Police Rec 4-18-16

# MINUTES OF THE BOYNTON BEACH POLICE OFFICERS' PENSION FUND QUARTERLY BOARD MEETING HELD ON TUESDAY, FEBRUARY 9, 2016 AT 10:30 A.M., AT RENAISSANCE COMMONS EXECUTIVE SUITES 1500 GATEWAY BOULEVARD, SUITE NO. 220, BOYNTON BEACH, FLORIDA

**Present:**

Toby Athol, Chair
Jason Llopis, Secretary
Scott Caudell
Russell Faine

Bonni Jensen, Board Counsel
Barbara LaDue, Pension Administrator

**Absent:**

Joe DeGiulio

## I. CALL TO ORDER – Chair Athol

Chair Athol called the meeting to order at 10:30 a.m.

## II. AGENDA APPROVAL

Ms. LaDue added the IRS mileage rate for 2016 as item VII. B.4. and Amended Disability Application for Officer Kellman as item VII. B.3. Ms. LaDue advised Officer Kellman would likely attend the meeting, and his attorney was available by phone.

Item IV, Financial Reports will be heard in the reverse order.

## III. APPROVAL OF MINUTES – Quarterly Meeting 11-10-2015

**Motion**

Mr. Caudell moved to approve the minutes. Mr. Faine seconded the motion that unanimously passed.

## IV. FINANCIAL REPORTS:

**A) Quarterly & PYE Investment Review –12-31-2015**

**4) Davidson, Jamieson & Cristini – Richard Cristini, CPA & Jeanine Bittinger, CPA**

a) Audit Report & Financial Statements for PYE 9-30-2015

**Jeanine Bittinger, CPA Davidson Jamieson & Cristini**, advised the Independent Auditor Report had a clean opinion which is the highest opinion they could give. The Plan grew and was up $2 million. Receivables from DROP loans and broker dealers were up and totaled $694,749. Total investments in the Plan at year end were

$77,642,421 and last year was $75,783,083. The net position, restricted for pensions was $78,209,708 compared to $76,282,065 last year. Plan members increased, there were more buy-backs and roll overs to DROP this year. The employer contribution was $4,365,259, an increase from last year. The Plan also received almost $30,000 more in State monies than last year. The Plan's investment income reflected a positive net appreciation/depreciation of $1,996,000. Total additions to the Plan were $7,588,000. Deductions totaled $5,660,996 and the net increase was $1,927,643, compared to last year at $7,254,099.

The asset allocations by class were in accordance with the Investment Policy Statement. The rate of return for the current year was 2.5%. Ms. Bittinger noted most plans had a negative rate of return.

Mr. Cristini pointed out they included a statement to note the disclosures related to Governmental Accounting Standards Board (GASB) 67 were accounting measurements, not actuarial measurements of the funded status of the Plan. They are not used to develop employer contribution rates. GASB 67 standards pertained to the Board. GASB 68 standards pertained to the City, and they will have to include them on the balance sheet.

Ms. Bittinger noted there was a gain on investments sold of $1,752,200. If they liquidated the Plan there was money to be made. The total investments were $63,362.720 in 2015, and the market value was $77,642,421.

The total Plan net position showed there was $9,570,232 designated for the DROP accounts. Supplemental plan distribution reserves were $2,463,259 totaling $12,033,491, and the undesignated net position was $66,176,217. Ms. Bittinger advised loan interest on DROP loans was $8,238. Rent expenses were split between the Fire and Police Pension Plans. The Plan was amended to show clarifications for disability benefits, but it had no actuarial impact on the Plan.

The total pension liability as calculated by the actuary was $116,958,998. The Plan fiduciary net position was $78,209,708. The City's net pension liability was $38,749,280. The funding status, according to GASB 67, showed the Plan was 66.87% funded which was good for this year.

The rate of return was 7.75%. which reflected the City's net pension liability was $38,749,280. If it were 1% less, it would be $51,391,148, and a 1% increase would make it $28,162,264. The City's Comprehensive Annual Financial Report (CAFR) will have 10 years of statistical data. The City's liability increased from last year due to lower market returns.

Mr. Cristini commented the State mandated they could only count 300 overtime hours as pensionable income. The actuarial determined schedule of contributions was the same this year as last year. The schedule of investment and administrative expenses for the last two years reflected expenses were slightly higher than last year; however, the portfolio grew so the administrative expenses grew. Ms. Bittinger commented they do not like to see more than a 2% total expense and the Plan is well below the 1% in each category. She pointed out they did not issue a management memo because there were no issues to report. She explained the Plan received an A+ report card.

