

**CITY OF VERO BEACH POLICE OFFICERS' RETIREMENT TRUST FUND
BOARD OF TRUSTEES
QUARTERLY MEETING MINUTES
City Hall, Council Chambers
1053 20th Place, Vero Beach, Florida 32960**

Tuesday, June 30, 2020, at 12:20 p.m.

TRUSTEES PRESENT: Gregory Budde
Matt Harrelson
Harry Offutt
Ann Thompson (via phone)

TRUSTEES ABSENT: David Farquharson

OTHERS PRESENT: Ken Harrison, Sugarman & Susskind (via phone)
Dave West, AndCo Consulting
Cindy Lawson, Finance Director
Brad Heinrichs, Foster & Foster
Karen Russo, Salem Trust (via phone)
Siera Feketa, Foster & Foster

- I. **Call to Order** – The meeting was called to order at 12:23 p.m. by Matt Harrelson.
- II. **Roll Call** – As reflected above.
- III. **Public Comments** – None.
- IV. **Approval of Minutes**
 - a. February 19, 2020, quarterly meeting
 - b. May 4, 2020, special meeting

The minutes from the February 19, 2020, quarterly meeting and May 4, 2020, special meeting were approved, upon motion by Gregory Budde and second by Ann Thompson; motion carried 3-0.

- V. **Reports (Attorney/Consultant)**
 - a. City of Vero Beach, Cindy Lawson, Finance Director
 1. Financial statements as of March 31, 2020
 - i. Cindy Lawson briefly reviewed the financial statements as of March 31, 2020.
 - ii. Cindy Lawson reviewed the timing of the payments with the Salem Trust transition commenting one monthly payment was paid earlier so there were four monthly payments paid to the retirees during the quarter. Cindy commented this would correct itself next quarter.
 - iii. Matt Harrelson and Cindy Lawson discussed the Salem Trust transition. Cindy commented there have been no problems with the transition.
 - iv. Cindy Lawson briefly reviewed the City's cyber liability coverage commenting their policy is through the Florida League of Cities and the City's Risk Management Department is confident in their coverage and procedures. Cindy commented the Florida League of Cities stated if the files are held by the City, the City's coverage should extend to the Board.
 - b. Salem Trust, Karen Russo, Custodian
 1. Class action report as of March 31, 2020
 - i. Karen Russo gave a brief update on the transition commenting everything went smoothly. Karen reviewed the impacts of the transition commenting retirees will receive two 1099Rs at the end of the year, which was communicated to them.
 - ii. Karen Russo briefly reviewed the class action report commenting there were no claims filed.
 - iii. Karen Russo reviewed the updated format of the class action report. Karen commented the report will look a little different when there are claims filed.

