



# **BOYNTON BEACH POLICE OFFICER'S PENSION FUND**

## **MINUTES**

**May 21, 2019**

**1:00 PM**

The regular meeting of the Board of Trustees of the City of Boynton Beach Police Officers' Pension Fund was called to order on behalf of the Board by Mr. Athol on May 21<sup>st</sup> at 1:00 PM at 2100 North Florida Mango Road, West Palm Beach.

**TRUSTEES PRESENT:** Mr. Toby Athol-Chairman; Mr. Jason Llopis-Secretary; Mr. Brian McDeavitt-Trustee; Mr. Daniel Dugger- Trustee; and Mr. Russell Faine Trustee.

It should be noted that there was a quorum for the Board to have an official meeting.

**OTHERS PRESENT:** Ms. Bonni Jensen, Board Attorney – Klausner, Kaufman, Jensen & Levinson; Mr. Louis Penque and Ms. Amy Sinnott – Plan Administrator; Mr. Frank Wan – Burgess Chambers & Associates; Mr. Steve Flynn – Russell Investments; Pete Strong – GRS Consulting

### **PUBLIC DISCUSSION:**

No public comments presented.

### **CONSENT AGENDA:**

#### **APPROVAL OF THE MINUTES:**

The Board reviewed the February 12<sup>th</sup>, 2019, City of Boynton Beach Police Officers' Pension Fund meeting minutes. Trustee McDeavitt made a motion to approve the February 12<sup>th</sup>, 2019 meeting minutes which was seconded by Trustee Llopis. All Trustees voted yes, and the motion was passed 5-0.

#### **WARRANTS:**

The Board reviewed warrants 263 through 292. After review and consideration, Trustee McDeavitt made a motion to approve as presented, which was seconded by Trustee Llopis. All Trustees voted yes, and the motion was passed 5-0.

## **ACTUARY'S REPORT:**

Mr. Strong presented the Actuarial Valuation Report as of October 01, 2018. He started the report with the Comparison report of the Employer Contribution, which was a decrease of (-\$209,983) for FYE 9/30/2020

There was a net actuarial experience gain of \$1,359,369 for the year, which means that actual experience was more favorable than expected. The actuarial gain was primarily due to more member terminations than expected (12 actual versus 5 expected, with 3 vested terminated members electing refunds of their member contributions), lower than expected salary increases (4.7% actual versus 5.8% expected), and a slightly higher than expected return on the actuarial value of assets. The return on the actuarial value of assets was 7.54% versus 7.25% expected. The return on market value of assets was 6.50%.

The net actuarial gain for the year caused a decrease in the annual required employer contribution of 0.74% of covered payroll (or \$83,062).

The funded ratio is 66.5% as of October 1, 2018 compared to 64.1% as of October 1, 2017. The funded ratio is equal to the actuarial value of assets divided by the actuarial accrued liability. It is important to note system assets are insufficient to cover the liabilities for inactive members. As of October 1, 2018, the assets are \$86.4 million and the liability for current inactive members is \$88.4 million. Additionally, the funded ratio has dropped from over 96.5% in 2000 to the current level of 66.5%. Some steps have been taken to address this issue such as lowering the investment return assumption. Given the low funded ratio, it is advisable to consider further steps, such as shortening the UAAL amortization period.

There was a recommendation and presentation by Mr. Strong showing the benefit of reducing the Amortization Periods for Amortizing the Unfunded Actuarial Liability from 30 years to 25 or 20 years. A reduction to 25 years would increase the city contribution by approximately \$17,000.00 annually but save the plan approximately \$977,000.00 over the next 30 years.

In a second scenario going from 30 years to 20 years. This would increase the city contribution by approximately \$79,000.00 annually but save the plan approximately \$2.96 Million over the next 30 years.

After discussion a motion was made to lower the UAAL Amortization period from 30 years to 20 years by Trustee McDeavitt , which was seconded by Trustee Llopis. All Trustees voted yes, and the motion was passed 5-0.

