CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes
October 9, 2014

1. Call to Order

Hartman called the meeting to order at 8:30 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 – September 11, 2014 (open session)

Cowherd made a motion to approve the September 11, 2014 minutes as presented; 2nd by Carroll. Vote all: Yes.

3. Approval of Financial Statement Ending August 31, 2014

Manley reported on the following items of interest:

- The cash balance at the end of August was $6,892,791.

- The State Street S&P 500 Flagship NL Fund increased by $1,775,907. The return was even with the index at 4.00%.
- The State Street Russell 2000 NL Fund increased by $932,991. The return was 4.97% compared to the benchmark of 4.96%.
- Pictet decreased by ($589,013). The return was -1.07% compared to the index return of -0.15%.
- Wells Fargo had an increase of $849,193. The return was 3.34% compared to the benchmark of 2.25%.
- Galliard increased $438,296. The return was 0.88% compared to the benchmark of 0.77%.
- The US Tips NL Fund increased by $61,020. The return was even with the index at 0.44%.
- Brandywine had an increase of $425,601. The fund returned 1.49% compared to the index return of 0.23%.
- Pyramis had an increase of $2,066. The return was 0.02% compared to the index at 0.66%.
- The State Street Commodities NL Fund decreased by ($170,159). The return was -1.04% compared to the index at -1.05%.
- Blackstone had an increase of $97,125. The fund returned 0.61% compared to the index return of 0.30%.
- Entrust had an increase of $64,128. The return was 0.54% compared to the index return of 0.30%.
- Employee contributions for the month totaled $230,182 and employer contributions totaled $546,721.
- Gain/Loss in market value, including managers' fees was $3,886,785 for the month. Total additions were $4,663,688.
- Benefit payments totaled $1,699,745. Administrative expenses totaled $16,344. Net increase to the Plan was $2,947,599.
- Total Net Assets at the end of August were $306,448,504.

Cowherd made a motion to approve the financial statement ending August 31, 2014; 2nd by Carroll. Vote all: Yes.

4. Review of Retirement Applications and Calculations

Age & Service Applications

Retiree's Name	Application Type	Application Date	Retirement Date	Department
Margaret McDowell	Age & Service	09/29/2014	11/27/2014	Police
Thomas Savard	Age & Service	09/16/2014	10/22/2014	Police

Chris Thompson	Age & Service	10/07/2014	10/16/2014	Fire

Cowherd made a motion to accept the age and service applications presented above; 2nd by Hill. Vote all: Yes.

Name	Type	Years of Service	Monthly Pension Amount	Partial Pension Amount
Jefferey Schwerdt	Age & Service	25.57	$2,771.82	$804.72
Ronnie Long	Age & Service	25.54	$4,299.31	$1,248.19
Brady Stark	Age & Service	22.94	$3,892.97	$3,139.49

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

Final Checks

Name	Monthly Pension Amount	Final Check Amount
Jerald Tucker	$1,425.77	$807.97
Rex Potts	$1,384.23	$44.65
Michael Purse	$3,559.65	$3,100.34

Cowherd made a motion to accept the final check calculations presented above; 2nd by Kelley. Vote all: Yes.

Surviving spouse applications were presented for Michael Purse and Carol Bass.

Name	Type	Monthly Pension Amount	Survivor's Pension Amount	Partial Pension Amount
Carol Bass	Surviving Spouse	$3,651.19	$2,682.30	$778.73
Michael Purse	Surviving Spouse	$3,559.65	$2,542.60	($1,148.28)

Michael Purse's spouse didn't notify the Board of his death, but it was discovered by the death audit service. Mrs. Purse's first check will be reduced by $1,148.28 for the over payment since his death.

Kelley made a motion to accept the surviving spouse application and calculation for Bass as presented above; 2nd by Carroll. Vote all: Yes.

Hartman made a motion to accept the surviving spouse application and calculation for Purse as presented above pending Mary Mannix-Decker's signature; 2nd by Kelley. Vote all: Yes.

5. Approval of Return of Contributions

Name	Dept.	Type	Years of Service	ROC
Klynt Geiger	Police	Relinquished	11.54	$58,617.21
Ronnie Long	Police	Age & Service	25.50	$131,236.29
Jeffery Schwerdt	Police	Age & Service	20.57	$74,389.52
Brady Stark	Police	Age & Service	22.93	$100,833.54

Kelley made a motion to approve the return of contributions as presented above; 2nd by Stark. Vote all: Yes with the exception of Cowherd who voted no.

