

MUNICIPAL EMPLOYEES' RETIREMENT BOARD

2004 Motions

JANUARY 14, 2004

NEW BUSINESS p. 1-2

ePASS Project—CEO Wagner reported that the Compuware Company was dismissed from the ePASS project on December 16, 2003. This was due, in large part because of their failure to deliver on the agreed date. Ms. Tama Allen, Chief Technology Officer, recommended that based on the information contained in the original RFP (April 1, 2003), the contract for this project be assigned for completion to GRS. She stated that her recommendation is based on: 1) GRS' competitive bid received in the original bid (GRS's bid remains valid), 2) the well-established relationship with GRS, and 3) GRS's understanding of our system's complexities.

Mr. Opelt moved to approve Ms. Allen's recommendation to hire GRS to complete the ePASS project (wage and service on-line). Supported by Mr. Johnson. Motion carried.

February 10-11, 2004

ELECTION OF BOARD OFFICERS (10th) p. 1

Chairperson Walker turned the meeting over to CEO Wagner for the election of Board Officers. CEO Wagner stated the floor would entertain a motion for nominations for Chairperson of the Board. Mr. Gary Murphy moved to nominate Mr. Walker for the Chairperson of the Board. Supported by Mr. Klosowski. Motion carried.

Chairperson Walker stated the floor would entertain a motion for nominations for Chairperson Pro Tem of the Board. Mr. Klosowski moved to nominate Ms. Wade for the Chairperson Pro Tem position. Mr. Opelt moved that nominations be closed and cast a unanimous ballot. Supported by Mr. Dennis Murphy. Motion carried.

CONTRACTING SERVICES FOR PEOPLESOFT (10th) p. 2

CEO Wagner reported that customization to the PeopleSoft pension system is required in order to calculate the non-standard pension benefits of potential new member municipalities. The Information Systems 2004 budget provides for additional computer consulting. Tama Allen, Chief Information Systems Officer, recommended, after examining bids from two organizations, that IBM be awarded the consulting contract to do the customization. IBM was the original vendor on the customization project for PeopleSoft in 1997 and has considerable expertise in this area. Ms. Wade moved to award the consulting contract to IBM pursuant to Ms. Allen's recommendation. Supported by Mr. Opelt. Motion carried.

OLD BUSINESS

Amendment to Section 6.03 of MERS Qualified Excess Benefit Plan and Trust (10th) p. 2

Mr. Moquin recommended the Board amend Section 6.03, with a retroactive effective date of January 1, 2003 (the effective date of the QEBA), in order to comply with the caveat in the December 15, 2003 Private Letter Ruling from the IRS. This is a minor amendment and in no way affects the operation of the Trust, which has been fully implemented for calendar year 2003.

Mr. Opelt moved to amend Section 6.03 of the QEBA pursuant to the December 15, 2003 Private Letter Ruling of the Internal Revenue Service, granting approval to the MERS QEBA Plan and Trust contingent upon the Board revising Section 6.03 of the Plan and Trust. Section 6.03 is revised with an effective date of January 1, 2003, as set forth in Chief General Counsel's January 23, 2004 memorandum. Supported by Mr. Gary Murphy. Motion carried.

GENERAL CONSENT AGENDA (10th) p. 2

Mr. Opelt requested that the Investment Report be removed from the General Consent Agenda. Mr. Gary Murphy requested the Financial Report be removed from the General Consent Agenda.

Mr. Johnson moved to approve the Consent Agenda. Supported by Mr. Klosowski. Motion carried. Items approved on the Consent Agenda were: Board Meeting Minutes of January 14, 2004; CEO Report; General Counsel's Report; Administrative Services Quarterly Report; Client Services Quarterly Report; Information Systems Quarterly Report; Disaster Recovery Committee Report; Document Delivery System Report; and ePass Continuance Report.

CLOSED SESSION (10th) p. 3

Ms. Wade moved that the Board go into closed session to discuss pending legal issues. Supported by Mr. Gary Murphy. Roll call vote: Ms. Wade, yes; Ms. Fandell, yes; Mr. Johnson, yes; Mr. Klosowski, yes; Mr. Dennis Murphy, yes; Mr. Gary Murphy, yes; Mr. Opelt, yes; Mr. Ogden, yes; Mr. Walker, yes. Motion carried. Mr. Burns, CIO, was requested to remain for the closed session.

OPEN SESSION (10th) p. 3

Mr. Opelt moved that Chief General Counsel's recommendation on this issue be accepted. Supported by Ms. Wade. Motion carried.

MERS PROPERTY (10th) p. 3

CEO Wagner reported that an offer has been received on two acres of MERS adjoining property. CEO Wagner requested authority from the Board to proceed and finalize the deal. Mr. Johnson moved to authorize CEO Wagner to agree on a price that is in the best interest of MERS. Supported by Mr. Opelt. Motion carried.

