

ROCKLEDGE POLICE EMPLOYEES' RETIREMENT BOARD MEETING MINUTES

Friday, February 21, 2020

CALL TO ORDER

The Rockledge Police Employees' Retirement Board held its quarterly meeting on Friday, February 21, 2020 in the Council Chamber of Rockledge City Hall, 1600 Huntington Lane, Rockledge, Florida.

MEMBERS PRESENT: Chairman Rick Burke, Resident Member
Chris Crawford, Police Representative
Joe LaSata, Resident Member
Patrick Kennedy, Police Representative
Hal Burke, Resident Member

STAFF/CONSULTANTS: 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 1:00 p.m. A quorum was in attendance. Board members welcomed Patrick Kennedy, newly elected police representative.

ELECTION OF OFFICERS

It was necessary to elect a chairman and secretary. Nominations were opened for chairman. *Member Burke nominated Rick Burke to continue as chairman. There were no other nominations. Member LaSata moved to close nominations. Member Burke seconded the motion and it carried unanimously. Chairman Burke was re-elected accordingly.*

Nominations were opened for secretary. *Member LaSata nominated Chris Crawford to continue as secretary. There were no other nominations. Member LaSata moved to close nominations. Member Crawford seconded the motion; it carried unanimously. Member Crawford was re-elected as secretary.*

APPROVAL OF MINUTES

Joint Quarterly Meeting of November 22, 2019

Member LaSata moved to approve minutes for the November 22, 2019 joint quarterly meeting as submitted. Member Burke seconded the motion and it carried unanimously.

OLD BUSINESS

Discussion and possible action related to provision of self-directed DROP accounts with ICMA-RC

At the November 22, 2019 joint meeting, board members directed the attorney to contact ICMA representatives to discuss concerns with participants leaving their assets in self-directed DROP accounts after completing their DROP enrollment. Current DROP policy

stated that a participant was required to move their assets within 90 days of separating service. As long as these assets remained in the self-directed DROP, they were considered plan assets and accounted for accordingly. This presented challenges when reconciling assets at the end of each fiscal year. It was hoped the attorney could prevail upon ICMA to assume a role in requiring participants to transfer individual assets out of their retirement plan account upon exit from DROP within the prescribed time period.

Attorney Harrison reported that ICMA had been completely uncooperative as it related to the collective boards' request for assistance in this matter. So much so, that the attorney recommended that the retirement boards look for a secondary vendor for self-directed DROP accounts. *Nationwide Retirement Solutions* was a possible vendor for such services as the city already had a contract with Nationwide for deferred compensation (457) accounts.

Member LaSata moved to direct the attorney to contact Nationwide to determine whether it could provide self-directed accounts (401a) for the retirement boards and if so, to authorize Nationwide as a secondary DROP provider. Member Crawford seconded the motion which carried on an all-yes vote.

Consideration of plan amendment to allow cross credit for vesting purposes only between the Rockledge Retirement Plans

The matter of cross credit had been discussed by the retirement boards on numerous occasions in the past. Cross credit allowed an employee who was hired as a member of one retirement plan, and later hired as a member of another plan, to retain their credited service in both plans for vesting purposes. All three retirement boards would need to adopt cross credit provisions for it to operate effectively. Attorney Harrison opined that the introduction of cross credit provisions would not be subject to collective bargaining.

Attorney Harrison mentioned that there were several recent instances in which an employee began as a dispatcher for the police department (General Retirement Plan) and ultimately became a law enforcement officer (Police Retirement Plan). There were also several occasions in the early 2000's where an officer retired under the Police Retirement Plan but had began their career in dispatch and received credited service for all such years. Thus, there was precedent for cross credit occurring in the past.

Actuary Chad Little explained that the cost to implement cross credit depended on the amount of credited service being transferred. A benefit was frozen in the first plan and paid upon retirement eligibility. City Manager Fettrow supported the concept of cross credit from an employee perspective, however, from a financial perspective had concerns. Finance Director Trine pointed out that there was a natural progression from police dispatcher to police officer. The multiplier paid for a retiree of the police plan was higher than the multiplier for a general employee retiree.

Member Crawford moved to direct the attorney to prepare an ordinance allowing cross credit between the three retirement plans for vesting purposes only. Member LaSata seconded the motion and it carried unanimously.

Related to the cross credit discussion, Attorney Harrison mentioned that Deputy Police Chief Donna Seyferth began her career with the City of Rockledge as a police dispatcher in 1989.

Within a few years, she became a police officer. Through the years, annual member statements prepared for Ms. Seyferth reflected her start date in 1989 for credited service purposes

At the February 9, 2000 meeting of the Police Retirement Committee, Ms. Seyferth asked about credit for time worked by employees who switched from being general employees to police officers. At that time, Actuary James Shively advised that there would not be a problem with such "creditation."

