CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
840 Boonville
Springfield, Missouri 65801
(417) 839-7559

Minutes
August 14, 2014

1. Call to Order

Hartman called the meeting to order at 8:35 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Josh Hartman	President	X	
Charlie Cowherd	Citizen		X
Paul Carroll	Citizen	X	
James Gillette	Citizen	X	
Marilyn Hill	Citizen	X	
Ron Hoffman	Retiree	X	
Tony Kelley	Fire	X	
Gus Krafve	Citizen	X	
Scott Steck	Police	X	
Ed Cantrell (NV)	Retiree	X	
Adam Carter (NV)	Fire	X	
Grant Dorrell (NV)	Police	X	
Mary Mannix-Decker (NV)	Finance	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting.

2. Approval Meeting Minutes – July 17, 2014 (open session)

Kelley asked for clarification on intent of the motion made to not apply a COLA past the income verification cap. Manley said that less than 10 people were over their allowed amount under the income verification guidelines. When the 3% COLA was applied, it put them back over their allowed amount. So we should not have been applying the COLA. Kelley said they get the COLA, but their income cap stays the same. So basically there is no increase each time they get a COLA? Mannix-Decker said that applying the COLA puts them over the amount allowed by the Plan so they wouldn't be in compliance. Kelley asked if they still get credit for the COLA and if it will be applied once they quit working. Manley said yes. Kelley said so they aren't missing out on the COLA, it's just not being applied at that point. Manley and Mannix-Decker said yes.

Kelley made a motion to approve the July 17, 2014 minutes as presented; 2nd by Carroll. Vote all: Yes.

3. Approval of Financial Statement Ending June 30, 2014

Mannix-Decker reported on the following items of interest:

- The cash balance at the end of June was $4,352,450.
- The State Street S&P 500 Flagship NL Fund decreased by ($4,022,461). $5 million was transferred out so there was actually a positive gain on the investment. The return was 2.06% compared to the benchmark of 2.07%.
- The State Street Russell 2000 NL Fund increased by $248,017. $1 million was transferred out so there was actually a positive gain on the investment. The return was 5.31% compared to the benchmark of 5.32%.
- Pictet decreased by ($263,232). The return was -0.40% compared to the index return of 0.96%.
- Wells Fargo had an increase of $2,196,470. The return was 2.68% compared to the benchmark of 2.66%. $1.6 million was transferred in.
- Galliard increased $403,471. The return was 0.13% compared to the benchmark of 0.05%.
- The US Tips NL Fund increased by $1,039,868. The return was 0.32% compared to the benchmark of 0.30%. $1 million was transferred into the fund.
- Brandywine had an increase of $2,146,556. The fund returned 1.21% compared to the index return of 1.17%. $1.8 million was transferred into the fund.
- Pyramis had an increase of $494,281. The return was 0.90% compared to the index at 0.59%.
- Prudential had an increase of $244,391. The return was 3.28% compared to the index at 2.91%.
- The State Street Commodities NL Fund increased by $93,599. The return was 0.58% compared to the index at 0.60%.
- Blackstone had an increase of $1,256,845. $1.2 million was transferred in. The fund returned 0.44% compared to the index return of 0.68%.
- Entrust had an increase of $1,133,870. The return was 0.97% compared to the index return of 0.68%.
- The due from other funds amount of $5,021,411 is sales tax monies that were received in July and August, but earned on sales that were made in May and June.
- Employee contributions for the month totaled $372,768 and employer contributions totaled $891,797.
- Gain/Loss in market value, including managers' fees was $3,965,819 for the month. Net increase to the Plan was $12,733,995.

- Benefit payments totaled $1,664,198. Refund of employee contributions totaled $468,077. Administrative expenses totaled $21,772.

- Total Net Assets at the end of June were $309,653,460, which is $10,579,948 increase over May.

Kelley made a motion to approve the financial statement ending June 30, 2014; 2nd by Gillette. Vote all: Yes.

