

MINUTES
ROCKFORD POLICE PENSION BOARD
AUGUST 19, 2021

MEMBERS PRESENT: Jeff Nielsen, President
Marcia Mueller, Vice-President
Scott Laue, Trustee

ABSENT: Joe Stevens
Randy Berke

ALSO PRESENT: Mike Piotrowski – Marquette Associates
Roberta Holzwarth – HolmstromKennedy PC

GUESTS: Sue Simone - Nyhart

STAFF: Karla Hunter, Finance
Carrie Hagerty, Finance Director

The August 19, 2021 Rockford Police Pension Board convened at City Hall 425 E. State St., Jeff Nielsen called the meeting to order 8:06 a.m.

Motion by Mueller and seconded by Laue to approve the June 17, 2021 minutes of the Board meeting. APPROVED.

July 15, 2021 minutes of the Board meeting were tabled.

PUBLIC COMMENT

NONE

CASH & INVESTMENTS

Piotrowski presented the July flash report. The value of the fund is currently \$231 million as of July 31. The portfolio continues to be underweight to fixed income, with subsequent over weights to equities, both US and non US and a slight underweight to real estate. We do not need to sell any investments for benefit payments this month. For the month of July, the pension fund had a return of positive 0.8%, year-to-date the fund is positive 8.3%. Both numbers are outperforming the policy benchmark. Bond yields continue to fall, value oriented indexes did lag over the course of the month. Emerging markets sold off significantly over the course of the month. As of Monday, the market did close at an all-time high.

Mueller voiced her concern with the performance of DFA. Piotrowski stated he is not certain of the timeline for the police pension fund consolidation. Board will discuss options in depth at next meeting.

Motion by Mueller and seconded by Laue to approve purchases and sales as attached to the agenda. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Report from Nyhart

Director Hagerty introduced Sue Simon of Nyhart.

Director Hagerty explained that the consolidation legislation included some increases in Tier II benefits. Attorney Holzwarth will provide more information to the board via email.

Sue Simon was at the meeting to present the actuarial report. Ms. Simon briefly discussed the Public Act 101-0610 signed by Governor Pritzker on December 18, 2019, which will consolidate the assets held by all Article 3 police pension funds into one fund for investment purposes. A lawsuit was filed regarding the pension fund consolidation. Attorney Holzwarth stated there would be a hearing regarding a temporary restraining order on September 10, 2021. The City of Rockford Police Pension fund is not participating in the litigation. Once the Article 3 funds are consolidated, the consolidated police pension fund will conduct annual actuarial evaluations and determine the contribution rates for each Article 3 fund. Director Hagerty discussed the benefits of continuing to retain an actuary once the consolidation is completed.

Ms. Simon referred the board to the presentation handout.

Page 4 of the handout shows the interest rate assumption. In accordance with the multi-year plan to decrease the interest rate assumption from 7.5% to 7.0%, the rate of return assumption was lowered this year from 7.3% to 7.1%. Ms. Simon stated that using a lower the interest rate assumption result in a higher actuarially required contribution.

Page 5 of the handout shows the 1/1/2021 valuation highlights. Assets performed better than last year's interest rate assumption of 7.30%. On a market value the assets returned 11.1%; the return on the actuarial value was 8.8%. With the actuarial value, gains and losses are blended in over a five year period to try to smooth out some of the volatility.

The total participants decreased from 659 to 641, active participants were down from 300 to 287. The "In Payment" (retirees or disabled retirees) went from 303 to 314. The plan funding level decreased slightly from 60.2% to 59.9% primarily due to the proposed decrease in the interest rate assumption from 7.3% to 7.1%. Using a 7.1% interest rate assumption, the actuarially required contribution is \$10,514,567, which is an increase of approximately \$574,000 (4.3% of payroll) over last year. Due to the consolidation, changes in actuarial assumptions and required contributions could be coming.

Page 6 of the handout shows a three year history of the demographics. Active participants are down by 13. The average age of participants remained stable at 39.2. The average service went up from 12.9 to 13.2.

Page 7 of the handout shows the 2020 change in assets. As of 1/1/2020 the fund had a market value of \$212.1 million; the total contributions (employer and member) were \$12.5 million, the benefits paid were \$20.1 million, the net return was \$22.9

million, and the ending market value was \$227.4 million. The market value is greater than the actuarial value by \$9.4 million.

Page 8 of the handout shows the Fund's asset history. In 2018 there was a negative market value return of 3.9%, but the actuarial value return was positive 5.2%. Rates of return on the market value can be volatile.

