

ROCKLEDGE POLICE EMPLOYEES' RETIREMENT BOARD MEETING MINUTES

Friday, February 19, 2021

CALL TO ORDER

The Rockledge Police Employees' Retirement Board held its quarterly meeting on Friday, February 19, 2021 in the Council Chamber of Rockledge City Hall, 1600 Huntington Lane, Rockledge, Florida.

MEMBERS PRESENT: Chairman Rick Burke, Resident Member
Chris Crawford, Police Representative – arrived at 1:37 p.m.
Patrick Kennedy, Police Representative
Joe LaSata, Resident Member
Hal Burke, Fifth Member*

CONSULTANTS/STAFF: Kenneth Harrison, Board Attorney - Sugarman & Susskind*
Chad Little, Actuary - Freiman Little Actuaries*
Tyler Grumbles, Investment Consultant – AndCo Consulting
Karan Rounsavall, Plan Administrator
Brenda Fettrow, City Manager
Matthew Trine, Finance Director

Chairman Burke called the meeting to order at 1:09 p.m. A quorum was in attendance.
*These individuals attended meeting via video conferencing hosted by the City of Rockledge.

APPROVAL OF MINUTES

Quarterly Meeting of December 7, 2020

Member LaSata moved to approve minutes of the December 7, 2020 quarterly meeting as submitted. Member Kennedy seconded the motion which carried unanimously.

OLD BUSINESS

Nationwide Retirement Solutions as a provider for self-directed DROP accounts

David Bazzel, Central Florida Program Director, and Bobby Rodriguez, Retirement Specialist, with *Nationwide Retirement Solutions* were in attendance to highlight the services that *Nationwide* could offer to retirees electing a self-directed option for investment of their DROP accounts. *Nationwide* already handled deferred compensation accounts (457 plans) for Rockledge employees. It would be a smooth transition for *Nationwide* to expand its services to self-directed DROP accounts (401a plans) for retirees. The self-directed DROP accounts could be set up to mirror investments that were already available in the 457 plans. Additionally, Mr. Rodriguez would serve as the local *Nationwide* representative for participants. He was qualified to discuss investment options with participants and would handle enrollment and separation paperwork, the latter of which was currently being done by the plan administrator.

Mr. Bazzel noted that any agreement with *Nationwide* would include a “force out” provision requiring participants to move their DROP accounts following separation from service. He also mentioned *Nationwide's* cyber security and fraud protection as well as the availability of an indexed fund that guaranteed principal protection along with opportunity for upside potential. Overall, it was felt that *Nationwide* would provide a better participant experience

than the retirement plan's current self-directed DROP provider. City Manager Fettrow mentioned the City's positive experience working with *Nationwide* on the City's deferred compensation plans.

Member Crawford arrived at 1:37 p.m.

This issue had been discussed over the course of several meetings. The overall level of service currently provided by ICMA-RC (self-directed DROP provider) was poor, particularly the lack of availability and service delivered by the representative assigned to the city's retirement plans.

Member LaSata moved to approve Nationwide Retirement Solutions as the retirement plan's provider for self-directed DROP accounts and to authorize the plan attorney and administrator to work with Nationwide representatives to draft an appropriate agreement. His motion also included a directive to phase out ICMA as a provider of self-directed DROP accounts as current participants exited their DROP enrollment. Member Kennedy seconded the motion which carried on an all-yes vote.

NEW BUSINESS - None

REPORTS & COMMUNICATIONS

Report: Investment Consultant (Tyler Grumbles, AndCo Consulting)

Investment Performance Report for quarter ended December 31, 2020

Mr. Grumbles presented the performance report and economic commentary for the quarter ended December 31, 2020. Market index returns were broadly positive during the quarter except for the U.S. government bond index. It was a great quarter with performance largely driven by expectations related to vaccine availability, resolution of the presidential election, and potential for further government stimulus. Mr. Grumbles emphasized the disbursement between growth and value styles and pointed out that value stocks reversed recent trends and outperformed growth stocks across all capitalizations during the quarter. Mid and small cap stocks also outperformed as investors were willing to take on more risk.