4. Review of Retirement Applications and Calculations

Age & Service Applications

Retiree's Name	Application Type	Application Date	Retirement Date	Department
Jeffery Schwerdt	Age & Service	07/22/2014	08/22/2014	Police
Brady Stark	Age & Service	08/12/2014	10/07/2014	Police

Surviving Spouse Applications

Retiree's Name	Application Type	Application Date	Department
Ray Nichols	Surviving Spouse	08/04/2014	Fire
Carl Peak	Surviving Spouse	08/13/2014	Fire

Final Checks

Name	Monthly Pension Amount	Final Check Amount
Carl Peak	$3,335.53	$860.78
Raymond Lake	$1,613.29	$104.08

Kelley made a motion to accept the applications and calculations presented above; 2nd by Steck. Vote all: Yes.

5. John House – Age & Service Calculation

Manley informed the Board that there is question as to how John House's final average salary is calculated. Wichmer said that House went out on a non-duty disability in 2009. He's the only person we know of that has come back from a disability so he evoked what is basically a non-used portion of our Plan. The Plan says that the person shall be placed at the same number years of service. So for the years he was out he gets credit as an active member of the Plan on his final calculation. Wichmer said the quirk is that 2-464 (how you calculate the final average salary) says that you take the highest three years in 10 and that actual salary before deductions shall be used in all cases. We count the day they announce they are retiring going backwards in 365-day increments. So House will pick up a year that he had salary in certain months, but then he went on disability. Wichmer said that the way he reads the Plan is that you have to consider that year as one of the 10 years because he received salary. He doesn't know how you read the salary out of the Plan unless now you have two different separation dates which that doesn't contemplate in the Plan. Wichmer said that he doesn't think House agrees with that, but that's how he reads it. He added that this is the first time something like this has gone to the Board and ultimately it is the Board's decision on how you want to deal with that provision.

Manley distributed comparison calculations. Wichmer said to him the Plan says you have to go back 365 days for 10 years. This is the first time this has come up that he knows of. He said that since you are getting credit for the time on disability as part of your pension calculation, he thinks that's where you make it back if you do have a partial-year salary. Wichmer said he doesn't know how you read the provision out of 2-464 that says you have to consider actual salary in any year. He earned salary in one of those years so he doesn't know how you do it unless you ignore the disability time.

Carter says that he recalls having this discussion before and that his first day back to work this time would butt up against his last day that he left the first time. Wichmer said that is policy that the Board can make. He said that is the Board's decision. He can't make that call. All he's been asked for is how the Plan reads. He said he doesn't have any great guidance on it. Kelley said to him it's seems like the most fair way to do it is to butt up the days. Wichmer again said it is the Board's call and if that's the policy you set, it's the policy you set.

House said that because of his age he would never have been reviewed to come back. He came back on his own accord because he didn't like having the disability label. He said that he agrees with most of what Wichmer is saying, but one important part to him is that in 2-464 the normal service pension shall be based on the average salary for the highest three years within the last 10 years of service. To him the important part of that is the word service. He said the zeros on the spreadsheet of his salary history don't represent service. He believes that his service is the 15 months he had in 2013 and 2014 on top of the last 105 months of service he had from 2009 and back. House said he believes that is his true service. Zeros can't represent service.

House said that he anticipated something like this might come up so in May of 2013 he asked how his average salary would be calculated. In June of 2013, Wichmer responded by saying that since returning from a disability and reinstating by paying his ROC, he is calculation as the last three years he was a fireman. So, if he works two more years, we use those years and then go back to his prior employment for the last year. His intervening status as a disability recipient is not considered since he has erased that status and repaid his ROC. House said he believed that was the correct answer so he didn't ask any more questions. He said that he hasn't erased that status when the zeros show up on the spreadsheet. The zeros are that status and if they show up on the calculation then his time as a disability recipient is actually being calculated against him. It all comes down to actual service time to him. The spreadsheet of his payroll history doesn't show any zeros and he believes that is a true representation of his years of service. He's not asking for any extra days on the calendar or any dollars that he didn't earn. He said he retired that last day of June because he needed to be retired on July 1 since he would be maxed out percentage wise being 55 years of age. He would have retired in May if he knew this was going to happen, but he believed this time would stack up on his old time.

Wichmer said he understands what House is saying, but what happens is we calculate in 365-day increments from the day he leaves so if you're going to butt up time you are actually going beyond the 365 for 10 years. That's where we got thrown off. He said he reviewed this with Mannix-Decker and the Plan said actual salary before deductions shall be considered. If you're going 10 years back and he drew salary in one of those 365-day increments what do you do with that year? Wichmer said it's a quirk of when he went out. He said that is how the Plan reads and he's in charge of reading the Plan. Hartman asked as the City attorney, what is your take on it? Wichmer said he can understand House's position, but the intent of the Plan appears to be that you don't consider disability. 2-464 and 2-476 don't line up perfectly so the Board has to figure out how you calculate your three one-year increments. That's a policy call for the Board.

