

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD
January 18, 2018**

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System January 18, 2018 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Commissioner Tom Perona, Chairperson	City Commission Member
Commissioner Reginald Sessions	City Commission Member (arrived at 2:15 p.m.)
Johnna Morris	Director of Finance
Keith Stephens, Vice -Chairperson	U.A. General Member
Brian Avilla	Police Officer Member
Nina Penick	U.A. Board Appointee

Attorney Jim Walker	Attorney for the Retirement Board, Advisory
Christina Paz	Retirement Clerk

Guests:

Brad Armstrong	Gabriel Roeder Smith & Company
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Absent:

Caleta Scott	General Member
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Recording:

Queen Thompkins	Executive Assistant to the Director of Finance
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ITEM NO. 1 & 2 ~ ROLL CALL

Comm. Tom Perona called the meeting to order at 2:00 p.m., the first item on the agenda being the “*Roll Call*”.

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Comm. Perona, the next item on the agenda was comments from the public. There were no comments from the public.

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ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF NOVEMBER 16, 2017

Comm. Perona, the next item was the approval of the summarized minutes of November 16, 2017, and asked if there was a motion to approve the minutes. **A motion was made by Ms. Nina Penick and seconded by Mr. Keith Stephens to approve the summarized minutes of November 16, 2017.**

All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.

ITEM NO. 5 ~ ATTORNEY'S REPORT

Attorney Jim Walker said he's happy to report that everything remains quiet. We are wrapping up a minor matter involving the Robinson Estate. As I was reading the Florida Bar Journal, knowing that we conduct the proceedings according to Parliamentary Procedure, there was an article that I thought you might find it of interest. It has nothing to do with current business. It's simply for whatever instructional value you might find it to have under the broad heading of parliamentary procedure. Otherwise, I would be happy to answer any questions the Board might have.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Comm. Perona opened up the public hearing for comments on the request for Retirement from Stephen Griffith with 22 and 2 months of service with the City of Fort Pierce Police Department (DROP Program). He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Comm. Perona closed the public hearing. Comm. Perona opened up the matter for the Board. **A motion was made Ms. Johnna Morris and seconded by Ms. Nina Penick to approve the request for retirement from Stephen Griffith.** Comm. Perona asked for any questions or comments on this request before the motion was called. **All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.**

ITEM NO. 7 ~ OLD BUSINESS

ITEM NO. 8 ~ NEW BUSINESS

a. DISCUSSION ON OPTION FACTORS – BRAD ARMSTRONG OF GABRIEL ROEDER SMITH & COMPANY

Mr. Brad Armstrong introduced himself to the new Board member, Brian Avilla. I work for Gabriel Roeder Smith & Company; primarily involved with the annual actuary; it determines the funding requirements; it looks at the financial position. There are also another couple of reports

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that has to do with the reporting for the City's financial statement. We are not auditors but we coordinate with the auditors; provide certain information that's put in the comprehensive annual financial reports. There are certain requirements that have to be filed with the State of Florida, so, we produce some of those reports. In addition, we are involved as an advisor to the Board. When someone applies for a benefit payment, the standard form of payment is by formula. There's a salary component; a multiplier and years of service and you multiply those three together and you come up with an annual amount; you divide it by 12 and that's the monthly amount. If the member chooses, then there's no adjustment; that benefit is paid in that full amount. If they have a beneficiary and they want to elect an optional form of payment with their beneficiary, they take a reduce benefit in order to convert that amount to a joint 100% survivor or a joint 50% survivor. There is also a 10 year certain in life option that guarantees the first 10 years of payments. The actuarial equivalence factor hasn't been changed in a considerable period of time. They are actually in their independent of the other assumptions that are typically set. The State of Florida mandates certain assumptions with respect to funding and some of their reporting to the State, but the actuarial equivalence factor for the actuarial forms of payments are set here at the Retirement and Benefit System Board level, and it's typical that if the investment term mortality assumption change for funding purposes, that you consider the optional forms of payment actuarial equivalence that you are using at that point and time. In the last year we changed the assumed rate of investment return from 8% to 7.75% and the State of Florida mandated a change in the mortality table. Both of the primary assumptions that we use to determine optional forms of payment typically the actuarial equivalence factor is when Christine meets with someone to give to them their choices. In order to give them their choices, she needs to use the actuarial equivalence factor. Right now they are a part of benefit calculation software program. It puts the benefit in and the member's date of birth and the beneficiary's date of birth and it spits out all the monthly amounts that they're choosing from. The Ordinance under Section 13-33 states, "The amount of annuity under a form of payment option shall have the same **actuarial present value** as the amount of annuity under the standard form of payment." That's essentially saying it's an equivalent value or it's intended to be an equivalent value. Further, Section 13-75 (Adoption of experience tables and regular interest) of the FPRBSO states, "*The retirement board shall from time to time adopt such mortality and other tables of experience, and a rate of rates of regular interest, as are necessary in the operation of the retirement system on an **actuarial basis**.*" Both of these are not particularly specific, so it's up to the Board to determine what they think is appropriate for an actuarial basis. I had a conversation with Mr. Walker and we were discussing some of the alternatives; for this to be more specific, you could include this into the Ordinance, but that would mean you would be subject to the process of amending the Ordinance every time you want to make this particular type of change. You're the people most familiar with what's going on with regards to the operation of the System and the optional forms of payment.

