CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO
830 Boonville
Springfield, Missouri 65802
Phone: (417) 839-8214

Minutes
December 13, 2018

1. Call to Order

Carroll called the meeting to order at 8:32 a.m. The meeting was held at the Busch Municipal Building, 840 Boonville Avenue. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Mike Bridges	Citizen	X	
Paul Carroll	President	X	
Adam Carter	Fire	X	
Derek Fraley	Citizen		X
Ron Hoffman	Retiree	X	
Gus Krafve	Citizen		X
Nancy Martin-Hinds	Citizen	X	
Justin Milam	Citizen	X	
Chris Welsh	Police	X	
Ed Cantrell (NV)	Retiree	X	
James Frieze (NV)	Fire		X
Marcus Walker (NV)	Police		X
David Holtmann (NV)	Finance	X	
Ken McClure (NV)	City Council Liaison	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

Don Willoh and Susan Partee were also present.

2. Approval Meeting Minutes – November 8, 2018 (open session)

Bridges made a motion to approve the November 8, 2018 minutes as presented; 2nd by Carter. Vote all: Yes.

3. Approval of Financial Statement Ending October 31, 2018

- The cash balance at the end of October was $1,545,149.

- The State Street S&P 500 Flagship NL Fund decreased by ($6,220,055). The return was even with the index of -6.84%.

- The State Street Russell 2000 NL Fund decreased by ($2,528,880). The return was even with the index of -10.86%.

- Pictet decreased by ($4,972,151). The return was -9.01% compared to the index return of -7.96%.

- Wells Fargo decreased ($3,578,639). The return was -7.90% compared to the benchmark of -8.71%.

- Galliard increased $20,578. The return was -0.47% compared to the index of -0.31%.

- Income Research decreased ($1,308,974). The return was -3.14% compared to the index return of -3.35%.

- Brandes increased $133,227. The return was -1.65% compared to the index return of -2.30%. $1 million was transferred in.

- Brandywine had a decrease of ($1,055,634). The fund returned -3.51% compared to the index return of -1.45%.

- Pyramis had a decrease of ($360,634394 The fund returned 1.50% compared to the index return of -2.23%.

- Blackstone had an increase of $3,392,278. The fund returned -0.51% compared to the index return of -2.30%. $3.5 million was transferred in.

- Entrust had a decrease of ($214,014). The return was -1.65% compared to the index return of -2.30%.

- Employee contributions for the month totaled $227,184 and employer contributions totaled $476,335. Sales tax contributions totaled $2,521,408.

- Gain/Loss in market value, including managers' fees was ($21,373,771) for the month. Total additions were ($18,148,794).

- Benefit payments totaled $2,183,020. Administrative expenses totaled $25,696. The return of contributions totaled $369,130. Net increase to the Plan was ($20,726,640).

- Total Net Assets at the end of October were $410,745,691.

Carter made a motion to approve the financial statement ending October 31, 2018; 2nd by Welsh. Vote all: Yes.

4. Review of Applications

Retiree's Name	Application Type	Application Date	Retirement Date	Department
Jeffrey Carroll	Age & Service	11/18/2018	01/23/2019	Fire
Scott Deckard	Age & Service	11/26/2018	01/19/2019	Fire
Benjamin King	Age & Service	12/04/2018	02/05/2019	Police
Robert Schroeder	Age & Service	12/04/2018	01/31/2019	Police

Carter made a motion to accept the applications as presented above; 2nd by Bridges. Vote all: Yes, except for Carroll who abstained from the approval of Jeffrey Carroll.

5. Review of Calculations

Name	Type	Years of Service	Monthly Pension Amount	Partial Pension Amount
Michael Martin	Final Pay	16.92	$3,961.51	$2,244.86

Carter made a motion to accept the calculation as presented above; 2nd by Martin-Hinds. Vote all: Yes.

6. Administrative Director's Report

Manley reported that she has started the fiduciary insurance renewal process with the Board's current broker. She has made several requests for a copy of the City's policy that the City would like the Board to change to, but she hasn't received a copy to review.

Manley informed the Board that Segal Marco will no longer be having their fall summit. They will just have a spring one at the end of March.

Manley stated the following, up to three Board members may attend the Segal Marco Summit in Florida with the Board paying for transportation and Segal Marco paying for room and board. The Pension Board waives any perceived conflict of interest resulting from Segal Marco's payment of these expenses. Carter made a motion to accept the language as read by Manley; 2nd by Welsh. Vote all: Yes.

Manley stated that both Willoh and Sheppard concluded that the Board could not arbitrarily change the AFC contribution rate as recommended by the actuary. Welsh stated that the SPOA attorney reviewed the information and came to the same conclusion as Sheppard and Willoh.

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

Carter made a motion to move to closed session at 8:46 a.m. pursuant to Section 610.021(1) RSMo.; 2nd by Bridges. Vote Yes: Bridges, Carroll, Carter, Hoffman, Martin-Hinds, Milam and Welsh. Vote no: none. Open session resumed at 9:02 a.m.

8. Voting Police Member Election

Anita Cotter, City Clerk, counted the ballots. Welsh received 15 votes. There were no write-in votes. Bridges made a motion to accept the election results as presented; 2nd by Hoffman. Vote all: Yes.