Gillette said if someone that is out on disability for 10 years and returns for a week and then retires, if you went back 10 years from the point of retirement you would have zeros calculated as a pension. Wichmer said it's only the partial year that had zeros that we are dealing with. The years that were zero the entire year were taken out. He said this is why this was brought to the Board. We don't know what to do with it. Manley said that what House is saying is that the $208,548.83 is what represents his last three years of salary because that's what he received at the retirement seminar as his payroll history.

Kelley made a motion to butt up the service time for when he left the first time to the day he came back from disability for the purposes of calculating John House's age and service pension. Discussion: Carroll asked if there is any way to abuse that going forward. He said his only concern is that we are giving the years of service, which automatically raises the payout, and we never received contributions for those times. Think of it from a Plan perspective. Usually for money you are going to pay out, you are receiving contributions. The Plan is giving those years of service, making a higher payout out, but it never received the money over here to pay that out. He doesn't think in this situation that it would be egregious. He's just trying to think if there's someone in the future that could abuse this. Everyone agreed that they would have to qualify to come back first. Wichmer said he thinks it's a one-time deal. He again stated that he's in charge of reading the Plan and telling the Board what he thinks it means. Gillette seconded the motion. Vote all: Yes.

Manley will begin working on adding this to the policies and procedures manual.

Name	Department	Type	Years of Service	Monthly Pension Amount	Partial Pension Amount
John House	Fire	Age & Service	26.95	$4,055.11	$405.51

Gillette made a motion to approve the age and service calculation for John House pending final review from Finance; 2nd by Carroll. Vote all: Yes.

6. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Kelley made a motion to move to closed session at 9:25 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Steck. Vote all: Yes. Open session resumed at 10:25 a.m.

7. Year-end Investment Report – Segal Rogerscasey

Katarski reported that the beginning market value for the Plan on July 1, 2013 was $243,849,000. There was $16,795,000 million in external growth and $38,270,000 in return on the investments for an ending market value of $298,913,000. The Plan is up 3.2% for the fourth quarter and 15.2% for the year-to-date. For the last five fiscal years, the Plan has returned more than 11% which far exceeds the actuarial rate of return assumption of 7.5%. Katarski mentioned that there has been pretty aggressive movement the past few months to get the asset allocations more on target. He said the long-term bond search is in process and should be complete in the next few weeks.

The total Plan underperformed the policy index for the quarter by about 24 basis points. Both domestic equity portfolios are tracking their index closely as you would expect to see from an index fund. Pictet is one of the international equity managers. They had a tough quarter trailing the benchmark by about 230 basis points. SRC doesn't have concerns with Pictet. Katarski said that given their process it is not surprising to see them stumble a bit in this market we've had for the past 12 months. Their three and five-year numbers are much better. Wells trailed the benchmark by 48 basis points, but had a 6.12% increase for the quarter. SRC has confidence that both of these managers will turn things around going forward.

Galliard is up 2.06% for the quarter and beat the benchmark by 44 basis points. The TIPS fund saw an increase of 3.83% compared to the index of 3.81. Brandywine increased 3.96% compared to the index of 2.64. Pyramis increased by 5.09% compared to the index of 4.76%.

PRISA increased 3.28% compared to the benchmark of 2.76%. The State Street Bloomberg Commodity Fund increased 0.02% and only trailed the benchmark by six basis points. EnTrust was up 1.90% compared to the index at 1.28%. Blackstone increased 1.77% compared to the index at 1.28%. To recap, for the quarter the Plan is up 3.2%. For the fiscal-year-to-date the, the Plan was up 15.2% which is an over $55 million increase.

Rushefsky questioned Pictet's performance and asked if there are managers that are doing better. Katarski said there are certainly managers who have performed better, but SRC still believes in Pictet and they are recommended in terms of their research. He said SRC doesn't like to recommend changes solely on performance. Managers can turn things around. If there was something fundamentally wrong or a major change in their team members that would lead SRC to make recommendations for change. SRC thinks Pictet will recover and add value over the long term.