Comm. Perona asked if you mean treat it like a resolution.

Mr. Walker said he was referring to our rules; a rule that would list the fundamental actuarial assumptions that are in use and are being applied.

Comm. Perona said it's easier to change that than it is an Ordinance.

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Mr. Armstrong said the Board may want to set a Board Rule so that even if you decide not to change the assumptions today; whether you do or don't, you can set a Board Rule acknowledging these are the primary assumptions we are using for the determination of the optional forms of payment. We can not only stipulate what the basis of the assumptions for actuarial equivalence are, but describe the option briefly in the report.

Comm. Perona asked if he was talking about going forward.

Mr. Armstrong said yes. If somebody is not familiar with finding the Board Rules easily, this is a public document filed with the State. If they had access to this, they would be able to look that up. The current assumptions interest rate is 7.5% and the mortality table is 1971 group and both of those are distinctly different than what we've been using for funding or reporting for a long time. There tends to be reasons why would you use an old mortality table and a lower interest rate. The primary reasons are it's illegal to discriminate and you're not underwriting these people. Even though it's an individual who may have information from their position; they're in poor health; we're not separately underwriting them. These assumptions, historically, would be conservative because you want them to be fair, but fair within reason to the members. If you take no action other than setting Board Rule and you can keep using those assumptions, I'm recommending something that's more current and more consistent; at least with regard to the mortality table; a version of our RP2000 Mortality is presently being used for funding. If we change the group in the mortality table to the RP, which stands for Retirement Plan 2000 Table; the potential of electing against the System; if they have information, typically in regards to their health. If you look at the factors, the first thing you will notice, if you change the assumptions today, you would have to pick an effective date for when that would be; when that would take effect. It would generally be a date in the future; whether that would be April 1st or July 1st. You would probably want July 1st, so the program could get updated and is fully operational; when you give people estimates, if they retire on or after July 1, 2018, then their optional forms of payment would be based on the new assumptions. Before that they would be based current assumptions. What you will notice is these factors generally make the optional forms of payment higher. They're both actuarial equivalent; if the benefits are higher than the existing forms of payment, one could conclude that's automatically an increase in cost. Adverse selection is a two-way street. They have different speed limits, probably, in each direction. Right now a lot of your healthier members may look at the optional forms of payment and say, that reduction is too severe, so I'm not going to elect an optional form of payment.

Comm. Perona said basically on the decisions you make in your options are the things that could cost the System a little bit more or less but, by the way that we presented it, it gives the options for people; it may lure you to that option or it may not or may detour from that option. It really has no internal pressure on the System itself.

Mr. Armstrong said we think it would shift in different directions but in the end we expect it to be equivalent to the current circumstances, and also I think it's good governance update to a more current mortality table so if somebody was asking what are you doing with your mortality assumption, even if it's justified to use a table from 1971, that's still a considerable length of time.

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Mr. Walker asked tweaking these actuarial assumptions isn't anything that is likely to affect the employee or employer's contribution is it?

Mr. Armstrong said that is correct, it would not. If you do change them, there will be an impact statement which Gabriel Roeder Smith & Company will provide and de minimis means no cost.