3) **Gabriel Roeder Smith & Co. – Pete Strong- Staff recommended. Consultant & Actuary**
   a) Updated GASB No. 67 Disclosure Information
   b) Actuarial Valuation for 10-01-2015

**Pete Strong, Plan Actuary,** commented the effective experience, due to the assumed rate and other changes resulted in an employer contribution increase from $4,391,305 for the fiscal year ending September 30, 2016, to $4,791,528 for the fiscal year ending 2017. He noted the contribution is made at the beginning of the year in October 2016.

Ordinance 15-022 was amended to reduce the benefit multiplier for those hired on or after October 1, 2015. Because that provision would affect future employees hired after this valuation, there was no impact on this year's valuation result. Mr. Strong explained for the last four years, they have phased in demographic assumption changes, 20% on the revised termination and withdrawal rates, and 20% per year on the mortality tables. The FRS Mortality table was less expensive than phasing in the RP2000 Mortality Table Scale AA and the Plan realized a slight savings by using the FRS table instead.

Mr. Strong continued to recommend investment assumptions be reduced and noted the other two Boynton Beach plans are at 7.5%. The gross return assumption was in the 8% range with a net return of 7.75%. He distributed a handout from the latest FRS Valuation Report using a long-term average investment return of 7.65%. It was materially above the 50th percentile average returns. The capital outlook models in the 6.8% to 6.9% range indicate there is a 35% likelihood of actual long-term future returns meeting or exceeding 7.65%. The lower the selected investment return assumption, the higher the likelihood the Plan will meet or exceed its assumed rate in future years although the assumption would result in higher short-term actuarially calculated contribution rates. It would also lessen the magnitude of actuarially calculated contribution rate increases, in the event actual future investment performance failed to meet the assumption. FRS was taking the lead and showing what will happen if the forecast models are accurate. Mr. Strong thought the Plan was in a different situation with the markets than they were 20 years ago and having a 7.50% to 7.75% return was stretching the reigns of reasonability. He suggested they discuss phasing the rates in so it would not be an immediate shock to the contribution rates.

Mr. Strong pointed out the Plan had an experienced loss and three years of gains in a row. About $1.1 million of the experienced loss was due to higher than expected salary increases. Average salary increases were expected to be 5.8%, but this year was 8.6% due to the six-year pay freeze. The Plan had a disability retirement last year and zero mortalities amongst retirees. All combined, the experienced loss was just under $1.9 million. A small part of the loss was due to the investment experience and smoothing. The return on the actuarial smooth value of assets was 7.54% this year, almost in line with the 7.75% rate of return. The net loss cost was about $105,000 due to the experience.

*(Mr. Llopis left the meeting at 11:17 a.m.)*

The funded ratio was higher this year due to smoothing and was at 66.3% versus 62.6% last year which changed the employer contribution.

Last year, the actuarial value of assets was below the market value. This year, the actuarial values were more than the market creating a $700,000 shortfall. The unfunded liability is being amortized as a level percent of payroll. It increases 4% per year, and the payment amount goes up. The Florida Administrative Code says the Board cannot use a payroll assumption that exceeds the 10-year trailing average, which is 4.16%, but there would be a big drop off next year. Next year, they would have a 2.58%, payroll growth assumption which would cause a $330,000 increase in the unfunded actuarial accrued liability payment.

*(Mr. Llopis returned at 11:20 a.m.)*

If payroll remains in the $12 to $13 million range, they would get to a flat 10-year history. If there was zero payroll growth, they would go to a level dollar amortization and it would increase the payment to nearly $1 million. Mr. Strong thought it would be prudent to lower the assumed rate in anticipation of a lower inflationary environment and lower investment returns.

The breakdown of the annual determined contribution for the year was reviewed. Last year's payment on the unfunded liability was about $2.5 million and normal cost was $2.2 million. This year the annual payment was about $2.65 million. The normal cost increased because payroll went up.

Chair Athol inquired how quickly they should lower the assumed rate. Mr. Strong responded if lowering the rate to 7.5%, they could do so quickly. If lower than 7.5% it could be done by reducing the rate by 10 or 15 basis points a year. Mr. Wan commented California plans were at 7.5%, then 7.25% with the goal of reaching 6.5%, but they were only doing so during the years they surpassed an 11% return. Mr. Wan thought it was a good way to proceed.