PROPOSAL FOR DECISION—LAWRENCE SKOTZKE v MERS (11th) p. 4

Following considerable discussion, Mr. Opelt moved that the Board adopt the Findings of Fact and Conclusions of Law, and recommendation denying duty disability, as contained in the PFD of the Hearing Officer. Supported by Ms. Wade. Motion carried. Mr. Ogden abstained from the vote since the case involved an individual from his municipality.

March 10, 2004

GENERAL CONSENT AGENDA (p. 2)

Mr. Opelt moved and Mr. Klosowski seconded, to approve the Consent Agenda minus the Legal Report. Motion carried. Items approved on the General Consent Agenda were: Board Meeting Minutes February 10, 2004; CEO Report; Disability/Duty Death Status Report; Investment Report; and Statement of Changes in Plan Assets

AD HOC ADJUSTMENT RECOMMENDATION—Mr. Alan Sonnanstine, GRS (p. 2)

Due to the serious budget issues facing most MERS employers, Mr. Sonnanstine suggested a reasonable adjustment to the asset smoothing method that would not result in investment gains and losses in the December 31, 2003 actuarial valuations. Mr. Sonnanstine proposed the following resolution:

Whereas, market-based investment returns have been extremely volatile during calendar years 1999-2003; and

Whereas, it is desirous to smooth out fluctuations in employer contributions due to such market volatility as much as possible; and

Whereas, it is desirous to limit, to the extent consistent with sound actuarial principles, increases in the employer contribution requirements for fiscal years beginning in 2005; and

Whereas, the MERS actuary has recommended the following ad hoc adjustment to the method of calculating the actuarial value of assets (valuation assets);

Now Therefore Be It Resolved that the following method changes shall be used:

1. As of December 31, 2003, aggregate the yet-unrecognized market gains and losses from the 1999-2002 calendar years with the 2003 market gain;
2. Recognize no gain or loss in 2003; and
3. Recognize the aggregate loss calculated in item 1 in four equal dollar installments in 2004-2007.

Mr. Gary Murphy moved and Ms. Wade seconded to approve the resolution as stated. Motion carried.

HEALTH CARE SAVINGS PROGRAM (p. 2-3)

Mr. Moquin reviewed changes to the Health Care Savings Program Trust Agreement. These are primarily “fine tuning” changes to the document. Once these changes are made, the HCSP will be rolled out to the members. Mr. Dennis Murphy moved and Mr. Opelt seconded to amend the MERS Health Care Savings Plan as follows:

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, the Board approves with immediate effect the revisions to the Health Care Savings Program Trust Agreement, HCSP Document, and HCSP Uniform Resolution and Participation Agreement, as set forth in the March 2, 2004 Memorandum of Chief General Counsel. Motion carried.

MERS DETERMINATION LETTER (SEC. 55 OF PLAN DOCUMENT) (p. 3)

Mr. Moquin reviewed the requested revisions to Section 55 of the Plan Document. Mr. Opelt moved and Ms. Fandell seconded to amend Section 55 of the MERS Plan Document as follows:

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, the Board approves with immediate effect the amendments to Plan Section 55 as set forth in the February 29, 2004 Memorandum of Chief General Counsel, and the March 9, 2004, final language of Section 55. Motion carried.

REVISION TO SECTION 3 OF PLAN DOCUMENT (p. 3)

Mr. Moquin discussed the provisions of Section 3 of the Plan Document covering part-time employment, as well as the opt-out provision for CEOs. There was lengthy discussion on part-time employment because MERS' Defined Contribution plan has been in place since 1997, which permits immediate employee vesting in employer contributions, there is no useful purpose for the CEO opt-out language in the Plan Document. Deleting these provisions would eliminate manager exclusion from MERS membership. This action would not, however, permit city managers that opted out of MERS membership to come back into MERS. Mr. Klosowski moved and Mr. Dennis Murphy seconded that the revision to Section 3 of the Plan Document be tabled until the next Board meeting. Motion carried.

GENERAL COUNSEL'S REPORT (p. 3)

Mr. Opelt moved and Mr. Gary Murphy seconded to approve the Chief General Counsel's report. Motion carried.

CONTRACTING SERVICES FOR HURLEY HOSPITAL (p. 3)

CEO Wagner reported that IBM, who had originally been contracted with, is unable to fulfill the contract due to an illness of a key person. Pension Smart has submitted a comparable bid. Mr. Opelt moved and Mr. Gary Murphy seconded to replace IBM with Pension Smart for the customization to the PeopleSoft pension system in order to calculate the non-standard pension benefits of potential new member municipalities. Motion carried.

ANNUAL MEETING CONTRACT FOR 2006 (p. 3)

CEO Wagner presented a contract comparison of the Amway Grand Hotel and the Grand Traverse Resort for the 2006 Annual Meeting. Following discussion among the Board, Mr. Klosowski moved and Mr. Ogden seconded that the 2006 Annual Meeting be held at the Amway Grand in Grand Rapids. Motion carried.

