

FIRE PENSION BOARD MINUTES
Wednesday, February 21, 2018 10:00 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Terry Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton **Also Present:** Cindy Lawson, Finance Director and Heather McCarty, Records Retention Specialist

Excused Absence: Duane Bluemke

1. CALL TO ORDER

Today's meeting was called to order at 10:00 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

Mr. Zokvic requested that they were going to change the agenda around and hear item 6) New Business first.

3. APPROVAL OF MINUTES

A) November 15, 2017

Mr. Losey made a motion to approve the November 15, 2017 minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

This item was discussed after item 6).

A) Highland Capital Management

Mr. Grant McMurry, with Highland Capital Management, went over page 3 in their Investment Review Report for the period ending December 31, 2017 (on file in the City Clerk's office). He reviewed the chart on page 6, Total Return Summary. He reviewed page 7, Performance Returns for Various Period. He talked about some of what is going on in the market and the pricing of some of the stocks. He said their bond portfolio was down about 2% and the aggregate index was down 2.14%. He said he expected the bond movement where interest rates are going up to continue for awhile. He added that they hold about 20% bonds, and still hold a lot of cash.

B) Salem Trust

Mrs. Karen Russo, with Salem Trust, referred to the Quarterly Class Action Report for the period October 1, 2017 through December 31, 2017 (on file in the City Clerk's office). She reported that there were no class actions filed on behalf of the plan during the period and also that they received a class action settlement for \$1,095.64 from Genworth.

Mrs. Russo provided the members with a copy of the Salem Trust Service Report Summary for the period ending December 31, 2017 (on file in the City Clerk's office). She reviewed the report with the Board members.

Mrs. Russo reviewed that they had a change in their insurance deductions and they are now going through TASC. She commented that it is going smooth from their perspective.

Mr. Losey thanked Mrs. Russo for Salem Trust's services and support.

Mr. Zokvic asked when will they switch over to the new Federal tax table. Mrs. Russo answered that would happen with their March 1st payment.

C) AndCo Consulting

Mr. Dave West, with AndCo Consulting, was present for today's meeting. He talked about what transpired in December and January and the huge amount of money going into the equity market.

Mr. West went to their Investment Performance Review for the period ending December 31, 2017 (on file in the City Clerk's office). He reviewed the letter from Mike Welker shown on page 1 and the Firm Update on page 3. He reviewed the Quarter Performance chart on page 4, Major Market Index Performance. He pointed out that emerging markets were up 7.4% for the quarter. He went to page 21, Comparative Performance Trailing Returns. He pointed out the total fund for the quarter was up 4.25%. He ran through the three (3) and five (5) year returns. He reviewed the performance numbers shown on pages 21 to 24. He added that they still advocate a significant weighting in real estate.

Mr. West reviewed the cash flow shown on page 18. He reported they started the quarter on October 1, 2017 with a market value of \$7,854,406 and ended on December 31, 2017 with \$7,997,267. He reviewed the chart, Asset Allocation vs. Target Allocation, on page 14. He reviewed that they have been rebalancing and additional funds were moved into International. They want to continue with that unless Highland's team has any objections to funneling additional money over to the international equity fund. He

made a suggestion that they move 2% out of domestic equity to get the international equity component up to the target and they will continue to underweight the fixed income. He pointed out that part of the cash is parked in the bond portfolio as part of their strategy.

Mr. McMurry agreed that sounded good.

Mr. Losey made a motion that they move 2% into international equity. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West extended his personal thank you for their business and he looks forward to continuing their prosperity.

6. NEW BUSINESS

A) Actuarial Valuation Report – Gabriel, Roeder, Smith

This item was discussed after item 4).

Mr. Jeffrey Amrose, with Gabriel Roeder Smith, was present for today's meeting. He stated that the Plan is in very good shape. He reported the funded ratio is at 85.8%. He reminded them they have a realistic 6% return assumption. He added that the contribution from the City has been stable. Since 1987, it has been in a range of \$0 to \$133,000, which is where it is this year. He went to page 1, Discussion of Valuation Results, in the Actuarial Valuation Report as of October 1, 2017 (on file in the City Clerk's office). He reviewed the Comparison of Required Employer Contributions chart. He went over the three (3) reasons the City's required contribution went up \$49,119. The biggest reason is the City is estimated to get \$31,376 less in State money this year, which is why the City's required contribution increased to \$133,238 this year. Also, there is a \$15,000 increase due to the expiration of a credit base. Additionally, they had very modest losses which added \$2,000 to the required contribution. He said one of the reasons for the loss is they had lower mortality from retirees, which is a good thing. The loss was partially offset because they had investment gains. When they look at the smooth value of assets, that return was 7.9% this year, which is above the 6% assumed.

Mr. Zokvic said that the mortality rates have been going down. He asked how long does it take if it keeps going down until it is reflected in the report. Mr. Amrose explained they have to use the same mortality table that the Florida Retirement System (FRS) uses. He said FRS studies that every three (3) to five (5) years and they could adopt a different table, which they would adopt. He said they could do an experience study next year or the year after.

