

# ROCKLEDGE FIRE EMPLOYEES' RETIREMENT BOARD MEETING MINUTES

Friday, February 21, 2020

## CALL TO ORDER

The Rockledge Fire Employees' Retirement Board held its quarterly meeting on Friday, February 21, 2020 in the Council Chamber of Rockledge City Hall, 1600 Huntington Lane, Rockledge, Florida.

MEMBERS PRESENT: Chairman Jeptha Sunday, Fifth Member  
Mike McCaleb, Fire Representative (tardy)  
Ed Syfrett, Fire Representative  
Thomas "Pat" O'Neil, Resident Member  
John Mulkey, Resident Member

STAFF/CONSULTANTS: Kenneth Harrison, Board Attorney - Sugarman & Susskind  
Chad Little, Actuary - Freiman Little Actuaries  
Tyler Grumbles, Investment Consultant – AndCo Consulting  
Karan Rounsavall, Plan Administrator  
Brenda Fettrow, City Manager  
Matthew Trine, Finance Director

Chairman Sunday called the meeting to order at 9:00 a.m. A quorum was in attendance. Board members welcomed Pat O'Neil, new resident member. Member O'Neil was appointed by the Rockledge City Council at its January 15, 2020 meeting.

## ELECTION OF OFFICERS

It was necessary to elect a chairman and secretary. Nominations were opened. Member Mulkey moved to retain the current officers: Chairman Jeptha Sunday and Secretary Ed Syfrett. Member O'Neil seconded the motion which carried unanimously.

## APPROVAL OF MINUTES

Joint Quarterly Meeting of November 22, 2019

*Member Syfrett moved to approve minutes for the November 22, 2019 joint quarterly meeting as submitted. Member Mulkey seconded the motion and it carried unanimously.*

## OLD BUSINESS

Discussion and possible action related to provision of self-directed DROP accounts with ICMA-RC

At the November 22, 2019 joint meeting, board members directed the attorney to contact ICMA representatives to discuss concerns with participants leaving their assets in self-directed DROP accounts after completing their DROP enrollment and separating service. As long as these assets remained in the self-directed DROP, they were considered plan assets and accounted for accordingly. This presented challenges when reconciling assets at the end of each fiscal year. It was hoped the attorney could prevail upon ICMA to assume a role in requiring participants to transfer individual assets out of their retirement plan account upon exit from DROP.

Attorney Harrison reported that ICMA had been completely uncooperative as it related to the collective boards' request for assistance in this matter. So much so, that the attorney recommended that the retirement boards look for another provider for self-directed DROP accounts. It was suggested that *Nationwide Retirement Solutions* was a possible vendor for such services. The City of Rockledge currently had a contract with Nationwide for deferred compensation (457) accounts.

*Member Mulkey moved to direct the attorney to contact Nationwide to determine whether it could provide self-directed accounts (401a) for the retirement boards. Member O'Neil seconded the motion which carried on an all-yes vote.*

On a somewhat related matter, Actuary Little suggested a revision to the overall DROP policy requiring a participant to make an investment election as to their DROP account within a time certain. There was no objection to his suggestion.

### Consideration of plan amendment to allow cross credit for vesting purposes only between the Rockledge Retirement Plans

The matter of cross credit had been discussed by the retirement boards on numerous occasions in the past. Cross credit allowed an employee who was hired as a member of one retirement plan, and later hired as a member of another plan, to retain their credited service in both plans for vesting purposes. All three retirement boards would need to adopt cross credit provisions for it to operate effectively. Attorney Harrison opined that the introduction of cross credit provisions would not be subject to collective bargaining.

Member Mulkey felt it was unfair to an individual who worked for the City of Rockledge for their career to be denied credited service earned in one retirement plan if they ultimately moved to another plan. *Member Mulkey moved to direct the attorney to prepare an ordinance allowing cross credit between the three retirement plans for vesting purposes only. Member O'Neil seconded the motion.*

City Manager Fettrow sought clarification as to whether the implementation of cross credit would be prospective. There were several recent instances in which an employee moved from one retirement plan to another and received a refund of employee contributions from the former. Attorney Harrison felt that such an individual should be given an option to regain time worked in a former plan even if it was "after the fact." The retirement board could consider these situations on a case-by-case basis.

