City of Boynton Beach Municipal Firefighters Pension Trust Fund

MINUTES

May 1, 2019
9:00 AM

The regular meeting of the Board of Trustees of the City of Boynton Beach Municipal Firefighters' Pension Trust Fund was called to order by the Board by Mr. Matt Petty – Chairman on May 1, 2019 at 9:00 A.M. at 2080 High Ridge Road, Boynton Beach, Florida.

TRUSTEES PRESENT:
Mr. Matt Petty – Chairman; Mr. Jon Raybuck – Secretary; Mr. Stan Cale – Trustee; Mr. Robert Taylor – Trustee & Ms. Desirae Watler (departed meeting at 11:00 AM), Trustee. Also present was Mr. Glenn Joseph - Ex-Officio.

ABSENT:
None

OTHERS PRESENT:
Mrs. Michele Oxendine along with family members; Mr. Adam Levinson, Board Attorney – Klausner, Kaufman, Jensen and Levinson; Mr. Dave Williams, Plan Administrator; Mr. David West – AndCo Consulting; Mr. Pete Strong, Board Actuary - GRS Retirement Consulting; Mr. Shawn Weeks, Other Active and Retired Members.

It should be noted that there was a quorum for the Board to have an official meeting.

PUBLIC DISCUSSION:
Members were present to learn of the ability to leave assets in the Drop Plan. Matter taken up under New/Unfinished Business.

CONSENT AGENDA:

APPROVAL OF THE MINUTES:
The Board of Trustees reviewed the minutes for the February 6, 2019 meeting. A Motion was made by Mr. Raybuck to approve the minutes. The Motion was seconded by Mr. Taylor. The Motion passed 5-0.

APPROVAL OF THE WARRANTS:
Warrants 161 through 182 were presented to the Board for approval. After review & consideration a motion was made by Mr. Taylor to approve Warrants as presented. The Motion was seconded by Mr. Cale. The Motion passed 5-0.

NEW / UNFINISHED BUSINESS:
Oxendine – DROP Account Rollover: Mrs. Oxendine was joined by family members and asked the Board to reconsider their action of February 6, 2019[1] and allow her to keep the DROP Account within the Plan. Mrs. Oxendine along with Members present at the meeting stated they did not know that the funds would have to be removed from the plan upon the death of the member (retiree).

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[1] Minutes of February 6, 2019 may be viewed at http://bbffp.org/docs/minutes/minutes_20190206_signed.pdf#zoom=100

Mr. Levinson advised that as Mr. Oxendine was the first known DROP Member who passed, the Board asked and received a legal review. Based on his findings, the Board adopted a reasonable Death Rollover Policy. Mr. Levinson reviewed provisions of the ordinance and the policy.

1) Section 18-222 of the Boynton Beach City Code created a Deferred Retirement Option Plan (DROP) for the members of the City of Boynton Beach Municipal Firefighter Pension Trust Fund (Plan). The City Code and FSS 175.061 authorize the Board of Trustees to adopt rules necessary for the administration of the Plan, to include the DROP. Accordingly, this Administrative Rule shall address the procedure to be employed for distribution of the DROP account by the Plan upon the death of a DROP participant.

2) Section 18-222(i) provides as follows: "Upon termination with the City, an employee may receive payment within forty-five (45) days of the member requesting payment or may defer payment until a time not later than the latest date authorized by Section 401(a)(9) of the Internal Revenue Code at the option of the member." The Fund does not have a provision extending members' benefits to beneficiaries.

3) With regard to survivor benefits, Section 18-222(l) provides that "if an employee shall die during participation in the DROP, a survivor benefit shall be payable in accordance with the form of benefit chosen at the time of entry into the DROP."

4) Upon a participant's death, the Plan Administrator shall provide distribution selection forms to the beneficiary(ies) of the DROP account. Within sixty (60) days following receipt of such forms, each DROP beneficiary shall submit the distribution selection forms to the Plan Administrator, electing a distribution method as detailed in the Special Tax Notice. Distributions shall be made within ninety (90) days.

5) The distribution selection must comply with requirements of the Internal Revenue Code. If the beneficiary does not request a rollover to an IRA, the distribution shall be paid directly to the beneficiary. If more than one beneficiary is designated, the account shall be distributed on a pro-rata basis accordingly.