Comm. Perona said just go back to make sure, so any type of change that's made by July 1st, compared to somebody that's looking at retirement now is not going to rush to the table because this is a better benefit before we make the change. Actually its de minimis but it does in favor of the new plan rather than the older plan.

Mr. Armstrong said in the transition, the longer people work the better for the Retirement Benefit System. If you encourage somebody to work until July 1st that really wanted to retire May 1st, that's two payments you didn't to have to make. You would have to pay them for two more months and their service changes but, it also delays the start of the next career because you are not going to need to replace that person.

Comm. Perona said it's not causing any incentive at all. As he said it was de minimis, therefore, it gives a better picture or maybe a little better representation of the options that are available.

Ms. Penick asked when we made the changes to the actuarial tables to the ones that were required by the State and we changed the interest rate assumption, that didn't change the assumptions throughout the whole System? I would have assumed, and apparently that's where I have gone wrong, I assumed that would have required for all of the options, so you're saying it didn't apply optional forms of payment.

Mr. Armstrong said that's right.

Ms. Penick said for making this change, we are really only being consistent with how the rest of members of the System or the other forms of payment are being calculated.

Mr. Armstrong said they are independent as far as the Ordinance and the operation of the System are concerned.

Ms. Penick said thank you for the clarification.

Mr. Armstrong said ultimately, there is a cost to change the program. We have to test it. If you decided to change it back, we would want to update the program and install that; coordinate with your IT; with Christine to make sure that everything works here the same way it works for us. Even though the program calculates consistently; see every one of them; it certify that the program calculate the numbers as we expect it.

Comm. Perona said he notice you didn't use the work de minimis when you talked about cost, you want to give us an idea of what we're talking about.

Mr. Armstrong said what I think is not to exceed \$2,000 because there's programming involved and there's actuary to review the output.

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Comm. Perona asked if that includes the impact statement.

Mr. Armstrong said that's a good question. It wasn't supposed to. That's probably an additional \$500. Those would be separate.

Ms. Penick said she is also thinking that this might impact what's being done with Milliman. Are they going to have to make changes?

Ms. Morris said yes, that's why we were supposed to go live the end of this month. We postpone it because we had spoken with Brad and knew we were possibly going to make these factor changes.

Mr. Armstrong said we will coordinate with them; make sure they have everything they need. They probably can produce the factors themselves quite easily. We'll make sure.

Comm. Perona said we like being responsible to our members and knowing that we roll over everything, it's kept us who we are today. Comm. Perona asked Mr. Armstrong if he had anything further.

Mr. Armstrong said no.

Comm. Perona said that was Mr. Armstrong's recommendation on the 6% and the RP 20000 combined. He asked the Board if they understood what was going on.

Ms. Penick said I don't think we're seeking to change the Ordinance, is that correct?

Ms. Morris said that's correct.

Ms. Penick said we aren't seeking to change the Ordinance but we are seeking to make the change in the assumptions for the alternate forms of payment to reflect the 7.75% interest assumption.

Mr. Armstrong said the current is 7.50%.

Ms. Penick asked if Mr. Armstrong was suggesting that we reduce to 6% for the alternate forms of payment but not for the other forms of payment. We wouldn't be consistent throughout the whole System? Shouldn't the assumption interest rate be the same?

Mr. Stephens said the reason we did the 6% is that's the conservative way to do this because even though we're assuming on the other side that we went to the 7.75% instead of the 8% that we've done historically; the 6% is the conservative because we can't control what option people are going to choose. They can choose any option and is based off of information we'll never have, whether they know they're sick; whether their wife or whoever, and they tend to choose the more aggressive higher payment.

Mr. Armstrong said that's right; if they think they can. It better protects the System; specifically for address selection.

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Comm. Perona said the 6% is not their calculation, it's our assumption. They're not restricted from somebody took the whole option at first, it's just for us.

Mr. Armstrong said there's also the idea that somebody like to join the 100% survivor, they maybe in payment status a lot longer and you're assuming the investment risk over that period, so that's another reason why to make the interest investment assumption return lower. It protects the System and again, if you think in terms of the fact that it's an election; if you made that higher, it would increase the optional forms of payment and then you probably would be introducing an increase in the cost to fund the System. You're not forcing people; if someone feels that the optional forms of payment is unfair or unfavorable, you're not forcing them to elect. They can always elect to take the standard form of payment.