MERS PROPERTY (p. 3-4)

CEO Wagner reported that a price has been negotiated for the two-acre parcel on MERS property.

CEO Wagner reported that when MERS purchased the 27 acres for the new office building it inherited existing condominium documents, which included a master deed and by-laws that the former developer had recorded. These documents have been cleaned up so that MERS Capitol Park is the developer and that MERS now holds the rights the former developer had. CEO Wagner requested authorization from the Board to approve the documents.

Mr. Dennis Murphy moved and Mr. Opelt seconded to authorize the Chief Executive Officer of MERS, in the name of and on behalf of MERS, to execute the Amended and Restated Master Deed for MERS Capitol Park Condominium (which includes Bylaws and the Condominium Subdivision Plan), following approval of the documents as to legality by MERS' Chief General Counsel; and further authorizes the filing of the documents and obtaining any required approval from the appropriate governmental bodies, including recording with the Eaton County Register of Deeds. Motion carried.

NO APRIL 2004 BOARD MEETING

MAY 12, 2004

MERS GROUP INSURANCE PROGRAM—STANDARD LIFE (p. 1-2)

Mr. Freilich reported that 44 employers have signed up for the Group Buying Program, representing 2600 active employees. The average savings per employer is 30% on their premiums.

MERS Premier Health—Mr. Freilich further reported that OFIS responded to the MERS application with additional questions. An addendum including the answers to those questions is being submitted to the OFIS office this afternoon.

The MERS Premier Health Board of Trustees selected a third party administrator, SecureOne in Grand Rapids, to do claims processing. SecureOne offers a 24-hour, seven day a week verification of benefits and eligibility. PPOM, a subsidiary of Blue Cross and one of the largest PPOs in Michigan, was selected as the network provider. It serves approximately one million members and contracts with every hospital in the state.

Mr. Freilich went on to recommend the following:

- 1) The Retirement Board authorize an additional \$1.5 million to be made available to MERS Premier Health. This additional \$1.5 million would be available either as a loan or as an increase in the current LOC face amount (or some combination of the two), at management's direction.
- 2) The Retirement Board authorize the availability of up to \$1.5 million to MERS Premier Health to satisfy the statutory reserve required by OFIS. This \$1.5 million would be available either as a loan or as an increase in the current LOC face amount (or some combination of the two), at management's direction.
- 3) Mr. Gary Murphy moved and Ms. Fandell supported that up to (1) \$1.5 million be available as a loan to MERS Premier Health to satisfy the initial year's reserve requirement and (2) the Board authorize the availability of up to \$1.5 million to meeting the OFIS statutory deposit requirement. MERS' loan to the MEWA would be subject to rates recommended by staff at the next Board meeting. Motion carried.

PLAN AMENDMENT SECTION 3(3) (p. 2)

May is the month for Board review of proposed Plan amendments to MERS Plan Document. Section 3(3) of the Plan amendment pertains to the CEO exclusion from MERS. There have been ongoing discussions

with various chief executive officers (city managers) that previously “opted out” of MERS defined benefit plan. The language in subsection (3) was added to the MERS act in the late 1980’s, at a time of uncertain tenure for CEO’s and when MERS had no defined contribution (DC) plan. Since 1997 MERS has a DC program, hence there is no longer a need for the opt-out language in the Plan Document.

Mr. Opelt moved and Ms. Wade supported that pursuant to the Plan Amendment Request as set forth in Chief General Counsel’s May 4, 2004 memorandum, Section 3(3) of the MERS Plan Document is hereby deleted with immediate effect. Motion carried.

PLAN AMENDMENT SECTION 31(1) (p. 2-3)

In the last several months retirees have sent in letters concerning Section 31(1), which applies to post-retirement re-employment by the same participating municipality or court from which retirement occurred. This section was amended in 1997 raising the earnings limit before the MERS pension is suspended from \$5,000 to \$10,000 until age 70 is attained. It was amended once again in 2001, when a Board motion to raise the earnings limit to \$15,000, until age 65 is attained, effective January 1, 2002.

The CEO and Chief General Counsel recommend that the earnings limitation language be repealed from the Plan Document and that the change be made effective immediately.

Mr. Opelt moved and Ms. Wade supported 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, the Board approves with immediate effect repealing Section 31(1) of the Plan Document. As amended, Section 31(1) will read:

The following special conditions shall apply if a retirant becomes employed by a participating municipality or participating court:

- (1) If a retirant becomes employed by the participating municipality or participating court from which the person retired, the retirant shall not be a member during the period of employment.

Motion carried.

INVESTMENT REPORT (p. 3)

Investment Guidelines—Mr. Burns reported that the Investment Committee met via conference call to discuss Investment Guidelines, which were supported by the Committee. The Investment Guidelines were distributed to each Board member for the full Board’s review prior to the June Board meeting.