Chairman Burke felt that Ms. Seyferth had a case for detrimental reliance based on annual member statements through the years and the former actuary's advice as stated above. Attorney Harrison recommended that the retirement board approve credited service in the Police Retirement Plan for Ms. Seyferth back to her original hire date in 1989. Actuary Little advised that the plan was already funded as if Ms. Seyferth had earned all past service in the police retirement plan.

Member LaSata moved to formally recognize credited service for Donna Seyferth back to her original hire date (1989) as being time earned in the Police Retirement Plan. Member Crawford seconded the motion which carried unanimously.

NEW BUSINESS

Update signature authorization forms for Salem Trust Company (plan custodian) and Chevy Chase Company (ASB Allegiance Real Estate Fund)

This was an administrative matter for the retirement board. All trustees and the plan administrator were authorized signatories. *It was the board's consensus to direct the plan administrator to collect the necessary signatures and provide the forms to Salem Trust Company and Chevy Chase Company.*

Discussion and possible action to establish policy as to length of time for a participant to complete purchase of prior credited service

This item was placed on the agenda at the request of Member Crawford who questioned how long a police officer had to complete the purchase of prior service credits (military or law enforcement). Attorney Harrison advised that this could be handled as a matter of policy as opposed to an ordinance amendment. He asked whether the City would be amenable to installment payments through payroll deductions. Finance Director Trine did not feel there would be an issue with handling this through payroll deductions provided it was done on a consistent basis (i.e. frequency). His recommendation was not more than five years.

Member Crawford favored a longer time period for payment which might serve as a recruiting incentive for the police department.

Member LaSata moved to direct the attorney to prepare a policy wherein a police officer could pay the cost of purchased service in full, as a lump sum, or through payroll deductions pursuant to an installment schedule not to exceed ten years. Installment payments were to be paid in full prior to retirement. Member Kennedy seconded the motion which carried on an all yes vote.

REPORTS & COMMUNICATIONS

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

- Presentation of annual valuation as of October 1, 2019
- Declare expected annual rate of investment return for assets of the Rockledge Police Employees' Retirement Plan

Actuary Chad Little presented the October 1, 2019 Actuarial Valuation Report for the Rockledge Police Employees' Retirement Plan. The valuation established minimum funding requirements for the fiscal year beginning October 1, 2020. The report also included GASB 67/68 disclosure information.

The minimum funding requirement for the ensuing fiscal year was \$444,233 which included an estimated state contribution of \$229,301. Expressed as a percentage of pensionable payroll, the city's minimum contribution (including state monies) was 20.08 percent which was a decrease from the current level. The city continued to prefund its employer contributions (as opposed to contributions submitted throughout the year coincident with biweekly payroll).

The investment return on the "market" value of assets was 3.27 percent; the return on the "actuarial/smoothed" value of assets was 7.36 percent which was less than the 7.8 percent assumed investment rate of return. Mr. Little noted that all his retirement plan clients had returns in the three percent range for the 2019 fiscal year reflecting the December 2018 quarter which was considerably negative. He also mentioned that three plan participants entered DROP during the fiscal year.

The unfunded accrued liability (UAL) as of the valuation date was \$622,039. The Plan's funded status was 96.19 percent representing a slight increase over the previous year's funded percentage of 95.60 percent.

Several new exhibits were included in the valuation, specifically an assessment and disclosure of risk involved in funding a retirement plan. This review looked at the impact on funded status of a retirement plan given up to a two percent decrease or increase in market value. Another exhibit examined total disbursements (benefit payments plus expenses) against contributions to the plan. At some future point, the retirement plan would reach a point where benefit payments might exceed contributions which stressed the criticality of investment returns to meet the retirement plan's obligations.

Given capital market assumptions, Mr. Little recommended that the board entertain discussion at a future meeting to lower the 7.8 percent assumed rate of return. To lessen the budgetary impact on the city, this could be done with gradual decreases over time. Florida Retirement System recently lowered its annual return expectation to 7.2 percent.

Member Crawford moved to approve the annual actuarial valuation as of October 1, 2019 as presented. Member LaSata seconded the motion; it carried on an all-yes vote.

Member LaSata then moved to declare an expected rate of return of 7.8 percent on investments going forward. Member Crawford seconded the motion which likewise 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: Investment Consultant (Tyler Grumbles, AndCo Consulting)

- Investment Performance Report for quarter ended December 31, 2019

Mr. Grumbles began by reinforcing AndCo's commitment to represent the sole interest of their clients and expressed appreciation for the opportunity to serve the Rockledge Retirement Plans. He went on to deliver the Investment Performance Report for the quarter ended December 31, 2019. It was an excellent quarter with domestic equity as well as international/emerging equities enjoying strong positive results. Fixed income returns were not as impressive, in fact, government bonds were negative for the quarter. Mr. Grumbles emphasized the importance of bonds in a portfolio to manage volatility.

