plan. The main changes from the February initial draft are:

- Benefits in effect at the time of retirement will be used to estimate when members could have retired under the provision.
- Window periods—If there is a DROP+ in effect during a window period, whether or not it is the brand new temporary benefit, it may be elected by an employee.
- The DROP+ percentage an employer may elect is 4%, 5%, 6%, 7% or 8%. An educational program for employers will be developed to explain the DROP+ program.
- A municipality must be 60% or more funded in the most recent actuarial valuation in order to be able to adopt a DROP+ provision for any of their divisions. The same criteria is in place for a municipality to participate in the DC program.

Mr. Dennis Murphy moved that pursuant to the Board's authority as trustee and fiduciary under Section 36 of 1984 PA 427, as amended; MCL 38.1536, and Section 36 of MERS Plan Document, and the May 6, 2003 memorandum of Chief General Counsel recommending adoption of Plan amendments to implement new Benefit Program DROP PLUS (**D**erived **R**etirement **O**ption **P**lan **P**artial **L**ump **S**um), to be known as "**DROP+**":

The Board approves with immediate effect:

- Addition of Section 10(6), Section 11(1)(p) and 11(2)(e); and
- Amendment to Section 2C(7), Section 31(1) and Section 34

In addition, Chief General Counsel is authorized to direct Tax Counsel to formally advise IRS of the DROP+ amendments, and request that the amended sections of the Plan Document be included within the scope of the pending application for (HCSP) Letter of Favorable Determination.

Supported by Mr. Klosowski. Motion carried.

Health Care Savings Plan (HCSP)—Mr. Sheldon Freilich, GRS p. 3

Mr. Freilich stated that the HCSP is an approach that allows employers to create a health savings account for future retirees and others who leave service. The savings account reimburses for IRS allowable out-of-pocket medical expenses. It is a positive approach to assist retirees and those who have left employment to pay for their future medical costs out of contributions going into the Health Care Savings Program today.

Mr. Sonnanstine reported that not only can participating MERS municipalities be part of the HCSP, but also any other municipality in the state that satisfies the definition of a municipality under MERS Plan Document. He further noted there has been a change in the plan so that a participant becomes eligible to start spending their account on approved health related expenses after separation from employment, even if they are not receiving a retirement allowance (e.g., a permanent layoff).

Moved by Ms. Wade:

Pursuant to the Board's authority as trustee and fiduciary under Section 36 of 1984 PA 427, as amended; MCL 38.1536, and Section 36 of the MERS Plan Document, and the May 5, 2003 memorandum of Chief General Counsel recommending approval of the Health Care Savings Program ("HCSP") Trust Agreement, the HCSP Document, and the HCSP Uniform Resolution and Participation Agreement;

The Board approves the three documents implementing the HCSP with immediate effect. In addition, Chief General Counsel is authorized to direct Tax Counsel to draft and submit MERS' Request for Private Letter Ruling on the HCSP to the Internal Revenue Service.

Supported by Mr. Klosowski. Motion carried.

ADDITIONAL HEALTH CARE INITIATIVES p. 3

Group Buying of Benefits Proposal p. 3

Mr. Freilich suggested bringing economy of scale and vendor management for the benefit of municipalities. It was proposed that by purchasing fully insured benefits (life, disability insurance) through a MERS sponsored association arrangement, employers could benefit from lower premium rates, higher guaranteed issue levels, customized benefits, improved administration, access to employer-specific claims experience and no pre-existing conditions.

Mr. Gary Murphy moved that the Board authorize staff and consultants to solicit self-insured employer proposals for the benefits of the group buying power. Supported by Mr. Klosowski. Motion carried.

Self-Insured Employers Proposal p. 3

This issue also came out of the Employer's Advisory Committee. Pharmacy costs are a major issue for both public and private sector employers. Pharmacy benefit costs are increasing annually by approximately 18% and it is expected to continue to increase for the next two to four years, then moderate to an annual increase of about 13%.

Through the health care feasibility analysis, GRS has identified several potential administrative savings through a more cost-effective pharmacy manager arrangement. Several pharmacy benefit management vendors have been analyzed. After looking at the claims of several pharmacy benefit management vendors, GRS believes that a savings of 6-9% on drug claims can be realized.