Attorney Jensen recalled the Board had been contemplating reducing the assumed rate of return. Attorney Jensen thought when reducing the rate of return, they could be more strategic around the expected increase in the contribution rate. Mr. Strong suggested taking some action effective October 1, 2016, maybe one basis point as a start, and recommended targeting over the long term, a 7% rate or below. FRS was using 6.8%

or 6.9% over the long term. If the Plan came down 10 basis points a year for a while, the effect on the unfunded actuarial liability would be higher. Mr. Strong agreed to send calculations and projections for the Board to review in May. Mr. Strong explained the mortality rates were expected to be the same until the next experience study was done by FRS in 2019. He noted House Bill 1509 says to use the current or second most current mortality tables used by FRS.

**Motion**

Mr. Llopis moved to approve the valuation and for Mr. Strong to provide calculations showing a breakdown of 10 basis points per year at the May meeting. Mr. Faine seconded the motion that unanimously passed.

Mr. Strong explained last fall, the Board approved him to work with the City for different scenarios, and they asked for scenarios for completion in March to see what the impact for reducing the benefit multiplier or future years of service would be. The City initially requested calculations across the Board to reduce the multiplier by 25 basis points and then asked for Fire and Police. Yesterday, Mr. Strong received an email from Commissioner Fitzpatrick who indicated the City wanted to look at 2.75% for future service across the Board. The other two plans were at 3%, but they were just considering that multiplier for future service for current and new employees. The proposal had a few features. One component was to keep funding the Plan at the current benefit level with the excess going towards the unfunded liability. Once the Plan reached full funding, they would reinstate the prior benefit multiplier.

Attorney Jensen explained the Board sets the rate over the short, mid and long term. Given the study being conducted, she suggested they put this off until May. Currently 7.75% was the approved rate of return, although it could change prospectively.

**Motion**

Mr. Faine moved to set the expected rate of return at 7.75%. Mr. Llopis seconded the motion that unanimously passed. Mr. Wan will prepare the letter to send to the State.

**2.) Burgess Chambers & Associates - Head of Research, Frank Wan**
**a)** Fund Performance review –

**Frank Wan, Head of Research,** commented oil prices fluctuated and oil and the overall supply will move the economy out of the slow period as oil prices were currently low. He suggested letting volatility play out as it pertained to commodity prices including energy.

Mr. Wan advised the calendar year ending 2015 was a volatile year. Many indices across the world were negative, but the US abroad markets were positive. The expectation for 2016 was the Federal Reserve would raise rates four more times. The dollar was so expensive, it was slowing down the economy because the US was exporting less and there will be a slowdown in tourism. Global markets were following and Mr. Wan did not think they would see as aggressive a rate hike plan as was announced by the Federal Reserve last year.

The Plan was up 2.4% for the year, ranking the Plan in the top 5% percentile. The best performing asset class was private real estate, which was up nearly 15%. Mr. Wan noted it was the only diversifier that really helped the overall Plan. Private real estate had a slightly higher allocation at 7.7% versus a target of 5%.

The Compliance Checklist, compared to the Investment Policy Statement, had most boxes checked which was a great report card.

The overall performance of the Plan reflected the total fund was at $83.4 million. For the quarter, the fund had a 3.21% gain, placing the Plan in the top 37th percentile for the quarter, in the top 5th percentile for one-year period, in the top 40th percentile for the three-year period and top 29th percentile for the five-year period. Mr. Wan explained there are 500 plans of varying size in the peer universe, and BNY Mellon did very well.

Mr. Wan explained the Plan was aging and was paying a lot in benefits and disbursements. Most of the growth came from investment earnings. The Plan did very well over the five-year period earning a 7.6% rate of return.

Attorney Jensen inquired if there should be any changes in the asset allocations. Mr. Wan responded if this Plan were to be closed, changes should be made because the Plan would have a defined life, but because the Plan was an open plan, it could continue and have time to go through the market cycles.

Mr. Wan pointed out 2008 was the only negative year on the books. All the other years were good. Last year, most plans were negative, but the Boynton Plan was up 2.3%.

The Pension Plan performance and rolling returns showed the Boynton Plan was a top performers for three and five-year periods having a downside market capture of 56.83% for the past three years, which was exceptional. It meant in a down market, the Boynton Plan lost less than half as much as the designated benchmark and when the benchmark is up, the Plan exceeded it.

