

FIRE PENSION BOARD MINUTES
Wednesday, February 17, 2021 9:30 a.m.
City Hall, Council Chambers, Vero Beach, Florida

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

1. CALL TO ORDER

Today's meeting was called to order at 9:30 a.m.

2. AGENDA ADDITIONS, DELETIONS AND ADOPTION

The Chairman requested that they change the order on the agenda and discuss item 5-B) first, followed by items 6-A) and then 6-B).

Mr. Losey made a motion to adopt the agenda with the changes. Mr. Middleton seconded the motion and it passed unanimously.

3. APPROVAL OF MINUTES

A) November 18, 2020

Mr. Losey made a motion to approve the November 18, 2020 Fire Pension Board minutes. Mr. Middleton seconded the motion and it passed unanimously.

4. PUBLIC COMMENTS

None

5. QUARTERLY REPORTS

A) Highland Capital Management

This item was discussed after item 6-B).

Mr. Todd Wishnia, with Highland Capital, reported that there was some good performance this quarter. He said they saw value outperform growth, which was very good for the way this portfolio is structured. He explained that what had been hurting the portfolio over the past year started to pay off. He talked about some of the changes they made to the portfolio. He said that there was a big boost in December to the banks, and being overweight to banks helped their portfolio, as did with materials. He went to their Investment Report for the period ending December 31, 2020 (on file in the City Clerk's office). He went over the returns shown in

the chart on page 12, Performance Returns for Various Periods, and the International Equity Country Allocation chart on page 17.

B) Salem Trust

* This item was discussed after item 4).

Mrs. Karen Russo, with Salem Trust, attended today's meeting via Go-To Meeting. She referred to their Class Action Report for the period October 1, 2020 through December 31, 2020. She reported that there were two (2) claims filed during the period, both with Lexmark International, and a settlement in the amount of \$59.51 was received from Wells Fargo.

Mr. Zokvic asked if everything went okay with their payment in February.

Mrs. Russo said she has not heard of any issues.

Mr. Zokvic asked when a change happens, who contacts the other person to let them know. Mrs. Russo said that they make the changes in their system, but they do not reach out to TASC.

Mrs. Russo reported that they mailed the 1099-R forms out in January.

Mr. Losey asked why they received two (2) of them. Mrs. Russo explained because of the change in their system, there were two (2) sent out, one (1) that covered from January 1st to March 31st and the other from March 31st to December 31st.

Mr. Zokvic pointed out that their Pension Plan is joining E-verify, so they eventually will get a letter from them saying they are part of E-Verify and they will need confirmation that they have checked out all their employees. He explained that they State passed a law that all governments need to have E-Verify for any contractual people. Mrs. Russo said she is aware of that and they are already following those guidelines so there are no issues there.

C) AndCo Consulting

Mr. Dave West, with Andco Consulting, said that there were a few items he wanted to discuss today. The first was a firm update, shown on page 1 in their Investment Review Report for the period ending December 31, 2020 (on file in the City Clerk's office). He summarized that this was a period of positive surprises, which pushed the market up. He said there was a better than expected rollout of vaccines and a better than expected state of the economy along with stimulus packages. He said the forecasts for the end of this year and next year have been revised upwards pretty dramatically. He went over the numbers in the quarter performance chart on page 4, Major Market Index Performance. He reviewed the chart, 1-Year Trailing Market Rates, on page 11 and the overall asset allocation shown on page 12. He talked about the rebalancing they have done. He said that Highland is following through with all the changes they talked about. His recommendation today is to rebalance International Equity and place

those monies into the Core Fixed Income portfolio. He thinks this is a good time to do this. He asked for a motion to rebalance domestic equity closer to the long term target by selling 7% of the total asset value, which is \$530,000. Those monies would then be transferred to the Highland Fixed Income portfolio.

Mr. Wishnia asked to confirm that he is wanting them to take that money from International. Mr. West said that correct, it would be all International.

Mr. Losey made a motion that they move 7% out of International Value in to Fixed Income. Mr. Middleton seconded the motion and it passed unanimously.

Mr. West said they would work with Highland Capital to get that done.

