BOARD OF PENSION TRUSTEES
FOR THE
CITY OF JACKSONVILLE RETIREMENT SYSTEM
March 22, 2018

MINUTES

City Hall - St. James Building, Conference Room 3C: 2:00 P.M.

Members Present
Shari Shuman, Acting Chair
Sam Mousa
Mike Weinstein
Diane Moser
Terry Wood
David Kilcrease
Bill Messick

Staff Present
Joey Greive, Treasurer
Randall Barnes, Senior Debt Manager
Paul Barrett, Senior Investment Officer
John Sawyer, OGC
Jaime Sawczyn, Pension Assistant

An audio recording of the meeting is available in the Pension Office.

1. CALL TO ORDER

The Acting Chair called the meeting to order at 2:00 p.m.

2. PUBLIC COMMENT

None

3. MINUTES

- Copy of February 22, 2018 Board of Trustees Minutes

- **RECOMMENDED ACTION: APPROVAL**

  Mr. Mousa motioned to approve the minutes. The motion was seconded by Mr. Wood. There was no discussion. The Acting Chair took a vote and the minutes were approved unanimously.

4. NEW BUSINESS

A. CONSENT AGENDA

- Copy of Consent Agenda for Recommended Benefits for Corrections Officers dated March 6, 2018

- Copy of Consent Agenda for Recommended Benefits for General Employees dated March 14, 2018

- **RECOMMENDED ACTION: APPROVAL**

  Mr. Greive pointed out that the first Corrections participant to elect the Phase II Monthly DROP Distribution program appears on this Consent Agenda.

  Mr. Wood asked if the number of refunds in the GEPP Consent Agenda was unusual. Mr. Greive agreed that there were a number of them, but most were small. Mr. Mousa asked if employees were asked to provide a reason for why they were leaving. Mr. Greive answered that the Pension Office does not ask for a reason, but the HR Office may.

  Mr. Kilcrease motioned to approve the Consent Agendas. The motion was seconded by Mr. Wood. The Acting Chair took a vote and the Consent Agendas passed unanimously.

5. INVESTMENT AND FINANCIAL MATTERS

- **February 2018 Flash Report**

  Mr. Barrett mentioned that this is the first time in a while the portfolio has experienced a lot of volatility. The markets were down for the month due to news about higher U.S. tariffs on imported goods and other news. Mr. Barrett noted that market pull-backs like this are not a big surprise, as it was discussed in last month's quarterly update with Summit about how market prices have been inflated.

  Mr. Barrett pointed out that the portfolio allocation changed slightly due to the market downturn, with equities dropping from 61.3% to 60.7% and fixed income rising from 17.6% to 17.9% of the portfolio. Over the month, the portfolio value fell from $2.408 billion to $2.346 billion.

  Mr. Barrett mentioned that the fund is still in good shape for the fiscal year, with a FYTD return of 5.03% (gross of fees), and is still on track to meet the 7.4% return objective for the fiscal year. Net of fees, the portfolio has a FYTD return of 4.80%, which is 1.11% over the policy benchmark. Despite the overall negative return for the month of February, the fund managers still outperformed their benchmarks – a sign that managers are doing a good job of minimizing downside risk while trying to maximize the upside capture of returns. Mr. Barrett also pointed out that the fund's long-term annual return numbers still look strong – 7.14% annually over the last 10 years and 8.14% annually over the last 15 years.

Mr. Barrett mentioned that the Loomis Sayles and Mellon Capital returns shown on the report's "Since Inception" column are incorrect due to a reporting error having to do with the inception date. The error will be corrected by the next BOT meeting.

Mr. Barrett discussed how the performance of most managers (despite the market downturn) was still near to or better than the benchmark. MLPs were hit especially hard for the month. Staff spoke with Summit and performed additional research to understand the performance. New tax guidance was issued by FERC which may affect the revenues of MLPs. Currently, MLPs are allowed to charge for corporate taxes but do not always have to pay it. The new tax guidance may mean MLPs have to pay the tax. Summit indicated that the majority of the fund's MLP assets would not be impacted by the guidance, the downturn was an overreaction against the entire sector, and that the value of MLP assets will bounce back. Also, the new tax guidance would not take effect until 2020 if it is actually imposed. Mr. Barrett indicated that staff does not see any need to make a change at this time.