*The motion carried unanimously.*

## **NEW BUSINESS**

### Update signature authorization forms for Salem Trust Company (plan custodian) and Chevy Chase Company (ASB Allegiance Real Estate Fund)

This was an administrative matter as there were new trustees on each retirement board. All trustees and the plan administrator were authorized signatories. *It was the board's consensus to direct the plan administrator to collect the necessary signatures and provide the forms to Salem Trust Company and Chevy Chase Company.*

## REPORTS & COMMUNICATIONS

### Report: Actuarial Consultant (Chad Little, Freiman Little Actuaries, LLC) Presentation of annual valuation as of October 1, 2019

- Declare expected annual rate of investment return for assets of the Rockledge Fire Employees' Retirement Plan

Actuary Chad Little presented the October 1, 2019 Actuarial Valuation Report for the Rockledge Fire Employees' Retirement Plan. The valuation established minimum funding requirements for the fiscal year beginning October 1, 2020 (i.e. 2020/2021). The report also included GASB 67/68 disclosure information.

The minimum funding requirement for the ensuing fiscal year was \$614,683 which included an estimated state contribution of \$155,266. This was a slight increase over the current funding level of \$600,237. Expressed as a percentage of pensionable payroll, the city's minimum contribution (including state monies) was 33.44 percent which was a decrease from the current level. The city continued to prefund its contributions (as opposed to contributions submitted throughout the year coincident with biweekly payroll).

The investment return on the "market" value of assets was 3.49 percent; the return on the "actuarial/smoothed" value of assets was 7.14 percent which was less than the 7.8 percent assumed investment rate of return. Mr. Little noted that all his retirement plan clients had returns in the three percent range for the 2019 fiscal year. This reflected the December 2018 quarter which was considerably negative. He strongly urged the board to lower its assumed rate of return and mentioned that the State of Florida recently lowered its return expectation to 7.2 percent.

The unfunded accrued liability (UAL) as of the valuation date was \$2,916,804. The Plan's funded status was 80.74 percent representing an increase over the previous year's funded percentage of 78.44 percent.

Several new exhibits were included in the valuation, specifically an assessment and disclosure of risk involved in funding a retirement plan. This review looked at the impact on funded status of a retirement plan given up to a two percent decrease or increase in market value. Another exhibit examined total disbursements (benefit payments plus expenses) against contributions to the retirement plan. The Rockledge Fire Retirement Plan was approaching a "net seller" position where benefit payments might exceed contributions in the foreseeable future which stressed the criticality of investment returns to meet the retirement plan's obligations.

Given capital market assumptions, Mr. Little recommended that the board entertain discussion at a future meeting to lower the 7.8 percent assumed rate of return. To lessen the budgetary impact on the city, this could be done with gradual decreases over time.

*Member Syfrett moved to approve the annual actuarial valuation as of October 1, 2019 as presented. Member Mulkey seconded the motion; it carried on an all-yes vote.*

*Member Mulkey then moved to declare an expected rate of return of 7.8 percent on investments going forward. Member Syfrett seconded the motion which carried unanimously.*

Plan Administrator Rounsavall would prepare the necessary correspondence to the Division of Retirement advising of the expected annual rate of return for the plan.

*Member McCaleb arrived at this point (10:10 a.m.)*

Report: Investment Consultant (Tyler Grumbles, AndCo Consulting)

- Investment Performance Report for quarter ended December 31, 2019

Mr. Grumbles began by reinforcing AndCo's commitment to represent the sole interest of their clients and expressed appreciation for the opportunity to serve the Rockledge Retirement Plans. He went on to deliver the Investment Performance Report for the quarter ended December 31, 2019. It was an excellent quarter with domestic equity as well as international/emerging equities enjoying strong positive results. Fixed income returns were not as impressive. Mr. Grumbles emphasized the importance of bonds in a portfolio to manage volatility.

Total market value as of December 31, 2019 was \$12,859,142 up from \$11,889,769 for the previous quarter ended September 30, 2019. On a percentage basis, the composite portfolio was up 6.23 percent for the quarter (gross) which ranked in the 12<sup>th</sup> percentile of public plans. For the trailing 12 months, the fund was up 21.43 percent (ranking in the 17<sup>th</sup> percentile of public plans). Trailing three and five-year returns were also nicely positive. Attorney Harrison commended AndCo Consulting on its good returns, particularly over longer time periods. The prior investment consultant had left the Rockledge retirement funds with a "deep hole" from which to recover.