Carter asked if SRC is still comfortable that the Fund will hit at least 7.5% going forward. Katarski said he can't predict if the Fund will hit it, but if the question is does SRC believe that 7.5% is still an appropriate or justifiable rate of return assumption? We say yes to that.

Katarski said SRC feels there is some opportunity in small caps. Boucek said is it something they would recommend at this point. Hartman reported that the investment subcommittee met last night and asked SRC to bring some recommendations for the small cap international space, global real estate and long bonds. Katarski said it's a six to eight week process once they get the official word to launch those searches.

Krafve made a motion to employee Segal Rogerscasey to look for small cap international, global real estate and long bond managers; 2nd by Carroll. Vote all: Yes.

Carroll made a motion to accept the year-end investment report as presented by Segal Rogerscasey; 2nd by Krafve. Vote all: Yes.

Hill exited the meeting and didn't return.

8. Experience Study for the period July 1, 2009 – June 30, 2013 – Milliman

Michael Zwiener said that barely over five years ago this Fund was scrapping at $100 million and today it is pushing $300 million. That is quite a turn around. The Board, the City and the voters should be commended.

Zwiener said that the actuary makes assumptions as far as contribution recommendations and the funded status of the Plan, but the true cost to the Plan is not impacted by the assumptions we use. The true cost to the Plan are the benefits that are going to be paid by the members and that doesn't change whether the actuary assumes 7.5% or 2% or 14%. The benefits are going to be what the benefits are. They are determined in accordance with the Plan provisions and they are what they are. What they are trying to do is use assumptions that we think reflect our expectations of future experience. This is a five-year study. The City has reporting constraints that require the actuarial valuation to be completed by the October meeting. In order to do that the actuary needs to know what assumptions to use so that's what led up to this meeting. The Board will need to adopt the assumptions at the September meeting. Zwiener said that he will take this year's return numbers into account as well.

The most significant assumption is the rate of return. If that assumption changes it impacts the accrued liability and all the other liability measures more significantly than the other assumptions. Zwiener said that we heard the investment consultants say that they continue to believe 7.5% is reasonable. Under the current actuarial standards it does continue to be reasonable. In order for an actuary to choose a rate of return assumption that meets actuarial standards, there is a range that is developed by looking at the investment allocation and expectations for the returns on those classes. They then come up with a range. That range is between the 25th and 75th percentile. As long as the assumption is in that range it is acceptable and meets the standards. He said 7.5% does still fall in that range, but it is close to the top end. The change in the actuarial standard that becomes effective after September 30, 2014 (it doesn't effect this evaluation, but it will next year's) is the concept of this range will be replaced with the concept that the actuary is supposed to use his or hers best estimate. When the standard says "best estimate" and our percent is not in the middle it's going to be more difficult to say that 7.5% is still a realistic assumption. Milliman's assumption for long-term inflation is 2.5%. Zwiener pointed out the chart on page 6 of his report which outlined the one-year nominal returns and the standard deviation for each of the asset classes. The range is 5.13% to 7.87%. 7.5% falls into that range so they can justify it for at least another year.

Zwiener pointed out page 7 which shows the rate of return net of investment and administrative expenses. He noted that the five and 10-year numbers include 2009 which was -19.1%. If that is replaced with this year's return of 15.2%, the five-year average is around 11% instead of 3% which would support a 7.5% rate of return. The 10-year average would be 4.86% which doesn't support 7.5%. Hartman asked about a 20-year time frame. Zwiener said he didn't do that calculation. Hartman said he only points that out because 10 years captures the worst event any of us have ever seen. Zwiener said that would be simple to provide.

Zwiener said his future expectation is that 7.5% is on the high side. He would be comfortable with 7%, but can live with 7.25%. For this year, he can justify the 7.5% because we are still under the old standard. Next year under the new standard he would want to revisit this same thing. The choices are to stick with 7.5%, go to 7%, or somewhere in between. The decision doesn't have to be made today. Zwiener said his recommendation is that the Fund adopts something less than 7.5%. If it's not done this year, then next year. A lower rate of return would take the funded ratio down, but it is a truer indication of the health of the Fund. The second indication is that the sales tax revenue is turned off when we hit 100% funding. There will be more money in the Fund when we hit 100% funding at 7.0% than at 7.5%.