Mr. Middleton asked what the mortality table shows they are expected to live to. Mr. Amrose went over the Demographic Assumption table on page 17.

Mr. Amrose went back to page 2 and reviewed the funded ratio. He reported that based on the actuarial value of assets, the funded ratio was 85.8% as of October 1, 2017. If it had been based on the market value of their assets, the funded ratio would be 91.9%. He asked them to remember that they are a closed pension plan and if they reach 100%, the State money would go away for that year. If they have another really good year, they could be approaching 100%. He explained they could take some equity risk out of their portfolio.

Mr. Zokvic said the State has told him they would not take the premium tax money away when they get over 100%. He pointed out they were over 100% for a couple of years and the State sent them notices that they needed to do something, or the money would be stopped. Mr. Amrose said it is in the Florida Statutes that they will stop it. He just wanted them to be aware of it and monitor it.

Mr. Zokvic referred to the Share Plan and the 13th check, which are two avenues they can disperse money without making any benefit changes.

There was a brief discussion on how the State acquires and disperses the funds.

Mr. Amrose explained the share plan is for when the State money exceeds \$306,972 and then the excess is split 50-50. The other avenue is the 13th check, but there must be actuarial gains for the year and there must be cumulative net actuarial gain. He reviewed the chart, Cumulative Actuarial Gains (Losses), on page 12. He reported that there would not be a 13th check this year.

Mr. Amrose said one way they could do it if they reached 100% would be to give an ad hoc COLA to retirees, which would increase the liability and decrease the funded ratio. He explained there are ways of getting the funded ratio of 100% down below 100% and keep the State money.

Ms. Cindy Lawson, Finance Director, did not think that an increase in pension benefits would be approved by the City Council.

Mr. Amrose thought if the City was going to lose the State money, they would maybe make benefit changes.

Mr. Zokvic felt they needed to all think about the future and the different avenues.

Mr. Amrose pointed out if they get 13% returns this year, they will be very close to 100% and they will need to address the issue.

Ms. Lawson pointed out the GASB funded ratio is another figure, which is the one that goes in the CAFR and the City Council sees and that is 93.55%. Mr. Amrose clarified that that ratio would not get their State funding shut off.

Mr. Amrose reviewed the chart on page 8, UAAL Amortization Period and Payments. He explained there is going to be a gain or loss every year so they will keep setting up new bases each year. He said the City's contribution next year is going down by \$27,218 because of the expiration of that base. He explained when they calculate the funding requirements, they use the smooth value of assets.

Mr. Amrose went to page 2, Variability of Future Contribution Rates. He pointed out the City's contribution next year would be going down by \$27,000 because of the expiration of the oldest amortization base. Mr. Amrose reviewed Page 4, Participant Data, and page 5, Actuarially Determined Employer Contribution. He pointed out two (2) of the components of the required contribution, which are line items D, Annual Payment to Amortize Unfunded Actuarial Liability, and E, Employer Normal Cost.

Mr. Amrose reviewed the chart on page 7, Calculation of Employer Normal Cost, and the chart on page 8, Liquidation of the Unfunded Actuarial Accrued Liability. He went over page 9, Actuarial Gains and Losses. He went to Page 23, Reconciliation of Plan Assets. He pointed out that the market value net of reserves was \$7,846,410. He went over the calculation using the smoothing method shown on page 24, Development of Actuarial Value of assets. He touched on pages 27-33, which are the GASB 67 actuarial disclosures for the fiscal year ending 2017, which goes into the City's CAFR.

Mr. Middleton made a motion to accept the Actuarial Valuation report as of October 1, 2017. Mr. Losey seconded the motion and it passed unanimously.

B) Annual Report

Ms. Lawson reviewed that the Annual report is a recap of what is in the Actuarial Valuation and also includes some other compliance issues. She said they will submit it electronically to the State with the Board's approval.

Mr. Losey made a motion to approve the Annual report as presented. Mr. Middleton seconded the motion and it passed unanimously.

C) Expected Annual Rate of Return

Mr. West said that from Mr. Amrose's input, they are recommending that they stay with their current allocations.

Mr. Amrose commented that based on the current asset allocation, he thinks a 6% rate of return is good.

Mr. West explained that the State requires that they make a declaration of that every year. He said from their position, they are comfortable that the current asset allocation has a reasonable probability of achieving that rate of return. He said that he would supply the letter if they approve the rate.

Mr. Losey made a motion to approve the 6% expected rate of return. Mr. Middleton seconded it and it passed unanimously.

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic said there is a school in Tallahassee June 4th through 6th if anyone is interested in going.

9. MEMBER'S MATTERS

Mr. Losey asked about the Ethics class in Fort Pierce on April 26th.

The City Clerk's office will forward the application for registration once it is available.

10. ADJOURNMENT

Today's meeting adjourned at 11:30 a.m.

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