Pension Trust Workshop
Minutes

General Employees Retirement Fund * Firefighters Retirement Fund

Wednesday, April 18, 2018 1:00 PM

Present: Board of Trustees, Pension Trust, SLCFD Board of Commissioners

Agenda Topics

Meeting called to order by Commissioner Dzadovsky

Public Comments: None

Open Workshop:

Commissioner Dzadovsky stated the topic of the meeting is about the retirement funds for the General Employees and Firefighters. Bonnie Jensen, legal counsel for both pension plans, explained that the plan is a defined benefit plan which means the formula for the benefit plan is defined. The pension plan works with a group of service providers that work on the plan operation side and plan assets side.

Doug Lozen, the Actuary from Foster and Foster, showed slides for the general employee fund to compare assets to the present value of accrued benefits. The point of the slides is to look at how high the market value of assets is to today's value of promised benefits. It has grown, but it is not at a one to one.

Commissioner Oravec wanted to know when the 2017 figures would be available. He commented that something disadvantageous must have happened between 2016 and today. Doug Lozen responded that he would have the info at the May meeting but noted that there are different measurements of the funded status and this one is different from the one he was referencing. This slide compares the actuarial value of assets (a four year smooth) to the accrued liability which projects somewhat into the future for the accrual of benefits. Ideally the goal is to be at 80% and the plan is not that far off.

Commissioner Gotz asked how the values differ from the actual value of the other chart and why does it differ? Doug Lozen explained that the first slide would pretend to freeze benefits today and that there is no more accrual of service or pay. The second slide projects pay into the future and predicts benefits will be higher in the future. Both are required in standard valuation reports.

Doug Lozen explained unfunded liability is a component of total funding and over time you would want to see it go down. In the General Plan, the trend is going up. Bonnie pointed out that all of the pension funds in Florida have been negatively affected due to the change in the mortality table mandated by the state.

Commission Dzadovsky asked that since the slides reflect a snapshot during a bad time in financial history, is it accurate to say that the plan has had better years where those graphs were different? He stated that there should be an understanding that this is a 6-year look as opposed to a 30-year horizon, therefore, it is not a scary as it looks today. Doug Lozen agreed.

Doug Lozen pointed out that all assumptions are important. The other non-investment assumptions could swamp the investment assumptions. Chief Spera noted that in 2006 the assumption was that there would be payroll growth, but in actuality, there was payroll contraction until 2011, and this offset any gains for investment during this period.

Doug Lozen explained that the experience study showed only one change in the assumptions and that was the state mandated mortality. 2015 evaluation showed that the costs were going up because the assumptions were not matching reality. The goal of the assumption and method changes is a faster path of the unfunded liability and to reduce funding volatility. Stability is more important than trying to arbitrarily keep a low contribution requirement. Both boards have now adopted reasonable assumptions.

Karen Russell, the clerk treasurer, asked how much contribution rate should we expect since the 28% is no longer viable. Doug responded it would be approximately 13-14 million. Karen asked if it could be an increase of up to a million dollars. Doug responded that it could be. Commissioner Perona asked if the actuary does peer group analysis comparatives. Doug Lozen responded they do but does not have the info on hand. Commissioner Perona mentioned that he would like to see it.

Commissioner Oravec mentioned that there is a bull market, but the percent of funded is going down. Chief Spera said it was a great concern because as the cost of the plan goes up, it starts eating into the ability to be competitive in the marketplace with the firefighters and the purchase of equipment moving forward. He said they need to contain the growing cost of the plan and decide what methodology they will chose. There are different avenues to look at. He did mention that part of the problem is due to 2000-2010 which he termed "the lost decade." There was no significant increase in investments.

Doug Lozen concluded:

- Both District pension plans are currently using actuarial assumptions and methods that are considered reasonable based on results of the experience studies, and recommends they do it every 5 years.

- The funded status for each plan is expected to increase in future years. The district's funding obligation for the firefighters' plan is expected to average about 42% for the next 10 years.
- Cone of uncertainty (the actual experience that differs from assumptions) could give you very different results.

