FIRE PENSION BOARD MINUTES
Wednesday, February 16, 2022 9:30 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Charles Zokvic, Chairman; Henry Losey, Secretary/Treasurer; Member: Kent Middleton **Also Present**: Heather McCarty, Records Retention Specialist

1. CALL TO ORDER

Today's meeting was called to order at 9:31 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

The Chairman noted that their Attorney would be available around 9:45 a.m. and requested that they discuss his matters at that time. He also requested that they hear all of the Finance Director's matters at the same time.

3. APPROVAL OF MINUTES

A) November 17, 2021

Mr. Losey made a motion to approve the February 16, 2022 minutes. Mr. Middleton seconded that motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. NEW BUSINESS

A) Actuarial Valuation Report – Gabriel, Roeder, Smith

Mr. Jeffrey Amrose, with Gabriel, Roeder, and Smith, referred to their Actuarial Valuation Report as of October 1, 2021 (on file in the City Clerk's office). He stated that the Plan continues to be in excellent shape. He explained that the funded ratio with the smoothed value of assets this year is 102.4%, and the real asset value is at 112.5%. He reported the required City contribution this year is $15,742, which is administration expenses, and is up from $0.00 last year. He said the increase this year is because the State contribution for this plan this year will be $0.00. He explained per Florida Statutes, when the funded ratio exceeds 100%, there will not be State money that year or again until the funded ratio on the market value of assets goes under 100%.

Mr. Dave West, with AndCo Consulting, asked if it is possible to lower the rate of return assumption to bring that funded ratio down, and could they do that in retrospect so that they still can receive State money.

Mr. Amrose answered yes, they could lower the investment return assumption, and yes, they could revise it in this Valuation. He pointed out that they are so over funded, that lowering the rate is not going to be enough to get that down enough below 100% to get the State money. He explained that is not a problem because the State money was being used to offset the City's contribution and now that is only $15,000, which is very, very low.

Mr. Zokvic asked if he has ever seen any plan have their premium tax money stopped. He thought it was past policy that they wouldn't take the premium tax money away the first year because it is too much work to reinstate it.

Mr. Amrose said he has seen it taken away. He commented that he would not be shocked if it was stopped this year because by Statute, it should be stopped.

Ms. Lawson asked what the mechanism is to make it stop and if there is a notification on the City's part to alert them. She questioned if she receives the money this year, is she supposed to give it back, or deposit it and make it a part of the Plan.

Mr. Amrose said they file this report electronically with the State and that should flag the State to stop it in August 2022. He added if they do get the check in August, which would shock him, they should speak to their attorney before they deposit the check. If they do deposit it and then the State comes back and says they inadvertently gave them that check, they would not have a way to get it back out of the Plan to give back to the State.

Ms. Lawson agreed and said she would hate to deposit it if they don't legally deserve it. She said if they get a check, they will check with their Attorney before they deposit it.

Mr. Amrose went to page 1 in their Valuation report and reviewed the Comparison of Required Employer Contributions chart. He wanted to point out that there was a $3,500 over contribution because the State contribution was more than the required contribution. They did not get a definitive answer from the State as to whether that could be used to offset the City's required contribution this year, so they left it in and reflected that the required City contribution is $15,742 this year. He pointed out that the required contribution did decrease by $144,259 this year.

At this time, the Attorney joined the meeting via GoToMmeeting and item 7-A) was discussed.

B) Annual Report

This item was discussed after the Valuation discussion.

Ms. Lawson asked if the Valuation was conditionally approved or could she rely on it for her audited financial statements and supply it to the auditors. Mr. Zokvic answered yes, they did approve it and she can. He does not see them making changes to it.

Ms. Lawson reviewed that the Annual Report is basically a recap of the Valuation report.

Mr. Losey made a motion to approve the Annual Report and submit it to the State. Mr. Middleton seconded the motion and it passed unanimously.

C) Detailed Accounting Report

Ms. Lawson reviewed that the Detailed Accounting Report is just a housekeeping item and they are the same numbers that are in the State report.

Ms. Lawson said she does not have an update on E-verify. She explained that she is keeping an eye on what the Police Pension Board is doing. She said the worst case scenario is that they will have to get their own Employer Identification Number (EIN), which is not easy.

D) Expected Annual Rate of Return

Mr. West stated that he thinks there is a reasonable probability that over the long term, the immediate term, and over any given fiscal year, the current allocation is reasonable and they expect to receive a 6% rate of return.