6. Administrative Director's Report

Manley informed the Board that she will give a presentation to Council on October 28 regarding the change in the investment rate. She welcomed the Board to attend the luncheon.

Manley reported that about 44% have responded so far on their income verification.

The audit subcommittee would like to meet with BKD on October 29th at 1:30 p.m. to review the initial audit report. She asked the members of the committee to let her know as soon as possible if that date will work.

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

Hartman made a motion to move to closed session at 8:50 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Cowherd. Vote all: Yes. Open session resumed at 8:55 a.m.

8. Actuarial Valuation as of June 30, 2014

Michael Zwiener of Milliman presented the report. Zwiener reported that the recommend contribution rate as a percentage of payroll has gone up. There are a couple of things going on there. One is that a more conservative set of assumptions were adopted. By doing that it does increase the level of the liability. The other issue is that when it is expressed as a percentage of payroll, we know that the covered group is shrinking and the payroll is shrinking. The unfunded accrued liability for the fund as a whole is $133,332,302. This is up from $124,000,000. He said that some may see that as unfavorable for the liability to go up, but the one time increase of $38 million for the assumption changes is considered a positive action taken.

The market value of plan assets increased from $254,357,749 at June 30, 2013 to $309,653,460 at June 30, 2014. The net market rate of return was 14.2% for the period. The funded ratio improved to 69%. If we had used market value it would be 72%. For the sake of comparison, if the assumption changes had not been made, the funded ratio using actuarial value of assets would have been 75.7%. Zweiner pointed out that the funded ratio in 2011 was 53.9%. He also pointed out that the covered payroll is decreasing.

The market value of assets as of July 1, 2013 for the AFC was $12,676,127. For the period ending June 30, 2014 the market value is $14,624,295. That is a net increase of $1,948,168. The AFC is recalculated every three years. The liability associated with the AFC is $21,081,865. Zwiener reminded the Board that the AFC is tracked separately. If they did a funded ratio for just the AFC it would be lower than it is for the Plan as a whole. He said that he would fully expect that because the AFC liability is being paid off with member contributions only. The Plan as a whole is utilizing the sales tax receipts. Kelley questioned the telecom settlement and why the unfunded liability continues to grow. Zwiener said going from 7.5% to 7.0% would explain some of it, but probably not all of it. He doesn't have the history with him, but it is certainly something he can look at. Kelley recalled that the settlement monies should have taken it down about $4-5 million. He would like to see the timeline of the changes in the liability. Zwiener said that it is going in the wrong direction and he will take a further look at the history to answer some of these questions. Gillette said that one factor would be that payroll is diminishing at a rate faster than anticipated. The change in the return rate would also have roughly a $2 million change. Kelley said that he's just trying to keep an eye on it to see if we are on track of keeping it level. He's not trying to get Milliman to recalculate it earlier than expected. Zwiener said the unfunded liability should not be growing on its own. The only reason it would is if the payroll is decreasing faster than expected. He said he can get the history to Manley within a few days.

The recommended contribution consists of two parts, the normal cost and the amortization of the unfunded. The normal cost is $6.2 million which is in line with the prior year. The amortization of the unfunded is on a 20-year level dollar basis. This is based off of when the youngest member is expected to retire. The sales tax revenue is accelerating it. The recommended contribution is slightly less than $20 million. That is a little higher than the previous year because of the adoption of a more conservative rate of return.

Hartman noted that plan participants dropped nearly 10% this year. He asked if that's what Milliman had figured. Zwiener said not exactly, but it's pretty close. Dorrell said that one of the reasons that the pool is shrinking faster than anticipated is because of the increase in the AFC. Gillette said he thinks this is an issue that needs to be addressed by Council. Rushefsky agreed and said that it's not been something that has been brought to Council at all. Gillette said that he's not so much worried about the AFC as he is the base rate. It is very high. Rushefsky said that it is something that needs to be addressed by the member groups in the negotiating process. Dorrell said that he doesn't know why everything has to be about collective bargaining. If we have something that is good and healthy for the Plan and we anticipate a problem down the road, why does that have to go through collective bargaining? Hill said that she thinks the Board needs legal representation to make sure we aren't over stepping. Dorrell said why? We can't talk about it? Rushefsky said it is both Plan issue and a City contract issue. She thinks the Board has a legitimate role to play in saying that this is a potential problem that could affect the Plan in the future. The members have a responsibility to make sure it is considered as a part of the negotiation process. Manley asked if it should be addressed in the Council presentation at the end of the month. Rushefsky said yes. Dorrell again expressed his concern for not being able to come up with an idea and discussing it with the Board. Gillette said that when you are sitting in this room you are acting in your role as a trustee of this Plan. He thinks that Hill's concern is very valid. However, outside of this meeting you should absolutely make a case for whatever you need to. Dorrell said that he feels things like this need to be considered by the Board. Gillette said to the extent that these rates are driving people out of the Plan and it is reducing our funding percentage, there is merit to that.