He further reported that the Investment Committee terminated Armstrong Shaw and would conduct a large cap value search at some point in the near future. He requested that the Board authorize the Investment Committee to select an international fixed income manager.

In addition, he requested that the Board approve: (1) The termination of Armstrong-Shaw and commencing a large cap value active manager search; (2) Transfer the assets from the Comerica managed PEP Fund (Enhanced S&P 500 which is being closed) to the internally managed S&P 500; and (3) Transfer the assets in the Comerica S&P 400 fund to MERS internal management.

Ms. Wade moved and Mr. Klosowski supported to give the Investment Committee sole authority for the selection of an external investment manager. Motion carried.

Mr. Johnson moved and Mr. Opelt supported to adopt the recommendation to transfer the money from the Comerica S&P 500 and S&P 400 to internally managed MERS S&P 500 and S&P 400, respectively. Motion carried.

CONSENT AGENDA (p. 3)

Mr. Opelt moved and Mr. Klosowski supported to approve the Consent Agenda minus the Investment Report and Financial Report. Motion carried. Items approved on the General Consent Agenda were: Board Meeting Minutes of February 10, 2004; Client Services Report; CEO Report; Information Systems Report; and General Counsel's Report.

PROPERTY—MR. JOHN PECKHAM (p. 4)

Mr. Peckham reported to the Board that two parcels of land near MERS Home Office have become available for purchase. One parcel (2 units) has two buildings on it. The second is property located behind the MERS building; the developer suggested to Mr. Peckham that there is a buffer zone that he would be willing to sell to MERS.

Following discussion the Board expressed no interest in the vacant land; however, Mr. Ogden moved and Mr. Gary Murphy supported taking a look at the option of purchasing the two existing buildings. Motion carried.

ALLEGAN COUNTY v MERS (p. 4)

Mr. Moquin presented this contested case to the Board for decision. Following discussion, Mr. Opelt moved and Mr. Ogden supported the Hearing Officer's proposed decision be approved by the Board. Motion carried.

JUNE 8, 2004

GENERAL CONSENT AGENDA (p. 1)

Mr. Opelt requested the Investment Report be pulled from the Consent Agenda. Mr. Dennis Murphy requested the Legal Report be pulled from the Consent Agenda. Moved by Mr. Opelt, supported by Mr. Klosowski to approve the Consent Agenda with the two items above removed. Motion carried.

INVESTMENT REPORT

Moved by Mr. Opelt, supported by Mr. Gary Murphy to approve the Investment Report. Motion carried.

LEGAL REPORT

Moved by Mr. Gary Murphy and supported by Mr. Opelt to approve the Legal Report. Motion carried.

OLD BUSINESS (p. 1)

Investment Guidelines. Moved by Mr. Johnson, supported by Mr. Dennis Murphy to approve the Investment Guidelines as submitted. Motion carried.

NO JULY 2004 BOARD MEETING

AUGUST 11, 2004

OLD BUSINESS (p. 1)

Proposed Office Building Purchase

Moved by Mr. Opelt, supported by Ms. Fandell to go into closed session to discuss the proposed purchase of a new office building. Roll Call: Kristen Wade, Yes; Barbara Fandell, Yes; Bruce Johnson, Yes; Raymond Klosowski, Yes; Dennis Murphy, Yes; Gary Murphy, Yes; Larry Opelt, Yes; John Ogden, Yes; Dale Walker, Yes. Moved by Mr. Gary Murphy, supported by Mr. Johnson to return to open session. Motion carried.

Moved by Mr. Opelt, supported by Mr. Gary Murphy to accept the recommendation to purchase the property located on Centurion Drive near the MERS home office and to approve \$800,000 to complete the unfinished interior area of the building. Motion carried.

NEW BUSINESS (p. 1)

Consolidated Actuarial Report—Mr. Alan Sonnanstine, GRS

Mr. Sonnanstine, reviewed MERS' Fifty-Eighth Annual Actuarial Valuation Report and 50-year Actuarial Projection Report with the Board. Moved by Mr. Klosowski, supported by Mr. Dennis Murphy to accept the Actuarial Valuation Report and the Projection Report. Motion carried.

GENERAL CONSENT AGENDA (p. 1)

Moved by Mr. Opelt, supported by Mr. Johnson to approve the Consent Agenda. Motion carried.

TERMINATION AGREEMENT WITH GROSSE POINTES-CLINTON REFUSE AUTHORITY

(p. 1-2)

Mr. Moquin reported that in 2002 Grosse Pointes-Clinton Refuse Authority privatized and ceased participating in MERS. Following discussion, moved by Mr. Opelt, supported by Mr. Gary Murphy to approve the Termination Agreement with Grosse Pointes-Clinton Refuse Authority. Motion carried.