Mr. Losey made a motion to accept the recommended 6% annual expected rate of return. Mr. Middleton seconded the motion and it passed unanimously.

6. QUARTERLY REPORTS

A) Highland Capital Management

Mr. Todd Wishnia, with Highland Capital, talked about the rising inflation and other events going on with the economy, including the supply chain issues. He went to his report for the quarter ending December 31, 2021 (on file in the City Clerk's office). He went over the returns shown on page 10, Performance Returns for Various Periods. He reviewed they added growth in August of 2020 and did it slowly and conservatively. He commented this current quarter is a little tricky, but they are working their way through it.

Mr. West talked about the rebalancing they did last quarter, which he felt worked out very well. He reviewed that they moved the money over to equities. He still thinks that was a correct risk adjustment to be made to the portfolio. He asked Mr. Wishnia his thoughts on credit exposure and would they be going forward on moving into higher quality orientation. He said the easiest way for a bond manager to outperform the index is to overweight corporate bonds.

Mr. Wishnia said they do not hold any BBB bonds in this Board's portfolio. He said historically, they have been very heavy corporate bonds. He went over page 15, Fixed Income Sector Allocations. He pointed out they are down to 23% in corporate bonds, and in the past, it had been around 60%. He added that with this particular plan, they have not been able to buy those riskier BBB bonds.

Mr. West talked about protective mechanisms that are in place and thinks their manager's strategy is working and should serve them very well in any future downturns.

Mr. Wishnia agreed. He wanted to point out that they will see fewer trades and this current quarter there is no movement growth to value.

B) Salem Trust

1. Class Action Report

Mrs. Karen Russo, with Salem Trust, reviewed her Class Action Report for the quarter ending December 31, 2021 (on file in the City Clerk's office). She reported there were no claims filed for the quarter, but they did receive in a claim for $107.13.

2. Signature Authorization Form

Mrs. Russo said that every three (3) years, they like to update the authorized signors they can take direction from and requested that everyone sign the form (the executed form is on file in the City Clerk's office).

3. Confirmation of Statement Recipients

Mrs. Russo went over the Confirmation of Statement Recipients form (on file in the City Clerk's office). She asked if there were any additions or changes they would like.

The Board agreed everything was good and that they did not want any changes made.

Mrs. Russo said that she has a conflict with the May meeting date and would like to send someone else in her place if that was okay with the Board.

The Board said they are fine with someone else attending.

Mrs. Russo talked about the new pension portal they are going to be rolling out as a new service for pensioners if they choose to use it. She said there are three (3) areas they can turn on to allow the retirees to make changes, which are address changes, direct deposit changes, and withholding changes. The Board can allow one (1) or more of those if they choose to. Also, they could give access to the City Clerk's office so they can pull up a .pdf that shows the changes that have been made by retirees. She said that anyone who signs up for it can stop receiving everything in the mail and can look at everything electronically. It will have history going back two (2) years. She added that there is no cost for this service. They intend to roll it out the first quarter and will notify all the retirees at that time. She emphasized if a retiree doesn't want to use the portal, they do not have too and they will still have everything mailed to them.

Mr. Zokvic felt some of their retirees would not want to do it that way. He said they would think about it and discuss it at a later meeting.

At this time, there was a 5-minute break.

C) AndCo Consulting

Mr. West referred to his report for the quarter ending December 31, 2021 (on file in the City Clerk's office). He talked about the firm update on page 1 and the Organizational Chart on page 2. He went over the chart on page 12, Market Rate & Yield Curve Comparison. He talked about some of the things that have been going on this quarter. He thinks they are going to be in reasonably good shape for next quarter. He reviewed the chart on page 15, Asset Allocation by Asset Class. He explained normally in this environment, he would suggest an equity rebalancing, but they already did that. But they are in such a good position, they don't necessarily need to take any additional risk with the portfolio. He thinks with Highland's allocations, he doesn't think they need to do anything. If the Board agrees, they will stay the course and ride it out.

Mr. West reviewed page 19, Cumulative Performance Trailing Returns. He went through the various returns for the quarter, fiscal year to date (FYTD), and the one (1), three (3) and five (5) year numbers. On page 20, he pointed out that the Intercontinental fund was up 9.34% for the quarter and 24% for the year. He reviewed the cash flow shown on page 21 and reported that they opened the quarter on October 1, 2021 with $8,002,656 and ended the quarter on December 31, 2021 with a market value of $8,214,531.