Zwiener mentioned that the sales tax will keeping coming into the Plan until it reaches 100% funding. The Plan will be 100% funded, but we are talking about this side account (AFC) that is not 100% funded. Hartman asked if he was saying that if the Plan reaches 102% funding then conceivably assets are shifted to the AFC unfunded liability? Zwiener said that is one option or maybe you say that we put a cap on the AFC as opposed to just shifting money. Manley said that she will bring the AFC issue before Council at the luncheon. Gillette said that he thinks the Board can go as far as to say that the percentage level has reached a point where it might start chasing payroll and when that happens the Fund is at risk.

Zwiener briefly reviewed the GASB 67 and 68 Disclosure report (on file). The actuarial computations in the report are for the purposes of assisting the City of Springfield in fulfilling its financial accounting requirements.

Kelley made a motion to accept the Actuarial Valuation as of June 30, 2014 as presented by Milliman; 2nd by Cowherd. Vote all: Yes.

9. <u>DROP Proposal – Continued Discussion</u>

Zwiener said that not every member that hits 25 years and age of 50 retires immediately. It will be argued that it will change in the future, but up to this point it is not 100%. One of the concerns we've been talking about all morning is the dwindling payroll. Zwiener said that one of his concerns with the DROP is will that have an impact on accelerating the drop in payroll? It's less of a concern if it is limited to just the 25 and out people. If you look at a history of the 50 and 20 people, over half of them were not retiring upon eligibility. He said he had a big concern with the original proposal. Zwiener said he still has a concern about it, but it is less than before because it is now a smaller group by limiting it to members who have 25 years of service. The other item he's concerned about is that both the member and the City will cease contributions to the Fund. The contribution is normal cost plus amortization. Normal cost is the cost for the benefits earned in the current year. That is roughly $6 million. The other $13 million is payment on the unfunded. Even if a member goes into DROP, that member no longer has an amount that goes into the normal cost. That part of the cost goes away, but the unfunded accrued liability stays. So that unfunded still needs to be paid off, but we are saying that we are stopping the contributions from the City and the member. It's fine to stop the normal cost, but we still have to pay the unfunded.

Zwiener said he gets an impression from reading the proposal that there is a mindset that if a member ceases accruals and contributing that it's even. Well it's not because when you cease accruals you only stop about 1/3 of the cost because you still have the unfunded. Dorrell said he can't see a bunch of people staying past 25 years under the current plan. We've never had it. Gillette said that three stayed past 25 years in the last four years. Zwiener said this all depends on member behavior. He said the reason they quoted a relatively high fee to look at this is because he would look at if 100% of everyone eligible entered the DROP what would the Plan cost be? He said he's not going to shoot from the hip and say it's not going to matter on certain scenarios. He thinks there really needs to be a disciplined type of process because we don't know what is going to happen. You need to look at worst case compared to if the behavior doesn't change so that you have the information. Several brought up the point that some of the 20 and 50 members may decide to stay longer to take advantage of the DROP where they might have otherwise retired. Then their contributions would continue longer than they might have. Zwiener said that is a very good point and that is something that would be modeled in the study.

Zwiener said that there is a lot of literature on DROP programs that cities are not entirely happy that they went down that path. He said we want to study this very carefully so that we understand all of the potential scenarios. He said he's not against it, but he doesn't want to blindly say that we don't have any 25-year people this year so it's not going to cost anything and let's go ahead. He added that if this is going to be pursued he would strongly urge that we model out expected patterns and get comfortable with it before moving forward. Kelley questioned how you identify the true cost if we only have ranges from the study to go by. It is very pertinent to Council and whether it can even legally be done. There will be a lot of questions around that. He added that he would hate to spend $15,000 and not get a true cost.