Total market value as of December 31, 2019 was \$16,304,287 up from \$15,057,783 for the previous quarter ended September 30, 2019. On a percentage basis, the composite portfolio was up 6.35 percent for the quarter (gross) which ranked in the 10th percentile of public plans. For the trailing 12 months, the fund was up 21.94 percent (ranking in the 12th percentile of public plans). Trailing three and five-year returns were also impressively positive.

Attorney Harrison commended AndCo Consulting on its good returns, particularly over longer time periods.

Quarterly performance results (i.e. quarter ending December 31, 2019) for the various investment styles/managers represented in the portfolio were as follows:

Vanguard Total Stock Market Index (domestic equities) – positive return of 9.01% (29)*
EuroPacific Growth (international) – positive return of 10.09% (42)*
Garcia Hamilton & Associates (domestic fixed income) – positive return of 0.41% (57)*
PIMCO Diversified Income (global fixed income) – positive return of 1.67% (14)*
ASB Allegiance Real Estate (commingled real estate) – positive return of 1.27% (85)*

Mr. Grumbles addressed the long-term performance of ASB Allegiance Real Estate Fund, pointing out that this asset class was a fixed-income alternative. ASB Allegiance was a core real estate fund investing in conservative properties with low leverage. ASB was ranked against the ODCE real estate index which included riskier properties with more leverage; this tended to lower its percentile ranking against other funds. Additionally, there were only three real estate funds that accepted an investment of less than \$1 million which further limited real estate investment options available to the Rockledge plans. Despite some recent underperformance, AndCo supported ASB's strategy and did not recommend any changes.

Member LaSata moved to accept the investment performance report as presented. Member Burke seconded the motion; it carried on an all yes vote.

Referencing his February 21, 2020 memorandum to the Board of Trustees, Mr. Grumbles addressed concerns expressed by the Rockledge City Council concerning recent short-term performance. The memo focused on the fund's long-term performance, increased diversification, reduced fees, and passive investing strategies where appropriate. He also provided a comparison of return assumptions and five-year performance results for other local law plans throughout Florida which was prepared by the Division of Retirement. Mr. Grumbles commended board members for their leadership and assumption of fiduciary

responsibility. AndCo was of the belief that it provided each of the Rockledge retirement plans with a high level of service and dedication. He was certainly available to address any concerns and to meet with city staff and city council at the board's direction.

Member LaSata moved to authorize Mr. Grumbles to meet with city officials to discuss plan performance if requested. Member Crawford seconded the motion; it carried unanimously.

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

Attorney Harrison provided an overview of the SECURE Act adopted by the U.S. Congress and effective as of January 1, 2020. The SECURE Act made significant changes to retirement plan distribution (RMD) rules, including the increase in age for required minimum distributions from 70 ½ to 72.

He went on to advise that the only pending legislation that could potentially affect public retirement plans involved mandatory training as to fiduciary responsibility.

The attorney also mentioned that cyber liability insurance for governmental pension plans was of increasing importance given recent instances of ransomware, etc. While there was no legal requirement for the retirement plan to obtain cyber liability insurance coverage, it might want to investigate same. *City Manager Fettrow was looking into whether the City's liability insurance through Florida League of Cities extended to the retirement plans.*

Report: Plan Administrator (Karan Rounsavall)

• Ratify Board's action on November 22, 2019 to reappoint Hal Burke as fifth member

At its November 22, 2019 meeting the Police Retirement Board reappointed Hal Burke as its fifth member. Pursuant to the plan document, this appointment was to be confirmed by the Rockledge City Council as a ministerial duty. The board was requested to ratify its earlier action to reappoint Mr. Burke before presentation to city council.

Member LaSata moved to ratify Member Burke's reappointment to the Police Retirement Board for a four-year term expiring in January 2024. Member Crawford seconded the motion and it carried on an all-yes vote.

Plan Administrator Rounsavall mentioned changes to the form of notary acknowledgements which now included remote notarizations effective January 1, 2020. She recently changed beneficiary forms, etc. in accordance with new requirements.

The next quarterly meeting was scheduled for May 22, 2020.

PUBLIC COMMENT - None

ADJOURN

The meeting adjourned at 3:05 p.m.

Submitted by:

Karan Rounsavall, Plan Administrator

Approved by:

Rick Burke, Chairman