

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
February 13, 2020

A meeting was held beginning at 9:01 A.M. in the Conference Room at Station 91, Lake Worth, Florida. Those persons present were:

TRUSTEES

Rich Seamon
Barry Ruf
Rory Kimbrell

OTHERS

Margie Adcock, Administrator
Adam Levinson, Attorney
Tim Nash, Investment Monitor
Nicolas Lahaye, Actuary
Eric Leventhal Auditor (9:18 A.M.)
Tim Sipe, Participant
April Hanyecz, Participant

PUBLIC COMMENTS

Tim Sipe and April Hanyecz appeared before the Board. Mr. Levinson stated that the question raised is related to the tax status of a Participant that retires on an in line of duty disability. He provided a memorandum dated March 12, 2019 that his office prepared. He noted that they do not give tax advice but can talk about the general rules. He stated that generally a duty disability is considered non-taxable if the member was active with a workers' compensation determination. However, there is a catch. A duty disability under the Plan provides a benefit that is 50% of the accrued benefit or the accrued benefit, whichever is greater. The benefit is non-taxable provided it is not over the flat dollar amount which is 50%. For Ms. Hanyecz, her taxable amount would be 12%. Mr. Levinson stated that Ms. Hanyecz does not have taxes taken out of her pension right now. If she wants, she can adjust her tax withholding to capture the 12% by submitting a new W-4P form. There was a lengthy discussion.

Tim Sipe and April Hanyecz departed the meeting.

ADDITIONS AND DELETIONS

Rory Kimbrell stated that he would like to add a discussion to the Agenda regarding the possibility of adding a COLA to the Plan and getting the cost to cover the COLA from the active members. Mr. Levinson stated that there is no longer a Union that relates to this Plan. He discussed a similar matter involving Hallandale which decided to contract with BSO. The question was could the City reduce benefits and their position was no. The members had elected to stay in the Plan so estoppel prevented the City from reducing benefits after the election was done by the members to stay in the Plan. He stated that Mr. Kimbrell is asking about the possibility to improve benefits but there is no one to negotiate with really. Mr. Levinson stated that there is nothing that prevents them from going to the City and asking for the COLA and nothing prevents the City from passing an Ordinance allowing it. There was a lengthy discussion. Mr. Kimbrell inquired if the 175 premium tax monies could be used to buy a COLA for anyone still getting a Share Account. He stated that it could be done in the same fashion as the 3.25% multiplier. It could include those in the DROP and would only exclude those that separated from

service. Mr. Levinson stated that the Statute provides that extra compensation cannot be given to anyone that is no longer employed.

Eric Leventhal entered the meeting.

Mr. Kimbrell stated that he was thinking of ways to prevent the last man standing issue. He thought this would be a benefit that would grow over time. Mr. Levinson stated that normally a benefit cannot be increased for those already retired because of Chapter 215. The Board decided that there could be more discussion on ways to prevent the last man standing issue at a later date.

AUDITOR REPORT

Eric Leventhal appeared before the Board. He presented the draft Annual Audit as of September 30, 2019. He stated that they would be issuing a clean unmodified opinion. He reviewed Management's Discussion and Analysis. He reviewed the Statement of Net Fiduciary Position as of September 30, 2019. The total assets were \$47,025,819 with most of the money in investments. Total liabilities were \$23,448. Total net position restricted for pensions was \$47,002,371, with \$28,624,831 restricted for defined benefits and \$18,377,540 restricted for DROP benefits. Mr. Leventhal reviewed the Statement of Changes in Net Fiduciary Position. He stated that there were total additions of \$4,529,789 and total deductions of \$4,649,824 leaving a decrease in the Plan net position of \$120,035.

Mr. Leventhal reviewed the schedule of administrative expenses. He stated that he thinks they are reasonable and appropriate as compared to what he has seen in other plans. As a total of the Fund expenses, the administrative expenses were 0.18% of the Fund. That is trending in the lower third of his clients. Mr. Leventhal reviewed the notes to the financial statements. He reviewed the supplementary information. He reviewed the schedules of changes in the employer's net pension liability and related ratios. Mr. Leventhal stated that there were no substantive changes to any of the disclosures. Mr. Leventhal stated that he found no significant internal control issues. He received full cooperation from management and the service providers. A motion was made, seconded and carried 3-0 to accept the Annual Audit as of September 30, 2019. A motion was made, seconded and carried 3-0 to authorize the Chair to execute the Management Representation Letter.

Eric Leventhal departed the meeting.

PUBLIC COMMENTS (CONTINUED)

Tim Sipe, April Hanyecz and Cathy Waldron appeared before the Board. There was further discussion on the issue of the taxability of Ms. Hanyecz's disability retirement. It was noted that they contacted her tax advisor after their earlier attendance before the Board and the tax advisor stated that she needs the amount broken down by taxable and non-taxable amounts. Mr. Levinson stated that he had no objection to authorizing the Actuary to determine the amounts. There was a lengthy discussion. A motion was made, seconded and carried 3-0 to direct the Actuary to determine the 50% threshold amount and authorize the Administrator to revise the 1099 for Ms. Hanyecz for 2019 based on the figures provided by the Actuary. It was noted that every year the amount will change. The Board's direction only applies to 2019 and the Board will continue the conversation

regarding future years if necessary. The Board stated that they could make available the Attorney memos to any other disability recipients that are having a similar issue. A motion was made, seconded and carried 3-0 to authorize the Actuary and Administrator to provide similar figures and revised 1099s for 2019 to anyone else that requests a similar calculation between now and the next meeting,

Tim Sipe, April Hanycez and Cathy Waldron departed the meeting.