6) Once the form is submitted, the Plan Administrator shall compute the DROP account balance that is subject to distribution and the Plan actuary will review it. As this Administrative Rule requires a distribution selection to be made within sixty (60) days of the distribution selection form being received, distribution of the DROP account may in some cases be made prior to Board approval. All DROP account distributions shall be placed on the Board of Trustees' agenda for approval and/or ratification at the next regularly scheduled meeting.

7) If no selection is made within the sixty (60) day period, the item will be placed on the agenda of the next Board meeting. Absent special circumstances, an involuntary distribution shall be paid to the beneficiary(ies).

8) If the member has not designated a beneficiary, the DROP account balance shall be paid to the member's estate.

9) The Board of Trustees reserves the right to amend this Administrative Rule from time to time as it deems appropriate. The Board shall retain the right to exercise its discretion in interpreting this Rule and in resolving any disputes that may arise hereunder.

Mr. Mike Smollen advised to his knowledge the assets could remain in the Plan, but provided no documentation allowing same.

Mr. Luke Henderson reflected that he was on the Board of Trustees when the DROP was enacted. He stated the ordinance should have been clearer but sees there is no option to leave the funds in the Plan. He felt it should have been addressed a long time ago.

Mr. Petty appreciated all the input received. Mr. Petty cited section(i) whereas an "employee may defer" not a beneficiary. Mr. Petty wanted all present to know that the ordinance prevails in all matters. The Board did not change the ordinance, simply developed a uniform policy based on the ordinance for a seamless transition of assets.

At this juncture, Mr. Levinson advised a motion would be in order pursuant to the Board Policy. Mr. Raybuck made a motion to distribute the assets in 7 days if Mrs. Oxendine did not provide rollover instructions. Mr. Cale seconded the motion. All Trustees voted yes, and the motion was passed 5-0.

The Board recessed at 10:00 AM to 10:11 AM.

ACTUARIAL PRESENTATION:

Mr. Pete Strong presented the October 1, 2018 actuarial valuation for the Board to consider. The purposes of the valuation are to measure the System's funding progress, to determine the employer contribution rate for the fiscal year ending September 30, 2020, and to determine the actuarial information for Governmental Accounting Standards Board (GASB) Statement No. 67.

A comparison of the required employer contribution developed in this and the last actuarial valuation is shown below. The required contribution dollar amounts shown below are estimates only. The contribution policy of the City is to contribute the dollar amount determined by multiplying the required percentage of payroll determined as of the valuation date by the projected pensionable payroll for the year.

	For FYE 9/30/20 Based on 10/1/2018 Valuation if contributed on 10/1/2019	For FYE 9/30/19 Based on 10/1/2017 Valuation if contributed on 10/1/2018	Increase (Decrease)
Required Employer/State Contribution	$ 5,969,275	$ 6,409,551	$ (440,276)
As % of Covered Payroll	56.03 %	55.42 %	0.61 %
Estimated State Contribution Allocated (Including Amounts from State contribution reserve)	$ 1,087,954	$ 1,087,954	$ 0
As % of Covered Payroll	10.21 %	9.41 %	0.80 %
Prepaid Contribution	$ 146,476	$ 0	$ 146,476
As % of Covered Payroll	1.37 %	0.00 %	1.37 %
Required Employer Contribution	$ 4,734,845	$ 5,321,597	$ (586,752)
As % of Covered Payroll	44.45 %	46.01 %	(1.56) %

The required employer contribution has been computed under the assumption that the amount to be allocated from current and prior excess State money this year and next year will be $1,087,954, based on the re-evaluated cost of the COLA. The required employer contribution for the fiscal year ending September 30, 2019 (calculated based on the October 1, 2017 valuation) was revised to reflect this updated State allocation amount.

The employer contribution listed above is for the City's fiscal year ending September 30, 2020 and has been calculated as though payment is made in a single lump sum on October 1, 2019. The total minimum required employer contribution for the fiscal year ending September 30, 2018 was $6,157,171. The actual employer contribution during the fiscal year ending September 30, 2018 was $6,226,015. The excess amount of $68,844 has been added to the employer prepaid contribution.

