

# ROCKLEDGE POLICE EMPLOYEES' RETIREMENT BOARD MEETING MINUTES

Friday, August 20, 2021

## CALL TO ORDER

The Rockledge Police Employees' Retirement Board held its quarterly meeting on Friday, August 20, 2021 in the Council Chamber of Rockledge City Hall, 1600 Huntington Lane, Rockledge, Florida.

MEMBERS PRESENT: Chairman Rick Burke, Resident Member  
Joseph LaSata, Resident Member  
Pat Kennedy, Police Representative  
Hal Burke, Fifth Member

MEMBERS ABSENT: Chris Crawford, Police Representative

CONSULTANTS/STAFF: Pedro Herrera, Board Attorney - Sugarman & Susskind\*  
Chad Little, Actuary - Freiman Little Actuaries  
Tyler Grumbles, Investment Consultant – AndCo Consulting  
Christine McGraw, Recording Secretary\*\*  
Brenda Fettrow, City Manager  
Matthew Trine, Finance Director

Chairman Burke called the meeting to order at 1:06 p.m. A quorum was in attendance.  
\*Attorney Herrera attended meeting via video conferencing hosted by the City of Rockledge.  
\*\*Plan Administrator Karan Rounsavall was unable to attend due to an out-of-state family funeral.

## APPROVAL OF MINUTES

### Quarterly Meeting of May 21, 2021

*Member LaSata moved to approve minutes of the May 21, 2021 joint quarterly meeting as submitted. Member Kennedy seconded the motion which carried unanimously.*

## OLD BUSINESS

### Status of discussions with *Nationwide Retirement Solutions* as an alternate provider of self-directed DROP accounts for retirees

City Manager Brenda Fettrow advised that this matter was still pending review. It was appropriate to defer once again to the next quarterly meeting.

*Member Kennedy moved to table to the quarterly meeting in November. Member Burke seconded the motion which carried unanimously.*

## NEW BUSINESS

### Consideration of draft funding policy recommended by *Actuarial Assumptions Sub-Committee*

At the May 21, 2021 joint quarterly meeting, the retirement boards voted to convene a sub-committee with one representative from each retirement board, along with city staff and board consultants, to discuss and develop a funding policy recommendation. Ongoing discussions as to the rate-of-return investment assumption over the course of numerous

meetings drove the creation of this sub-committee which met several times since the prior meeting and recommended adoption of the funding policy currently before the board.

Chairman Burke asked Actuary Chad Little to review the proposed funding policy. The policy enumerated current practices including funding commitment, funding target cost, cost method, asset smoothing over a five-year period and treatment of excess contributions as a prepaid contribution (unless directed otherwise by the city).

The policy emphasized that development of actuarial assumptions was the board's responsibility. At its last meeting, each retirement board authorized the actuary to conduct an experience review of the plan's assumptions. The results of this experience review would be explored later in the meeting. In accordance with the proposed policy, the newly formed sub-committee would review results of the experience review in detail and discuss the impact of implementation and use in the October 2021 annual valuation.

As to the rate-of-return investment assumption, the sub-committee recommended a long-term target of 7.25 percent which would be achieved over a five-year period by decreasing the return assumption each year. The return assumption for the Police Retirement Plan was currently at 7.80 percent. The recommendation for the first year was a reduction of 15 basis points and then 10 basis points for the ensuing years until the 7.25 percent assumption was met in 2025. The policy proposed that the assumption sub-committee meet annually to discuss any potential recommendations to the retirement board (including return assumption) prior to the fourth quarterly meeting of the calendar year. This timing allowed for fiscal year investment results to be available.

*Member Burke moved to approve the funding policy as recommended by the Actuarial Assumptions Sub-Committee. Member Kennedy seconded the motion which carried unanimously.*

#### Correspondence from Division of Retirement regarding acceptance of actuarial valuations through October 1, 2019

This item was placed on the agenda at the request of Chairman Burke. The Division's correspondence dated July 27, 2021 accepted all actuarial valuations and impact statements through October 1, 2019. The correspondence went on to recommend that the Retirement Board consider lowering the investment return assumption for future valuations, in fact, it considered a return assumption in the range of six to seven percent to be a more reasonable expectation of future long-term returns.

Chairman Burke mentioned that he spoke with Keith Brinkman of the Division of Retirement to advise of the Actuarial Assumption Sub-Committee's recommendation to systematically reduce the return assumption. This information was positively received.