c. Foster & Foster, Brad Heinrichs, Board Actuary

1. Experience study

- i. Brad Heinrichs commented the purpose of the experience study was to compare current actuarial assumptions being used with actual plan experience and determine if any changes were needed.
- ii. Brad Heinrichs commented the ultimate cost of the plan was independent of any actuarial assumptions or methods used throughout the valuation process. Brad commented future actuarial measurements may differ significantly from current measurements due to several factors such as plan experience different from that anticipated by assumptions, changes in assumptions, increases or decreases expected as part of the natural operation of methodology used, or changes in plan provisions or applicable law.
- iii. Brad Heinrichs reviewed the amortization method commenting the plan's current amortization period is 30 years. Brad recommended reducing the amortization period to 15 years. Brad commented there is no initial funding impact associated with this change as it does not affect any existing layers of the Unfunded Actuarial Accrued Liability (UAAL).
- iv. Matt Harrelson asked if they could consider a different amortization period, such as 20 years, and if the City will have to contribute more on poor performing years if the amortization period is reduced. Brad Heinrichs commented the Board could consider a 20-year amortization period. Brad reviewed the impact on the City's contribution commenting the City's contribution would increase during poor performing years, but when there are times the plan is performing well, the City's contribution would decrease.
- v. Brad Heinrichs reviewed the smoothing technique, commenting the plan uses a 5-year smoothing technique.
- vi. Brad Heinrichs commented the state prefers a lower amortization period and should the Board decide to lower the amortization period to 15 years, they have determined that for \$1 million in UAAL, the proposed 15-year amortization method would yield a savings of approximately \$500,000 in interest payments.
- vii. Brad Heinrichs reviewed the liability load method for optional forms of benefit. Brad commented the calculation for optional forms of benefit does not factor in a COLA. Brad recommended no changes to the liability load method.
- viii. Brad Heinrichs reviewed the investment return assumption and commented they analyze the expected returns for each asset class.
- ix. Brad Heinrichs commented they could support the current investment return assumption of 7.65% and asked Dave West for his recommendation for any potential changes. Dave commented he encouraged discussions regarding lowering the investment return assumption and reviewed the factors to consider when lowering the assumption.
- x. Brad Heinrichs commented for every 10 basis points they lower the assumed rate of return, the estimated annual increase in cost would be approximately \$70,000-\$75,000.
- xi. Dave West and Brad Heinrichs reviewed the impacts of the investment return assumption from an investment manager perspective in comparison to an actuarial perspective.
- xii. Brad Heinrichs reviewed the trend of plans lowering their investment return assumption, commenting the national average is 7.25%.
- xiii. Matt Harrelson asked if it would be more costly to lower the investment return assumption and the amortization period at the same time. Brad Heinrichs reviewed the potential impacts of lowering both at the same time.
- xiv. Brad Heinrichs reviewed the salary increase assumption, commenting the salary seemed to increase when grouped by age rather than years of service. Brad commented the actual average salary increase had been 4.51% in comparison to the expected increase of 4.93%. Brad recommended amending the assumed rates of salary increases to better align with actual plan experience and proposed an assumed increase of 4.72%. Brad commented the impact of only the recommended changes to



the salary increase assumption is a slight decrease in the funding requirements of \$35,185 and would also decrease the UAAL.

- xv. Brad Heinrichs gave a brief overview of the demographic assumptions.
- xvi. Brad Heinrichs reviewed the change in the mortality table used by FRS. Brad recommended employing the FRS mortality assumptions with an adjustment to use the below-median rates for active and above-median rates for all non-disabled inactive lives. Brad commented the increase in the required contribution for this change alone would be \$81,764.
- xvii. Brad Heinrichs reviewed the retirement rates for early retirement. Brad commented there were no early retirements observed during the period, but there were only 15 opportunities to do so. Brad did not recommend any changes to the current assumption, given the lack of experience.
- xxviii. Brad Heinrichs reviewed the normal retirement rates commenting there is a large difference in the actual amount of people who retire with 25+ years of service and the expected amount of people who retire with 25+ years of service. The Board discussed the number of members who retired with 25+ years of service.
- xix. Brad Heinrichs reviewed the assumption for withdrawal rates. Brad commented they were only expecting 20 people to withdrawal their funds, but 32 people did. Brad reviewed the rate at which employees terminated and at what stage in their career commenting out of 41 members, 10 had left in the first year of their participation. Brad commented the expected rate is 6.7%, the actual rate is 10.6%, and recommended increasing the expected rate to 8.9%. Brad commented this change alone would cause a slight increase to the City's contribution requirement of \$12,053.
- xx. Brad Heinrichs reviewed the disability rate assumption commenting it is not a large part of the plan's cost. Brad commented they expected one to two disabilities and had zero. Brad recommended decreasing the disability rates by 33% for all ages, commenting the slight increase in funding would be \$302.
- xxi. Brad Heinrichs reviewed the summary of the experience study and the costs associated with adopting one or a combination of the different assumption changes.
- xxii. The Board discussed the costs associated with the different assumption changes.
- xxiii. The Board and Brad Heinrichs discussed the timing of approving the assumption changes. Brad recommended making any changes prior to the end of the calendar year so they can prepare for the valuation report. The Board agreed by consensus to discuss the experience study and possible assumption changes at a future meeting.