Mr. Gary Murphy moved the Board approve looking into a Pharmacy Benefit Manager for the self-insured employers as described. Supported by Mr. Dennis Murphy. Motion carried.

BUDGET AMENDMENTS p. 4

Projection Report

The CEO requests a budget amendment to cover the cost of a projection report from the actuary. This report will assist MERS in planning for future initiatives. It will identify any initiatives that MERS may want to undertake, the impact of the retirement of the baby boomers on the system, examine the relationships between in-flows and out-flows, explore the effects of alternative assumptions about future experience, develop cash flow patterns, analyze the impact of changes in the workforce, examine the potential effects of changes in benefits or funding policies and illustrate the impact of unusual external forces on the financial activity of MERS. Mr. Johnson moved to approve the budget amendment as requested. Supported by Mr. Gary Murphy. Motion carried.

DC Clerk Status p. 4

The Administrative officer requests a budget amendment to change the DC position from a clerk to a coordinator level. The coordinator will maintain DC participant information and work with the TPA to secure all of the MERS DC related information.

Ms. Wade moved to approve the recommended budget amendment as requested. Supported by Ms. Fandell. Motion carried.

Retiree Board Member p. 4-5

Mr. Johnson moved that Mr. Larry Opelt be appointed to fill the remainder of Mr. Seymore's term on the Board, which expires December 31, 2003. The retiree position will be open for retirees to send their resumes to the MERS office, Attention Anne Wagner by August 1, 2003. The Board will review the candidates and a final selection will be presented to the delegates at the Annual Meeting in October. Supported by Mr. Gary Murphy. Motion carried.

JUNE 10, 2003

DISASTER RECOVERY p. 1

Mr. Gale Larson, Facilities Manager, presented proposals for disaster recovery from two companies—IBM and SunGard. Both companies have off-site systems that would allow MERS to remain in operation in the event of a major disaster. Following discussion, Mr. Johnson moved to adopt SunGard's proposal for disaster recovery. Supported by Mr. John Murphy. Motion carried.

INVESTMENT REPORT p. 1-2

Investment Guidelines—Ms. Wade moved to accept the guidelines as written. Supported by Mr. Dennis Murphy. Motion carried.

International Portfolio Search—Mr. Burns updated the Board on the International Portfolio search and provided an overview of the portfolio. Mr. Dennis Murphy moved to authorize Mr. Burns to move forward with the search. Supported by Mr. Johnson. Motion carried.

Mr. Burns recommended awarding \$100 million to fund BGI's Active International Equity (AIE) product. Mr. Johnson moved to award the \$100 million to BGI. Supported by Ms. Wade. Motion carried.

PENSION ADMINISTRATION SOFTWARE—Mr. Alan Sonnanstine, GRS p. 2

Mr. Sonnanstine reported that Gabriel, Roeder and Smith had been requested to perform a detailed study of MERS' current pension administration software and make recommendations concerning future software direction. Now that the study is completed, he offered three possible solutions: (1) Further customize PeopleSoft Pension software to correct the problems identified in his report; (2) Purchase another company's "off the shelf" software and customize it to meet MERS' needs; or (3) Develop custom pension administration software designed specifically to meet MERS' needs.

GRS recommends that MERS develop custom pension administration software designed specifically to meet MERS' needs. This will result not only in user satisfaction, but substantially increased productivity. It will also significantly reduce the chance of data errors that result from storing redundant data.

Following discussion, Mr. Gary Murphy moved to accept the GRS report and proceed with the recommendation that custom pension administration software be designed specifically for MERS needs. Supported by Mr. John Murphy. Motion carried.

CONSENT AGENDA p. 2-3

The Board requested the following items be pulled from the Consent Agenda: Proposed Board Meeting Schedule, CAFR and Wage and Service RFP Recommendation.

Items approved on the general consent agenda are as follows:

- May 2003 Board Meeting Minutes
- CEO Report
- Ongoing Project List—May–December 2003
- Chief General Counsel Report
- Disability/Duty Death Quarterly Report
- Investment Report
- Finance Statistics

Ms. Wade moved to approve the Consent Agenda. Supported by Mr. Gary Murphy.

Proposed Board Meeting Schedule p. 3

Following discussion, Mr. John Murphy moved to approve the 2004 proposed Board meeting schedule with the addition of a meeting in March. Supported by Ms. Wade. Motion carried.