Mr. West said there are no actions or recommendations necessary today. He said they had a great discussion and have some things to be thinking about.

Mr. Losey commented that he has been on the Board since 1997. They started at $7 million and are now at $8 million and everyone has received their checks over the years and they've made capital gains of a million dollars.

Mr. West agreed. He stated their investment program has worked very well.

*At this time, item 9-A was discussed.

7. ATTORNEY MATTERS

A) 2021 Special Tax Notice Klausner Memo

Mr. Adam Levinsen, of Klausner and Kauffman, commented that the good news is that they are a closed fund and things are working well from their vantage point. He reported that Tallahassee is very quiet right now in terms of Legislation. There is a bill potentially related to COVID and presumption that didn't move last year and is not moving this year.

Mr. Levinsen wanted to encourage the Trustees to give some thought about some of the conferences available for education opportunities.

Mr. Zokvic asked if they have had any funds that the State has taken away the Premium Tax money the first year they are over 100%. Mr. Levinsen brought up their Share Plan infrastructure.

Mr. Amrose reviewed that since this is a closed plan and significantly over 100%, by Florida Statute, they should no longer get the State money. He said the Chairman was wanting to know if the State would be quick enough to stop it in the first year that it happens. He said if they do inadvertently receive the money, the Finance Director's question was should they deposit it even though, by Florida Statute, it should have stopped.

Mr. Levinsen read from Chapter 58-81, Share Plan. He said he doesn't know if they will turn it off this year, but he would have some arguments regarding the Special Benefit threshold.

Mr. Amrose commented that according to Florida Statutes, it should be stopped.

Mr. Levinsen explained they have levers and they would have the conversation with the State, that by having the share plan, the State should not stop the money. He said they could lower the rate of assumption and tweak some other assumptions to lower the funded ratio.

Mr. Amrose said they are at a 6% assumption, which is good. He explained they could lower it a little more, but they are so over funded, that even if they lowered it to 5%, it would not be enough to get under 100%. He said that lever would not help being pulled. He said they could also have benefit improvements, which he will discuss, to lower it.

Mr. Levinsen said if they really want to take risk off the table, they could make it lower than 5%. Another lever is benefit enhancement. He commented that how cynical they would have to be to say the City should be penalized for having a well-funded pension plan. He said these are things that could be discussed at a future meeting.

Mr. Levinsen referred to their 2021 Special Tax Notice Klausner Memo (on file in the City Clerk's office). He explained they just updated the form that the IRS said they needed to have. He talked about some of the circumstances that could occur when they would need to use it, in their case, it is not that relevant.

Mr. Amrose asked if he would advise the Board to contact the State now to find out if they are planning on stopping the money, rather than wait until August.

Mr. Levinsen said he wants to set up a meeting with his senior partner, Bob Klausner. He will then get with the Chairman. He felt they could let sleeping dogs lie, as the expression goes. He said that Tallahassee is not interested in turning off their money and he couldn't think of any City where they have done that. He said that he has reasons why they shouldn't turn off the money and questioned why would they alert them to something when he is going to be telling them they shouldn't turn off the money. He said if they want to be proactive, they could let them get ahead of it and use persuasion and convince them why they don't need to pay attention to this. He added that if they insist on turning off the money, one (1) of the options would be to increase benefits.

Mr. Levinsen said he is not aware of any plans having this identical situation. He explained his underlying argument is they do have a share plan and they do not need to turn off the money. He will reach out in the next week after his office has done some more research, but he said at the moment he is inclined not to kick the sleeping dog particularly because there is a lot of gray areas and they have strong arguments.

At this time, the Attorney left the meeting and they went back to the discussion of item 5-A).

Mr. Amrose said he doesn't disagree with their investment return assumption, but based on current asset allocation, they could certainly move that 6% lower, maybe even to 5%. And at 5%, the funded ration may go down to 105% to 108%, but it's not going to solve the issue of not getting State money. He commented that if Mr. West and the Board and the City all decided to go 100% cash, then they could go way lower, but he doesn't think they would want to consider doing that.

Mr. Amrose went over page 2 in the Valuation. He reported this past year, they had a \$148,035 net actuarial gain and the investment return was 22.6% based on the market value of assets. He explained the only way to get the funded ratio based on market value of assets below 100% is to increase liability or decrease the assets by \$885,000. He said if nothing is done, the required City contribution will be very low around \$15,000 every year for administrate expenses unless the Plan comes out of surplus position. He said as of October 1, 2021, the surplus position is only $170,000. If the surplus position is eliminated in future years, the City's required contribution will include amortization payments on the unfunded accrued liability.