#### Approval of administrative expense budget for Plan Year 2021/2022

The Retirement Board was in receipt of the proposed budget for Plan Year 2021/2022 as prepared by the plan administrator. Pursuant to *Florida Statutes*, the Board was required to adopt and operate pursuant to an administrative expense budget each year. The budget included all administrative expenses (e.g., actuary, legal, investment consultant, custody, administration, insurance, etc.) but did not include investment management fees. The proposed budget for 2021/2022 was \$114,000 which was more than the adopted budget for 2020/2021 (\$102,300). However, estimated expenses for Fiscal Year 2020/2021 were currently less than budgeted at \$93,504.

The proposed budget included an anticipated fee increase for AndCo Consulting. No fee increases were proposed for any other professional service providers.

*Member LaSata moved to approve the proposed budget for Plan Year 2021/2022 in the amount of \$114,000 as presented. Member Kennedy seconded the motion; it carried on an all yes vote.*

Acknowledge Division of Retirement's approval of 2020 annual report for Rockledge Police Employees' Retirement Plan

Actuary Little advised that approval of the annual report was a prerequisite for receipt of State premium tax revenues. *The Board acknowledged receipt of the June 21, 2021 approval letter accordingly.*

Acknowledge pending receipt of 2020 premium tax distribution from the State of Florida

The Police Retirement Plan anticipated premium tax revenues in the amount of \$247,231.02. Upon receipt, these funds would be deposited promptly into the retirement fund.

**REPORTS & COMMUNICATIONS**

Report: Investment Consultant (Tyler Grumbles, AndCo Consulting)

Investment Performance Report for quarter ended June 30, 2021

Mr. Grumbles presented the performance report and economic commentary for the quarter ended June 30, 2021. Equity markets experienced strong returns for the quarter with the S&P 500 boasting an 8.5 percent return due to the ongoing distribution of vaccines and continued reopening of state and local economies. With interest rates falling during the quarter, growth-oriented stocks resumed market leadership ahead of value stocks. There were also convincing positive returns in international equity markets. The portfolio was ahead of its benchmark and its peer group for the quarter.

Mr. Grumbles advised that the portfolio received its capital call for infrastructure as of July 1, 2021. The infrastructure position was funded from domestic equities. He also noted that Garcia Hamilton (domestic fixed income) continued to lag the benchmark. In anticipation of rising interest rates, GHA had pulled back on its exposure to corporate bonds and increased exposure to treasuries. If underperformance continued, Mr. Grumbles recommended that GHA attend a future meeting to discuss its investment strategy.

The ASB/Allegiance real estate fund also underperformed. ASB was a more conservative real estate manager with greater emphasis on downtown office properties than its peers. *Mr. Grumbles recommended that ASB attend the next meeting of all three boards to discuss performance concerns.*

All asset classes in the portfolio were within their target ranges. No rebalancing was needed.

Total market value as of June 30, 2021 was \$19,605,404 up from \$18,933,659 for the previous quarter ended March 31, 2021. On a percentage basis, the composite portfolio was up 5.87 percent for the quarter (gross) which ranked in the 27<sup>th</sup> percentile of public plans. Fiscal year to date, the fund was up 21.17 percent (ranking in the 36<sup>th</sup> percentile).

*The board accepted the performance report as presented.*

### Proposed revisions to Investment Policy Statement (IPS) increasing allocation to alternative investments

Given that fixed income/bonds were only expected to return two percent over the next 10 to 15 years (based on capital market projections), Mr. Grumbles recommended that the board look for alternative investments that could enhance this space. His specific recommendation was a 10 percent decrease to the domestic fixed income asset class from 17.5 percent to 7.5 percent and an increase to alternative investments (i.e., real estate and infrastructure) from 15 percent to 25 percent.

*Member Kennedy moved to adopt the revised IPS changing target allocations as recommended by the consultant. Member LaSata seconded the motion; it carried unanimously.*

*In accordance with the revised IPS and consultant's recommendation, Member LaSata moved to increase the portfolio's commitment to the Brookfield Super-Core Infrastructure Fund to ten percent of the portfolio but to hold off on any additional commitment to real estate pending the presentation from ASB at the next quarterly meeting. Member Kennedy seconded the motion which likewise carried unanimously.*

### Request for fee increase effective October 1, 2021

Mr. Grumbles thanked the Rockledge Police Retirement Board for the continued opportunity to serve as its investment consultant. AndCo provided institutional investment consulting services on a hard dollar, full retainer, flat-fee basis for its clients.