Wage and Service RFP Recommendation p. 3

Following an explanation of the vendor selection process for this project, Mr. Gary Murphy moved the approval of staff recommendation to award Compuware the contract. Supported by Mr. John Murphy. Motion carried.

eBill Payment Fees Resolution p. 3

Following discussion of the eBill payment fees resolution, Mr. Johnson moved to adopt the resolution contingent on available relief for municipalities that do not have the capability to pay via e-mail. Supported by Ms. Wade. Motion carried.

NO JULY 2003 BOARD MEETING

AUGUST 12-13, 2003

CONSENT AGENDA (12th) p. 1

Ms. Wade moved to approve the consent agenda. Items on the agenda included:

June 2003 Board Meeting Minutes	Information Services Quarterly Report
CEO Report	Quarterly Website Use Report
Library Services Report	Administrative Services Quarterly Report
Chief General Counsel's Report	Member Services Quarterly Report
Investment Report	

Supported by Mr. Gary Murphy. Motion carried.

STAFFING REQUEST AND BUDGET AMENDMENT RESOLUTION (12th) p. 1

Ms. Wagner requested approval for 5.5 new staff positions starting September 1, 2003. This request is due to the length of training time it takes for new staff members and is in conjunction with the new initiatives that MERS will undertake in 2004. Mr. Opelt moved to approve the request for the 5.5 positions effective September 1, 2003. Supported by Ms. Wade. Motion carried.

Mr. Gary Murphy moved that the budget be amended to increase the Member Services budget by \$34,200 and the Administrative Services Budget by \$52,900 for the additional 5.5 positions. Supported by Mr. Opelt. Motion carried.

GARY L. FORD v MERS and Oxford Police, Fire, and EMS Commission (OPFEC) (12th) p. 2

Following discussion of the case, Ms. Fandell moved approval of the Supplemental Proposal for Decision dated July 21, 2003, which approves and endorses the settlement agreement under the terms stated in the Decision. Supported by Mr. Dennis Murphy. Motion carried.

PENSION ADMINISTRATION SOFTWARE PROJECT (12th) p. 2

CEO Anne Wagner, recommended that the Board proceed with a rewrite of the Pension Administration software as proposed by Gabriel Roeder Smith (GRS), with a cost not to exceed \$5,000,000 spread over a period of three years, for the following reasons.

1. MERS contracted with GRS to develop crucial pension software while still in State government. The programs they designed kept the system running. The same GRS consultants that were involved in the design and implementation of that software are still employed by GRS and have the necessary background knowledge required to provide key assistance to rewrite the new pension software. This will eliminate reinventing the wheel and prove cost effective.
2. GRS is very familiar with MERS' current and historical data and understands MERS both from an administrative perspective and an actuarial perspective. MERS is a complex pension plan and GRS is intimately familiar with that complexity. GRS's broad and in-depth knowledge is necessary to properly design the new pension software.
3. Last fall, GRS conducted a research project to review the current MERS pension software. The project result was written documentation regarding the need for a new system. As a result, GRS consultants now have detailed knowledge of MERS current processes and requirements, which will benefit the development of the new software.
4. The staff at MERS has been very satisfied with GRS consultants and with the previous software design.
5. GRS is nationally recognized in the design and implementation of public pension software. Its largest project to date was for the California Public Employees' Retirement System (CalPERS), the largest non-federal public pension plan in the U.S. GRS completed the CalPERS project in

1998, and CalPERS has praised the fine quality of the design and implementation, as well as the consultants. CalPERS continues to contract with GRS. Many public plans in Michigan as well as other states use GRS software.

6. GRS produces software that meets the specific and unique needs of public pension plan systems. It avoids "corporate-plan-specific" software features. This results in software that is easier to use.

Following discussion, Board member Larry Opelt moved to approve the recommendation. Supported by Board member John Murphy. The motion carried.

RETIREE BOARD POSITION (13th) p. 3

Following discussion regarding the two candidates, Mr. Michael Tyler, City of Berkley and Mr. Larry Opelt, City of Adrian, for the retiree position on the Board, Ms. Fandell moved to nominate Mr. Larry Opelt as the Board's choice of retiree candidate. Supported by Mr. Dennis Murphy. Motion carried, with Mr. Opelt abstaining from the vote.