MINUTES

The Trustees reviewed the minutes of the meeting of November 19, 2019. A motion was made, seconded, and carried 3-0 to accept the minutes of the meeting of November 19, 2019.

ACTUARY REPORT

Nick Lahaye appeared before the Board. He presented the Actuarial Valuation as of October 1, 2019. He reviewed the annual required contribution. He noted that the total required contribution increased from last year. He stated that the contribution went up mostly because of reducing the amortization period by an extra year and reducing the actuarial rate of return by .15%. Mr. Lahaye stated that the total required contribution for the plan year ending September 30, 2021 would be \$3,457,426. He stated that with contributions from Division II of \$38,308, the City's contribution would be \$3,419,118 versus the City's contribution from last year of \$3,062,953.

Mr. Lahaye noted that there were no revisions in benefits. He stated that the Valuation reflects the firefighters cancer bill. He noted that the cancer bill did not have much of an impact, only increasing the contribution requirement by \$170. He stated that the actuarial assumed rate decreased from 7.15% to 7.00% which increased the required contribution by \$79,098.

Mr. Lahaye stated that since the Plan is closed and consists primarily of retirees collecting benefits, he recommended lowering the assumed rate of return to the range of 6% to 6.5%, which could be phased in over time. He stated that he recommended keeping on the path of reducing the assumed rate, which would not be too costly at about \$80,000 a year. Mr. Nash stated that part of reducing the assumed rate is to de-risk the portfolio. Since the rates are so low, if the Board makes a change now it will increase the risk of the portfolio. In the short term he suggested staying where the Plan is and trying to find more income producing options. He stated that he will try to make the portfolio more conservative in the next couple years. Mr. Lahaye stated that they would continue to reduce the amortization period by one extra year. It is scheduled to occur one more time next year. The new basis will be ten years on or after October 1, 2019. It was noted that next year the mortality table will be changing which should help the Plan as the mortality will be lower. There was further discussion on the assumed rate of return.

Mr. Lahaye stated that since the Plan is so mature, it makes more sense to reduce the assumed rate of return by .15% to 7% at a cost of about \$80,000. Mr. Nash stated that there would not be a change in the asset allocation if the assumed rate of return is between 6.75% and 7%. He would not recommend changing the asset allocation right now because of the low interest rates. However, if the assumed rate was reduced to 6.5% he would recommend changing the asset allocation to 50%/50%. There was more

discussion. A motion was made, seconded and carried 3-0 to reduce the assumed rate of return to 6.90% next year and then re-evaluate it after that. Mr. Nash stated that he would update the Investment Policy Statement accordingly.

Mr. Lahaye stated that there was a net actuarial loss of \$42,584 for the year, which means that the actuarial experience was less favorable than expected. The loss was primarily due to the more retirements than expected (3 versus 1) and lower mortality experience than expected (3 deaths versus 1.5 deaths expected). The actuarial loss was offset by lower salary increases than expected and a lower than expected return on the actuarial value of assets (6.0% versus 7.15% expected). Mr. Lahaye stated that there would be no 13th check because the Plan experienced a cumulative actuarial loss. The funded ratio was 58.27% versus 56.7% last year.

Mr. Lahaye reviewed the actuarially determined contribution. He reviewed the actuarial value of benefits and assets. He reviewed the calculation of the employer normal cost. He reviewed the liquidation of the unfunded actuarial accrued liability. He reviewed the historical investment rate of return from 1972 to 2019. A motion was made, seconded and carried 3-0 to approve the Actuarial Valuation as of October 1, 2019.

INVESTMENT MONITOR REPORT

Tim Nash appeared before the Board. He discussed the market environment as of December 31, 2019. He reviewed the breakdown of the top five contributors to the 2019 index total return: Apple, Microsoft, Facebook, JP Morgan Chase and Amazon. He stated that it was a strong quarter and a strong year. Equity markets have been a huge driver of returns

Mr. Nash provided an update on the firm. He stated that the firm is celebrating their 20 year anniversary. They have six offices with 89 employees. They have \$92 billion in client assets under advisement. In 2019 they hired nine new team members and added two more partners for a total of ten partners.

Mr. Nash reviewed the performance as of December 31, 2019. The total market value as of December 31, 2019 was \$48,188,865. The asset allocation was comprised of 58.6% in domestic equities; 8.8% in international equities; 18.1% in fixed income; 8.8% in real estate; 4.4% in alternative investments; and 1.3% in cash. The Fund was up 6.65% net of fees for the quarter while the benchmark was up 5.70%. Total equities were up 9.60% for the quarter while the benchmark was up 9.09%. Domestic equities were up 9.53% while the benchmark was up 9.10%. International was up 10.09% while the benchmark was up 8.99%. Fixed income was down .03% while the benchmark was up .18%.

