

FIRE PENSION BOARD MINUTES
Wednesday, February 19, 2020 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton **Also Present:** Records Retention Specialist, Heather McCarty

1. CALL TO ORDER

The Chairman called the meeting to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

Mr. Zokvic requested they move items 6-A) through 6-C) up on the agenda to be heard after item 4). The members unanimously approved the agenda as amended.

3. APPROVAL OF MINUTES

A) November 20, 2019

Mr. Losey made a motion to approve the November 20, 2019 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

*** This item was heard after item 6-C).**

A) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital, reported that it was a good quarter and a better year. He said the S&P added on another 9% for the fourth quarter. He pointed out it was the best year for the market since 2013. He talked about some of the main drivers for the quarter. He said they are watching the Coronavirus to see how it impacts the global economy. He talked about what has been going on with some of the sectors. He referred to page 10 in their report, Investment Review for the period ending December 31, 2019. He reviewed the chart, Domestic Equity Sector Allocation v. R1000V, going over the returns for the various sectors shown. He pointed out that technology stocks continue to do very well. He reported that financials closed the year strong at 10.4% in line with the index at 10%. He said that looking ahead, in January, they struggled, but they are about even with the benchmark for February.

Mr. Wishnia reported that they are covered for about a million dollars in cyber insurance (on file in the City Clerk's office). He said if something happened to them, they would be able to continue business as usual and do have all that in a row.

B) Salem Trust

1. Class Action Report

Mrs. Karen Russo, with Salem Trust, went over their Class Action Report for the period of October 1, 2019 through December 31, 2019 (on file in the City Clerk's office). She reported that they did not file any class actions on behalf of the Plan, but they did receive in settlements from General Motors, in the amount of \$695.23, and Amgen, in the amount of \$268.78.

Mrs. Russo said in regards to GlobeTax that they had asked her about, she went back to 2016 and they have received \$183.20 on four (4) different stocks. She said it is still in operation. They can see those deposits in the reports as a transaction titled GlobeTax.

Mrs. Russo talked about their transition and the three (3) letters that have gone out (on file in the City Clerk's office). She said it would be effective March 2, 2020. She explained that with this transition, the back office operation has changed, but they are still using the same accounting system, as well as the same benefit system. It is a transition because they are going from one platform to another. She said the delivery instructions have changed, effective March 1st. She said they have been in contact with all the managers and sent out emails with all the new delivery instructions. She noted that if a trade gets processed and they used the incorrect delivery instructions, the trade would not be settled. They have asked the managers to do a soft stop for trading as of Monday, February 24, 2020 and a hard stop of new trades for Wednesday, February 26, 2020. She said they are assuming everything will be back to normal trading on March 3, 2020. She said that the account numbers will change and they will be sending that information to all the Plan Administrators and Investment Managers, along with the new wiring instructions. She said with Weblink, the website, the URL address will change, but their user ID's and passwords will stay the same. She said they are going to try to bring over 13 months of statements. With regards to the benefit system, the March 1st payments will be processed as normal. There will be two (2) 1099-R's for the year. She said next week, if they receive any lump sum distributions in, they will process them the following week.

Mr. Zokvic asked if this is going to affect their standing letter with AndCo (on file in the City Clerk's office). Mrs. Russo answered no, that the account numbers are going to be different, but they will get those changed and cleaned up eventually. Mr. Zokvic wanted to make sure there was no lag in payments to the retirees. Mrs. Russo said there should not be.

2. Salem Trust Service Report

Mrs. Russo said they did send out the quarterly service report (on file in the City Clerk's office) and asked them to look at that at their leisure. They are going to continue to have that report, however it might look different and there might be a little bit of a lag getting the next one out with the transition. She said hopefully they would add something about the benefit payment side of it.

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, said there were three (3) things he wanted to discuss today. He said they previously covered the first item. He wanted to make sure everyone had the current Investment Policy Statement (IPS) because he wasn't sure if they were going to be making any changes in the target allocations and the rate of return assumption. He said he also wanted to give them the annual update on AndCo and go over the Quarterly Investment Performance Review for the period ending December 31, 2019 (on file in the City Clerk's office).