Mr. Gary Murphy moved that MERS pursue legislation to have the retiree board member directly appointed by the MERS Board alone. Supported by Mr. Klosowski. Motion carried.

RESIGNATION OF JOHN MURPHY (13th) p. 3

Mr. John Murphy submitted his resignation to the Board to be effective Sept. 1, 2003. He has taken a position as the city manager with the Village of Matawan. Chairperson Walker congratulated Mr. Murphy and thanked him for his service and contribution while serving on the board. Ms. Fandell moved to accept Mr. John Murphy's resignation with regrets. Supported by Mr. Klosowski. Motion carried.

FEASIBILITY STUDY OF HEALTH CARE SUMMARY—Sheldon Freilich, Jim Pranschke and Carrie Olger (13th) p. 3

Mr. Freilich presented a Summary Report the completed Feasibility Study of a MERS-Sponsored Health Care Benefit Program. Mr. Freilich noted that the early survey submitted to participating employers produced a substantial response that showed the interest in a MERS-sponsored health program to help manage a major expense and to obtain the benefit of volume purchasing to achieve savings/lower costs. The Employer Advisory, comprised of representatives from various municipalities, provided supportive feedback and recommendations in the final phases of the study. Based on the analysis and the resulting design in Phase Three, the overall study revealed that a program can be designed that meets the employer's needs and that will attract sufficient plan enrollment. Therefore, GRS recommends that MERS proceed with the developing and offering a Health Care Program for MERS participating employees.

Following discussion, Mr. Opelt moved that MERS proceed to develop a MERS-sponsored Health Care Program, develop the MEWA application and develop the implementation aspects of the program. Supported by Mr. John Murphy. Roll call vote was called for implementation of the health care program resulted in the following: Ms. Wade—No; Ms. Fandell—Yes; Mr. Johnson—Yes; Mr. Klosowski—Yes; Mr. Dennis Murphy—No; Mr. Gary Murphy—Yes; Mr. John Murphy—Yes; Mr. Opelt—Yes; Mr. Walker—Yes. Motion carried.

INTERNATIONAL LARGE CAP SEARCH (13th) p. 4

The Board discussed the three firm's presentations and capabilities. They asked for the Investment Department staff's input based on their due diligence. Mr. Johnson moved to hire Delaware International Advisors for equity management. Supported by Mr. Gary Murphy. Motion carried.

SEPTEMBER 30, 2003

PART-TIME TO FULL-TIME PLAN AMENDMENT p. 1

The Board referred this item to Michael Moquin, MERS Chief General Counsel, at the August meeting. This amendment will provide that service credit is given in proportion to part-time or full-time at the point of an employee's promotion. Implementation will only take place upon adoption by the local governing body for their employees. Mr. Gary Murphy moved to approve amendments to Plan Section 4(6) to permit conversion of part-time service credit to full time upon promotion to full-time and to approve the implementing resolution. Supported by Mr. Opelt. Motion carried.

INTERIM MEWA BOARD OF TRUSTEES APPOINTMENT RESOLUTION p. 1

Mr. Klosowski moved to approve the following members as interim members of the MEWA Board of Trustees: Mr. Dale Walker, Mr. Gary Murphy, Ms. Anne Wagner, Mr. Kurt Humphrey and Mr. Scott Failla. Supported by Ms. Fandell. Motion carried.

RELEASED DEFERRED OBLIGATION REQUEST p. 1

Mr. Moquin reported that under the Reciprocal Retirement Act, in order for service credit and assets to be moved from MERS to a non-MERS participating municipality, the Retirement Board needs to establish a uniform policy so the assets may follow the employee to a reciprocal employer, upon approval of the governing body and the non-MERS unit. Mr. Opelt moved to approve the Released Deferred Obligation Report. Supported by Mr. Gary Murphy. Motion carried.

2002 CLOSED MUNICIPALITY FUNDING POLICY FOR CERTAIN CLOSED GROUPS p. 2

Mr. Sonnanstine noted there are 15 closed groups within MERS, which are former municipalities that no longer actively participate in MERS, but still have some liabilities and assets in MERS because they have retirees and/or vested former members. A closed municipality no longer has an active participation in MERS. Typically these municipalities leave MERS because they go out of business or are privatized. He went on to propose that based on the 2002 actuarial reports, any closed municipalities who are under the 100% funded level not be required to increase their funded percent by more than five percent of their actuarial accrued liability for year 2002 only. The substance of this change would be a decrease in the aggregate required contribution for the 15 closed groups from \$2.5 million to \$722,927.