All asset classes in the portfolio were within their target ranges. No rebalancing was needed.

Total market value as of December 31, 2020 was \$18,708,894 up from \$16,629,770 for the previous quarter ended September 30, 2020. On a percentage basis, the composite portfolio was up 10.97 percent for the quarter (gross) which ranked in the 28th percentile of public plans. For the trailing 12 months, the fund was up 16.17 percent (ranking in the 14th percentile of public plans). The trailing three-year and five-year returns were also positive ranking in the upper quartile and exceeding the assumed rate of return. As of February 18, 2021, the fund was valued at \$19.3 million.

Quarterly performance results (i.e., quarter ending December 31, 2020) for the various investment styles/managers represented in the portfolio were as follows:

Vanguard Total Stock Market Index (domestic equities) – positive return of 14.69% (39)*

EuroPacific Growth (international) – positive return of 19.95% (24)*

Garcia Hamilton & Associates (domestic fixed income) – positive return of 0.38% (90)*

PIMCO Diversified Income (global fixed income) – positive return of 4.50% (27)*

ASB Allegiance Real Estate (commingled real estate) – positive return of 1.13% (74)*

(*Percentile rankings)

Chairman Burke noted that the fund had nearly doubled in value during the past five years and commended Mr. Grumbles and the AndCo team on its performance.

Member LaSata moved to accept the performance report as presented. Member Crawford seconded the motion; it carried unanimously.

Approve simultaneous transfer of domestic equity portfolio currently invested in *Vanguard Total Stock Market Index Fund* to *Fidelity Total Market Index Fund*

Mr. Grumbles advised that the Fidelity index fund had a lower expense ratio than the Vanguard index fund (1.5 basis points vs. 3.0 bps). He recommended that the board direct Salem Trust to switch these funds out simultaneously so that there would be no time out of the market during transition.

Member Crawford moved to approve the simultaneous transfer of the domestic equity portfolio as recommended by the consultant. Member Kennedy seconded the motion which carried unanimously. Mr. Grumbles would prepare the appropriate letter of instruction to Salem Trust Company.

Asset Allocation Analysis

Over the past several meetings, there was ongoing discussion about the retirement plan's assumed investment rate of return. Mr. Grumbles prepared an *Asset Allocation Analysis*, the purpose of which was to examine a fund's asset allocation and predict the likelihood of reaching investment performance targets given that allocation. The study utilized capital market projections to determine return, risk and probability forecasts. Asset allocation studies typically used a 10 to 15-year horizon.

The current return assumption for the Police Employees' Retirement Plan was 7.8 percent. Based on the modeling, it was unlikely that the fund would achieve this return over the next few years (but not impossible). In fact, the current mix forecast a long-term return of only 5.36 percent. Equity markets were at all-time highs and fixed income returns remained low. This could not continue. Mr. Grumbles was nervous and felt that a future market correction was likely. He continued to urge the Board to lower its assumed rate of return.

To mitigate volatility of equities, Mr. Grumbles suggested that the Board discuss an increase to alternative investments (real estate and infrastructure). *At the next quarterly meeting, he would provide more information on this recommendation and prepare a revised investment policy statement for the Board's consideration. Board members voiced no objection.*

Mr. Little mentioned that it had been at least 15 years since the retirement board conducted an experience review which would compare plan reality against the assumptions. This study would include investment rate of return as well as demographic assumptions (e.g., turnover, salary increases, retirement rate, etc.). The actuary would provide a cost quote for consideration at the next meeting.

Report: Actuarial Consultant (Chad Little, Freiman Little Actuaries, LLC)

Presentation of annual valuation for fiscal year ending September 30, 2020

Actuary Chad Little presented the October 1, 2020 Actuarial Valuation Report for the Rockledge Police Employees' Retirement Plan. The valuation established minimum funding requirements for the fiscal year beginning October 1, 2021. The report also included GASB 67/68 disclosure information.