Page 9 of the handout addresses the mortality assumption. Using a mortality table with longer life expectancy increases the Fund's liabilities and results in a higher actuarially required contributions. A 2019 study from the Society of Actuaries (SOA) produced three new base mortality tables related to public pension plans based on different types of employees: public safety, teachers, and general. We believe that when the consolidated plan reviews assumptions in 2022 it is likely that they will recommend some form of the public safety table from the 2019 SOA study, which will likely increase life expectancies as demonstrated for sample ages. Until then, we propose using the same table the Illinois Department of Insurance (IDOI) is currently using, "Base RP-2014 (RP 2006) Blue Collar with generational improvement scale MP-2016 applied from 2013" mortality table, with one exception: updating the improvement scale being applied to MP-2020. This newer improvement scale is based on updated data collected by the SOA that projects mortality improvements to happen at a slower rate than anticipated by the MP-2016 scale.

Page 10 of the handout shows the 2021 Valuation Results. The most left column is the 2020 valuation. At that time, the plan was 60.2% funded. The Mortality Update (MP-2020) column illustrates the impact of updating the mortality improvement scale to MP-2020, which decreased the unfunded liability given the resulting slightly lower life expectancies. The last column reflects the changes resulting from using a lower interest rate assumption. The recommended contribution is \$10,514,567. Attorney Holzwarth noted that in some years, the City's actual contribution was higher than the actuarially required amount. Director Hagerty responded that the City contributes whatever the county collects for the police pension levy; additionally the City funds a portion of its pension contributions with Personal Property Replacement tax, which is extremely volatile. Approximately 13% of the PPRT is used to fund the pension funds.

Nyhart reviewed pages 12, 14-15 of the handout. These pages illustrate the projections for contribution levels, funded status, and unfunded liability based on the goal of being 90% funded by 2040. If a lower payroll growth percentage is used, the actuarially required contribution will increase in the near term but be lower as you approach 2040.

The board discussed the presentation.

CITY BILLS

Motion by Mueller and seconded by Laue to approve July postage charges of \$102.58. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve August City Services of \$7,385.00. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the July bill from HolmstromKennedyPC for general matters in the amount of \$3,465.00. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the July bill from HolmstromKennedyPC for Annual Medical Reviews for fees in the amount of \$1,935.00 for professional services and disbursements in the amount of \$90.56. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the July bill from HolmstromKennedyPC for the disability application for Michael Landgraff in the amount of \$461.25 for professional services and \$205.78 for disbursements. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the payment to Kayne Anderson Rudnik for management fees for April 1, 2021 through June 30, 2021 in the amount of \$30,868.89. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the payment to Segall Bryant & Hamill for investment management fees for April 1, 2021 through June 30, 2021 in the amount of \$18,505.30. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

Motion by Mueller and seconded by Laue to approve the payment to NIU for IPPFA online 4-hour Transition Training for Randy Berke (\$125.00) and Joseph Stevens (\$125.00) for a total amount of \$250.00. APPROVED.

Ayes: Nielsen, Mueller, and Laue
Nays: None

ATTORNEY'S REPORT

Attorney Holzwarth stated that two disability applications were received, one for Officer Michael Landgroff and for Officer Katherine Anderson. Subpoenas will start going out and HIPPA forms are on file.

A summary will be accompanied with a letter explaining their pension options when leaving the police force.

For the consolidation litigation, a hearing is scheduled for September 10, 2021.

A draft of the letter to John Cabello's attorney was included in the board's packet. Attorney Nick Meyer is comfortable with the letter.

Motion by Mueller and seconded by Laue to approve the letter to Attorney Nick Meyer in regards to the boards opinion of the creditable service for John Cabello. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

OLD BUSINESS

Hunter reported that 4 affidavits have not been returned.

Motion by Mueller and seconded by Laue to hold direct deposits for pensioners until receipt of their affidavits. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

NEW BUSINESS

Motion by Mueller and seconded by Laue to approve the termination of pension benefits for Glen Brentner due to his death on July 11, 2021. The board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve the surviving spouse pension benefits for Rose Brentner. The board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve the suspension of pension benefits for Gladys Kirchner due to her death on August 16, 2021 subject to the receipt of the death certificate. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

PAYROLL

Motion by Mueller and seconded by Laue to approve the August estimate in the amount of \$1,797,838.03. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve the July actual payroll in the amount of \$1,792,801.63. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, and Laue

Nays: None

Nielsen questioned the status of ZOOM meetings. Attorney Holzwarth stated that the Statute allows remote meetings if the Governor has issued a public health disaster proclamation, which Governor Pritzker has. The board decided to go back to remote meetings.

Motion to adjourn was made and seconded at 10:08 a.m.