

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System March 21, 2019 2:00 p.m., in the 2nd Floor Conference Room at City Hall.

Present:

Keith Stephens, Chairperson
Caleta Scott, Vice-Chairperson
Brian Avilla
Mayor Linda Hudson

U.A. General Member
General Member
Police Officer Member
Commission Appointed Member

Attorney Jim Walker
Christina Paz

Attorney for the Retirement Board, Advisory
Retirement Clerk

Guest:

Brad Armstrong

Gabriel Roeder Smith & Company

Absent:

Comm. Tom Perona
Johnna Morris
Nina Penick

City Commission Member
Director of Finance
U.A. Board Appointee

Recording:

Queen Thompkins

Executive Assistant to the Director of Finance

ITEM NO. 1 & 2 ~ ROLL CALL

Mr. Keith Stephens called the meeting to order at 2:03 p.m., the first item on the agenda being the “Roll Call”.

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Mr. Stephens, the next item on the agenda was comments from the public. There were no comments from the public.

ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF FEBRUARY 21, 2019

Mr. Stephens, the next item was the approval of the summarized minutes of February 21, 2019, and the Board asked if there was a motion to approve the minutes. **A motion was made by Mayor Linda Hudson and seconded by Brian Avilla to approve the summarized minutes of February 21, 2019.**

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

Mr. Walker said not too much to report. Further in the agenda there will be a matter involving a proposed Amendment to Rule 16, which I will discuss at the appropriate time. Sometime back we executed a promissory note with Ricky Brown whose inadvertent receipt of retirement monies led to an amendment of the rules regarding unauthorized payments to third parties. When I had a conversation with Johnna, she advised that he was in arrears on his payments on the promissory note that he entered into. I sent him a note inquiring into his intentions. Johnna has not updated on the status of that. If nothing more has been heard, we will be requesting the Board at the next meeting to authorize the collection proceedings. Other than that, I’m happy to entertain any questions.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

Mr. Stephens opened up the public hearing for comments on the request for Retirement (DROP Program) from Jose L. Maldonado with 13 years of service with the City of Fort Pierce Police Department. He asked if there was anyone here who would like to publicly comment on this request. Seeing none, Mr. Stephens closed the public hearing. He opened up the matter for the Board. **A motion was made by Ms. Caleta Scott and seconded by Mayor Linda Hudson to approve the request for retirement (DROP Program) from Jose L. Maldonado.** Mr. Stephens 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.**

Mr. Stephens opened up the public hearing for comments on the request for Retirement from Peter Wicinski with 12 years and 3 months of service with the Fort Pierce Utilities Authority. He asked if there was anyone here who would like to publicly comment on this request. Seeing none,

Mr. Stephens closed the public hearing. He opened up the matter for the Board. **A motion was made by Mayor Linda Hudson and seconded by Ms. Caleta Scott to approve the request for retirement from Peter Wicinski.** Mr. Stephens 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

a. DISCUSSION ON TERM LIMITS FOR THE CHAIRPERSON AND VICE-CHAIRPERSON

Mr. Stephens said because we have three Board members absent, I would like to table it until the next meeting.

Ms. Scott said she would like to make a comment that in the AgendaQuick System, it shows that Comm. Perona is still the chairperson. I would like to make sure before we move forward with discussion that we know what the current terms are and make sure those are correct.

Mr. Stephens said the term is for one year every time. We vote every year; just like for the vice-chairperson too. Who updates that?

Ms. Scott said between Admin and City Clerk, they can make the change.

ITEM NO. 8 ~ NEW BUSINESS

a. ACTUARIAL RE/ORT OF FISCAL YESR ENDING SEPTEMBER 30, 2018 – 8

Mr. Stephens welcome Mr. Brad Armstrong to the meeting.