The minimum funding requirement for the ensuing fiscal year was \$364,333 representing \$120,224 (city contribution) and \$244,109 (estimated state contribution). This was a decrease over the current year's funding level of \$444,233. Expressed as a percentage of pensionable payroll, the city's minimum contribution was 5.84 percent (a decrease from the current level of 9.71 percent). These percentages did not include the state contribution. The city continued to prefund its employer contributions.

The investment return on the "market" value of assets was 10.77 percent; the return on the "actuarial/smoothed" value of assets was 8.76 percent which exceeded the 7.8 percent net investment return assumption. Positive actuarial experience included investment returns exceeding the assumption along with a change of the mortality assumption to that used by Florida Retirement System for special risk employees.

The unfunded accrued liability (UAL) as of the valuation date was negative (-\$12,789) which put the plan's funded status at 100.08 percent. Mr. Little advised that the city could not reduce its contributions despite the 100 percent funded status. He urged the retirement board to lower its assumed investment rate of return.

Chairman Burke commented on the continued recommendations from the plan's professional service providers to lower the assumed investment rate of return. However, there was no board action on these recommendations. City administration voiced hesitancy about lowering assumptions and the relationship seemed adversarial. The chairman wanted to see the board have conversations with its actuary, investment advisor and city staff to adopt a systematic approach to lowering the assumed rate of return.

Actuary Little offered to provide pension industry research on funding policies which might prove helpful to the retirement board and city staff. City Manager Fettrow concurred with this approach and stressed that the city was ultimately on the hook to fund the retirement plans. *It was board consensus to discuss funding policies at the next quarterly meeting.*

Member LaSata moved to approve the annual actuarial valuation as of October 1, 2020 as presented. Member Kennedy seconded the motion; it carried on an all-yes vote.

Declare expected annual rate of investment return for assets of Rockledge Police Employees' Retirement Plan

Member Kennedy moved to declare an expected rate of return of 7.8 percent (which was the declaration for the 2020 valuation). Member Crawford seconded the motion which carried unanimously.

Plan Administrator Rounsavall would prepare the necessary correspondence to the Division of Retirement advising of the expected annual rate of return for the plan.

Report: Board Attorney (Kenneth Harrison, Sugarman & Susskind)

Legislative Update

Attorney Harrison advised of Senate Bill 84 which would automatically enroll all new hires in the regular class of Florida Retirement System into the defined contribution plan. This bill did not include police and fire members in the special risk class. If enacted, the defined benefit option would no longer be available for regular class members.

Enactment of Mandatory E-Verify Law

The State of Florida recently enacted a new law that made the use of "E-Verify" mandatory for government employers. This change impacted local pension funds to some extent

beginning January 1, 2021. *E-Verify* was a federal electronic database intended to aid employers in confirming against federal databases that documentation provided by new hires to establish lawful employment eligibility was valid. The plan administrator was in receipt of sample correspondence to be sent to all professional service providers advising of the *E-Verify* requirement. Mrs. Rounsavall would handle this task for the retirement plan.

Report: Plan Administrator (Karan Rounsavall)

Educational Opportunity

Florida Public Pension Trustees Association (FPPTA) recently announced three virtual educational programs: (1) Pension Fundamentals for New Trustees (March 10, 2021); (2) Spring Trustee School CPPT Program (April 20-23, 2021); and (3) Spring Trustee School CEU Program (May 18 -19, 2021).

If anyone was interested in participating, they were to contact the Plan Administrator.

The next quarterly meeting was scheduled for May 21, 2021.

PUBLIC COMMENT

ADJOURN

The meeting adjourned at 2:54 p.m.

Submitted by:

Approved by:

Karan Rounsavall, Plan Administrator

Rick Burke, Chairman