2. Discussion of credited service

- i. Brad Heinrichs commented he noticed in the ordinances the plan converts lump sum sick and vacation time to credited service. Brad reviewed his concern as this is not in compliance with Chapter 185.
- ii. Brad Heinrichs briefly reviewed other plans that have posed similar concerns and how those plans made the necessary changes. Brad reviewed some ways in which those plans implemented a different benefit, through the City, to compensate for the lost benefit. Brad commented the Board may be interested in the plan attorney's opinion.
- iii. Matt Harrelson and Brad Heinrichs briefly discussed the guidelines of credited service under Chapter 185.
- iv. Ken Harrison reviewed the frozen accruals of sick and vacation leave commenting the State has stated they can utilize the accruals up to the freeze date or accruals prior to the freeze date, but accruals after the freeze date cannot be utilized. Ken commented they were waiting on union negotiations.
- v. Brad Heinrichs briefly reviewed the changes under Chapter 185 commenting Ken Harrison was referring to the accruals that can be used for salary, but the discussion is surrounding credited service. Brad gave an example of the conversion of sick and vacation accruals to credited service time. Ken Harrison commenting any vacation and leave accruals cannot be converted after the change in the law took place. Ken commented he would have to research further, but based on Brad's

example, he agreed the sick and vacation accruals cannot be converted to credited service time.

- vi. Matt Harrelson commented he wants to make sure the calculations are being done correctly and are compliant with Chapter 185.
- vii. Ken Harrison commented he will do research and bring it to the next quarterly meeting.
- viii. Ann Thompson commented if it is being done incorrectly, she would like to know how it will be corrected.
- ix. Siera Feketa briefly reviewed the refund calculations and Cindy Lawson's questions regarding Foster & Foster preparing the refund calculations.
- x. Brad Heinrichs reviewed the refund calculations and the benefits of having the actuary prepare them. Brad commented it is an administrative function of the Board.
- xi. The Board discussed the preparation of the refund calculations and agreed by consensus to continue to have the actuary prepare them.
- xii. Dave West asked Brad Heinrichs if he has seen an increase in DROP exits across their client base and reviewed the concern some trustees have expressed regarding the plan's liquidity. Brad commented the DROP liability is only 1% of the plan's assets and there were not any liquidity concerns. Brad briefly reviewed the DROP payout policy of the plan.

d. AndCo Consulting, Dave West, Investment Consultant

1. Quarterly report as of March 31, 2020

- i. Dave West reviewed the S&P 500 total return index.
- ii. Dave West reviewed the annual asset class performance quilt chart as of March 31, 2020.
- iii. Dave West reviewed the market environment for the quarter. Dave commented investment grade bonds were disappointing for the quarter.
- iv. Dave West reviewed the comparative performance and trailing returns.
- v. The total fund net returns for the quarter were -11.81%. The 1-, 3-, 5- and 7-year trailing total net returns were -3.41%, 4.48%, 4.28%, and 6.24% respectively, comparing to the benchmarks of -3.05%, 4.06%, 4.73%, and 6.45% respectively. Since inception (1/1/1998) the total fund net returns were 6.29% outperforming the benchmark of 6.06%.
- vi. The total fund market value as of March 31, 2020 was \$40,156,166.
- vii. Dave West reviewed the median returns commenting the plan has done well in comparison to its peers.
- viii. Dave West reviewed the monthly flash report as of May 31, 2020.
- ix. The total fund net returns for the month ending May 31, 2020 were 4.62%. The 1-, 3-, 5- and 7-year trailing total net returns were 9.74%, 7.91%, 6.82%, and 7.84% respectively, comparing to the benchmarks of 8.65%, 6.93%, 6.67%, and 7.76% respectively. Since inception (1/1/1998) the total fund net returns were 6.84% outperforming the benchmark of 6.50%.
- x. The total fund market value as of May 31, 2020 was \$45,355,768.
- xi. Dave West reviewed the returns of the investment managers during the month of May.
- xii. Dave West reviewed the asset allocation for the plan as of May 31, 2020. Dave commented they should stay the course generally since it is an uncertain environment moving forward.
- xiii. Dave West recommended equalizing the growth versus value, by moving \$3 million from Sawgrass Diversified Growth to Dana Large Cap Value. Dave commented this will leave \$3.7 million with Sawgrass.
- xiv. Ann Thompson asked what the impact would be as Sawgrass is a manager that is supposed to protect the plan in a downturn market. Dave briefly reviewed the impact.
- xv. Ann Thompson commented she is not opposed to the recommendation but felt \$3 million may be too much. Dave West felt \$2 million would also accomplish the task. Dave briefly reviewed the managers and their counterparts.