The existing annual fee was \$19,500; the proposed fee was \$21,500 which expressed as a percentage of current plan assets was 11 basis points. The proposed fee also included an automatic annual escalator of two percent. The retainer fee included all components of AndCo's consulting services and was guaranteed for three years. The fee increase was effective as of October 1, 2021.

*Member LaSata moved to approve an annual fee of \$21,500 with a two percent annual escalator (guaranteed for three years) for AndCo Consulting effective October 1, 2021. Member Kennedy seconded the motion which carried on an all yes vote.*

The attorney would prepare an appropriate fee addendum to AndCo's contract.

### Report: Actuarial Consultant (Chad Little, Freiman Little Actuaries, LLC)

#### Results of experience review to determine appropriate actuarial assumptions

Actuary Chad Little explained that the purpose of an experience review was to compare assumptions to actual experience in the retirement plan. Board members were in receipt of the review which presented a comparison of plan experience from October 1, 2010 through October 1, 2020. Mr. Little asked the Board to simply accept the experience review at this time. It would then be presented to the Actuarial Assumption Sub-Committee and come back to the retirement board at its next quarterly meeting for adoption with its recommendation.

Mr. Little reviewed key assumptions and recommended revisions as outlined below:

Termination Assumption – Recommended increase to rates of termination prior to nine years of service.

Retirement Assumption – Recommended slight increase to incidence of retirement and DROP entry at age 52.

Disability Assumption – No change recommended.

Mortality Assumption - Statutes dictated the use of the mortality tables used by the Florida Retirement System. This assumption was reasonable for purposes of the actuarial valuation.

Individual Salary Increase Assumption – Recommended revision to increase this assumption to 5.5 percent per year for 0 to 10 years of service and 4.5 percent per year at service levels over ten years.

Total Salary Increase Assumption – No change recommended.

Net Investment Return Assumption – The retirement plan recently reduced its assumed investment rate of return to 7.80 percent. Using current long-term capital market projections, a 7.80 percent return was not anticipated to be achieved over the next 10 to 20 years. Mr. Little noted that the sub-committee recommended that the retirement board lower its rate of return assumption by 15 basis points to 7.65 for the October 2021 valuation. Given the positive investment returns anticipated for the current fiscal year, he suggested discussion to reduce the current return assumption even further as there would be minimal, if any, impact to the city's required contribution. Additionally, if there was a downturn in the market, the fund would be in a better position with a lower return assumption.

Mr. Little went on to review the fiscal impact of the recommended assumption changes on (1) present value of benefits; (2) unfunded accrued liability and funded status; (3) normal cost; and (4) minimum required contribution.

No board action on the experience review and recommended assumption changes was necessary at this time. *Pursuant to the funding policy just adopted, the experience review and all assumptions would be presented to and reviewed by the Actuarial Assumption Sub-Committee in advance of the November quarterly meeting. The sub-committee's recommendation on same would then be presented to the retirement board for its approval.*

The board thanked Actuary Little for his excellent work and presentation on this topic.

Report: Board Attorney (Pedro Herrera, Sugarman & Susskind)

As the State Legislature was not in session during the past quarter, there was no legislative update. Attorney Herrera mentioned that the State of Florida earmarked funds to provide \$1,000 bonus checks for first responders which included police and fire employees. These funds were tax free to recipients.

The attorney also mentioned upcoming educational opportunities:

- ✓ Florida Public Pension Trustees Association (FPPTA) fall trustee school (October 3-6, 2021 in Ponte Vedra Beach).
- ✓ Annual Police Officers' & Firefighters' Pension Conference (November 3-5, 2021 in Orlando)

If anyone was interested in participating, they were to contact the Plan Administrator.

Status of request for quotes for plan administrator

*In the absence of Plan Administrator Rounsavall, Member LaSata moved to defer discussion of plan administrator quotes until the November meeting. Member Kennedy seconded the motion; it carried.*

Report: Plan Administrator (Christine McGraw) - None

*The next quarterly meeting was scheduled for November 19, 2021.*

**PUBLIC COMMENT**

City Manager Fettrow thank the board for allowing city staff to participate in the Actuarial Assumption Sub-Committee.

**ADJOURN**

The meeting adjourned at 2:21 p.m.

Submitted by:

Approved by:

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Karan Rounsavall, Plan Administrator

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Rick Burke, Chairman