

POLICE & FIRE PENSION BOARD MEETING

DATE: MARCH 20, 2023

CITY HALL, ROOM 302A

TIME: 1:30 P.M.

Present: Stan Chubinski, Ed Guzzo, Jake Martin, and Chris Rabbitt.

Also Present: Lily Vardell (Police & Fire Pension Administrator, Jeremy Tollas (CAPTRUST), Michelle Hull (Human Resources Director), Aaron Kuhn (Assistant Revenue Services Director), Derek Henning (GRS representative), and Brad Armstrong (GRS representative.)

Chair Chubinski asked for approval of the agenda. **Motion Martin**, seconded by Guzzo. On a voice vote, motion **carried**.

GRS Presentation: Henning and Armstrong provided an Actuarial Valuation report.

- The aspects of information that go into the Annual Actuarial Valuation are as follows: Covered Member Data, Asset Data, Plan Provisions, Actuarial Assumptions and Methods, and Funding Policy.
- Actuarial Basic Retirement Funding Equation is: Contribution Income plus Investment Return needs to equal Benefits Paid plus Expenses Paid.
- As of June 30th, 2022, Total Contributions into the Plan were \$7,788,736. Total Benefits Paid were \$12,299,677. Hopefully over time, investment income makes up the gap in between.
- For 2021, the Market Value of the Portfolio was \$186,019,846. After factoring in investment gains/losses from previous years, the Funding Value for 2021 was calculated at \$165,872,221.
- For 2022, The Market Value of the Portfolio was \$157,926,951. After factoring in investment gains/losses from previous years, the Funding Value for 2022 was calculated at \$170,222,451.
- Unfunded Actuarial Accrued Liability (UAAL) at the beginning of 2021 was \$49,583,595. After factoring in changes to assumptions, plan amendments, etc., the UAAL at the end of 2021 was \$44,976,398.
- UAAL at the beginning of 2022 was \$44,976,398. After factoring in changes to assumptions, plan amendments, etc., the UAAL at the end of 2022 was \$59,196,419.
- The City contributions expressed as percentages-of-payroll were 34.87% at the end of Fiscal Year 2022 and are expected to be 41.34% at the end of Fiscal Year 2023.
- As a result of this year's Experience Study, the Board adopted an accelerated Amortization Schedule of 20 years (the previous schedule was 30 years.)

- **Question from the Board:** (Page A-4 of the 2022 Valuation) The Valuation Table shows that our funded ratio percentage has dropped consistently over the last 17 years. What has driven this change in our funded position?
 - **Answer from GRS:** multiple factors have contributed to the lowered funded ratio.
 - Partially due to inflation.
 - Previous market years with poor performance (i.e. 2003, 2008) can negatively impact the Funded Ratio and slow its progress over the following years due to the 30-year amortization schedule. The new 20-year amortization schedule should help the Funded Ratio bounce back more quickly in the future.
 - Wage inflation vs. employer contribution amounts. If wage inflation is higher than anticipated, it can also reduce the Funded Ratio.
 - Funding progress can also slow due to the number of active members contributing to the plan. The number of active members in the plan has slowly decreased over the past 20 years. There were 215 active members in 2002 compared to 174 active members in 2022.
 - More conservative assumptions. For example, the Assumed Rate of Return decreasing from 6.50% to 6.25%.

- **Question from the Board:** (Page B-10 of the 2022 Valuation) Page shows substantial increases in both employer and employee contributions, while retirement benefits have more than doubled in the last 14 years, suggesting that it is the forecasted expenditures that have driven the change. Since the # of active employees has gone down, we must be either paying more to each employee/beneficiary or projecting increased longevity. Could you please break down the factors that are driving the expected benefits increase? For example, how much liability is being driven by contract changes vs. longevity vs. salary levels vs. other factors you find to be material.
 - **Answer from GRS:**
 - In 2008, there were 211 retirees and beneficiaries. In 2022 there are 275. So, 64 more members are drawing retirement benefits than 14 years ago.
 - The more recent retirees are also some of the highest-paid retirees in the Plan, meaning their monthly pension benefits are significantly higher than retirees who retired a decade or more ago.
 - At the same time, the number of active employees contributing to the Plan has decreased.
 - In 2015, we were assuming a 7% rate of return. In 2022, we are now assuming a rate of return of 6.25%.

- **Question from the Board:** Once you have diagnosed what has eroded our funding ratio, could you please advise us on how to improve our visibility to these factors so we can prevent further erosion?

- **Answer from GRS:**
 - Pay attention to the effective remaining amortization periods for the Unfunded Liability.
 - GRS can also move the Amortization Schedule to the beginning section of the Actuarial Valuation in future years, to make it more of a focal point of the Valuation.
 - The City could make more of their contributions to the Plan earlier in the year, rather than spreading contributions out throughout the year. This would give the contributions a longer time to potentially increase investment gains within the Plan for the year. If the City's contributions for the year are just sitting in the City's General Fund for a majority of the Fiscal Year, then they are not contributing to the Plan like they could if they were deposited into the Plan at the beginning of the Fiscal Year.

Presented minutes of the regular meeting from February 21, 2023. **Motion Guzzo**, seconded by Martin to approve the regular meeting minutes from February 21, 2023. On a voice vote, motion **carried**.