Mr. Armstrong said he plans to stay in Section A; starting with Funding Objective on page A-1. We don't often spend time on this particular section but, I'm reading verbatim; "The basic funding objective of the Retirement and Benefit System is to avoid transfer of the cost of benefit obligations between generations of taxpayers." The reason I'm starting with this, I want to introduce the idea; I think we're assuming 7.75% investment return on the assets and Callan is not here today. I would really like to see the Board give strong consideration to 7.50%. I think the entire Institutional Community of Public Sector Retirement Programs and a lot of the statewide plans; the National Association of State Retirement Administrators now average in the median of these large multi-billion dollar statewide systems. They are all assuming 7.5% now and the trend has certainly been lower. There are also capital market assumptions, which is not my area of expertise. Based on the discussions I've had with your investment consultant I think they would support moving to a more conservative assumption as well. It's more or less reach the point where I don't think it's necessarily more conservative, I think your current assumption is probably too aggressive, The 7.5% is going to be more reasonable.

Mr. Stephens we just went to 7.75% from 8.0%.

Mr. Armstrong said I know. Most statewide systems are all at 8.0%.

Mr. Stephens said how will that help or hurt us with our assumption from an actuarial point of view.

Mr. Armstrong said it will make it more likely that you have contributions stability, although you have been pretty successful in that area. The cost of living adjustment to the extent that you have unfavorable experienced; basically you started the cost of living adjustment at a very inopportune time because of the investment economy; after 1999 it was generally bad for 3 years; it was good until late 2008-2009 and took a dive again; 2015 wasn't all that great. If you are trying to accumulate favorable experience, the lower that assumption is, the easier it will be to accumulate favorable experience. The higher your assume rate return is; if you got 8.0% return which was approximately achieved last year based on a rough calculation.

Mr. Stephens said the last 2 years was two of our lower years out of the five.

Mr. Armstrong said going to page B-4, your investment consultants, the last 2 years, would tell you, you were over 10% on a market basis. If you look at the very bottom; Row J; Market Value Return; under the column 2017 and 2018, you went over 10% those 2 years. For contribution rates stability, this page is really just to help Johnna with the budget. If you have a 12% return one year, the contribution goes down; 3 or 4% of pay, and then the next year you have a 0% and the contribution goes up 3 or 4%. All this does is smooch the trailing 4 years return. The trailing 4 years; Row I, Recognized Rate of Return, over the last 2 years was 8.0%. If you are assuming 7.75%; let's just round it to 8.0%; if you are assuming 7.75%, you've had an investment gain on your assumption; your funding assumption; 25 bps. If you are assuming 7.5%, your investment gain would be 50 bps.

Mr. Stephens said in the bottom line, does that change our percent funded?

Mr. Armstrong said it would lower your percent funded a little bit.

Mr. Stephens said instead of being at 90 which is where we are now, we would go to 89.

Mr. Armstrong said 88 or 89.

Mr. Stephens said as an actuary, what are the benefits of us going to 7.5% from 7.75%?

Mr. Armstrong said let's pretend that somebody knows that you are going to achieve 7.5%, what will happen is if you assume 7.75% and all your earnings is 7.5%, you will get this gradually rising contribution rate. You won't feel it right away, but again, it's unrealistic that things would work out according to plan, whether your plans are good, bad, or otherwise. If you consistently assume 7.75% and you consistently earned 7.5%, basically every year I'm going to come in here and say, you missed your return a little bit and contribution rates, for example are going to go up 10 bps, so they are going to go up 1% a pay. That doesn't sound bad, but after 5 years of that, they've gone

up 0.5% a pay and after 10 years they've gone up 1% a pay. If you really believe the future is going to earn 7.5%; if you assume 7.5%, it steps up your contribution requirements; reduces your funded ratio a little bit.

Mr. Stephens said the reason he's asking is, last year we changed it. You recommended that we go at 7.5% and we asked why we would want to go to 7.5% and historically we've never been below 8.0%.