There were no recommendations from BCA. The defensive large cap position did very well due to low beta and a less volatile environment, so there was less risk associated with US equities. The multi-asset manager did well. The Plan scored a lot of outperformance and hedging currencies played a bit role.

*(Mr. Caudell left at 11:55 a.m.)*

**1) Russell Investment Group – MJ (Candioto) Serene, CFA**

a) Investment Review –

**M.J. Serene, CFA,** Russell Investment Group, announced the Russell Annual Client Conference will be in May and advised the fourth quarter did well. The one-year numbers were disappointing and they were largely driven by the third quarter which was challenging. If using the net return after fees from all major publically reported asset classes, they were ahead of all of them, and she pointed out, diversification helped as did active management.

The Plan was negatively impacted in August and by the end of the year, it recovered, but there was a flat return. Investors were fearing a higher probability of global recession and when economies transition, there will be fluctuations in economic indicators quarter-to-quarter. Russell Investments anticipated China would have some type of growth rate close to 6.5%. Ms. Serene commented since January, there was a repeat of August. Dedicated US equity exposure was down about 6%. Global equity markets down about 10%, and the portfolio down 4.6%. Russell Investments expected volatility, but thought there would be modest, positive, single-digit equity returns by the close of the calendar year. They had anticipated going into the year, the markets were fully valued, except for emerging markets which had cyclical concerns. Any type of incremental US equity market returns they thought they would receive would come from earning improvements. Russell Investments was cautiously optimistic, but thought there would be some volatility along the way.

*(Mr. Caudell returned at 12:01 p.m.)*

Attorney Jensen inquired if Russell Investments thought the volatility was caused by people making decisions or the high speed trading impact on the market. Ms. Serene thought it was a combination of factors and pointed out Russell Investments was not expecting a global or US recession. The current market was different than the 2008 market.

Ms. Serene reviewed the foundation of Russell Investments was manager research and how they rank investments that are included in various portfolios. Their funds are not just comprised of underlying managers. The portfolio managers design funds. Managers and markets change and Russell Investments can make manager changes or tactical adjustments. They believe in active management and the underlying managers have full transparency in the total portfolio. Russell Investments does not pick stocks.

As of January 1, 2016, the fund had $81.5 million. Net flows were zero because inflows and outflows netted each other. There was $1.8 million in market gains and the fund closed out for the year with $83.4 million.

For the year, the fund earned 2.44% gross and 1.7% net of fees ahead of the benchmark. On an absolute basis, private real estate and defensive positioning helped.

It was a good year and they are continuing to position the fund to have a very specific underweight in commodities and to look at countries and currencies. The Multi-Asset Core fund has a 50% hedge which worked well, but in the long run would curb volatility.

## V. CORRESPONDENCE:

1) State Acceptance – All Reports through 10-01-2014 – ltr dated 11-17-15

This was for information only.

2) Death Check/Mortality ID Services – Russell/Berwyn Gp – 11-27-15

Received and filed.

## VI. OLD BUSINESS: N/A

Attorney Jensen suggested streamlining the Alive and Well process and advise the retiree if they do not respond by a date certain of their acceptance, they would not receive their check. The system has a deadline and the deadline cannot be extended. Chair Athol inquired when the October check does not go through, if it was easier to issue a double check the next month or a separate check during the month. Ms. LaDue thought it would be easier to issue a special check. Mr. Faine thought they should institute a $100 special processing fee or receive a double check in November. It was noted the checks are issued the first of the month. Chair Athol will review the letter before it is issued and commented letters will be sent June 1 and July 1st.

Chair Athol had spoken with Attorney Jensen regarding retirement age versus disability. Some plans include if one is eligible for a normal retirement, they cannot file for disability. Attorney Jensen had one plan with the provision, and there was only one person in that category. Attorney Jensen will email the language to the Trustees before the next meeting. The North Palm Beach Plan has an age 60 retirement.

## VII. NEW BUSINESS:

### A. Invoices for review and approval:

1. Russell Investment Gp. – Quarter End 12-31-2015 - $136,121
2. Russell Payment Services – Quarter End 12-31-2015 - $1,091.18
3. Klausner, Kaufman, Jensen & Levinson – Service Nov & Dec - $2,587.50
4. Burgess Chambers & Assoc – 4th Qtr 2015 fee - $6,250
5. Gabriel, Roeder, Smith & Co- Service Dec 2015 - $1,942
6. Davidson, Jamieson & Cristini – Progress Audit Billing - $6,000

**Motion**

Mr. Llopis moved to pay the bills. Mr. Faine seconded the motion that unanimously passed.