In reviewing the report there were questions as to how many Terminated Vested Members left between 10/01/2017 -10/01/2018. Mr. Strong was going to review this question and confirm with Mr. Penque.

The report was not approved by the board. Mr. Strong is going to recalculate the report using the 20-year UAAL Amortization period. The board agreed to hold a special meeting to approve the revised report.

For purposes of transparency please visit the following link to view the entire Actuarial Valuation Report as of October 01, 2018 Report for Year 2018.

<http://bbpdp.org/modules/stateDocs/index.asp>

### **INVESTMENT REPORT:**

Mr. Steve Flynn made the presentation to the Board on behalf of Russell Investments.

The first quarter of the calendar year ended 8% up, but when combined with the first quarter of the fiscal year, the first six months of the fiscal year left the fund up only 1.4%. The fund remains postured conservatively. There is not a lot of change within the Multi Asset Core Fund and it remains in a defensive position. The fund is underweight in equity overall to the US market, while maintaining balance of US funds as regulations require. Currently invested in 84% US, while only 75% is required. Prior to 2019, U.S. stocks started the year up more than 10% nine times since 1970. Markets delivered positive returns eight out of nine times for rest of the year, averaging a 7.9% gain. Strong early gains have not been a sign not to be invested. The first quarter of calendar year 2019 delivered 13.6% gains in domestic equities.

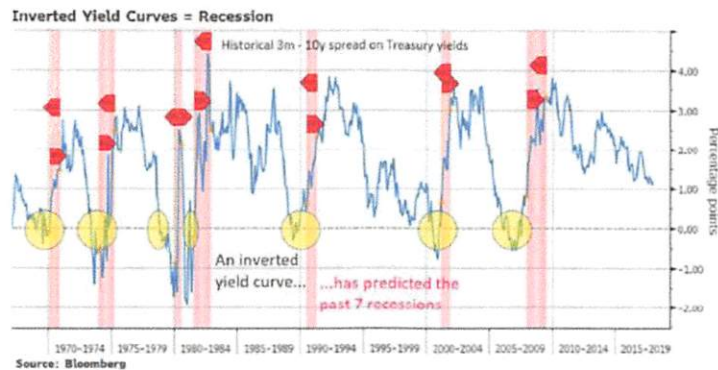
Trade issues have resolved rather quickly in years past, so the fact things are not resolving quickly creates downsides, but it is yet to be determined for whom. Tech investments may be less likely to do well, but small cap funds may benefit. For 37 straight quarters growth funds have outperformed value funds which is unprecedented. It is difficult to know when it will be considered too late in the game to realize benefits from this condition. Russell has made some changes, recognizing both trade and Federal Reserve policies contribute to the market. Rate increases are not expected from the Federal Reserve in the next 12-18 months. The fund is now neutral to Japan due to the negative trend of their GDP. The fund is partially overweight to emerging markets, including China.

### **INVESTMENT MONITOR REPORT:**

Mr. Wan made the presentation to the Board on behalf of Burgess Chambers & Associates.



In March 2019, the yield on the benchmark 10-year Treasury note fell to 2.42% percent, dropping below three-months treasury bills for the first time since July 2007. "Investors' willingness to accept a lower yield on a longer, and thus riskier, fixed-income instrument classically has been a harbinger of an economic downturn", and the fear of recession once again created market volatility.



What caused the inversion? U.S. Treasuries remain the safe haven for foreign investments, especially in an environment where Japan and German bonds are trading below 0%. Large inflows of capital along with recent increases in the Federal Funds Rate caused this temporary inversion.

How does this compare to past recessions? The Federal Funds Rate in prior recessions (post 1960) was +2% above core inflation, compared to +0.3% today. "Money is relatively cheaper today than before prior corrections". This is a concept called "bull inversion", when prices are in check, and there is no need to artificially pump the brakes.

Separately, while the U.S treasury yield curve may be inverted, the short and long-term corporate bond spread remains healthy at 120 basis points, compared to an average of 80 basis points since 2000. "That spread difference last inverted in March 2008, about five months before the financial crisis".