Mr. Amrose explained a bad scenario for the City would be if the funded ration on smooth value assets goes below 100% but the funded ratio on the market value stays above 100, but there is a lever they can pull if that happens.

Mr. Amrose said if the decision is made to try to keep the State money for this year, one (1) option would be to provide a significant COLA to the Retirees. He explained the COLA would need to increase the liability by $885,000 so the funded ratio on the market value goes below 100%. He said if this is done, the State contribution will not be forfeited and the required City contribution would go from $15,000 to $0.00 because of the $160,000 offset and the retirees would have $885,000 to split up. He explained the downside is that the City would have eliminated their full surplus position and in the future years, if there is a loss, they will be required to pay the full required contribution, where now they have the big cushion of $885,000. He added that the other option to get that State money to come in would be to give the retirees something worth $885,000, either a one-time payment or annual increases.

Mr. Zokvic asked if they didn't go for a COLA, could they do a supplemental to help their health insurance payments. He asked if there is a way to get half COLA and half supplemental. Mr. Amrose said if it is money coming out of this pension plan, they can call it whatever they want, but it would serve the purpose and raise the liability.

Mr. Amrose said the question is if the City wants to eliminate that $885,000 surplus.

Ms. Lawson commented that she can't think of being so overfunded as anything but a good thing. She added that from her perspective if she was a pensioner, having her pension fund very comfortably over funded would make her happy. She said that to pull themselves back below a good 100% funding simply to keep getting money that they don't actually need right now, it seems like a lot of contortions to artificially bring the plan back below what seems like a pretty good place right now.

Mr. Amrose said he agreed 100% that it is a great position to be in. He is posing possibilities of ways to keep that State money, but he agrees with Ms. Lawson. Unless something really adverse and bad experience happens, the required City contribution is going to stay very, very low.

Mr. Zokvic said his only concern is that if the State money stops premium tax money, any time he has talked to the State at a State meeting, they say it's very hard to get it reinstated once they completely stop it.

Mr. Amrose thinks that is in reference to when a plan opts out of their local plan and switches to the Florida Retirement System (FRS), the State money shuts off and it is very difficult to go back to a local plan receiving the State money. He said theirs is a different situation.

Mr. Zokvic asked at what point does the Board think about a pension change for the retirees to help the situation.

Ms. Lawson said they are an independent Pension Board and if they want to make recommendations to the City Council that they enhance their benefits in a way that brings them back down closer to 100%, that is absolutely their prerogative. She added that if they want to pull some of the levers they are discussing, they might have some time to do that. She wanted to emphasize the point that being fully funded is not a bad thing.

Mr. Losey brought up when they came up with the 13th check and thought that was to help them always stay at a point where they get the insurance money that is charged to every homeowner in the City. He pointed out that the State isn't giving them money; they already collected the money. He said that now they're here and he thinks it looks like somebody dropped the ball on the thoughts to keep them on an even keel. He doesn't require the City to pay them anything, but he does think they are entitled to the money from the taxes that the state collects. He reiterated that he doesn't understand how they got here with the safeguards that they had supposedly put in years ago.

Mr. Amrose explained they got here because the market value of assets performed extremely well and no one could predict they would have a 23% return in the last year. He said the State is still going to collect the taxes from all the Vero Beach residents, but what he understands is that they are going to be allocated to other cities now. They are discussing ways to keep the money collected from Vero Beach residents here with this Pension Plan. He added that they have been discussing this for at least five (5) years. No one predicted such a phenomenal return. When COVID started, assets got pummeled. He pointed out that the only one benefiting from the State money was the City to offset their contribution.

Mr. Zokvic asked before the Fresh Start when he moves the market value and the actuarial value to the same, what happens to actuarial loss because that is what controls whether they get a 13th check and that just keeps going up. He asked how do they wipe that clean because 2008 is when they got into that problem and now its 2022 and they are still paying for it.

Mr. Amrose went to the chart on page 16, Cumulative Actuarial Gains (losses). He explained to get the 13th check, you need a gain through the years and you need to have cumulative gains from 2005 when the provision was put into place through today. They are in a $1.4 million loss position. He explained with fresh start, they could use the $885,000 of investment gains to offset $1.4 million to about $500,000 but they would still be in a loss position, but that wouldn't be as difficult to overcome as it is today. If they fresh start immediately and those gains get recognized immediately, then this $1.4 million loss position goes down.