**B) Attorney Report - Bonni Jensen**

1) Police & Fire Pension Board – RFP for Pension Administrator – Joint venture meeting for review process.

Attorney Jensen sent out a Request for Proposal (RFP) and the responses were sent to the Trustees electronically. The next step was to discuss the responses with the Firefighters' Plan. Matthew Petty, Firefighter Trustee, advised they ruled out one pension administrator. He originally anticipated meeting in March to review the results. Attorney Jensen agreed to send a spreadsheet to be used to rank the respondents. After brief discussion, the Board decided to have a joint meeting with Police and Fire on March 16th at 9 a.m. Ms. LaDue will distribute hard copies of the responses for the members to review. Mr. Petty advised the firefighters wanted to hear five of the six respondents and presentations will last between 10 to 20 minutes. Mr. Petty would check for a location hopefully at Fire Station No. 5.

2) Insurance Premium Tax – Data Base – Chapter 175/185 memo 12-5-15

Attorney Jensen explained the State put together a database for the Insurance Premium Tax and noted the City contacts are Terry Owens and John McNally. The database also allows Trustees to see when the website was last updated. They could go to pointmatch.state.fl.us and download all of the addresses added within Boynton Beach. She noted the last time Boynton Beach updated the database was January 1, 2013. The database is also used for the City's Communication Services Tax the City receives from the State.

3) Robert Kellman LOD Disability Benefit Application & Interrogatories - Amended application

Attorney Jensen advised they received a disability application from Robert Kellman and they will process it. She advised she received an amended application today. She sent out requests for documents and will keep Mr. Kellman posted.

4) IRS reduced mileage rate.

Attorney Jensen advised the IRS reduced the mileage reimbursement rate from 57.5 cents to 54 cents. She noted the IRS increased the mileage rate when gas prices increased.

## VIII. PENSION ADMINISTRATOR'S REPORT

1. Benefits as of 02-02

This item was for information only.

2. Plus Web

Ms. LaDue explained she had been using an MBX benefit payment system that included refunds, withdrawals and loans, plus monthly benefits for eight years. In November, Ms. LaDue had a three-hour conference call with State Street introducing Plus Web, then she had no further contact until she contacted them on December 16 because in order to process the January benefit payments, she had to use the system and it was an ordeal. Ms. LaDue had been logging the time it takes her process two withdrawals, benefits and refunds and commented a 10 minute withdrawal took her an hour on the new program. A refund took 45 minutes to process. The benefit run for February took 1.5 hours and there were only two changes. This morning, she processed one DROP withdrawal and one loan, which would take her 10 minutes, but it took a half hour yesterday and one hour and five minutes with the assistance of someone at State Street today. Ms. LaDue thought the program was designed to encompass any type of benefit plan, but it was cumbersome. When she processes a DROP withdrawal she uses a code for early withdrawal with exceptions. When she looks through the program's selection, there was a code indicating early withdrawal, but did not indicate exceptions. Chair Athol suggested coordinating with Russell Investments to see if they could have specific options for the Plan. Transactions and benefits have several components. The program is a real time program. Chair Athol thought macro commands could be established and Ms. LaDue thought the program was not useful.

Ms. Serene apologized for the program. Based on what Ms. LaDue said, she thought it was unacceptable and Russell will advocate for the Plan. She sent a note to her colleague to contact Ms. LaDue and they would go through the entire process.

## IX. PUBLIC AUDIENCE COMMENTS (Limited to three (3) Minutes)

**Steve Grant**, 136 NE 3rd Avenue, Mayoral candidate, explained he is a local attorney and former financial advisor at Morgan Stanley. While serving on the Financial Advisory Committee, he conducted a pension review and he thanked the Trustees for what they do. He commented the Trustee's changed the pension multiplier to 3% and pointed out there was a vast difference between the FRS and the City's contribution rate. He did not know if there would be compromises in the future, but he wanted to ensure there was more money for the Police working today and the current pension fund is funded by 2040. Mr. Grant thought the City has not done a great job with the taxes they receive. The CRA has $10 million in land that was not being taxed and he would like to pursue the matter.

## X. ADJOURNMENT

There being no further business to discuss, Chair Athol properly adjourned the meeting at 12:54 p.m.

Catherine Cherry

**Catherine Cherry**
Minutes Specialist
030116