Mr. West continued in his report on page 16, Schedule of Investable Assets, emphasizing that their investment program has been very successful over time. He said since inception in December 1990, they had a beginning market value of \$3,097,990 and it ended in December 2020 with a market value of \$7,572,948. He went over page 17, Comparative Performance Trailing Returns. He reported that the total all-in for the fiscal year to date (FYTD) was up 10.28%, which blew away the benchmark at 7.6%. He said this was a great quarter. He went over the quarter and FYTD numbers, shown on pages 17 to 18.

Mr. West said that Intercontinental is anticipating getting back to business as usual after the end of the June quarter. He said the Board did submit a redemption request before the door closed, so they are in the que. He said it is likely that they will get paid out after the June quarter. He noted that they had already received some of the money.

Mr. West reviewed the cash flow shown on page 19. He reported that they opened the fiscal year on October 1, 2020 with a market value of \$7,056,835 and ended the quarter on December 31, 2020 with a market value of \$7,572,948.

At this time, item 6-C) was discussed.

6. NEW BUSINESS

A) Actuarial Valuation Report – Gabriel, Roeder, Smith

Mr. Jeff Amrose, with Gabriel Roeder Smith joined the meeting via Go-To meeting. He referred to their Valuation Report as of October 1, 2020 (on file in the City Clerk's office). He stated that this Plan continues to be in very good shape. He explained that the funded ratio is 98.4% this year. He added that the required state contribution in this closed plan has been very stable. In 33 years, the required State contribution has been between \$0 and \$146,000. He pointed out the required contribution this year is about \$17,000.

Mr. Amrose went through the Valuation, beginning with the overview on page 1. He reviewed the chart, Comparison of Required Employer Contributions. He explained how the required contribution decreased \$83,281 this year because of the change to the mortality assumption in this valuation report. He went over page 2, going through the Actuarial experience and funded ratio. He said they have discussed previously that if the funded ratio increases to 100% based on the market value, the State money will not be given for that particular year. He talked about lowering the risk appetite of the plan and also lowering the investment return assumption to address the funded ratio if it reaches 100%. He added they could also move the liability up by increasing the Cost of Living Adjustment (COLA) to the retirees.

Mr. West said that he wanted to confirm that the road map he laid out makes perfect sense from their perspective and he will be ready to have that discussion depending on how quickly the funded ratio gets to 100%. He welcomes the discussion to de-risking and dropping the rate of return assumption as low as tolerable.

Mr. West noted that the interest rates appear to be rising. He said if the timing works out that interest rates are higher than where they are now, that will be a much easier time to de-risk the portfolio because that means they are going to be putting more money into bonds.

Mr. Zokvic commented that the Retirees would like an increase in the COLA.

Mr. Amrose continued going through the Valuation at the bottom of page 2. He explained that there is an amortization charge that expires at the end of this year and as a result, the required contribution will decrease by that amount in their 2021 Valuation report, and the same thing will happen in their 2022 report. He pointed out that the smooth value of assets is greater than the real market value of assets by \$217,000, which represents unrecognized investment losses.

Mr. Amrose went over the charts on page 8, Actuarially Determined Employer Contribution (ADEC); page 10, Calculation of Employer Normal Cost; and page 11, Liquidation of the Unfunded Actuarial Accrued Liability.

Mr. Zokvic commented that the State hasn't moved too fast in the past when a Plan reaches 100%, and asked when they should start thinking about making these changes.

Mr. Amrose answered that is a Board decision. He said if the market performs very well and no one dies, the possibility of reaching 100% increases. He said they can take action before it happens, or when they come in with a Valuation that shows it at or over 100%. He said when it happens, he will come to them and say they have an issue.

Mr. Zokvic added that they have already lost a person this year and that information will be going to him. Mr. Amrose said that will be reflected in the 2021 report.

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

Mr. Amrose added that a 13th check is not payable this year to retirees and beneficiaries.

B) Annual Report

Ms. Cindy Lawson, Finance Director, commented that if Mr. Amrose brings this issue to them next February and they have to make changes to get it below 100%, it puts pressure on her for getting it done in time to produce the annual financial reports that this is a part of. She asked them to consider accelerating the conversation about the preliminary valuation results by a month or so, then if they are going to make adjustments, Mr. Amrose has time to do that and bring it back to them. When she gives Mr. Amrose the information in November, he will have an idea if they need to make changes and he could be on the November agenda to have that conversation then instead of waiting until February.