Zweiner said that according to law, no plan shall adopt or implement any additional benefit increase, supplement, enhancement, lump sum benefit payments or COLA unless the plan's funded ratio is at least 80%. He said the question is whether what we are talking about is an increase, supplement or enhancement. Gillette said he doesn't now how you can argue that it's not an enhancement. Dorrell said that we are talking about money here. If you can't show that the employee gets one more penny than they would have already earned, how is that a new benefit or enhancement? Gillette said fair enough. Dorrell said the Plan is holding the member's money longer. That's it. It was mentioned that Sheppard has already weighed in on this. Carroll said that Sheppard said that it came down to the funding ratio.

Gillette added that the Board represents not just the current police and fire members, but a very large population of retirees and to the extent that the worst case scenario puts the Fund at greater risk, it is the Board's fiduciary responsibility to protect their retirement as well. He said he gets concerned about making a decision about 140 people that could impact 1600 on the other side of the equation so we have to be careful of that too. Hoffman questioned if people would stay until they reach 25 years to get the benefit if the AFC continues to increase? Kelley said he thinks those are two separate things. He thinks the AFC will have to be addressed and the DROP is separate. Hoffman said assuming that if the AFC stays where it is at now, it was mentioned that the 20 and 50 will go as soon as they can. However, then it was stated that they will stay to participate in the DROP. Is it realistic to think that they would work under the condition of paying a high percentage back just to be able to take advantage of the DROP? Dorrell said he thinks they would.

Rushefsky said she wants to go back to the law regarding benefit changes. If we put a cap on the contribution, isn't that a benefit increase? Some said yes. Rushefsky said then we can't do it. Dorrell questioned how putting a cap on the AFC is a benefit increase. Rushefsky said that since we have comingled funds you are still talking about the Plan. She doesn't see how that is different. Carter questioned why when the AFC rate is raised that it doesn't have to be approved by the joint committee. Manley said it is specified in the Plan already. Zwiener said the rate evaluation is due every three years so he doesn't think it's a change since it's in the statute.

Kelley said that in light of our conversations here, if you have to use the same assumptions he doesn't think you can expect it to not come back as a liability to the Plan. From his standpoint as a Board member, unless Council directs us to move forward to find the true cost to the Plan to see if it is legally able to be done, then at that point we would send the proposal to the actuary. At this point based on the statute, we can get another opinion from Sheppard, but he thinks it is going to come back as a cost. Even though it will probably be minimal, it is still going to be a cost to the Plan. Steck said back to Dorrell's point, if the payments are deferred and 7% interest is made on that money, does that equal the one guy that stays on? That's the answer we are looking for. If the potential of the investment is more than the one guy then it is not a liability. It's actually an enhancement to the Fund.

Steck said that City's position is that they want the Pension Board to say something about it. You want to keep veteran officers and firefighters or you don't. We are back to saying go ask your mom and then mom says go ask your dad. The Pension Board can say that they want Milliman to do this study to cost it out. Rushefsky said is the potential risk worth the minimal benefit to the two or three people that you say are there? She thinks that can change. All we need is another major recession. She said that from a Council standpoint, they will be looking at the whole risk. Krafve asked Zwiener if it is possible to have a DROP program that is cost-neutral since it is based on human behavior. Is there a way to put some kind of provision on the difference in what we thought the human behavior would be and what it actually is? Zwiener said he can design a program that is cost-neutral based on a set of assumptions. The deal is those assumptions are not going to be met. People will act in their best self interest. That can depend on the economy. What he has seen happen with these programs is that they get implemented for a year or two and then people figure out the finer points and take advantage in ways that weren't thought about. Steck added that the ones who have regretted implementing a DROP program are the ones that tie a percentage of money to the deferred amount. This plan doesn't do that. Zwiener said that is very significant.

Dorrell said he thinks it boils down to how many are no longer going to stay past 25 and how many are actually going to stay longer to take advantage of the DROP instead of leaving at 23 or 24 years. He thinks several would. Rushefsky said that there is a real reality out there within the community that it is cheaper to hire new people than to keep our senior officers at the top of the range. The people want to see the patrol officers out in the street. So from the average citizen's standpoint I can see a response that says they can get more officers out in the street at the junior level than to keep on the people with 20-25 years. Dorrell said he agrees, but why can't we hire them? She said that is a good question. Dorrell said that the department can't fill the positions available.

Hartman opened the floor for a motion. Steck made a motion for the Board to pay to have a study conducted by Milliman. Motion died due to a lack of a second.

10. Adjournment

Cowherd made a motion to adjourn the meeting; 2nd by Kelley. Vote all: Yes. The meeting adjourned at 11:03 a.m. on October 9, 2014.

 Secretary Signature: Nikki White