Mr. West asked when they are determining the value of that cumulative loss, if they were to lower the target rate assumption, would that increase the present actuarial value of this loss.

Mr. Amrose answered no, if they lowered the rate from 6% to 5%, they would still have $1.375 million of a cumulative loss position. He explained the chart on page 16 and that it takes each year's gain or loss and tracks it year by year including interest and that is how they get to the $1.375 million.

Mr. West asked if they did make any changes to any assumptions, would it have any impact. Mr. Amrose answered that it would not have any impact on the cumulative position.

Mr. West said from the consultant's chair, as far as investments go, his opinion is that the best approach to take would be to continue with their pretty conservatively allocated portfolio that is going to achieve reasonable returns over time with a reasonable amount of volatility. The way they are structured, they should weather reasonably well the next market disaster scenario. He thinks if they leave the portfolio allocation basically the way it is he thinks there is a reasonable probability that they should continue to outperform over time to the current rate of return assumption and that will continue to put them in a better over funded position. He suggested they leave the rate of return where it is and leave the asset allocation in place as it is and let it ride.

Mr. Zokvic asked if they stay the same with the 6% rate of return and the same allocations, are they going to be in a spot where they have to do improvements to the Plan, or are they going to sit and wait and see what the State is going to do with the premium tax money.

Mr. Amrose said he would like to know now if the State is going to stop their money so they could take appropriate actions, whether it is benefit increases or having their Attorney fight with the State and saying no, you can't shut off the money for this reason. He said he would like to be a part of that call with their Mr. Levinsen.

Mr. Amrose said if they want to approve the Valuation the way it is, they need a motion. If they want to have the discussion with the Attorney next week before approving this report, that's fine too. He said if they approve it today and next week tell him to hold off sending it to the State, he will.

Ms. Lawson pointed out they have deadlines with the State and she has deadlines for the completion of her audited financial statements which she cannot do without acceptance of this Valuation and if it is going to change, she needs to know that sooner than later because that would preclude her from meeting her deadlines.

Mr. Zokvic asked if there would be a problem holding off for 10 days to send it to the State if they approve it today. Mr. Amrose said that would not be a problem.

Mr. Losey made a motion to approve the Valuation as presented. Mr. Middleton seconded the motion and it passed unanimously.

*At this time, item 5-B) was discussed**.**

8. OLD BUSINESS

A) Update on E-Verify

This item was previously discussed.

9. CHAIRMAN'S MATTERS

A) Pension Options Elected by Retirees

Mr. Amrose reviewed they have a situation where a retiree was receiving his benefit as a 100% joint survivor annuity and now his spouse has passed away. He asked if he is now asking to name another beneficiary.

Mr. Zokvic answered no. He said the issue is that the Board has never had this happen before. He asked if they either have to change him from beneficiary to lifetime only, or have him change his beneficiary, which would cause him to lose money if they are younger than him.

Mr. Amrose explained he has two (2) choices. He can leave his pension alone and it will be payable for the rest of his life for the same amount. Alternately, he could name a new beneficiary. But if the new beneficiary is younger, his amount will go down and it will require a new calculation of his monthly benefit.

Mr. Zokvic asked if they need to change his option on the Annual Report. Mr. Amrose said that next year's report would reflect the different option, due to the date she passed.

Mr. Losey asked if when they retire and put their spouse as the beneficiary, isn't that prorated based on their age at that time. Mr. Amrose answered yes.

Mr. Losey said if they want to change it now and the new beneficiary is 20 years younger than you, wouldn't that come into play. Mr. Amrose answered yes. He explained they would have to calculate the amount up or down to include the new beneficiary. He said it would certainly go down if you picked someone much younger.

Mr. Amrose pointed out that there are rules in the Florida Statues that prohibit naming too young of a beneficiary. He explained the member can certainly name one other beneficiary, but there can't be any other changes.

Mr. Zokvic said they just wanted to review what the options are so they know now if he wants to change it.

Mr. Amrose said if they give him the new beneficiary's date of birth, they can calculate what the adjusted benefit is.

10. MEMBER'S MATTERS

None

11. ADJOURNMENT

Today's meeting adjourned at 11:39 a.m.

/hm