Will there be a recession? It is our view that a recession is not imminent, as measured by corporate bonds and equity investor confidence. However, the inverted treasury yield curve does call for our attention to monitor risk, particularly in other parts of the world, and their impact on the U.S. economy.

The European Commission sharply cut its forecast for eurozone economic growth this year to 1.3 percent from 1.9 percent in 2019. Countries like Germany and France have been negatively affected by the global trade tensions. Consequently, foreign stocks have underperformed domestic stocks during the most recent quarter.

- For the quarter, the Fund was up 8.1% gross (or +7.9% net; \$7.9 million), behind the Policy Benchmark (+8.9%). The best performing asset category was the Russell Large Cap Defensive Equity fund (+11.6%).
- For the one-year, the Fund experienced a market-based gain of \$6.0 million or +6.2% gross (+5.4% net), ahead of the Policy Benchmark (+5.9%). The best performing asset category was the Russell Large Cap Defensive Equity fund (+10.1%).
- For the three and five-year periods, the Fund earned +7.9% and +6.6% net, respectively.

Mr. Wan presented a change in Investment Policy Statement related to the benchmarks for real estate investment. He explained a change to the NCREIF Index Open-End Diversified Core Equity would provide a more accurate measure of fund performance. The private real estate portion of the portfolio is expected to meet or exceed the return of the NCREIF Index Open-End Diversified Core Equity, and rank within the top 40<sup>th</sup> percentile of an appropriate Real Estate universe over three- and five- year periods. A motion was made by Trustee Llopis to approve the change and it was seconded by Trustee Faine. All trustees voted yes, and the motion was passed 5-0.

For purposes of transparency please visit the following link to view the entire investment report. [http://bbpdp.org/docs/investments/2018-09-30%20Boynton%20Beach%20Police%20\(Quarterly%20Report\).pdf#zoom=100](http://bbpdp.org/docs/investments/2018-09-30%20Boynton%20Beach%20Police%20(Quarterly%20Report).pdf#zoom=100)

**ATTORNEY REPORT:**

Mrs. Jensen advised the trustees that the Statement of Financial Interests need to be completed by July 1<sup>st</sup>, 2019.

Mrs. Jensen reviewed SB 7098, SB 248 Statutory death benefits and Public Records Expansions.

Mrs. Jensen updated the board on Amy Hoffman. Depositions should be completed by July and we may have a hearing at our next meeting on August 13<sup>th</sup>, 2019. She also updated us on the Nancy Aspenleiter case, in reviewing the SPD's from 2002, there is some question to her eligibility at the time of her separation from service. This will be reviewed with the actuary and pension administrator.

There was also a review of HB 426 which explained the new alimony law changes which went into effect December 31<sup>st</sup>, 2018.

**PLAN ADMINISTRATOR REPORT:**

Mr. Penque reported that since the last meeting two members have separated service and are now retired. One member applied for a DROP loan. Three members entered into the DROP program. Six members filed for a DROP distribution.

Mr. Penque presented the final approved report for the June 1<sup>st</sup> special payment. Total to be distributed is \$214,891. The report was approved by the Board. The motion for approval was made by Trustee Dugger and it was seconded by Trustee McDevitt. All trustees voted yes, and the motion was passed 5-0.

The Board was advised the Fiduciary Liability Insurance was paid and the policy was provided to all members.

**NEW/UNFINISHED BUSINESS:**

Chairman Athol advised the Board he will be moving out of the city limits. He currently holds the position of a city resident appointed by the City Commission. Chairman Athol advised that he will notify the City when his plans are finalized. Chairman Athol will remain on the Board until the City finds a replacement for his position.

**ADJOURN:**

Trustee McDevitt made a Motion to adjourn the meeting. Trustee Llopis seconded the Motion. The Motion passed 5-0. The meeting was adjourned at 03:06 PM.

Next Regular Scheduled Meeting: August 13, 2019 at 10:00 AM.



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Toby Athol, Chairman  
**FOR THE BOARD**