CITY of SPRINGFIELD

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

Minutes
July 9, 2015

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	
Chris McPhail	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
Rhonda Lewsader (NV)	Law	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – June 11, 2015 (open session)

Cowherd made a motion to approve the June 11, 2015 minutes as presented; 2nd by Hartman. Vote all: Yes.

3. Approval of Financial Statement Ending May 31, 2015

- The cash balance at the end of May was $13,347,961. The cash is high in anticipation of funding the new long term bond manager.

- The State Street S&P 500 Flagship NL Fund increased by $622,343. The return was even with the index at 1.29%.

- The State Street Russell 2000 NL Fund increased by $457,470. The return was 2.23% compared to the index return of 2.28%.

- Pictet increased by $3,505. The return was 0.07% compared to the benchmark of -0.51%.

- Wells Fargo had a decrease of ($734,425). The return was -3.00% compared to the benchmark of -4.00%.

- Galliard increased $18,794. The return was 0.09% compared to the index return of 0.00%.

- The US Tips NL Fund decreased by ($140,582). The return was even with the index at -0.82%.

- Brandywine had a decrease of ($780,126). The fund returned -2.52% compared to the index return of -3.37%.

- Pyramis had a decrease of ($24,085). The return was -0.17% compared to the index at -0.54%.

- The State Street Commodities NL Fund decreased by ($360,481). The fund returned -2.69% compared to the index return of -2.70%.

- Blackstone had an increase of $196,034. The fund returned 1.28% compared to the index return of 0.63%.

- Entrust had a decrease of ($62,556). The return was -0.49% compared to the index return of 0.63%.

- Employee contributions for the month totaled $220,611 and employer contributions totaled $527,778. The sales tax was accidentally entered in April instead of May, but the actual for the month was $1,946,000.

- Gain/Loss in market value, including managers' fees was ($787,935) for the month. Total additions were ($39,478).

- Benefit payments totaled $1,769,328. Return of contributions totaled $248,015. Administrative expenses totaled $4,948. The reason this amount is lower this month is due to the legal fees being reimbursed by the City. Net decrease to the Plan was ($2,061,767).

- Total Net Assets at the end of May were $318,268,882. Mannix-Decker noted that $2.7 million was pulled out of Pictet and put into cash to fund the new manager.

Kelley made a motion to approve the financial statement ending May 31, 2015; 2nd by Cowherd. Vote all: Yes.

4. Review of Applications

Surviving Spouse Applications

Retiree's Name	Application Type	Application Date	Spouse's Name	Department
Larry Craig	Surviving Spouse	07/06/2015	Maria Basile	Police
Robert O'Neal	Surviving Spouse	06/30/2015	Ethel O'Neal	Police

Age & Service Application

Retiree's Name	Application Type	Application Date	Retirement Date	Department
James Closser	Age & Service	07/07/2015	08/18/2015	Police

Cowherd made a motion to accept the applications as presented above; 2nd by Hartman. Vote all: Yes.

Disability Application

Employee's Name	Application Type	Application Date	Department
Darran Kinney	Disability	06/30/2015	Fire

Manley suggested that the physician that performed Kinney's surgery be one of the three reviewing physicians. Kelley made a motion to approve Kinney's disability application and send him to his current physician who also performed his surgery; 2nd by Cowherd. Vote all: Yes.

5. Review of Calculations

Final Pay
Larry Craig - $844.74
Aaron Goddard - $1,993.73
Robert O'Neal - $2,134.59

Surviving Spouse Calculation

Name	Type	Monthly Pension Amount	Survivor's Pension Amount	Partial Pension Amount
Robert O'Neal	Surviving Spouse	$2,281.97	$1,857.57	$1,405.79

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

6. Administrative Director's Report

Manley reported that the actuary contract has been sent to Milliman for signature. The long term bond contract has been signed and should be funded in July. The Brandes contract has been approved by both parties and will be funded on August 1st.

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

Hartman made a motion to move to closed session at 8:45 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Kelley. Vote all: Yes. Open session resumed at 8:56 a.m.