Quarterly performance results (i.e. quarter ending December 31, 2019) for the various investment styles/managers represented in the portfolio were as follows:

*Vanguard Total Stock Market Index (domestic equities) – positive return of 9.01% (29)\**

*EuroPacific Growth (international) – positive return of 10.09% (42)\**

*Garcia Hamilton & Associates (domestic fixed income) – positive return of 0.33% (78)\**

*PIMCO Diversified Income (global fixed income) – positive return of 1.67% (14)\**

*ASB Allegiance Real Estate (commingled real estate) – positive return of 1.27% (85)\**

Mr. Grumbles addressed the long-term performance of ASB Allegiance Real Estate Fund, pointing out that this asset class was a fixed-income alternative. ASB Allegiance was a core real estate fund investing in conservative properties with low leverage. ASB was ranked against the ODCE real estate index which included riskier properties with more leverage; this tended to lower its percentile ranking against other funds. Additionally, there were only three real estate funds that accepted an investment of less than \$1 million which further limited real estate investment options available to the Rockledge plans. Despite some recent underperformance, AndCo was comfortable with ASB's strategy and did not recommend any changes.

Referencing his February 21, 2020 memorandum to the Board of Trustees, Mr. Grumbles addressed concerns expressed by the Rockledge City Council concerning recent short-term performance. The memo focused on the fund's long-term performance, increased diversification, reduced fees, and passive investing strategies where appropriate. He also provided a comparison of return assumptions and five-year performance results for other local law plans throughout Florida which was prepared by the Division of Retirement. Mr.

Grumbles commended board members for their leadership and assumption of fiduciary responsibility. AndCo was of the belief that it provided each of the Rockledge retirement plans with a high level of service and dedication. He was certainly available to address any concerns and to meet with city staff and city council at the board's direction.

*Member Mulkey moved to accept the performance report as presented. Member McCaleb seconded the motion which carried unanimously.*

*Feeling that more communication was always better, Member McCaleb then moved to authorize Mr. Grumbles to meet with city officials to discuss plan performance if requested. Member Mulkey seconded the motion and it also carried unanimously.*

Report: Board Attorney (Kenneth Harrison, Sugarman & Susskind)

Attorney Harrison provided an overview of the SECURE Act adopted by the U.S. Congress and effective as of January 1, 2020. The SECURE Act made significant changes to retirement plan distribution (RMD) rules, including the increase in age for required minimum distributions from 70 ½ to 72.

He went on to advise that the only pending legislation that could potentially affect public retirement plans involved mandatory training as to fiduciary responsibility.

The attorney also mentioned that cyber liability insurance for governmental pension plans was of increasing importance given recent instances of ransomware, etc. While there was no legal requirement for the retirement plan to obtain cyber liability insurance coverage, it might want to investigate same. *City Manager Fettrow would inquire as to whether the City's liability insurance through Florida League of Cities extended to the retirement plans.*

The attorney also mentioned changes to the form of notary acknowledgements which now included remote notarizations effective January 1, 2020. Plan Administrator Rounsavall had changed beneficiary forms, etc. in accordance with new requirements.

Report: Plan Administrator (Karan Rounsavall)

- Ratify Board's action on November 22, 2019 to reappoint Jeptha Sunday as its fifth member

At its November 22, 2019 meeting the Fire Retirement Board reappointed Jeptha Sunday as its fifth member. Pursuant to the plan document, this appointment was to be confirmed by the Rockledge City Council as a ministerial duty. As a new resident member was appointed to the board on January 15, 2020, it was requested that the board ratify its earlier action to reappoint Mr. Sunday before it was presented to city council.

*Member Mulkey moved to ratify Chairman Sunday's reappointment to the Fire Retirement Board for a four-year term expiring in January 2024. Member McCaleb seconded the motion and it carried on an all-yes vote.*

Plan Administrator Rounsavall advised that Ed Syfrett and Mike McCaleb were re-elected to the Fire Retirement Board as firefighter trustees. Due to the recent adoption of Ordinance No. 1770-2020 creating staggered terms, it was necessary to determine who would fill the initial two-year term expiring January 2022. Member McCaleb volunteered to accept the two-year term.

*Accordingly, Member Syfrett moved that Mike McCaleb fill the two-year term and that Ed Syfrett fill the four-year term. Member Mulkey seconded the motion; it carried unanimously.*

Plan Administrator Rounsavall advised that Resident Member Tim Matson was not reappointed to the Fire Retirement Board. He had served as a trustee since 2015. She asked if the board wished to recognize Mr. Matson for his service.

*Member Mulkey moved to authorize the purchase of a \$100 gift card for Mr. Matson in recognition of his loyal service. Member McCaleb seconded the motion which carried unanimously.*

The next quarterly meeting was scheduled for May 22, 2020.

**PUBLIC COMMENT - None**

## **ADJOURN**

The meeting adjourned at 11:23 a.m.

Submitted by:

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Karan Rounsavall, Plan Administrator

Approved by:

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Jeptha Sunday, Chairman