PLAN DOCUMENT AMENDMENTS (p. 2)

Section 23 of MERS Plan Document and Internal Revenue Code Section 401(a)(9) Compliance. The amendment will allow MERS to continue indefinitely the same type of beneficiary options now offered to non-spousal beneficiaries. IRS has issued rules that would have made this complicated for MERS. The rules permit all public plans that had these options as of April 2002 to grandfather them. The Plan amendment will allow MERS to affirmatively state that our distribution requirements were based on a good faith interpretation of these requirements and were in effect prior to April 17, 2002. Moved by Mr. Opelt, supported by Ms. Wade, to approve the amendment as stated. Motion carried.

HEALTH CARE SAVINGS PLAN (HCSP) (p. 2)

Private Letter Ruling

IRS' PLR Request on 401(h)—This is an HCSP related action. Insurance Services has found that there are non-MERS municipalities that have a health care fund which is set up as part of a qualified plan. These municipalities would like to move the health care fund to MERS for administrative purposes. Moved by Mr. Gary Murphy, supported by Mr. Dennis Murphy to proceed with the private letter ruling. Motion carried.

HCSP Documents Revision—Mr. Moquin reported that the requested amendments would further distinguish between the types of saving funds or sub-funds within the HCSP Trust. All changes to the Trust document and the Plan Agreement were fine-tuning, to recognize edits only in language. There have been no substantive changes. Moved by Mr. Opelt, supported by Mr. Klosowski to accept Chief General Counsel’s recommendation. Motion carried.

PREFERRED CAPITAL INTEREST AGREEMENT (p. 2)

Mr. Moquin stated that the Preferred Capital Interest Agreement reflects the agreement between the MERS Board and MERS Premier Health Benefit Program concerning re-payment of the funds for the Letter of Credit Agreement with TNT. The language that appears in the agreement is protective of both sides. This is needed for OFIS review to further proceed on the pending application. The Premier Health Trustees approved this Agreement at their July 20, 2004, meeting. Moved by Mr. Gary Murphy to proceed with the Letter of Credit Agreement with TNT, supported by Mr. Opelt. Motion carried.

SEPTEMBER 21, 2004

MERS PREMIER HEALTH BOARD REQUEST (p. 1)

MERS Premier Health Board requested a draw of up to \$10 million, which includes the previously MERS Board approved \$4.5 million letter of credit. This amount will cover the statutory deposit required by OFIS as part of the MEWA application and allow for a beginning budget. The Health Board stipulated that the dollars would only be drawn if needed. Mr. Opelt moved approval of the Health Board's request. Supported by Mr. Gary Murphy. Motion carried.

GENERAL CONSENT AGENDA (p. 1)

Chairperson Walker pulled the Investment Report from the Consent Agenda. Moved by Ms. Fandell, supported by Ms. Wade to approve the Consent Agenda with the Investment Report removed. Motion carried. Items approved on the Consent Agenda were the Legal Report and the Executive Report.

INVESTMENT REPORT (p. 1-2)

Mr. Burns reported that Evergreen Investment Management has been hired to handle the global bond allocation. Mr. Burns visited Wasatch in Salt Lake City during the past week and met with Jeff Cardon, the portfolio manager. The Investment Committee recommended transferring the dollars allocated in BGI's US Debt Fund to BGI's Core Active Bond Fund as the latter generates more alpha than the Debt Fund and the fees are neutral. Mr. Johnson moved to approve the Committee's recommendation. Supported by Mr. Opelt. Motion carried.

Mr. Burns reported that TCW has been on probation but will be moved to MERS Internal Watch list. The index, which they were benchmarked against, is being dismantled. A new benchmark will be selected and the Board so informed. No board action is required at this time.

Moved by Ms. Fandell, supported by Mr. Klosowski to approve the Investment Report. Motion carried.

TERMINATION REQUEST FROM ROYAL OAK TOWNSHIP POLICE DIVISION (p. 2)

Mr. Moquin reported that the Royal Oak Township Police Division has been closed for five years. This is a closure of a division within the plan of the Township, which will continue MERS participation. In this instance, this is categorized as a partial plan termination.

Based on the approval of the Agreement by Legal Counsel as in compliance with 1996 PA 220, amending 1984 PA 427, the Plan Document of 1996 as revised, applicable federal and state law, and Board retention requirements, it is recommended by Legal Counsel that the Board approve the Termination Agreement concerning closed Division #02, and authorize the Chief Executive Officer to sign the Agreement on behalf of MERS. Moved by Mr. Gary Murphy, supported by Mr. Dennis Murphy to approve the termination request regarding Royal Oak Charter Township termination agreement regarding Police Division #2. Motion carried.

PROPOSED 2005 BOARD MEETING SCHEDULE (p. 2)

CEO Wagner recommended a schedule of six board meetings for 2005: March 8-9, May 10-11, June 8-9, September 20-22, November 8-9 and December 13-14. Meetings will begin with dinner on the first day and proceed through the second day. All meetings will be held in Lansing at the home office with the exception of the June and September meetings. Monthly reports and all pertinent information will be

emailed in the intervening months to keep the Board up-to-date. Moved by Mr. Gary Murphy, supported by Mr. Klosowski to approve the proposed 2005 Board Meeting Schedule. Motion carried.