8. Additional Funding Contribution Presentation – Greg Burris

Shawn Martin, IAFF, Mike Evans, SPOA, and Sheila Maerz, Human Resources, were also present.

Burris thanked the Board for their service and the opportunity to present at today's meeting. He started by providing background information on the AFC. The additional benefit was requested by the Springfield Police Officers' Association in 1999. The City agreed effective May 21, 2000, upon City Council passing the ordinance to provide an additional 0.3% to each employee's retirement multiplier (from 2.5% to 2.8%). The additional cost was funded by the current and future employees eligible under the retirement plan by increasing their current payroll deductions. In 1999, an actuary determined that the additional benefit would cost employees an additional 2.14% of their payroll in addition to the 8.5% base retirement contribution beginning in 2000. The employee's total contribution rate was 10.64%. All of the employee contributions, including the AFC, are returned to the employee upon retirement or resignation. The Plan retains the earning on the employee contributions. The AFC was to be recalculated every five years and the increase or decrease would be adjusted accordingly. In 2004, the AFC was recalculated to 2.85% of payroll bringing the total contribution to 11.35%. The AFC benefit for new employees ended July 1, 2006 when the City created the Tier II retirement plan. Employees hired after that date no longer paid into the AFC, nor received the 0.3% multiplier.

When the AFC was originally contemplated and calculated, there was an immediate unfunded accrued liability (UAL) of around $3 million for covering some employees near retirement that would benefit for their entire retirement from the additional 0.3% multiplier, but would contribute relatively minor amounts via the AFC. The AFC cost is determined by two factors: the amount needed to fund the UAL and the amount needed to fund the future benefit for active employees. The original AFC agreement did not anticipate new employees no longer contributing to the AFC, as was the case beginning July 1, 2006. In 2009 the actuary again recalculated the AFC, according to the five-year cycle. This was the first time it was recalculated since the AFC ended for the new hires. The actuary recalculated the AFC in two ways. The same way in previous years as if the Plan was continuing, and based on the ending of the AFC plan and a shorten amortization schedule. The first showed an increase of 1.9% for a total of 4.75%. The second showed a 4.67% increase for a total of 7.52%. The difference between the two was 2.77%. This was the City's obligation from ending the AFC in 2006.The actuary calculated the amount to be $4.75 million. Council approved a resolution on June 14, 2010 and more formally approved an ordinance on May 2, 2011 that agreed to fund the $4.75 million that the City owed to the Pension Fund for closing the Plan, shortened the duration between recalculating the AFC to every three years from the original five years and effective July 1, 2011, the IAFF and the SPOA also agreed to increase the AFC by 2% bringing the new amount to 4.85% plus the base rate of 8.5% for a total of 13.35%. The City would owe no more contributions toward the AFC at any point in the future, regardless of the amount of future AFC increases. Tier I employees will own any and all current and future liability associated with the AFC-related benefit. It also established an AFC bookkeeping account to keep track of the value of all of the AFC amounts contributed by Plan participants. In July 2013, the AFC was increased based on the three-year calculation schedule by 1.28% for a total of 6.13%. The total contribution for every employee is now 14.63%, including the base.

The latest issue – Also included in the May 2, 2011 ordinance (2-455) was the following language: "Prior to July 1, 2016, the members shall, if they deem necessary, propose any amendments to the Additional 0.3% Multiplier to the City for its consideration. The actuarial cost incurred in the examination of the alternatives requested by the employees regarding the Additional 0.3% Multiplier at any time shall be treated as a general expense of the Retirement Fund. The AFC Bookkeeping Account shall bear only its pro rata share of said expenses." Burris stated that he will later be asking for some actuarial work to be done and the City, SPOA and IAFF believe this statement says that the Fund shall pay for those costs. The AFC is due to be recalculated in October 2015 and will go into effect July 1, 2016. To prepare for the new AFC recalculation, the City Manager convened a meeting with IAFF and the SPOA on May 11, 2015. Counsel agreed that as long as just facts are being presented, there is no issue with violating the collective bargaining process. The following are issues that all parties are jointly submitting to the Board for consideration:

- What is the issue? What is the definition of the problem?
- What are the total assets and liabilities of the AFC portion of the pension, or is it accounted for separately by itself? Is this keeping "two sets of books"? If so, why?
- Is this a "real" problem or an "artificial" problem created by GASB rules/regulations?
- Assuming this is a "real" problem, when is action necessary to begin dealing with any anticipated unfunded liability? Is it too early to act now?
- Can an actuary project the AFC increases over the next five three-year cycles?
- Can an actuary provide analysis based upon multiple scenarios using, but not limited to, the following criteria?
    - What does the AFC fund look like over time if no action is taken?
    - What does the AFC fund look like over time based upon the assumptions that x% of the employees elect to exit employment at specified employee contribution breakpoints?
    - What does the AFC fund look like over time based upon assumptions of various assumed rates of return for the fund?
- How much of the unfunded AFC liability does the IAFF "own"?
- How much of the unfunded AFC liability does the SPOA 'own"?
- What dollar amount needs to be contributed toward the unfunded AFC liability over time in order to cover this liability?
- Can assets from the "main" pension fund be legally transferred by the Pension Board to cover come or all of the unfunded AFC liability?
- Note: All three parties agreed to request a valuation using June 2015 payroll data.

There is also a list of items that the three parties agreed to submit for legal analysis:

- If the Pension Sales Tax ballot language indicates the tax will sunset once the plan achieves 100% funded status, does that include the full funding of the AFC, too?
- If there is any unfunded liability remaining in the AFC fund after the last contributing employee leaves employment, which entity (or entities) "owns" the remaining liability?
- What is the role of the Pension Board in dealing with the unfunded AFC liabilities?
- What is the role of the City Council in dealing with the unfunded AFC liabilities?
- What is the role of collective bargaining in dealing with the unfunded AFC liabilities?
- Note: The City will fund the legal analysis.

The AFC is due to be recalculated in October 2015 and will go into effect July 1, 2016. Burris said that the City, IAFF and the SPOA are here collectively to ask the Board to consider having an actuary answer the proposed questions. Martin said there may need to be clarification on the question asking what the dollar amount is to fund the benefit until the last employee. Burris said the legal questions were presented as information only. He doesn't think it is fair to ask the Pension Board to fund that. Dorrell asked Burris his opinion on whether the Pension Board could provide a potential solution without violating the collective bargaining process. Burris said he doesn't see a reason why the Board couldn't. It would still need to go back to the associations for discussion. Maerz agreed. Hartman said he thought that was one of the legal questions presented. Cowherd asked if the legal questions are going to be resolved first. Burris said that he thinks both trains leave the station at the same time. If the Board agrees to do the actuarial study, the City can ask for legal advice at the same time. The Pension Board may also want their legal counsel to chime in. The City will be requesting legal advice from a third party. Dorrell asked if there is a timeline as far as collective bargaining since everyone is currently under contract for the next year and a half. Maerz said collective bargaining can be reopened if all parties mutually agree.

Hartman thanked Burris for his time in bringing this issue forward.

Mannix-Decker exited the meeting at 9:30 a.m. and didn't return.

9. Global REITs Finalists Presentations

The Board listened to presentations from AEW Capital Management and Brookfield Investment Management. A 2% allocation will be funded to Global REIT. Razan Prassas presented from Brookfield. Hall Jones and Caroline Clapp presented from AEW. Both firms exited the meeting and Katarski with Segal Rogerscasey discussed the two firms with the Board.

Manley said that she noted that Brookfield was like a Brandes or Entrust of their category. Katarski said that both firms have two completely different styles. He said Brookfield is a high-conviction, go anywhere, best ideas, and concentrated portfolio. If they don't like it, they are not going to own it. At the end of the day, this has led to very attractive returns while preserving capital on the downside. AEW staff is spread across the globe and has a more diversified portfolio. They are more benchmark aware. They have great value over time as well. Katarski said the mix of public versus private real estate is very attractive thus the reason they are suggesting Global REITs. Segal Rogerscasey definitely thinks it's a complement to have the two. Some don't feel comfortable owning real estate outside of the US, but as a firm, Segal Rogerscasey recommends Global REITs. Manley said it will be a 1% allocation. Prudential is at 4% and the normal target allocation is 5%. Katarski said that right now Prudential has a really long wait to invest. He added that Global REITs will be a long term allocation, not just a parking place to invest more in Prudential. Gillette suggested pulling some out of Prudential since it is on the upside and Global REITs are also more liquid. Katarski agreed that it is a good idea. Gillette suggested leaving 3% in Prudential and 2% in Global REITs. Katarski thinks that is a very good idea. Hartman agreed that it is a great idea.