Mr. Nash reviewed the individual managers. Legg Mason Dynamic Large Cap Value was up 9.62% while the Russell 1000 Value was up 7.41%. Cambiar was up 8.27% while the Russell 2500 Value was up 7.07%. Alger was up 10.75% while the Russell 1000 Growth was up 10.62%. Vanguard Total Stock Market was up 9.00% while the benchmark was up 9.00%. EuroPacific R6 was up 10.09% while the benchmark was up 8.99%. With respect to fixed income, Garcia Hamilton was down .03% while the benchmark was up .18%. Mr. Nash stated that Garcia Hamilton does a reasonably good job but the spread on fixed income is very tight. He stated that Garcia Hamilton thought the Fed would raise rates and remained shorter on duration and had higher quality bonds which hurt

performance. American Realty was up 1.46% while the NCREIF was up 1.53%. The PIMCO All Asset Fund was up 4.32% while the benchmark was up 1.00%.

Mr. Nash reviewed the compliance checklist. He reviewed the fees, noting that the Fund paid 51 basis points last year for the investment program. A motion was made, seconded and carried 3-0 to accept the report from the Investment Monitor.

It was noted that the Board needs to formally determine the expected rate of return for the short term and long term, as is required by the State. It was noted that the Board just approved the return of 7.00% in the Valuation. A motion was made, seconded and carried 3-0 to determine the expected rate of return using the rate of 7.00%.

Tim Nash departed the meeting.

ATTORNEY REPORT

Mr. Levinson provided a Memorandum dated January 15, 2020 regarding the SECURE Act and IRS Limits for 2020. He stated that the law was passed at the end of the year and increases the required minimum distribution age from 70 ½ to 72 ½ effective January 1, 2020 for those that have not taken distributions. If someone has already started taking distributions, then they are subject to the old rules regarding minimum distribution requirements. It also addresses death benefits for non-spouse beneficiaries and acknowledges that there are different rules for spousal beneficiaries for lump sum distributions. Mr. Levinson stated that the other part of the memorandum dealt with the IRS limitations for the 415 limits which went up from \$225,000 to \$230,000. The amounts for 457 and 401 plans also increased to \$19,500.

Mr. Levinson provided a Memorandum dated January 2020 regarding Fiduciary Standards for Local Officers. He stated that the Florida Legislature will be considering HB 1113/SB 1270 which is bill that adds a new section to Chapter 112 of the Florida Statutes establishing a general fiduciary standard for all local officers and appointed public officials. It was noted that this new section may conflict with the fiduciary standards already applicable to public pension plans that is in Section 112.656. As trustees for public pension plans, there is already a fiduciary duty to the participants of the plan, not the governing entity. He stated that his office is trying to work out this conflict with the Division of Retirement. He noted that the proposed new law would also require five hours of governance training once a term.

Mr. Levinson provided a Memorandum dated January 2020 Regarding Changes to Florida's Notary Public Law. He stated that Florida's Public Notary Law was changed effective January 1, 2020 to permit remote online notarizations under certain circumstances. It was noted that there are certain exemptions to the new law, such as not being applicable for change of beneficiaries or change of joint survivor annuitants. He stated that certain forms that are required to be notarized will need to be revised to include the new notary acknowledgment.

Mr. Levinson provided an update on the proposed Ordinance that incorporated the firefighter cancer presumption and changing the name of the Fund to reflect the new name of the City as Lake Worth Beach. He stated that he has not yet forwarded it to the City but will. He stated that there was no urgency regarding this Ordinance.

Adam Levinson departed the meeting.

ADMINISTRATIVE REPORT

The Board was presented with disbursements, including the investment manager disbursements. A motion was made, seconded and carried 3-0 to pay the listed disbursements.

The Board reviewed the financial statements for the period ending December 31, 2019.

The Board was presented with a list of benefit approvals which included DROP distributions. A motion was made, seconded and carried 3-0 to approve the benefit approvals.

Ms. Adcock provided a Memorandum dated January 27, 2020 regarding Annual Payment Verification Letters She explained that in the past they have been using a death search provider to receive information when deaths occur for retirees in the Plan. However, the Social Security Administration no longer includes death data derived from state sources which has resulted in an estimated drop of about 33% of reported deaths. As such, the Resource Centers is going to implement a process of sending letters to retirees to verify that they are still alive. She discussed the process and the cost with the Board. A motion was mad, seconded and carried 3-0 to authorize the Resource Centers to implement the new verification process.

OTHER BUSINESS

It was noted that the term of the 5th Trustee held by Rich Seamon expired on September 30, 2019. This item will be placed on the Agenda for the next meeting as there were not enough Trustees to vote on the appointment at this meeting.

It was noted that an election was held for the position held by Barry Ruf and Mr. Ruf was re-elected to the Board for another term.

There being no further business, the Trustees adjourned the meeting.

Respectfully submitted,

Rory Kimbrell, Secretary