Karen Russell told Doug Lozen that he was going to have to have the Board decide how the payment was going to be made because they cannot afford to pay it in a lump sum. Doug agreed that it would have to be made in even payments throughout the year. He said he will give payment options at the meeting in May.

Commissioner Martin asked if the 8% assumption rate has ever been met in the last several years. Doug Lozen assured her that is was met several times in the last 5 years. The question is if 8% is attainable in the long term – for the next 4 to 5 decades.

Burgess Chambers, President of BCA, has been involved with the plan for the past 13 years. He pointed out that the funds need to match different asset classes in order to achieve a stable rate of return. They also need to protect assets against inflation and have ample liquidity so pension plans can pay benefits and expenses while controlling costs.

Frank Wan, from BCA, said they need to get to the 8% with a high level of certainty. Burgess Chambers mentioned that the last 5 years the average was 7 ½ %. There are periods of over performance and under performance. The only way to avoid losing money is to get out of the stock market and switch to low volatility stable fixed assets like the bond market. They are trying to keep the plan on a stable track of investment returns, and it has had a positive fiscal year return in 10 of the last 13 years. Frank Wan stated that no one could avoid 2008, but this plan only lost 13% which was low during that time. The objective is to be conservative. Commissioner Dzadovsky pointed out that US Air lost all of its value at that time.

Frank Wan said that the plan is becoming mature. There are many factors in place and the plan is very diversified. They evaluate the plan on a quarterly basis and look at values, performance, how it ranks against different peer groups, and what it is supposed to do over the last periods. They have metrics in place so if anything falls out of line, it is addressed right away. Burgess Chambers explained that they increased the risk side by a factor of three so there will be down years. That is the nature of having exposure to equities.

Commissioner Gotz asked about putting dollars into a governmental entity like government real estate. Burgess Chambers said they have been working on it for a year, and they have clearance from the attorney general's office and they are very interested. Frank Wan mentioned that there is a limit of 5% of the total plan.

Chief Spera mentioned that they are diversifying by moving away from bonds into other things like infrastructure. Commissioner Gotz presented a plan to take 17 fire stations and leasing them for 8% so those dollars they collect as equity will support the reserve and give the pension fund an 8% return. Frank Wan stated they are trying to look for ideas without taking much more risk looking for deals in lieu of bonds. Burgess Chambers was talking about the low turnover at SLCFD, and Doug Lozen explained they changed the assumption due to low turnover. Burgess Chambers said they would support the 8% as long as the state leaves them alone. Commissioner Dzadovsky pointed out that there was a 7.341 return over last 12 years. Burgess Chambers explained that you have to have confidence in the stock market because over time it will take you where you want to be. He stated that both pension boards have excellent board members; they pay attention and are well prepared. Also, there are 19 money managers that are behind the scenes running the money and are brought in and queried regularly. The process is working.

Commissioner Gotz suggested that instead of shooting for 100% line perhaps 70% line would be better between now and 2040 so firefighters could get pay increases and put more money into the district. He stated that the national average is 65% and they should try to keep costs at a flat number so any appreciation can be utilized to fill a hole and extend increases of pay to the firefighters.

Tony Napolitano, SLCFD FF Retirement Fund Board Chair, said after all of the years he has been involved in pension plans, that the numbers work out. He stated that it is not a time to panic even though the numbers are getting higher.

Closing Comments

Commissioner Dzadovsky said to wrap up, they have work to do. The future is unsure with the new homestead exemptions coming in and the budgets will be hit. In order to be successful-discussions need to be made, solutions found, and tough decisions made. Chief Spera added that the pension board suggested looking at other scenarios such as income, investment returns, and scheduled benefits. They need to look at all of these things. It's all about bending the curve. It is a 25 to 30-year continuum. The need to look at the schedule of benefits and determine if the assumptions are correct and look at who is contributing.

Meeting adjourned