Brookfield is a mutual fund and AEW is a collective trust. Krafve said that he feels the Brookfield numbers are so much more compelling in this case. He thinks they are hard to argue. Katarski said that at a 2% allocation you can take on the risk of a more concentrated manager like Brookfield.

Gillette made a motion to approve Brookfield as the Global REIT manager; 2nd by Cowherd. Vote all: Yes.

Krafve made a motion to trim Prudential back to a 3% allocation when Brookfield is ready to fund and invest 2% in Brookfield; 2nd by Kelley. Vote all: Yes.

10. Additional Funding Contribution – Continued

Hartman asked if there was any discussion regarding moving forward with the requested actuarial study. Dorrell said that he thinks there are some questions that need to be asked before others. He thinks the question regarding whether the sales tax funding includes the AFC needs to be answered first. Gillette said that is a legal question. He thinks these questions make sense to have answered:

- What does the AFC fund look like over time if no action is taken?

- What does the AFC fund look like over time based upon the assumptions that x% of the employees elect to exit employment at specified employee contribution breakpoints?
- What does the AFC fund look like over time based upon assumptions of various assumed rates of return for the fund?

Manley said that she has visited with Milliman regarding how much each employee group owns and they said that it would be a very lengthy study that could be quite expensive. It was questioned what the purpose of that question was. Kelley said that during the collective bargaining process there could potentially be two different solutions to the problem. That is the reason for the question. Gillette said that until there is a proposal from the associations on the table, he doesn't think we should go down that road. Everyone agreed that the question asking if assets from the main fund can be legally transferred to cover the unfunded AFC liability should be moved to the legal analysis. Dorrell said that the 100% funded question may eliminate the need for an actuarial study altogether. He thinks it is being overcomplicated. Manley reminded everyone that the Fund only has a 58% chance of staying fully funded over the long haul once it is fully funded by the sales tax in 2019 or 2020. So that may have to be addressed as well. Gillette said that once we get to the 100% level we will have to continually monitor the asset allocation. We are going to have to change the way we are investing. He said he thinks the only reason we do the actuarial study is to put some urgency on this issue. There is nothing in the study that will be novel or give us a solution. It's just how urgent should this be to the parties involved? Hartman said that is all theoretical until we see something on paper. Gillette said there are people sort of listening, but they don't understand why you care right now. Answering these questions will help them to understand why they should care right now so he thinks it's a good thing.

Gillette made a motion to move forward with asking our actuary, once their contract is approved, to answer the following questions:

- What does the AFC fund look like over time if no action is taken?
- What does the AFC fund look like over time based upon the assumptions that x% of the employees elect to exit employment at specified employee contribution breakpoints?
- What does the AFC fund look like over time based upon assumptions of various assumed rates of return for the fund?

Hartman seconded the motion. Vote all: Yes.

Gillette said that the first set of questions have already been answered by Manley. We can respond that the ownership questions will require a very extensive and expensive study that we don't want to do unless we have to. The dollar amount needed to cover the liability over time will be addressed in the annual actuary report and the final question regarding the transfer of funds needs to be address by counsel.

Gillette asked if we should ask Sheppard to weigh in on the legal questions as well. Cowherd suggested hearing the City's legal opinion before we move forward with getting our own legal opinion. Manley will communicate with Burris on what the Board has decided.

11. Adjournment

Kelley made a motion to adjourn the meeting; 2nd by Cowherd. Vote all: Yes. The meeting adjourned at 11:30 a.m. on July 9, 2015.

 Secretary Signature: Nikki White