Mr. West began his report by going over page 1, Firm Update and the annual letter from their CEO, Mike Welker. He pointed out that 2020 is AndCo's 20th anniversary. He went over the Organizational Chart on page 2. He reviewed the chart on page 4, Major Market Index Performance. He talked about the issues from one (1) year ago, noting that the very big issue was the expectation that the economy was going into a recession. He stated that obviously the economy is not going into a recession. He said the one (1) variable that appears to be maybe going on is with the European economy and possibly some of the Asian economy. He went over page 21, Comparative Performance Training Returns. He commented that this report is dramatically different from the report they reviewed at the end of the fiscal year, in that the Total Fund (net) annualized at 19.46%. He said they have not seen returns like that for years. He reviewed the 3-year and 5-year numbers shown on pages 21 and 22. He pointed out that PIMCO was up 12.78% for the year and in the top 1% of their peer group since inception. He said they are unique here in that using Intercontinental as their real estate fund gives more stability to the returns and also they use the income from that fund to help them with the cash flow for the benefit payments. He is recommending that they stay allocated where they are in this particular fund. He reviewed page 14, Asset Allocation vs. Target Allocation. He said for this type of Plan, his recommendation is that they keep the overweight to domestic equity and keep the underweight to fixed income right now, but they should continue to revisit this quarterly.

Mr. Zokvic asked if they are aware of Salem Trust's transition. Mr. West answered yes, and that so far, it has been a smooth transition.

Mr. Zokvic requested that the new reports be sent to the Board members once the transition has happened.

6. NEW BUSINESS

* These items were discussed after 4).

A) Actuarial Valuation Report – Gabriel, Roeder, Smith

Mr. Jeffrey Amrose, with Gabriel, Roeder, and Smith, referred to the Actuarial Valuation Report as of October 1, 2019 (on file in the City Clerk's office). He reported that the Plan continues to be in very good shape. They are at a 91.3% funded ratio using very reasonable assumptions. He added that the required City contributions have been in a pretty tight range. He went over the chart on page 1 of the Valuation report, Comparison of Required Employer Contributions. He pointed out the required employer contribution decreased by \$14,000, of which the main reason was an actuarial gain due to the loss of two (2) of their members. He went over page 2, Actuarial Experience, pointing out there was an actuarial gain of \$156,917. He said the funded ratio is 91.3% this year compared to 87.6% last year. He said it is very important to note that if the funded ratio goes over 100%, the State money stops for that particular year. There is a chance they could possibly get to 100% on October 1, 2020. He thinks they might want to speak with Mr. West about lowering the risk appetite of the plan.

Mr. Zokvic said he thought the 13th check took care of that issue, and when they got to be over 100%, they would pay out the excess through a 13th check. He noted that he has never seen the State stop the money. He referred to page 17, where it showed that from 1991 to 1995, their funded ratio was over 100% and yet their money did not stop.

Mr. Amrose agreed, but said not only do they have to be over 100%, they also have to be a closed plan with no active employees, which would apply now. He explained there are ways of dealing with that, including lowering the assumption rate and lowering the risk appetite.

Mr. Amrose talked about the 13th check, and reported that there is a cumulative net actuarial loss of \$1,154,687, so there will not be a 13th check this year. He said until they generate gains to offset that loss of \$1.1 million, there would be no 13th check.

Mr. West said they are at a very important juncture and they will be reviewing the Investment Policy Statement today. He said they did discuss at the last Valuation that this might be coming. He said he is completely open to entertain a reduction in the rate of return assumption. He suggested that they do not de-risk the portfolio just yet.

Mr. Amrose explained they have such a great actuarial loss position built up, it would be difficult to get out of that hole to be able to have a 13th check. He pointed out that mortality and investment returns are the only two (2) ways.

Ms. Cindy Lawson, Finance Director, asked with regards to a change in the investment return assumption, what impact would that have on the City's contribution requirements.

Mr. Amrose agreed that lowering the assumption, increases the required contribution. He said it is a year-by-year analysis. He said on October 1, 2020, they could be over 100% with either a continuing surge in investments and/or retiree deaths. He recommended that if next year he comes in with a report that they are 101% funded, they will need to address it and see how it impacts everything, including the City's required contribution. He added it would certainly be worth it because even though it would go up some it would be better than losing the State money.

Mr. Losey thought the 13th check was there for the specific reason that they would not become over 100% funded. He thought that was what initiated the 13th check.

Mr. Amrose said there are two (2) conditions to get to a 13th check, and those are gains during the year and cumulative positive experience since 2005. He said he would look at the Ordinance again and make sure they are interpreting it correctly.

Mr. Zokvic asked about benefit changes and if they would have to pay cash up front for them. Mr. Amrose explained if they put a COLA (cost of living allowance) on the benefits, they wouldn't have to pay for that all at once; they could amortize it over a 5-year period. He said that is another thing that could be done and instead of lowering the assumption, they could give COLA's for that particular year. He said they need to continuously look at this and if down the road, they are over 100% funded, they will have to address it.