Mr. Moquin requested that the Plan Review process which is done on a quarterly basis will now need to be changed so that Plan Amendments will come to the Board at the next regularly scheduled meeting after the request is received. Mr. Ogden moved to approve the Procedure, supported by Mr. Dennis Murphy. Motion carried.

OGEMAW COUNTY v MERS and LORI SHELTRON (p. 3)

Moved by Mr. Opelt, supported by Ms. Fandell, to approve the Findings of Fact, Conclusions of Law and the Proposed Decision in the matter of: Ogemaw County, Petitioner vs MERS, Respondent, and Lori Sheltroun, Intervenor, in the Proposal for Decision dated July 21, 2004 by Administrative Law Judge Elizabeth Schwartz, recommending that the County's petition be DENIED. Motion carried unanimously.

ANNUAL MEETING RESOLUTION FOR BOARD MEMBERS (p. 3)

Mr. Walker requested the Board approve a resolution of thanks and appreciation to Kristen Wade and Bruce Johnson for their time of service on the Board. They will be recognized during the annual meeting. Moved by Mr. Dennis Murphy, supported by Mr. Klosowski to approve the resolutions that will be presented to Ms. Wade and Mr. Johnson. Motion carried.

CLOSED SESSION (p. 3)

Moved by Mr. Opelt, supported by Mr. Gary Murphy to go into closed session to discuss pending litigation. Roll call vote: Kristen Wade, Yes; Barbara Fandell, Yes; Bruce Johnson, Yes; Raymond Klosowski, Yes; Dennis Murphy, Yes; Gary Murphy, Yes; Larry Opelt, Yes; John Ogden, Yes; Dale Walker, Yes. Moved by Ms. Fandell, supported by Mr. Gary Murphy to return to open session. Motion carried.

OPEN SESSION (p. 3)

Moved by Mr. Johnson, supported by Mr. Opelt to allow the Investment Director and Chief General Counsel of MERS to act on behalf of MERS to settle the case between MERS, specifically the stock situation, with WorldCom and CitiCorp or their representatives. Motion carried.

NO OCTOBER 2004 BOARD MEETING

NOVEMBER 10, 2004

Contribution Caps for Closed Groups (p. 1)

Moved by Mr. Opelt that the Board, as trustee and fiduciary, shall direct that any employer contribution cap in a defined benefit (DB) division shall cease to apply upon adoption of defined contribution (DC) and the employer shall contribute those amounts that have been actuarially determined after taking into consideration any applicable employee contributions, supported by Mr. Dennis Murphy. Out of 1800 divisions in MERS, this will affect three divisions. MERS will work with these divisions to implement this change. Following discussion, the motion carried.

General Consent Agenda (p. 1)

Moved by Mr. Gary Murphy, supported by Mr. Klosowski to approve the Consent Agenda with the Investment and Executive Reports removed. Motion carried. Items approved on the Consent Agenda were the Legal Report and the quarterly reports from Client Services, Administrative Services, Financial Services, Insurance Services, Information Services and Disability Status Report.

- Investment Report—Mr. Jeb Burns, Chief Investment Officer for MERS, updated the Board on the Investments Department's activities. He highlighted the positive performance of the fund YTD and updated on the real estate consulting relationship, the status of the large cap value manager search and provided overview of the findings in the CEM benchmarking report. It was moved by Mr. Opelt, supported by Ms. Wade to receive and file the Investment Report. Motion carried.
- CEO's report—CEO Wagner reported on the ePASS audit which confirmed system security; progress on completions; the new office building; additions to the MERS Building; (new signs on the southeast and southwest corners of the main building, and a new flag; and MERS legislation. Mr. Klosowski moved to approve the CEO's report, supported by Mr. Opelt. Motion carried.

HYBRID PLAN—Mr. Alan Sonnanstine, GRS (p. 2)

Mr. Sonnanstine, senior actuary with Gabriel, Roeder, Smith (GRS), reported that MERS staff have met with him several times over the past six months to discuss designing a hybrid pension plan. Among the principal reasons for this discussion: (1) The DC plan does not provide members with any guaranteed amount of lifetime benefit, (2) in recent years employer contribution rates have risen, due to adoption of enhanced benefit plans and the slump in the financial markets and (3) before the stock market slump of 2000-2002 the DC plan was gaining acceptance among employers. He pointed out that MERS' major competitive advantage lies in the administration of DB plan benefits. A hybrid plan would share the risk between the employers and the members, instead of forcing one of the parties to bear all of the risk. A hybrid plan would help ensure the long-term viability of MERS, taking better advantage of MERS' core competencies.

Moved by Ms. Wade, supported by Mr. Gary Murphy to accept the recommendation of GRS and MERS staff to design a simple hybrid plan subject to further Board approval. Motion carried.