- **Investment Workshop Scheduling**

  Mr. Barrett proposed an Investment Workshop on May 3, 2018, for whoever would like to come from 2:00 p.m. to 4-5:00 p.m. Summit would be in attendance, and members of the PFPF Board could be invited, as well. There was discussion about the date, and everyone agreed to schedule the Workshop for May 3.

- **Preliminary Actuarial Results Discussion**

  Mr. Greive called Jeff Williams, the plan's actuary from Segal Consulting, to discuss the preliminary actuarial results. Mr. Greive pointed out that the Board had requested Segal to model the actuarial valuation given three different discount rates. Mr. Williams passed out a memo discussing the results. Segal took into account the economic and demographic impacts from the past year, both of which were positive.

  Mr. Greive summarized the memo, stating that if the assumed rate of return remained at the current 7.4%, the employer required contribution would go down by about $5 million vs. the previous year. If the assumed rate was dropped to 7.2%, the employer required contribution would be relatively close to the same as the previous year. If the assumed rate is lowered to 7.0%, the employer required contribution would go up by about $5 million over the previous year.

  Mr. Williams mentioned that the numbers in the memo should not change. Once the Board decides which assumed rate of return to use, the corresponding results would apply.

Mr. Williams went over the memo in more detail, indicating that both plans had overall experience gains. GEPP had a total gain of 0.11% (0.65% asset gain and a 0.54% non-asset loss). Mr. Williams indicated that any non-asset loss under 1.00% is pretty good because there is generally variation year-to-year in when people decide to retire and changes in pay. COPP had a total gain of 0.56% (0.02% asset gain and a 0.54% non-asset gain). COPP had a higher amount of turnover, especially with people who were not vested.

Mr. Williams mentioned that the next 5-year experience study is coming up. It is best practice to conduct a new experience study every five years. The experience study is a deep dive into all the assumptions that go into the annual actuarial valuation. The cost of the study was part of the contract recently signed. Mr. Williams mentioned that ideally the Board would approve for Segal to begin work on the study in the next month or two so that they can conduct the study over the summer and any changes can be implemented in the October 1, 2018 Valuation.

Mr. Williams indicated that the application of the surtax revenue helped drive a reduction in the City's contribution down by $29.7 million lower than it would have been if the surtax revenue did not exist. Mr. Williams mentioned that the allocations of the surtax, which are provided by the City, changed slightly. The GEPP surtax allocation went up from 31.0% to 31.9%, while the COPP surtax allocation dropped from 6.00% to 5.60%. The allocation percentages are based on the plans respective unfunded actuarial accrued liabilities. Mr. Kilcrease asked why the COPP allocation of surtax revenue would go down. Mr. Williams responded that the COPP unfunded liability went down more relative to the other plans and was a smaller portion of the total unfunded liability than in the prior year. Mr. Greive explained that changes to the allocation of the surtax revenues to a particular plan would always be dependent upon the changes in unfunded liability experienced by each plan relative to the other plans. Mr. Weinstein mentioned that the allocations would change every year.

Mr. Williams pointed out that decreasing the discount rate increases the liability, but it also increases the amount of the surtax offset because you are discounting it at a lesser percentage.

Mr. Williams proceeded to go over the GEPP results given a 7.4% discount rate. The GEPP results showed that the required contribution would go down from $70.2 million to $65.1 million. On an actuarial basis, the funded percentage went up from 64.6% to 65.8%. Mr. Greive pointed out that the actuarial value of assets as a percentage of the market value of assets went from 102.4% to 96.7%. Because the plan uses 5-year smoothing, having an actuarial value of assets that is lower than the market value of assets creates a little over 3.0% cushion if the plan has a bad year because we had gains that we just felt but we're not actually recognizing fully.

A short discussion was had about 2016 being the first year in some time that the actual employer contributions were greater than the actuarially determined employer contributions. Mr. Greive mentioned that, in prior years when the actual contribution was lower, it was discussed that the City would eventually catch up under the prior methodology as it emerged from the recession and payroll increased. Mr. Wood pointed out that all the years when there was an under contribution, the difference went into the unfunded liability which the City will fund over time.