Mr. Zokvic asked about raising their supplemental payment. Mr. Amrose said they could do anything that requires more money coming out of the pension plan to the retirees.

Ms. Lawson pointed out that those pension plan changes would have to be approved by City Council and there would need to be an actuarial impact statement done along with an Ordinance change and that would need to be sent to the State to have them approve it before City Council's final adoption. Mr. Amrose agreed, but said it could cost the City less money to increase benefits. Ms. Lawson agreed that at the end of the day, if it goes over 100% and the State money stops coming, the City's contribution becomes much more of a problem than if it just goes up \$15,000 because of a change in benefits.

Mr. Amrose reiterated that it could be addressed in many different ways, but they need to keep it on their radar. Mr. Zokvic said he wants to make sure that Mr. Amrose, the Board, and the City are all on the same page about what the options are. Ms. Lawson agreed that at the end of the day, it is a net win for the City of Vero Beach in that they do not lose the State money.

Mr. West referred to the 5-year smoothing method and how next year, they will be dropping off a disappointing 2015. He said so far this year, they have already exceeded the return assumption and the City's required contribution is based on that 5-year smoothing. Mr. Amrose said that there would be some relief in the City's required contribution because they will have unrecognized investment returns. He referred to page 2 in the report. He explained there is a lot they don't know about future required contributions because they are dictated by only two (2) factors, which are retirement mortality and investment earnings.

Mr. Zokvic asked if they change the smoothing length, how would that affect everything.

Mr. Amrose responded that 95% of his plans use 5-years and a couple use 4-years. He said the smoothing period would not affect the funded ratio, which is based on the real assets, it would affect the City's required contribution, but he does not think they need to explore that right now. He added another thing they know is they have sizable amortization bases expiring over the next year or two (2). He said with all things equal, next year the City's required contribution will go down by \$27,000 and the year after, by another \$36,000. He said the fourth thing they know is they will be required to change the mortality table in next year's valuation and he thinks it will result in a modest decrease in the required contribution.

Mr. Amrose continued in the report, going over the chart on page 6, Actuarial Confirmation of the Use of State Chapter Money, and the chart on page 8, Actuarially Determined Employer Contribution (ADEC). He reviewed page 10, Calculation of Employer Normal Cost; and page 11, UAAL Amortization Period and Payments. He said there are a lot of moving pieces and next year, if they are in a position that they are 100% funded, he will come to them with many options to look at to address the issue. He explained the calculation of the smooth value of assets, shown on page 27. He concluded the report with the GASB No. 67 information on pages 30 to 35. He said he would look at the Ordinance on the 13th check and make sure they are interpreting that correctly.

Mr. Amrose referred to item 7-A) Cyber Liability Insurance Coverage. He said he sent in a copy of his company's insurance that they should have with their backup (on file in the City Clerk's office).

Mr. Zokvic said they now have reviewed everyone's insurance who has anything to do with the Plan and they all seem to have this liability coverage. He said that Klausner was more worried about the Plans that have everything on their own computers and run them themselves, which is not the way they are. He said the Plan does not necessarily have to have its own coverage.

Ms. Lawson said the bigger issue is having back-up plans in place and alternative methods to be able to recover their data. She said if you have the appropriate

protections, you would not have to pay. She said they have both backup plans in place and also insurance coverage, which she has provided them.

Mr. Losey pointed out that the Board does not have anything that could be compromised. He personally thinks there is nothing they need to do except make sure everyone who works for them has appropriate coverage.

B) Annual Report

Mr. Losey made a motion to approve the Annual Report as presented and to have it filed with the State. Mr. Middleton seconded the motion and it passed unanimously.

C) Expected Annual Rate of Return

Mr. West said he thinks the earlier discussion was critical because they are very close to a juncture where they may need to make a change. For fiscal year 2020, they are comfortable that the current allocation has a reasonable chance or probability of achieving the 6% rate of return over the long term, intermediate term and over the short term, notwithstanding that they recognize that plan investments may exceed or fall short in any given fiscal year. He said that he would provide the draft letter for them to send to the State.

D) Klausner Memos (Informational Purposes)

- 1) Secure Act and IRS Limits for 2020**
- 2) HB113 / SB1270 – Fiduciary Standards for Local Officers and Appointed Public Officials**
- 3) Changes to Florida’s Notary Public Law to Permit Remote Online Notarizations**

Mr. Zokvic referred to the memos from Klausner they received and made sure there were no questions regarding them.

7. OLD BUSINESS

A) Cyber Liability Insurance Coverage

This item was previously discussed.

8. CHAIRMAN’S MATTERS

None

9. MEMBER’S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:32 a.m.

/hm