The board approved moving \$2 million from Sawgrass Diversified Growth to Dana Large Cap Value, upon motion by Ann Thompson and second by Gregory Budde; motion carried 3-0.

2. Addendum to Statement of Investment Policy



- i. Dave West commented the addendum to the investment policy was already approved but needed to be executed to include all investment managers.
3. DROP activity
- i. This was discussed earlier in the meeting.

The board approved AndCo Consulting's report, upon motion by Gregory Budde and second by Ann Thompson; motion carried 3-0.

- e. Sugarman & Susskind, Ken Harrison, Board Attorney
 - 1. CARES and FFCRA special report
 - i. Ken Harrison briefly reviewed the special report commenting he has not seen a lot of first responders contract the virus. Ken commented the impact on the plan includes a change to the required minimum distribution (RMD) age.
 - ii. Ken Harrison briefly reviewed the Governor's executive orders allowing for the Board to meet without a physical quorum. Ken reviewed the changes throughout the state due to the pandemic and reviewed social distancing guidelines.
 - 2. Proposed Ordinance
 - i. Ken Harrison briefly reviewed the proposed ordinance commenting the only change is to the RMD age.

The board approved the proposed Ordinance and requested it be sent to the City for consideration by the City Council, upon motion by Ann Thompson and second by Harry Offutt; motion carried 3-0.

VI. **Consent Agenda**

- a. Siera Feketa briefly reviewed the items found on the consent agenda.
 - 1. Invoices or ratification
 - i. Warrant #39, #40, #41, #42, #43
 - 2. Fund activity report for period February 13, 2020 through June 23, 2020.

The Board approved the consent agenda as presented, upon motion by Gregory Budde and second by Harry Offutt; motion carried 3-0.

VII. **New Business**

- a. Discussion of Summary Plan Description (SPD) preparation
 - 1. Siera Feketa commented the SPD needs to be updated and distributed to the membership every 2 years. Siera commented Foster & Foster or the plan attorney can prepare the SPD. Siera commented Foster & Foster would bill hourly with a fee not to exceed \$2,000.

The Board approved Foster & Foster preparing the SPD every two years for a fee not to exceed \$2,000 upon motion by Ann Thompson and second by Gregory Budde; motion carried 3-0.

- b. Update on vendor cyber liability coverage
 - 1. Siera Feketa briefly reviewed the cyber liability coverage of the plan's vendors.

VIII. **Old Business**

- a. Cyber liability quote
 - 1. Matt Harrelson commented he did not feel it was necessary to purchase additional coverage after learning about the City's and vendor's coverage.
 - 2. The Board agreed by consensus not to purchase additional cyber liability coverage.

IX. **Staff Reports, Discussion and Action**

- a. Foster & Foster, Siera Feketa, Plan Administrator
 - 1. Update on Foster & Foster's cybersecurity
 - i. Siera Feketa briefly reviewed the cybersecurity memo.
 - 2. Update on State Annual Report
 - i. Siera Feketa commented the State Annual Report was submitted on April 3, 2020.
 - 3. Update on SB534 posting requirements

- i. Siera Feketa reviewed the SB534 posting requirements commenting she received confirmation the items were posted on April 27, 2020.
4. Educational opportunity
- i. Siera Feketa reviewed the FPPTA 36th Annual Conference from October 4, 2020 through October 7, 2020 in Orlando, FL.
 - ii. Ann Thompson commented the FPPTA is considering holding the Annual Conference in person and virtually.
 - iii. Ann Thompson and Ken Harrison reviewed the virtual learning sessions offered by the FPPTA.

X. **Trustee Reports, Discussion, and Action**

- a. Matt Harrelson asked who kept track of the financial disclosure forms. Siera Feketa commented her office monitors who has filed them and reminds trustees to file them as needed. Siera confirmed all trustees had filed their financial disclosure forms for the current year.

XI. **Public Comments** – None.

XII. **Adjournment** – The meeting was adjourned at 2:27 p.m.

XIII. **Next Meeting** – The next quarterly meeting, August 19, 2020 at 12:20 p.m.

Respectfully submitted by:


Siera Feketa, Plan Administrator

Approved by:


Matt Harrelson, Chairman

Date Approved by the Pension Board: August 19, 2020