Bank Summary of Assets & Expense Report:

As of 2/28/2023, the market value of the portfolio was \$159,327,077.73 a loss of \$4,520,104.30 from the 1/31/2023 balance.

For the month of February, the following expenses were deducted:

<u>Expense Type</u>	<u>Payee</u>	<u>Amount</u>	<u>Frequency</u>	<u>Additional Details</u>
Actuarial Services Fee	Gabriel Roeder Smith & Co.	1,500.00	As Needed	EDRO calculation
Administrative Fee	Loomis	14.62	As Needed	Misc Recovery Expense
Consulting Services	CAPTRUST	23,750.00	Quarterly	10/1/22-12/31/22
Misc Fees		10.00	As Needed	x1 Class Action Handling Fee
Total Admin. Fees		25,274.62		

Motion Martin, seconded by Guzzo to accept the financial reports and quarterly bank summaries submitted for February. On a voice vote, motion **carried**.

Board Reports

Chubinski - none

Giannunzio – absent

Guzzo - none

Martin – none

Vardell

- John Everett, Police Dept retiree, passed away 2/11/23.
 - His 3/1/23 payment was returned and replaced with a pro-rated portion for 11 days in February.
 - This final payment of \$471.76 was made on 3/2/23.
 - His surviving spouse, Carlene Everett, is working on completing the necessary paperwork. Once we receive her paperwork, we will deposit her pro-rated March benefit payment of \$437.07.
 - Carlene's regular benefit payments of \$720.00 will begin on 4/1/23.
- Bob Belote, Police Dept retiree, passed away 2/22/23
 - His 3/1/23 payments (for both his pension and his surviving spouse pension) were returned and replaced with pro-rated portions for 22 days in February.
 - These final payments of \$1,412.37 (Surv Spouse Benefit) & \$2,805.50 (his benefit) were made on 3/9/23.
 - His wife passed away in December, so there is no surviving spouse benefit to calculate.

Old Business

- Fleisher EDRO benefit calculation – status update:
 - The alternate payee, Leah, has decided she does not want to have any further discussion with the attorney or GRS, but would instead like to wait to draw her benefits until after Mike leaves the DROP program.
 - **Question for the Board:** We have an email from her stating her intention, so should that be sufficient for stopping the process from moving forward?
 - **Board response:** Yes, Leah's email is sufficient for pausing the process of issuing her alternate payee pension benefits until after Mike leaves the DROP program.
 - Leah knows she still owes her \$750.00 portion of the GRS calculation, regardless of her decision to wait to draw benefits (Mike already paid his \$750.00 for the calculation.)
 - We would like to note in the Fleishers' file how to handle payment of the future calculation that Mike will need from GRS once he leaves the DROP.
 - Because Leah wanted to begin payments immediately, we had to have GRS factor her calculation as well as Mike's, which cost \$1,500.00.

- The plan was that when the next calculation was done (when Mike leaves the DROP) the first \$500.00 would be covered (since this would be the amount covered for a normal P&F member calculation), and any remaining charges would be split between Mike & Leah.
- If Leah had not made the request for us to calculate her payments now, we would have had one GRS calculation done for Mike to set up his DROP payments. GRS charges \$500.00 for this type of calculation, and it would be considered his one 'free' calculation that every P&F member gets. Then, his second calculation that would have been done when he left the DROP would have been the \$1,500.00 calculation that Leah and Mike would have split.
- Now as it stands, an additional calculation will have to be done when Mike leaves the DROP, and it will be considered another EDRO calculation, so potentially could cost another \$1,500.00.
- Their EDRO states they have to split any legal/calculation costs, but we were not sure if that should still stand in this situation, since Mike didn't really get a say in the additional \$1,500.00 charge.
- Excerpt from the EDRO stating charges are to be split 50/50:
 - (J) The Participant and the Alternate Payee agree to share any fees or expenses incurred by the Plan due to this Order or the benefit election by the Alternate Payee under this Order, each being responsible for 50% of these costs.
- **Question for the Board:** Should the Fleishers split the cost of the calculation that will occur when Mike exits the DROP, or should Leah have to pay the full calculation cost?
 - **Board response:** After Mike exits the DROP and a new calculation is submitted to determine both his and Leah's pension benefits, the Board will cover the cost of the retiree's 'free' calculation (current rate is \$500.00.) Any additional charges will need to be paid in full by Leah.

New Business

- Policy Review – Purchase of Military Time
 - One grammatical change was made to the Purchase of Military Time Policy.

Motion Martin, seconded by Guzzo to approve the one grammatical change to the Purchase of Military Time Policy. On a voice vote, motion **carried**.

- **CAPTRUST:** Tollas provided a February investment update:
 - U.S. Large-Cap Stocks were down 2.44%. U.S. Small-Cap Stocks were down 1.69%. Bonds were also down 2.59%.
 - Year-To-Date, Large-Cap Stocks are up 3.69%. Small-Cap Stocks are up 7.89%. Bonds are up 0.41%.
 - Total Portfolio Value as of 2/28/23 is \$159,327,077.73.
 - Year-to-Date, the Retirement System is up 3.16%.

Public Comment - none

Next regular meeting: Thursday, April 20th at 1:00 PM

Meeting adjourned at 3:33pm

Respectfully submitted,
Lily Vardell, Recording Secretary

Board Member signature

Board Member signature