Comm. Perona said do we have a motion?

Ms. Penick said to pick up where she left off, back to the **a motion was made, with the interest being 6% per annum and the mortality will be this 100% of the RP 2000, what is basically the mortality table mandated by the State; that's more simply put.**

Ms. Penick said also setting ages forward 5 years for disabled members, is that part if the change?

Ms. Penick asked this would be effective July 1, 2018.

Ms. Morris asked Mr. Armstrong his suggestion of July 1st because the mortality table would go into effect then.

Mr. Armstrong said no, just to give us time to update the program. We can update it sooner.

Ms. Morris said what works better for us is always fiscal end before we roll into a new fiscal year, because we're better able to have administered when the change actually went into effect.

Ms. Penick said, okay, October 1st.

Comm. Perona said before he takes a second on that, does that cover the recommendation?

Mr. Armstrong said yes.

Comm. Perona said does he have a second on the motion. **A motion was second by Ms. Morris.**

All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion was carried unanimously.

Mr. Walker asked if it would be helpful to put this information on assumption in the form of a rule if any questions come up.

Comm. Perona said that may be the right type of function for that; that way we've changed the rule rather than a motion, if we create a rule. I think that was one of the other recommendations.

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Mr. Walker said working with Mr. Armstrong, what he will do is draft something for the Board to maybe look at.

Comm. Perona said bring this back as a format of rule, even though we've passed it as a motion. It would be easier to change it as we go further rather than having it in the form of an Ordinance. Comm. Perona asked Mr. Armstrong if he had anything further. Mr. Armstrong replied he did not.

b. DISCUSSION ON ASSET REALLOCATION

Comm. Perona said if the Board can recall, this is a conversation we had with Callan Associates the last time we were here. There were some recommendations made. He asked Ms. Morris if she was doing the discussion on this and she said yes.

Ms. Morris said at our November meeting Callan did make a recommendation. They noted that we were overweight in our Domestic allocation and because of the way the Market is right now, it would be more beneficial for us to reallocate and take some of our Domestic equity and reallocate that to the International. It would work better for the fund as a whole and they have made recommendations. Our current is at 48% Domestic and 15% International and their recommendation is 38% and 25%. Usually once they make the recommendation, we do take their recommendation and follow it.

Comm. Perona said especially when you see the peer group and we're in the top 90% of peer group, and the Domestic tells you we are out there by ourselves. The way our consultant was talking to us, it was like they were carefully pushing us very hard to consider this. I know how we don't like to change a lot in our asset allocation because it seems that it's worked for us in the past, but I think they demonstrated the fact that we may have lost some ground in the last year because we haven't participated at least in some conservative level in a stronger International Equity Market.

Mr. Stephens asked what they wanted us to do with the Domestic side; what is their recommendation if our target is 15% in International?

Comm. Perona said our target is 25%. It is currently 15% and they want us to go to 25% for International and from 48% to 38% Domestic. The only thing that holds me back a little bit is the currency volatility in some of these International Markets; makes me a little cautious. I think they are a little conservative in their percentage split. I think they might have picked up on that. We're talking between the two markets, somewhere close to \$135 million. That's real money.

Mr. Stephens said that's almost half.

Ms. Morris said that's more than half.

Comm. Perona said you are talking the majority and that's where it should be; in those Equity Markets. I don't mean to throw a caution out there, I just saying that for the longest time we've survived through a lot of stuff because of our Domestic Equity. Healing from a lot of political issues over time is showing that the International Markets are starting to pick up. If we do make

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this change, which I can support, it's something I would like to look at a little bit more current than every 5 years. I would like to look at it every year.

Mr. Stephens asked Comm. Perona thinks 10% is too much.

Comm. Perona said he thinks that Callen Associates know a lot more than he does. They know everything. They have people on the ground watching everything at any given time, so I would defer to them. I'm just making a statement that we have to be cautious when we move, but I'm not saying it's a bad move. Does it change our liquidity?

Ms. Morris said no. It's whatever the Board decides.

Mr. Stephens asked if we decide this, how fast can we change it.

Comm. Perona asked if it was going to incur any type of large trading cost.