9. Sales Tax Projections - Milliman

Collin Quigley, Deputy City Manager, was also present for this discussion. Zweiner presented several charts outlining different alternatives. The charts assume different rates of return from 5.5% - 7.0%. The current assumption rate is 7.0%, but Zwiener asked the Board to focus on the 6.5% chart since the results of the experience study will be presented later in the meeting. The current sales tax expires in March of 2020. If the tax doesn't continue, the funding level will continue to go down as time goes on. The minimum out of the options is a five-year 3/8% tax extension with the City contributing 35% of payroll. That is assuming the 6.5% rate of return is achieved. Full funding is going to be difficult to achieve in the absence of another five-year tax extension and/or a minimum City contribution, particularly at the lower investment return rates. The 35% of payroll as of today is about $6.2 million. That will eventually disappear. That is why the $4 million and $6 million employer contributions are shown as options.

Carroll said that at some point down the road the Plan will be looking at less than 6.5% rate of return. Zwiener said that the results of the sales tax are very sensitive to what the returns are going to be. It's prudent to look at the expectations going forward. The last five years the actual returns have been about 5.5%. The last 10 years have been about the same. That is why he's recommending the Board lower the rate of return from 7.0% to 6.5%. Since the Plan is closed, Zwiener would like to see the Board push for a 100% to 100% plus funding level. He would be happy with 90-95% funded if it was an open plan. Eventually the investment returns will be the only source of contributions.

Ken McClure entered the meeting.

Zwiener said the Fund is in a much better shape than it was a few years ago. Even without a sales tax extension, it's not going to go to zero. However, something will have to happen in the future. Funding will have to come from somewhere. The projections for the first two years are stout. If you look 20 years out, there are so many assumptions and variables. It's like predicting the weather. The one and two-day forecasts are easier than looking 10 days out.

Zwiener said why would you want to lower the rate of return when it makes the liabilities bigger? It makes the number bigger, but the liabilities are the pension promises that we've made. The benefits paid out are the true cost of the plan no matter what the investment rate is. If you make things more unrealistically attractive now by using an optimistic assumption, it will come back at some point in the future. It must be paid. Welsh said that if the Plan has been around 5.5% rate of return for the past five years then we need to be looking at that chart. Zwiener agreed. Zwiener said the change in rate of return from 7.0% to 6.5% is based on the current asset allocation. Carroll said that international has significantly underperformed US markets that's why we've have experienced these results.

10. Experience Study - Milliman

Zwiener noted that the experience for the period July 1, 2014 – June 30, 2018 was examined in this study. Any exceptions to the period reviewed are specifically noted in the report. It is standard practice for plans of this size to compare the actual experience to the assumptions made. This helps to determine if changes in the assumptions are necessary.

Applying appropriate correlation factors between each of the asset classes, we estimate that the expected long-term geometric nominal return is 6.19% for the target portfolio and 6.05% for the actual June 30, 2018 asset allocation. When Horizon's average capital market assumptions by asset class are applied to the System's asset allocation, the 50th percentile return that results is 7.41%. The five-year average of this

Plan is 5.50% and the 10-year average is 4.51%. When considering all these things, his recommendation is to reduce the investment return assumption from 7.0% to 6.5%. Manley asked how the change in rate would affect the AFC rate. Zwiener said he couldn't bring himself to do that calculation. It would be a lot higher. The 6.5% rate of return is a 20-year number.

Milliman recommends maintaining the ultimate 2.5% annual pay increase assumption. They also recommend maintaining the current assumption for the heathy post retirement lives and adopting the Scale AA generational projection for disabled lives. Actual System experience, while informative, is not statistically valid since the size of the studied group is relatively small, so we must rely on industry practice and future expectations. The Society of Actuaries is in the process of constructing updated mortality tables based on Public Retirement Plan experience. It is currently in the exposure draft stage, final publication is not expected until 2019. Milliman recommends that when the final tables are published they are compared against the System's current tables to determine if a modification to the System's assumed mortality is warranted.

Similar to the mortality decrement, disability requires the experience of a large population to provide credible experience. The current disability assumption generated 10 expected disabilities for the period July 1, 2014 – June 30, 2018. Actual experience for the period produced four disabilities all of which are duty related. The assumption is that all disabilities are duty related. Milliman recommends reducing the disability incidence rates by 50%.

Turnover experience differs substantially between police and fire. The number of police members expected to leave through turnover during the study period was 19. The actual number was 9. The number of fire members expected to leave during the period was 4 and the actual was 1. Lower assumed turnover rates will tend to increase current year contribution requirements while higher assumed turnover will decrease current year contribution requirements. Milliman recommends reducing the turnover rates by 50%.

During the study period, 71 members retired. The expected aggregate number of retirements was 43. Of greater significance is the ages at which retirements are occurring. Rates of retirement at all ages other than age 58 and age 60 are higher than assumed. Minor increases to the rates between age 45-52 are recommended. The rates apply only to members who have satisfied the requirements for age and service retirement.

Zwiener said Milliman's recommendation is to modify the assumptions as put forth in the report.

Manley mentioned that $344,000 is needed each year for 10 years on the police side for the AFC to remain at 17.7%.

Carter made a motion to accept the information in the Experience Study and the Funding Projections memorandum as presented; 2nd by Milam. Discussion: Carroll stated that this is just accepting the information in the reports. The recommendations will be voted upon at a later date. Vote all: Yes.

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

Carter made a motion to move to closed session at 10:31 a.m. pursuant to Section 610.021(1) RSMo.; 2nd by Welsh Vote Yes: Bridges, Carroll, Carter, Hoffman, Martin-Hinds, Milam and Welsh. Vote no: none. Open session resumed at 10:48 a.m.

12. Adjournment

A meeting will be held December 19, 2018 at 7:30 a.m. to further discuss the sales tax projection reports as presented by Milliman.

Carter made a motion to adjourn the meeting; 2nd by Bridges Vote all: Yes. The meeting adjourned at 10:59 a.m. on December 13, 2018.

 12/13/18 Secretary Signature: Nikki White