Ms. Wade moved to approve the proposal to provide temporary contribution requirement relief for certain closed groups. Supported by Mr. Johnson. Motion carried.

CONSENT AGENDA p. 2

Mr. Opelt moved to approve the consent agenda. Items on the agenda included: August 2003 Board Meeting Minutes; CEO Report, Chief General Counsel's Report, Investment Report, and Second Quarter Financials. Supported by Mr. Dennis Murphy. Motion carried.

BOARD GOVERNANCE p. 3

Mr. Klosowski moved to approve the Board Governance section on "Defining the Board's Job" with the exclusion of Policy 4.5(d). Supported by Mr. Opelt. Motion carried.

NO OCTOBER 2003 BOARD MEETING

November 12, 2003

GENERAL CONSENT AGENDA p. 1

September 2003 Board Meeting Minutes
CEO 3rd Quarter Report
Library Statistics
General Counsel's Report
Interest Rate Recommendation
Proposed Change to Contribution Late Fees

Duty Death/Disability Statistics
Third Quarter Financials
Administrative Services Quarterly Report
Investment Report
Retiree/Member Services Quarterly Report
IS Department Quarterly Report

Mr. Dennis Murphy moved to approve the General Consent Agenda. Supported by Ms. Wade. Board members requested that the Interest Rate Recommendation, Proposed Change to Contribution to Late Fees and the Investment Report be pulled from the Consent Agenda. Motion carried.

2003 EMPLOYEE INTEREST RATE RECOMMENDATION p. 1

Following clarification and discussion of the Proposed Employee Interest Rate, Mr. Gary Murphy moved that the Retirement Board of the Municipal Employees' Retirement System of Michigan adopt the change of lowering the member Employee balance interest rate from 4% to 1.5% for 2003. Supported by Mr. Opelt. Motion carried.

PROPOSED CHANGE TO CONTRIBUTION LATE FEES p. 1

Since January 1, 2000, municipalities who have been delinquent in remitting their required monthly contributions to MERS have been assessed a flat monthly charge. It is recommended that the Board adopt a revision to the late payment charge schedule that ties the amount of the late fee to the delinquent invoice amount. Ms. Wade moved to approve staff's recommendation to adopt the revision to the late payment charge schedule as presented. Supported by Mr. Gary Murphy. Motion carried.

INVESTMENT REPORT p. 2

Mr. Burns explained the Synopsis of Trades section of the Investment Report for the Board. The purpose of the Synopsis of Trades is to provide a snapshot of the portfolio. Mr. Opelt moved to approve the Investment Report. Supported by Mr. Klosowski. Motion carried.

2004 BOARD MEETING DATES AND LOCATIONS p. 2

There are seven regular Board meetings and one Board retreat scheduled for 2004. There was discussion concerning the schedule. Mr. Gary Murphy moved to approve the 2004 Board Meeting Schedule as submitted with the understanding that Board meetings will be called if necessary in the months a regular meeting is not scheduled. Supported by Mr. Opelt. Motion carried.

MEWA STRUCTURE AND GOVERNANCE p. 2

Mr. Freilich reported that the Board appointed an interim MEWA board (trustees) and charged them with implementing the multiple employer welfare arrangement (MEWA). The interim MEWA board met and reviewed and recommends the Board approve the MEWA Trust Agreement. The Trust document that would create the MEWA requires MERS Board approval.

Following discussion, Chairperson Walker stated he would entertain a motion approving the MEWA Trust Agreement. Mr. Moquin stated that the Board's approval incorporates the corrective comments that Mr. Gary Murphy has made both in his e-mail and at today's meeting (namely, consistency in trustee's titles, and the MEWA Program Executive Director was appointed and not elected by the trustees). Mr. Gary Murphy moved the resolution approving the MEWA Trust subject to the stated amendments. Supported by Mr. Klosowski. Motion carried.

INTERNATIONAL SMALL CAP MANAGERS p. 3

Candidates: Acadian Asset Management—Mr. Jim Wylie and Mr. Jon Chisholm Globeflex Capital—Mr. Noa Bretz and Mr. Bob Anslow. After full consideration, Mr. Klosowski moved to hire Acadian Asset Management to manage a \$100 million international small cap portfolio on behalf of MERS. Supported by Mr. Dennis Murphy. Motion carried.