REFUNDS FOR CERTAIN CLOSED GROUPS (p. 2)

Moved by Mr. Opelt to approve the recommendation by MERS Finance Officer and Legal Counsel that for valuation year 2003 only, the refund of surplus assets portion of the January 12, 2000 Restated Policy

for Closed Groups shall be held in abeyance. This recommendation is issued to allow time for the actuary's experience study to examine whether the 120% funded level for refunds for closed groups is the correct funding percentage. Supported by Mr. Dennis Murphy. Motion carried.

2005 Board Schedule (p. 3)

The Board will meet in March, May, June, September, November and December in 2005. CEO Wagner distributed a Board agenda outlining topics that will be brought before the Board during these months. The dates for the June Board Retreat will be changed from June 13-15 to June 14-16 at Brook Lodge. Moved by Mr. Gary Murphy, supported by Mr. Klosowski to approve the date change for the June meeting. Motion carried.

Benefit E Program for Current MERS Retirees (p. 3)

The cost analysis for the Benefit Program E for MERS' retirees was presented to the Board. Moved by Mr. Dennis Murphy, supported by Ms. Wade that the Benefit E Program be adopted. Motion was defeated.

Michigan Municipal Risk Management Authority (MMRMA) (p. 3)

Moved by Mr. Klosowski, supported by Mr. Dennis Murphy to authorize MERS CEO to continue discussions with MMRMA and report back to the Board. Motion carried.

HEALTH CARE SAVINGS PLAN (p. 4)

Mr. Moquin noted that back in August the Board approved the Health Care Savings Plan opening up a section 401(h), retiree health insurance savings fund, which would be part of the MERS Trust. In working with Ice Miller over the past several months, the documents are coming together. It's necessary to amend the Plan Document to plug in IRS language that needs to be in the Plan before the Plan Amendment can be filed. This will add an entire new article (Article VIII) at the end of the MERS Plan Document. It will be called a 401(h) account. The proposed Plan Amendment incorporates IRS requirements, as applied to MERS and our overall HCSP strategy. Moved by Mr. Opelt, supported by Mr. Klosowski, 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, as Board approves with immediate effect the addition of Article VIII to the MERS Plan Document, Establishment of 401(h) Account for MERS Participating Employers, as set forth in the November 9, 2004 Memorandum of Chief General Counsel. Motion carried.

ALLIANCE AGREEMENT (p. 4)

Mr. Moquin presented the Alliance Agreement, which would formalize the arrangement for requests between MERS Premier Health Plan and MERS including, but not limited to, employee services, lease space and other types of services not yet contemplated. In exchange MERS will be reimbursed for the value of services provided to MERS Premier Health. In addition, there is authorization for Premier Health to use MERS' intellectual property. The intellectual property license is terminable at MERS' discretion. This agreement permits a bridge between the two organizations so that the joint missions of both, which is to act for the benefit of the municipalities in pooling efforts, can be carried out in the most effective, efficient manner. Moved by Mr. Opelt, supported by Mr. Gary Murphy to approve the Alliance Agreement. Motion carried.

2005 BUDGET (p. 5)

Mr. Huelskamp, Chief Financial Officer, outlined the details of the 2005 MERS budget for the Board.

Moved by Mr. Klosowski, supported by Mr. Johnson to approve the E2 benefit for MERS staff. Motion carried.

Moved by Mr. Opelt, supported by Mr. Gary Murphy to approve the 2005 Budget Resolution. Motion carried.

Mr. Huelskamp was commended by the Board for his work on the 2005 Budget.

CLOSED SESSION TO DISCUSS CEO WAGNER'S EVALUATION (p. 5)

Moved by Mr. Opelt, supported by Mr. Klosowski to go into closed session to discuss the yearly evaluation of the CEO. Roll call vote: Kristen Wade, yes; Bruce Johnson, yes; Raymond Klosowski, yes; Dennis Murphy, yes; Gary Murphy, yes; Larry Opelt, yes; John Ogden, yes; Dale Walker, yes. Moved by Mr. Opelt, supported by Mr. Klosowski to return to open session. Motion carried.

OPEN SESSION (p. 5)

Moved by Mr. Ogden, supported by Mr. Klosowski to approve a 10% merit bonus for the CEO for 2004 with an additional \$5,000 for the purchase of a life insurance policy in recognition of her leadership and improvements that have been made to the system. Motion carried.

PUBLIC BOARD MEMBER (p. 5)

Moved by Mr. Gary Murphy, supported by Mr. Opelt to approve the appointment of Mr. Tim Farmer to the Public Board Member position with the term beginning January 1, 2005.

DECEMBER 8, 2004

GENERAL CONSENT AGENDA (p. 1)

Mr. Opelt requested that the Investment Report be taken off the Consent Agenda. Moved by Mr. Gary Murphy, supported by Mr. Opelt to approve the Consent Agenda with the Investment Report removed. Motion carried. Items approved on the Consent Agenda were the Legal Report and the Executive Report.