Ms. Morris said she would have to look at our contracts to see if it would change us into a different bracket where it would increase our trading cost. Most times, not, especially when we are reallocating. Sometimes it works advantageous to us because we renegotiate the contracts because they want to keep us at where we are. We will get a better rate; it all depends. We would have to work with them to see; they haven't given us anything as of yet.

Comm. Perona said I can't remember to many times we've changed the asset allocation other than adding asset class.

Ms. Morris said it might have been a couple of years we might have been overweight/underweight somewhere and we reallocate.

Comm. Perona said we reallocate but we didn't set the reset the target. Now we a little bit overweight in real estate, right?

Ms. Morris said we are 10% currently.

Comm. Perona asked the Board if anyone had any comments. We have our consultant, who has showed up at the meetings, talking to us about this for a period of time. It's our comfort level; obviously if it's something that we are watching, I don't see that this could just wake up one day and see that we've made a terrible mistake. I think it's just something that shows the Market cycles moving in that direction. It appears that our peer groups are moving in that direction and have moved in that direction over the last couple of years and we have not. It's the question, do we want to take advice of our consultants and do the same or not.

Mr. Stephens said depending on the cost, like Comm. Perona brought up, would it cost us if we did 5 now and then 5 in a few months later or would it be a disadvantage for us or advantageous for us?

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Ms. Morris said it probably always work better if we went ahead and did it at one shot. As Callan has pointed out, it has benefited our peers where we didn't move and they did. Now we've moved down based on our peers because they took advantage of where the market is now.

Comm. Perona said remember, our peers moved without their consultants moving them and that's a different story all together. That cost a lot of them a lot of issues of a period of time and affected their funding percentages. Where we are consistent with is staying with our plan. It's just a question of a recommendation from our consultants to change our plan based on the current market and the current market streams. Those current market streams have been happening for the last 3 to 4 years. We've known Callan to be very conservative with their recommendation, so I have a very high comfort level in this. My only setback is that I want watch it carefully over a period of time if we do pass this, just to make sure that we are watching the issues that do happen in the International Market sense. With that recommendation do we have a motion? **A motion was made Ms. Johnna Morris and seconded by Comm. Reginald Sessions to accept the recommendation made by Callan Associates to change our target allocations in our Domestic from 48% to 38% and our International Equity from 15% to 25%.**

Mr. Walker asked if there's interest in incorporating in the motion allowing you a range of 3% plus or minus.

Ms. Morris said yes.

Comm. Perona asked Ms. Morris if she's going to add that to the motion. **An added motion was made by Ms. Johnna Morris and seconded by Comm. Sessions for allowable range of plus or minus 3% to the acceptance of recommendation made by Callan Associates.**

All those in favor of the motion signified by saying aye. A poll was done of each Board member; there were no opposition and the motion carried unanimously.

ITEM NO. 9 ~ CONSENT AGENDA

Comm. Perona said the next item is the Consent Agenda. **A motion was made by Ms. Morris and seconded by Ms. Penick to approve the refund of member contributions.**

All those in favor of the motion signified by saying aye. There were no opposition and the motion carried unanimously.

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

Comm. Perona acknowledged excused absence of Ms. Caleta Scott. **A motion was made by Comm. Sessions and seconded by Ms. Penick to approve the excused absence of Caleta Scott.**

All those in favor of the motion signified by saying aye. A roll call was done; there were no oppositions and the motion carried unanimously.

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ITEM NO. 10 ~ BOARD MEMBER COMMENTS

Comm. Perona said the conference is coming up next week and asked who was going. Mr. Avilla will be going and Ms. Caleta Scott will be finishing. Comm. Perona said to Mr. Avilla what we've done in the last couple of months since you've been on the Board is a lot of what they are going to be talking about, so you are not that new going in.

Mr. Avilla said what was nice was today, he actually understood.

Comm. Persona said you're going to find out this one got a lot of basics about your responsibility and the ethics that goes with the job.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for February 15, 2018 at 2:00 p.m.

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

The meeting was adjourned the meeting at 3:00 p.m.

ATTEST:

Secretary/Treasurer

Chairperson

Note: These minutes are not verbatim, only important issues and motions are reproduced in writing for the benefit of the Fort Pierce Retirement and Benefit System members. The recording itself is the official record for the meeting. The meeting tape/cd is available.