Mr. Armstrong said in the 80's there were a lot of Systems that were investing 60% of fixed income. There were a lot of Systems that assume less than 8% and then the 8% kind of became the gold standard. The 80's were good for equities; people were moving more money in equities. The 90's were good for equities and arguably the 8% in the 90's should have been higher; should have been 9%.

Mr. Stephens said the reason he wanted to know where it helps us. You mentioned cost of living and we have not been able to provide a cost of living, but that's just one little part. What you are saying is our portion would go down; the institutions may go down a little bit, but that 88% is a big number too and now that goes down; that has to be by the charter 100%.

Mr. Armstrong said that's the target.

Mr. Stephens said we have to have a certain amount before we can offer a cost of living.

Mr. Armstrong said you don't have to be at 100% to grant a cost of living. We'll read it. I think I quoted the ordinance. One final point, if your assumptions are bad, your contribution rates on this upward path and it tilts everything; it looks like it's going to cost more permanently, but that's not the case. If you defer these contributions; if you put more contributions in now, that ultimately would cross over. It's not a permanent increase; it's a temporary increase.

Mayor Hudson asked if it was more conservative; 7.5% is safer than 7.75%.

Mr. Armstrong said yes, it's safer and the future will be whatever it is. Your assumption is not going to tilt the future.

Mr. Stephens said the difference in us staying at 8% or better and we are 7.5% or 7.75%, what does it really change?

Mr. Armstrong said your benefit security.

Mr. Stephens said that's what he needed to know.

Mr. Walker asked Mr. Armstrong if he was recommending we have this conversation with Callan and Associates next month.

Mr. Armstrong said if you don't mind; that would be great.

Mayor Hudson asked if someone will let Callan know we want to have that conversation.

Mr. Stephens said Mr. Armstrong would probably talk to Callan.

Mr. Armstrong said yes he would. Going back to page A-1 to the Funding Progress Indicator, this is the fund ratio; you're 90% funded; your target is 100% ; last year was 89%. You have improved. Everything I have to say is good; it's working really well. Relative to your peers, you are doing fantastic. You are great in the State of Florida and Nationally. The market funded ratio improved as well from 91% to 93%. Going to page A-2, vesting was increased for new hires from 5 to 10 years a few years ago, then it came back to 5 years. I'm pretty sure it was generating some turnover and retention issues. Five year vesting has been restored and we prepared an impact statement, but we actually prepared two impact statements because there was a consideration for 8 year vesting; to go from 10 to 8 years and further consideration to go from 10 to 5 years. What they elected to do was go from 10 to 5 years. That was a little more expensive. The biggest cost was only 28 bps. At least three times, I look at the 8 year vesting impact statement and this year's figures and I couldn't figure out what didn't tie out. That's because you didn't go to 8 year vesting. If you have the document that was produced for you today, make sure you go to the back of this document where it talks about 5 year vesting which what was adopted. Everything looks fabulous; it looks like the impact statement in terms of the cost impact. Moving to page A-3, the vestment experience was peer market value bases. We estimated that about 10.27%. The recognized rate on return on funding bases was 8.07%; averaging over the last 4 years; this straighter than the 7.75% assumed for the fiscal year. That was favorable; about one third of favorable experience. If you look at the demographic experiences, pays were less than we assumed, so your liabilities are based on a projection of pays to the highest final five years out of the last ten years. To the extent the pays were lower than we assumed a year ago. The project slightly lower by way of salaries and therefore lower after liabilities. The third bullet has to do with some of the vagaries of the Florida Statutes. The 10 year average payroll growths were less than assumed. It accelerates some of the payments for the unfunded a little bit and that's Florida Statute 112.64.25; it's specifically the reference that causes that to have an effect. Basically, if your budget grows year over year, your pays can grow. If revenue stop growing, sooner or later pay is going to stop growing. What the State is saying is, if your payroll's not growing over the last 10 years at a rate that you are assuming, then we're going to ask you to put in a little bit more money than sooner to pay off the unfunded because we don't want to wait to see. In other words, if things are flat lining, we're going to call a little bit of our money sooner. The graph at the bottom of page A-3; it's great that we had a gain but historically that's pretty modest. That's actually an indication that the last few years our assumption had done a good job for us. We want to try and position ourselves performing close to the assumption. If you go to the next page, this is the most important page in the report. If this report is accepted and adopted by the Board today, these rates will be submitted to the City and the Utilities Authorities as the official contribution rates for the fiscal year beginning October 1, 2019 through September 30, 2020. The general rates went down; remember we had gains, so we should expect the rate to go down; went down 22 bps year over year. That's subtracting the number at the bottom; 16.99% from last year's report to 16.77% in this year's report. The associated dollars went down. In the case of the Utilities Authority, their contribution rate went down .53%, but the Illustrative Dollars went up, and that deserves a little bit of explanation. The possibly turnover and retention we talked about, you may have had a lot of positions to replace. Whatever the cause, your payroll increased 6.8% year over year and terms of headcount you went from 230 to 242. If you