Ms. Lawson referred to the Annual Report and explained it is the State's version of the Valuation Report.

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

Ms. Lawson asked if they are okay with discussing making changes if need be in November.

Mr. Amrose said he would have a good idea by November if they are going to be close to 100% and they could discuss that in November.

Ms. Lawson said that she would get him her information as soon as she has the September Salem Trust reports.

C) Expected Annual Rate of Return

Mr. West said that every year the State requires them to set an expected annual rate of return and report that to them. They now have a 6% assumption in place. Mr. West said that for this fiscal year, they are comfortable that the current allocation has a reasonable probability of achieving that 6% rate of return over the long term, intermediate term and over the short term, notwithstanding that they recognize that plan investments may exceed or fall short in any given fiscal year. He said that he would provide the draft letter for them to send to the State.

Mr. Zokvic made a motion to approve the 6% annual investment rate of return. Mr. Losey seconded the motion and it passed unanimously.

D) Klausner Memo

1) New Florida Law Requirement – Use of E-Verify

Mr. Zokvic referred to the memo from their Attorney that was included in their backup (on file in the City Clerk's office). He said he does not know who does it for the City, but according to their Attorney, they have to have their own E-Verify account. He asked if the Board wanted to give him the ability to look into how they are going to handle it. He said that whoever they put down on the application is going to have to be available to answer any questions.

Mr. West said from the Board's perspective, the law is requiring that the Pension Boards confirm that their vendors and the City is complying with that provision and using E-Verify, which requires that any new hires would have to go through the E-Verify process. He said he thinks that would fall outside their purview. He said it is more focused on their vendors and Highland, AndCo and Salem Trust would need to provide confirmation that they are complying with the law.

Mr. Zokvic said once the Pension Plan gets setup on E-Verify, they will send them a letter like the sample their Attorney sent (on file in the City Clerk's office) and for their next contract, they will have to prove all their employees are e-verified. If they do it beforehand, they could send them a letter stating that they have met the requirements.

Mr. Wishnia said they are in compliance and can send them their letter stating that.

The Board has to work on getting set up and certified as an E-Verify plan. He is not sure if the City is going to go through Human Resources or the City Clerk's office.

Mr. Losey made a motion to allow Mr. Zokvic to be in charge of that. Mr. Middleton seconded the motion and it passed unanimously.

2) Best Practices for Locating Missing or Nonresponsive Participants and Beneficiaries

Mr. Zokvic referred to the other memo from their Attorney (on file in the City Clerk's office). He said that they already have a system set in to place with the Annual Verification letters that get mailed out and have to be notarized. Then if they don't receive the letter back, they will be contacted again and could have their benefit stopped. He said they haven't had any outstanding the whole time the Plan been has been in existence.

Mr. Losey asked if they needed to take any action. Mr. Zokvic said the Board needs to have a policy, which they have had for many years, but he doesn't think it is a written down policy. He said it might be mentioned in the Salem Trust contract because they pay them to do it. He added that they use the Summary Plan Description (SPD) to review all the things that the Plan does and the Board does.

Mr. Losey brought up sending the Annual Verification letters certified so that it would need to be signed for. Now they send out a letter and they have to take it and get it notarized. He

expressed concerns about having them notarized and to protect themselves, he felt it should be a certified letter.

Mr. Zokvic suggested they put this on their next agenda and discuss it with Salem Trust what the cost would be to have them go out certified.

Mr. Losey expressed concern about sending them regular mail. He thinks if it falls through a crack, it would fall back on them because maybe they didn't have the best verification system in place.

Mr. Zokvic said they could mail them certified and require them to be notarized as well. They could also request that the Police Department runs all the retirees through the system to see what they can find out.

Mr. Losey felt that they should come up with something else other than the current letter system because he sees there could be an issue with fraud.

Mr. Losey made a motion that they add to their next agenda a discussion of this and make a ruling on new procedures for verifying beneficiaries and retirees are still alive. Mr. Middleton seconded the motion and it passed unanimously.

7. OLD BUSINESS

None

8. CHAIRMAN'S MATTERS

Mr. Zokvic commented that they won't be getting any State schooling for a while because of Covid-19.

9. MEMBER'S MATTERS

None

10. ADJOURNMENT

Today's meeting adjourned at 11:00 a.m.

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