2004 BUDGET RESOLUTION—Mr. Luke Huelskamp, Chief Financial Officer p. 3

Mr. Huelskamp presented the MERS budget for 2004 to the Board, along with the 2004 Budget Resolution, for approval. Mr. Opelt moved to adopt the 2004 Budget Resolution. Supported by Mr. Gary Murphy. Motion carried.

2005 ANNUAL MEETING LOCATION p. 3

Staff recommended that the Hyatt Regency Dearborn be selected as the site for the 2005 Annual Meeting. Ms. Wade moved that the 2005 Annual Meeting be held at the Hyatt Regency Dearborn Hotel. Supported by Ms. Fandell. Motion carried.

December 10, 2003

B-3 BENEFIT RESOLUTION p. 1

The B-3 benefit resolution for the MERS staff was presented to the Board for approval. Following discussion, Mr. Opelt moved to approve the B-3 Benefit Resolution effective January 1, 2004. Supported by Mr. Klosowski. Motion carried.

INSURANCE UPDATES p. 2

Group Insurance Buying—Standard Insurance Company

CAO Beaton reported there are 138 employers in the process of securing the Group Life Insurance under MERS' name with Standard Insurance Company. MERS has requested that a Noncompete Clause be included in the contract. Chief General Counsel Moquin provided the language for a motion to approve the Standard contract. Mr. Opelt (supported by Mr. Dennis Murphy) moved approval of the contractual relationship with Standard Insurance Company providing Group Insurance Buying economies to MERS participating entities on the following terms:

1. The Board authorizes the CEO to approve a Non-competition Agreement between Standard Insurance Company and MERS, upon Chief General Counsel's determination that the agreement is in MERS' best interests, and further;
2. That upon entry of the Non-competition Agreement, the participating entity coverage agreement (or agreements) and Group Insurance Policy (or policies) (all to be in a form approved by MERS staff) shall apply to MERS as the policyholder and to all participating entities.

Motion carried.

AUDITOR CONTRACT p. 2

CFO Huelskamp reported that audit bids were sent to five major auditing firms. Andrews Hooper & Pavlik and Plante & Moran responded to the bids. Following review, Andrews Hooper & Pavlik is recommended to the Board to be selected for the next three years. Mr. Opelt moved to approve the resolution for Andrews Hooper & Pavlik for MERS for fiscal years 2003-2005. Supported by Ms. Wade. Motion carried.

SERVICE CREDIT PURCHASE—THOMAS PETRONI p. 2

Mr. Opelt moved to approve the recommendation to allow Mr. Petroni to purchase service credit to cover his contractual employment for one and one-half years with MERS prior to his full-time status with the system with one-half of the cost paid by Mr. Petroni and the other half from the Legal Department's 2003 budget. Supported by Mr. Gary Murphy. Motion carried.

GENERAL CONSENT AGENDA p. 2-3

Mr. Gary Murphy moved to remove the CEM Benchmark Report, Investment Report and the Legal Report from the Consent Agenda. Supported by Ms. Fandell. Motion carried. Mr. Opelt moved to approve the Consent Agenda. Supported by Ms. Fandell. Motion carried. Items approved on the Consent Agenda were the November Board Meeting Minutes and the CEO Report.

CLOSED SESSION p. 3

Ms. Fandell moved the Board go into closed session to discuss Personnel issues. Supported by Mr. Gary Murphy. Roll call vote: Ms. Wade—Yes; Ms. Fandell—Yes; Mr. Johnson—absent; Mr. Klosowski—

Yes; Mr. Dennis Murphy—Yes; Mr. Gary Murphy—Yes; Mr. Opelt—Yes; Mr. Ogden—Yes; Chairperson Walker—Yes.

Mr. Klosowski moved to return to open session. Supported by Ms. Fandell. Motion carried

OPEN SESSION p. 3

Mr. Klosowski moved that the Board approve moving the Chief Executive Officer to the top of her pay scale, effective January 1, 2004. In addition, a bonus of 10% is to be paid in December 2003 in recognition of her leadership and improvements that have been made to the system. Supported by Ms. Wade. Motion carried.

END OF 2003 MOTIONS