have more active members and larger payroll, all else being equal, same percentage apply to that payroll produce more contribution dollars and it produces more member contributions as well. Those are good for funding. The Police went down 1 bps; effectively the police rates the same year over year. Their payroll went down a little bit, so that's why you see \$15,000 reduction in illustrated dollar contribution. On page A-5, cost of living adjustment we talked about; this is the reference to the Code of Ordinance Section 13-43. The first trigger is actual market investment return has exceed the assumed assumption, but the second hurdle which is far more substantive, as we sit here today is, cumulated experience cannot exceed the cumulative actuarial gain since 1999. To my knowledge there's no requirement that the Retirement Benefit System be 100% funded.

Mr. Stephens said he believe it is because we've had this discussion several times before we could even talk about it.

Mayor Hudson asked if it's 90% what is that figure between fully funded and 90% cumulative.

Mr. Armstrong said if you go to page A-6, it's basically \$21 million is the current unfunded. Moving to page A-7, the assumed investment return; we think it's likely 7.75% is likely to produce annual losses over 50% of the time. At some point if your assumption was really bad, you would be hearing bad news year after year. We're trying to make it where the majority is good news. On page A-9, the actuarial standard of practice changed, effective November 1, 2018. Risk measures are our actuarial standard practice; No. 51. We've looked at the unfunded liability; there's a \$21 million for relative 2018; that's a traditional number we've looked at and that's on unfunded value bases; the funded ratio is 90%. As we've already discussed, the bullet (6) in the middle was the adoption the State mandated mortality tables, but those in the long run are positive for the assumptions in the financial position of the Retirement and Benefit System. Row (7); retirees liability compared to total liability. The trend is actually lower; 64.9%, 65.2%, 64.1%, 62.5%, and 62.3%. This is a new risk measure and what it's trying to tell you is if your retiree liability is 90% of the total System's liabilities, you are going to want to invest in a lot more fixed income because you need that money sooner. You don't need have this long term horizon where we can ride out whatever storms the investment world can throw at us. I would say you are a pretty mature system and yet that's not turn up which is good because you are stable. Skipping to (11) Non-Investment Cash Flow; that's been pretty stable and your assets have been growing along the way. The non-investment cash flow is the difference the City's contributions; add the Utilities Authority contributions; add the member contributions and subtract the benefit payments and the administrative expenses, that's all non-investment activities. If you always contribute more that benefit payments, eventually your taxpayers would say we have shore erosions, we don't have a park system because you've been setting aside assets for nothing. If you set aside assets permanently, those assets would just keep accumulating; you'll never draw anything down and that's not the circumstances we're trying to promote. Some of the investment return goes toward keeping current contribution cost down for the employers and help pay higher benefits cost. That's about all I have to cover; if that's sufficient for the Board to accept the report.