Ordinance 06-692 (adopted in 2006), which added the 2% deferred COLA and increased member contributions by 5.0% of covered payroll, was intended to be cost neutral. Under the terms of this Ordinance, the actuarial cost of the COLA must be reevaluated every three years to ensure it remains cost neutral. The last reevaluation was completed as of October 1, 2015 (applicable to State money received during the fiscal year ending September 30, 2016), so a new reevaluation has recently been completed as of October 1, 2018 (applicable to State money received during the fiscal year ending September 30, 2019). This latest reevaluation has shown that the annual actuarial cost of the COLA is $306,000 higher than it was as of October 1, 2015. Therefore, the base amount of regular Chapter 175 State contributions increased by this amount, from $781,954 to $1,087,954, beginning with the fiscal year ending September 30, 2019. If the actual amount received by the State is lower than this amount, the shortfall may be made up by using the Accumulated Excess Premium Tax Revenue currently being held in reserve (this amount is $2,074,002 as of October 1, 2018).

Revisions in Benefits

There have been the following revisions in benefits since the previous valuation:

- For all Firefighters who are not eligible for Normal Retirement as of October 1, 2018 the normal retirement benefit shall be limited to a “maximum benefit cap”, initially set at $95,000 per year. This maximum benefit cap will be increased annually beginning on October 1, 2023 (and on each October 1st thereafter) by 1.5%. The maximum benefit cap shall also apply to early retirement, deferred vested retirement and disability retirement benefits. For early retirement and deferred vested retirement, the maximum benefit cap shall be applied to the normal retirement benefit before reflecting any reductions for early retirement.

- All new members hired on or after February 5, 2019 are classified as “Tier 2 members”. All members hired before February 5, 2019 are classified as “Tier 1 members”. Tier 2 benefit provisions that differ from Tier 1 benefit provisions include the following:

  The normal retirement date will be the earlier of completion of 25 years of Credited Service regardless of age, or attainment of age 55 with 10 years of Credited Service.

  Vested members terminating service with less than 25 years of Credited Service will be eligible for a deferred Normal Retirement benefit that begins at age 55.

The approximate impact of the above revisions in benefits was measured in the Actuarial Impact Statement dated February 8, 2019 (as if the ordinance had been effective as of October 1, 2017).

The final impact has been measured in this valuation to reflect the impact on the required contribution payable October 1, 2019. The net impact of the above revisions in benefits is a decrease in the annual required employer contribution of 1.59% of covered payroll, or $165,692.

There have been no other changes in benefits since the prior valuation.

Revisions in Actuarial Assumptions or Methods

The payroll growth assumption used for amortizing the unfunded actuarial accrued liability (UAAL) as a level percentage of pay has been decreased from 4.0%, limited to the actual 10-year historical average payroll growth rate, to a forward-looking payroll growth rate of 2.5% per year. This rate is consistent with the underlying inflation assumption. In addition, the maximum amortization period for amortizing changes in the UAAL has been reduced from 30 years to 25 years. The net impact of these changes is a decrease in the annual required employer contribution of 4.67% of covered payroll, or $497,929.

There have been no other changes in actuarial assumptions or methods since the prior valuation

Actuarial Experience

There was a net actuarial experience gain of $2,764,199 for the year, which means that overall actual experience was more favorable than expected. The actuarial gain is primarily due to average salary increases that were lower than expected (4.2% actual versus 6.1% expected) and a higher than expected return on the actuarial value of assets. The net investment return on the actuarial value of assets was 8.71% versus an assumed return of 7.50%. The net investment return on the market value of assets was 8.55%.

The net actuarial gain for the year has caused a decrease in the annual required employer contribution of 1.62% of covered payroll, or about $169,000.

Funded Ratio

The funded ratio was 66.9% this year compared to 62.6% last year. The funded ratio would have been 66.3% this year before recognizing the revisions in benefits. The funded ratio is equal to the actuarial value of assets divided by the actuarial accrued liability. Mr. Strong advised that based on Market Value of Assets the funded ratio was 70.1%. Mr. Strong stated this is the best funded position since 2003.

Analysis of Change in Employer Contribution

The components of change in the required employer contribution are as follows:

Contribution rate last year	46.01
Revision in Benefits	(1.59)
Experience (Gains) or Losses	(1.62)
Revision in Assumptions/Methods	(4.67)
Change in Payroll Growth Assumption for UAAL	6.17
Change in Payroll Growth Assumption for UAAL Amortization and Other Changes in Amortization Payments on UAAL	2.49
Normal Cost Rate	(0.20)

Administrative Expense	0.03
State Contribution	(0.80)
Prepaid Contribution (available this year, not last year)	(1.37)
Contribution rate this year	44.45

According to Florida Statutes, Chapter 112.64 (5)(a), the payroll growth assumption may not exceed the average payroll growth during the last ten years. The ten year average rate this year was equal to 0.26% compared to the assumed rate of 4.0%. Using a 0.26% payroll growth assumption instead of the ten year average rate in the previous valuation of 2.51% in the amortization of the UAL caused an increase in the annual required employer contribution of 6.17% of covered payroll, or about $643,000. In the current and future valuations, the payroll growth assumption will no longer be impacted by the ten year average rate as the method has been changed to use a forward-looking payroll growth assumption of 2.5% per year, as permitted under Florida Statutes, Chapter 112.64(5)(b). Future payroll growth is expected to at least keep pace with inflation over the long-term (and the plan's inflation assumption is 2.5%).