Kelley questioned that if the rate is taken down to 7.25% this year, will Milliman come back next year and say it needs to be taken down again? Zwiener said that it is hard to say, but probably the biggest factor in addressing that is inflation expectations. Kelley asked about the impact on the AFC if the assumption rate is lowered. Zwiener said that he can quantify the AFC estimated change when he answers the 20-year history question. Sheppard questioned the difference in numbers on this report compared to SRC's report. Zwiener said the difference is some are on a fiscal-year and some are on a calendar year. Zwiener pointed out page 34 which are in line with what he used. Katarski mentioned the slight difference is that the administrative fees are taken out in Milliman's report. Zwiener said that the capital market assumptions in his report come from Milliman's investment group and they tend to be quite conservative. He said there is no reason why he can't use SRC's capital market assumptions if they are willing to share them. That may give him a little more leeway in his assumptions. Boucek said he thinks they are all in the neighborhood. He said Zwiener's analysis says put more money in sooner and lower the rate. He thinks that's a healthy plan if it is doable. Hartman said it will be important to know the impact on the AFC before a decision is made.

Zwiener said that 7.5% is fair game for this year under the old standard. He would prefer that it go down, but he can sign off on it for this year. It's going to have to be revisited next year if the Board wants to stick with 7.5%. Maybe the tool to help us get there is using SRC's capital gains assumptions.

The Fund experienced 43 post retirement deaths from July 1, 2009 through June 30, 2013. The current mortality assumption indicates 55 expected deaths over the same period. Milliman's recommendation is to add a generational projection to the current healthy tables. This would apply to both pre and post retirement healthy mortality rates.

There was brief discussion on the recommendation to increase the assumed amount of accrual paid out from their continuous operating holiday balance at retirement from triple to quadruple for police members. Manley will contact HR to get a better overall picture of the maximum balance allowed and how many it is impacting.

The four items that need to be addressed at the September meeting are the investment return, salary scale, mortality table and retirement rates.

9. <u>DROP Discussion</u>

Zwiener looked at the portion of the members that retire immediately upon obtainment of 50 and 20 or 25 and up. It's between 50 and 60% over the past four years for those that retire within six months of meeting those requirements. So the question is whether that behavior would continue if a DROP program was available? If 100% then go out when the qualifications are met instead of 60%, it will have an impact. He doesn't know the impact yet. That would take some work. Kelley asked if it was separated out between the two groups. Zwiener said no, it was the two together. Kelley said we specifically need to know what the 25-year group percentage is.

Zwiener questioned if the retirement patterns would change. The second point that jumped out was that when a member goes into DROP their contributions stop. Fair enough, but remember that members are paying off the AFC. A member is not only paying for the benefit this year, but they are also paying off the unfunded accrued liability that belongs to the AFC. When the 20-year pay off of the AFC was designed we looked at that quite a bit. We decided not to pay it off on a level-dollar amount but rather pay it off as a steady portion of payroll. Something that will have to be looked at is the payroll that we are expecting to pay off the AFC disappears, how will the unfunded on the AFC be paid off? Will it be all of the young guys with a very high rate or what will the funding mechanism be? Steck mentioned that the interest would go against that. Zwiener said there is a subaccount of AFC assets and a liability account. The difference is the unfunded that needs to be paid off. The actives are paying that off. Zwiener added that we have models that project that the actives over the next 20 years will retire at an assumed rate and his concern is that if we put in a DROP option they will retire sooner and it will go boom. Carter said that at 25 years of service he doesn't think you will see that much change in the retirement trends. Kelley said that if the proposal requires 25 years of service you may actually see some people that would have retired at 20/50 stay longer to take advantage of the DROP. He thinks there is a potential to see a positive impact with the proposal structured right. Again we haven't seen the proposal and don't know what it is, but thinking in those lines there is a potential positive impact. Zwiener said fair enough. We need a range and the potential scenarios that might play out. He said he can make assumptions, but if people don't behave that way we don't want to be surprised. Both from the stand point of the total Plan and the AFC. Kelley said at this point Fire doesn't have a dog in the fight. It's just something to consider.

10. Adjournment

Kelley made a motion to adjourn the meeting; 2nd by Carroll. Vote all: Yes. The meeting adjourned at 12:10 p.m. on August 14, 2014.

 08/14/14 Secretary Signature: Nikki White