Mayor Hudson asked if the chart on page A-9 is a new chart.

Mr. Armstrong said yes, the charts on page A-8 and A-9 are new.

Mr. Stephens asked for a motion to accept the actuarial report from Mr. Armstrong. **A motion was made by Mayor Linda Hudson and seconded by Mr. Brian Avilla to accept the actuarial report presented by Mr. Brad Armstrong.** Mr. Stephens 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.**

b. DISCUSSION ON AMENDMENT OF BOARD RULE 16

Mr. Walker said he got together with Bonnie Jenkins, who is counsel to the Supplemental Board because there was some disagreement of treatment of court orders that are received from time to time in family matters where a retiree who is divorcing is before the court and the court is dividing up the assets of the marriage and none of those are with the pension; just two or three over the years who received qualified domestic relations orders and we've never received, to my knowledge, something called an income deduction order. Yet, some pension counsel prefer IDO's to QUADRO's. Apparently the reason for that is because if QUADRO's are not drafted carefully, can reach, not just the retirement benefit payment to the retiree but it can also reach additional beneficiaries, such as a contingent beneficiary, survivor, or joint beneficiary and you want to protect them. I worked with my fellow attorney to tweak our current rule; made some minor modifications so that both of us were align with our thinking on how those were best handled. What those tweaks are mostly is clarification of what an acceptable form order would be. We added IDO's to the rule. We never had them but, they get them. There was expressed provision that QUADRO cannot reach any benefits other than those payed directly to the retiree. Those were the main changes. They were technical changes and once or twice over the years I've been asked by a lawyer, do you have an approved form that you like to use, and we didn't. That didn't give them much guidance either. What we've done is attached to the revised rule a form that is approve by the Department of Health and Urban Development. That's the proposed amendment to Rule 16. If there are no questions, I would request the Board to approve the proposal of upon understanding that it doesn't become final until it is approved at next month's meeting.

Mr. Stephens asked on the page where you say Rule 16, and this is more grammatical, your edit has a cross through "qualified" but you are still calling it QUADRO; the "Q" is still part of it.

Mr. Walker said Bonnie Jenkins didn't like that word, "qualified", so with that in mind, I kept it in the body of the rule and the reason that I did was because when you read all these cases on the subject, they're referring to QUADRO not DRO, so I wanted to keep that consistent with the terminology that I'm saying in the cases.

Mayor Hudson asked what we're doing in essence is complying with court orders, is that right?

Mr. Walker said yes.

Mr. Stephens asked if there were any other questions. **A motion was made by Mayor Linda Hudson and seconded by Ms. Caleta Scott to approve the proposal of amendment of Board Rule 16.** Mr. Stephens 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. 9 ~ CONSENT AGENDA

Mr. Stephens said the next item is the Consent Agenda. **A motion was made by Mayor Linda Hudson and seconded by Mr. Brian Avilla 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

Mr. Stephens acknowledged the excused of Comm. Tom Perona. **A motion was made by Caleta Scott and seconded by Mayor Linda Hudson to approve the excused absence of Comm. Tom Perona.**

Mr. Stephens acknowledged the excused of Ms. Nina Penick. **A motion was made by Mayor Linda Hudson and seconded by Ms. Caleta Scott to approve the excused absence of Ms. Nina Penick.**

Mr. Stephens acknowledged the excused of Ms. Johnna Morris. **A motion was made by Brian Avilla and seconded by Caleta Scott to approve the excused absence of Ms. Johnna Morris.**

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

Mayor Hudson said she may or may not be at next month's meeting. She has business to take care of with her husband.

Ms. Scott said next month there is a presentation she has to make on behalf of Alleganian Wi-Fi with FPUA to the Board. That meeting is at 3:00 p.m., so I make have to leave early.

Mr. Stephens said he will not be at the May meeting.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for April 18, 2019 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 3:07 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.