Covered payroll as of October 1, 2018 was $10,393,865 versus $11,282,228 last year. Amortization payments on the unfunded liability were scheduled to increase by 2.51% per year. When covered payroll decreases, the amortization payment as a percentage of covered payroll will increase. The change in the expected covered payroll for UAAL amortization increased the annual required employer contribution by approximately 2.49% of covered payroll.

Required Contributions in Later Years

The current calculated City contribution requirement is 44.45% of payroll starting October 1, 2019. Under the asset smoothing method, market value gains and losses are recognized over five years. As of October 1, 2018, the market value of assets exceeded the actuarial value by $4,359,109. Once all the gains and losses through September 30, 2018 have been fully recognized in the actuarial value of assets, the employer contribution rate will decrease by roughly 2.80% of payroll unless there are offsetting losses.

Relationship to Market Value

If Market Value had been the basis for the valuation, the City contribution rate would have been 41.65% and the funded ratio would have been 70.1%. The funded ratio on a market value basis was 65.7% last year.

13th Check Provision

The Plan provides for a 13th check if there is a net actuarial gain for the previous year. Though the Plan experienced a gain during the prior plan year, the cumulative balance of actuarial gains and losses is negative (a net loss), so no funds are available to provide 13th checks in 2018.

Conclusion

The funded ratio is 66.9% this year, whereas it was over 100% in the year 2000. Steps have been taken in recent years to address this issue, such as strengthening the actuarial assumptions, including lowering the investment return assumption from 8.5% to 7.5% over time, applying an additional $1,000,000 towards the unfunded liability, and reducing the amortization period in the amortization of the unfunded liability to a maximum of 25 years.

Rate of Return Assumption Outlook

Mr. West opined that the Board's assumption rate was reasonable in the short term and long term outlook.

Cost of Living - Review

Discussion ensued about the Plan COLA at this juncture. Mr. Strong advised that state funding is down. An audit by the State of Florida Division of Retirement is suggested. An audit request would have to come from the plan sponsor (the city) and Mr. Petty will pursue with the city accordingly.

Mr. Strong said there were options to funding the Retiree COLA.

1: Increase state money in reserve.
2: Increase employee contributions.
3: A combination of 1 and 2

Mr. Strong reflected that the cost changes to the COLA was attributed to the state mandates assumption changes.

Mr. Petty read a section of the ordinance for Members present to hear that current retirees are covered, and the COLA will not change for them.

Mr. Levinson reminded the all parties that this is a member funded COLA. Mr. Levinson suggested a joint membership meeting (union/pension board) should be considered to inform members (stakeholders) and to receive their input. Mr. Shawn Weeks who was present agreed to a joint meeting.

Mr. Petty felt this is an active membership issue and the Board should be guided by that.

At the conclusion of the foregoing report and ensuing discussion, Mr. Raybuck made a motion to accept the October 1, 2018 Actuarial Valuation with the COLA funding source coming from reserves, which is pending membership approval. The motion was seconded by Mr. Taylor. All Trustees voted yes, and the motion was passed 4-0. (Ms. Watler departed prior to vote).

<u>ATTORNEY'S REPORT:</u>
Mr. Levinson cited the cancer presumption legislation.

<u>INVESTMENT MONITOR'S REPORT</u>:
Mr. West advised that on March 31, 2019 the Fund's value was $119,747,056.00, up from $110,009,599.00 of December 31, 2018. After a difficult end to 2018, markets rebounded strongly during the1st quarter of 2019 with higher risk assets posting the greatest returns. Broad international and domestic equity markets had double digit gains during the period as investors overlooked signs of weakening global growth in favor of increased accommodation in global monetary policy and progress in global trade negotiations. While muted relative to equities, fixed income returns were positive during the quarter.