INVESTMENT COMMITTEE ITEMS (p. 2)

Mr. Burns requested Board approval on the following items as reviewed by the Investment Committee prior to the Board meeting:

- Amending MERS Management Plan, placing MERS Investment Manager's Duties and Responsibilities within the preface.
- Authorize MERS Investment Department to establish MERS Strategic Investment Fund and investment guidelines with the private equity portfolio.
- Authorize MERS Investment Department to make investments into the proposed hedge fund venture with Mr. Stephen Garrow subject to satisfactory due diligence finding by MERS private equity consultant CSFB.
- Authorize the establishment of a financing partnership with GRS should they win their bid to rewrite the State of Hawaii's pension system—pending completion of negotiations and a legal review.
- Authorize MERS Investment Department to begin internal management of the S&P 600, closing out the BGI Russell 2000 index.
- Authorize MERS Investment Department to begin internal management of MERS property and REIT manager.
- Authorize MERS Investment Department to offer a maximum fee of 25 bps on Wellington Management's large cap growth portfolio.

Moved by Mr. Gary Murphy, supported by Mr. Opelt to approve the items requested by the Investment Committee. Motion carried.

GRS Pension Administration Project—Alan Sonnanstine and Marek Tyszkiewicz, GRS (p. 2)

Mr. Sonnanstine reported on a potential project that will transpire over the next three years with the State of Hawaii to re-write their pension administration system. The opportunity for MERS to work with GRS on this project would allow GRS and MERS to see how they might partner on future technology projects. A bid has been submitted for the project with the finalist selection scheduled for mid-February. Neither MERS nor GRS have made a final commitment to the project as this was a first bid go-round. There will be numerous opportunities to drop out of the project by either party.

Mr. Sonnanstine introduced Marek Tyszkiewicz, an actuary and leader of the GRS technology team, who has been working with GRS for the past 15 years. Mr. Tyszkiewicz reported details on the Hawaii project. The joint project would start in July 1, 2005 and is expected to take three years to complete. Mr. Sonnanstine stated that in addition to financial resources, MERS technical people may be used on the project.

Moved by Mr. Gary Murphy, supported by Mr. Opelt to proceed with the proposed partnership with GRS on the Hawaii project. Motion carried.

RESOLUTION HONORING BOARD MEMBER BARBARA FANDELL (p. 3)

Mr. Bruce Johnson presented a resolution commending retiring Board Member Barbara Fandell on her four years of service to the MERS Board. Moved by Mr. Johnson, supported by Mr. Gary Murphy to approve the resolution. Motion carried. Ms. Fandell stated that she has accepted a position of City Treasurer for the City of Ithaca thus making her ineligible to continue on the Board as an employee Board member.

RESOLUTION FOR MERS STAFF HEALTH CARE SAVINGS PROGRAM (p. 3)

Mr. SaintAmour, Chief Administrative Officer, submitted a resolution to the Board for approval on the provisions of the Health Care Savings Program (HCSP) to be implemented for MERS Staff. The Board approved this in the 2005 budget. The recommendation would be effective December 30, 2004 and includes:

- (1) Basic employer pre-tax contribution equal to one percent, based on employee wages, withheld bi-weekly and placed in the HCSP for the employee.
- (2) On December 31 of each year, all paid leave hours that any MERS employee has in excess of the annual cap (currently 220 hours) shall be remitted to the employee's individual account in the Health Care Savings Program.
- (3) Voluntary post-tax employee contributions for health care.

Moved by Mr. Opelt, supported by Ms. Wade to approve the resolution subject to personnel rules and regulations. Motion carried. Moved by Mr. Gary Murphy, supported by Ms. Wade to amend the annual amount that an employee can contribute to HCSP to one-half of the number of hours earned in excess over the annual cap of 220 maximum leave hours. Motion carried.

JOSEPH FURST v MERS and TUSCARORA TWP. (p. 3)

In the case of Joseph Furst v MERS and Tuscarora Township, moved by Mr. Opelt, supported by Mr. Gary Murphy to approve the Findings of Fact, Conclusions of Law and the Proposed Decision in the matter of Joseph Furst v MERS and Tuscarora Township in the Proposal for Decision dated November 1, 2004 by Administrative Law Judge, Elizabeth Schwartz, recommending that the petition for duty disability benefits be granted. Motion carried.

CRAIG TOWERS v MERS and TUSCARORA TWP. (p. 3)

In the case of Craig Towers v MERS and Tuscarora Township, moved by Mr. Gary Murphy, supported by Mr. Opelt to approve the Findings of Fact, Conclusions of Law and the Proposed Decision in the matter of Craig Towers v MERS and Tuscarora Township in the Proposal for Decision dated November 1, 2004, by Administrative Law Judge, Elizabeth Schwartz, recommending that the petition for duty disability benefits be granted. Motion carried.

END OF 2004 MOTIONS