Mr. Williams discussed the COPP results, noting the required contribution decreased from $14.0 million to 13.8 million. On an actuarial basis, the funded percentage went from 49.5% to 52.2%. He reiterated Mr. Greive's earlier point that when actuarial value is lower than the market value, it is good because you have not recognized all of the gains. Mr. Mousa asked when the gains would be recognized. Mr. Williams answered over a 5-Year period. Mr. Greive added that you would recognize 20% per year for five years. Mr. Williams added that the reason for doing that is you have less volatility in the required contribution from year to year – so one bad year (or even one bad day or week) would not overly influence the required contribution higher or lower.

Mr. Williams discussed further the application of the surtax proceeds. Mr. Weinstein added that the calculation was set up the way it is so that all three plans would become more and more funded together, and so that one wouldn't be done and the others would still be unfunded. Mr. Kilcrease stated that he does not think "we are on a level playing field" because of the difference in assumed rates between the two plans.

Mr. Williams presented the scenario models, which showed the October 1, 2017 Valuation given different discount rates. Mr. Wood asked if the Total Normal Cost shown included the employee contributions. Mr. Williams responded that the amounts shown are prior to the employee contributions being netted out. He went on to state that the information presented today is a condensed version of the final report. The final report will detail all of that information. Mr. Mousa asked if the numbers shown would change. Mr. Williams responded that he sees no reason why the numbers would change, as everything has been reviewed closely by his team.

Discussion was held about whether the Board would take action to set the discount rate at this meeting or wait until a later date. Mr. Greive mentioned that Jeff Bernardo, the Board Chair, would like to be present if possible when the Board acted to set the discount rate. Given that it is already late March, there was some concern that waiting too late to set the discount rate would delay the final report, which could impact budget discussions.

Mr. Wood interjected with a procedural question about disability and whether we should look at the whole 10% contribution as going into the plan, or if we should break out the 0.3%. Mr. Greive said that beginning this fiscal year the City is directing 0.3% for those who are pension members to the pension trust. Even though the accounting system shows 9.7% and 0.3%, the full summation of those are going in to the pension trust from which the disabilities are going to be paid. For DC plan members, the 0.3% is going into a separate Disability and Survivor Trust.

Mr. Williams indicated that the October 1, 2018 Valuation will be the first valuation showing this method.

Back on the discount rate discussion, Mr. Weinstein indicated that budget discussions are happening and the required contribution will need to be known relatively soon. More discussion was had around whether the Board could put off the decision to the next meeting, but that would mean that a final report could not be delivered until a subsequent meeting. Given the general knowledge of the Chair's preference to lower the discount rate, and the sense that other Board members agree, the decision was made to vote on the item at this meeting and reduce the discount rate.

Mr. Mousa motioned to drop the discount rate from 7.4% to 7.2%. The motion was seconded by Mr. Weinstein. Mr. Wood asked Mr. Williams if the numbers shown in the preliminary report were solid. Mr. Williams responded that they were. Mr. Wood asked what effect lowering the discount rate to 7.2% would have on the unfunded liability. Mr. Williams said the GEPP goes from $1.024 billion to $1.081 billion and COPP would go from $178.9 million to $185.6 million. Mr. Mousa said that was expected. Mr. Wood asked if the funding level affects the Corrections Officers contract. Mr. Kilcrease said that lowering the discount rate is a positive. Mr. Weinstein agreed, saying it makes it easier for the plan to meet the target return because it is lower. There was no further discussion. The Acting Chair took a vote and the motion to lower the discount rate from 7.4% to 7.2% was approved unanimously.

6. <u>ADMINISTRATIVE</u>

Discussion was had about having the April meeting on April 24, 2018

7. <u>OLD BUSINESS</u>

Mr. Sawyer indicated that after the Board disapproved the appealed disability application of Sabina Pryce-Jones, she has decided to appeal to the First District Court of Appeals. That happened relatively recently, so there is nothing more to report at this time. Typically, it takes several months for the District Court of Appeals to get to a matter like this. Mr. Greive asked if there would be a separate attorney assigned to this case. Mr. Sawyer said that this is a litigation matter, and that Michael Wedner would handle the case.

8. **<u>PRIVILEGE OF THE FLOOR</u>**

No discussion

9. <u>ADJOURNMENT</u>

There was no further business and the Acting Chair adjourned the meeting at 2:41 p.m.