Within equities, domestic stocks outperformed international markets. US markets pushed higher as the US Federal Reserve (Fed) shifted their stance on monetary policy toward a more accommodative posture, the US and China moved closer to a solution of their ongoing trade dispute and the partial government shut down that began in December came to an end. The large cap S&P 500 Index returned 13.6% during the quarter while the small cap Russell 2000 Index gained 14.6% for the period. US equity returns over the 1-year period are positive with the S&P 500 appreciating 9.5% while the Russell 2000 posted a more modest gain of 2.0%

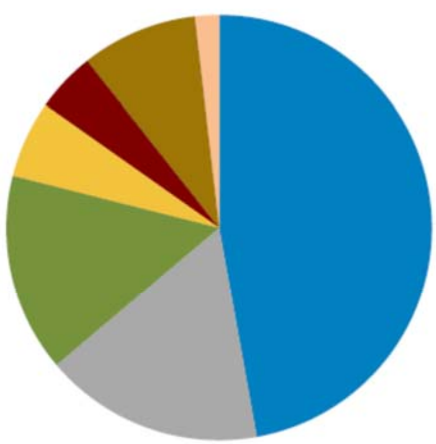
Mr. West reported to the Board the following investment reports for the portfolio:

RETURN PERIODS

NAME	Quarter	Fiscal Year	1-Year	3-Year	5-Year
Total Fund Net	9.97%	0.91%	6.00%	9.76%	7.49%
Benchmark	8.73%	0.37%	5.42%	8.77%	6.94%

Asset Allocation and Manager Allocation as reported as follows:

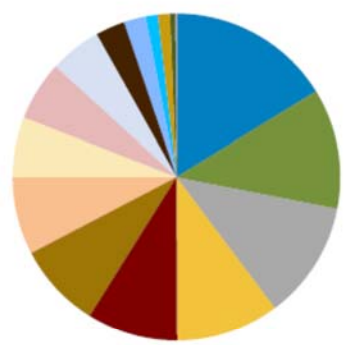
Asset Allocation By Segment as of March 31, 2019 : $119,747,056



Allocation

Segments	Market Value	Allocation
Domestic Equity	56,488,354	47.2
International Equity	19,920,863	16.6
Domestic Fixed Income	18,129,145	15.1
Global Fixed Income	6,994,189	5.8
Other Fixed Income	5,463,974	4.6
Real Estate	10,553,592	8.8
Cash	2,196,940	1.8

Asset Allocation By Manager as of March 31, 2019 : $119,747,056



Allocation

	Market Value	Allocation
DSM Large Cap Growth	19,430,818	16.2
Vanguard 500 Index Admiral (VFIAX)	14,198,730	11.9
Anchor All Cap Value Equity	14,001,577	11.7
Schroders Core Fixed Income	12,171,088	10.2
American Funds EuroPacific Gr R6 (RERGX)	10,708,018	8.9
Vanguard Mid-Cap Index Fund (VMCIX)	10,109,657	8.4
WCM International Growth Fund (WCMIX)	9,212,845	7.7
Intercontinental	7,060,463	5.9
PIMCO Diversified Income Fund (PDIIX)	7,020,608	5.9
Schroders TIPS	6,101,325	5.1
ASB RE	3,493,130	2.9
Crescent Direct Lending Levered Fund	2,606,850	2.2
Crescent Direct Lending Levered Fund II	1,433,382	1.2
LBC Credit Partners III	1,423,742	1.2
Receipt & Disbursement	656,152	0.5
Mutual Fund Cash	118,670	0.1

Mr. West announced the investments have bounced back since the lows of the December 31, 2018 quarter. All managers were ahead of the benchmark and no management recommendations were required.

The Board of Trustees posted the entire investment review on-line at:
http://bbffp.org/docs/investments/2019-03-31%20Boynton%20Beach%20Firefighters%20Quarterly%20Report.pdf#zoom=100

PLAN ADMINISTRATOR:

Mr. Williams advised:

Educational Pay Project – Complete

Annual Disability Review – Transmitted to Actuary to review. No action expected.

Form 1 reports provided to all Trustees.

Member's Carr and Senseman - New DROP Entries Calculations/Option Selection pending.

OPEN DISCUSSION:
Nothing to report

ADJOURN:
Trustee Raybuck made a Motion to adjourn the meeting. Trustee Cale seconded the Motion. Motion passed 4-0. The meeting was adjourned at 12:05 PM.

Matt Petty, Chairman

FOR THE BOARD