

Frankfort Fire Protection District Firefighters' Pension Fund

Minutes of the Regular Meeting of the Board of Trustees of the Frankfort Firefighters' Pension Fund of the Frankfort Fire Protection District, Will County, Illinois, held on Wednesday, May 24, 2017 at 11:30 A.M. at Fire Station One, located at 333 W. Nebraska Street, Frankfort, IL 60423.

I. CALL TO ORDER

II. ROLL CALL

Present: Daniel Faber, President
Michael Kavanagh, Treasurer
Leonard Todd Hamm, Trustee
Robert Wilson, Trustee

Absent: Alphonso Jackson, Secretary

Also Present: Kristi Farnum, Recording Secretary
Carolyn Clifford, Attorney
Todd Schroeder, Actuary, Lauterbach and Amen
John Falduto, Sawyer Falduto Asset Management
Tom Sawyer, Sawyer Falduto Asset Management
Larry Nice, District Trustee
Kevin Brow, Trustee Nominee
Nick Sunzere
Josh Seroka
Dave Scanlan
George Heinen
Drew Doogan
Tom Warszalek

III. PUBLIC COMMENTS

- None.

IV. APPROVAL OF MINUTES

A. February 7, 2017 Regular Meeting Minutes

A Motion was made by Robert Wilson and seconded by Leonard Todd Hamm to:

“Approve the February 7, 2017 regular Meeting Minutes as presented.”

VOICE VOTE. MOTION CARRIED.

B. Six-month Review of Closed Meeting Minutes

A Motion was made by Daniel Faber and seconded by Michael Kavanagh to:

“Keep all closed meeting minutes closed.”

VOICE VOTE. MOTION CARRIED.

V. TREASURER'S/INVESTMENT REPORT

A. Review of Current Investment/Financial Report

- 55% of Funds are invested in Equities, 44% in Fixed Income, and the rest in cash.
- The fund started out January 1st at \$15.5 million and ended the first quarter at \$16.3 million, up \$560,000 in just investment revenue plus other contributions.
- The short-term interest rate is low.
- Investment return is 6.69% (or \$4.64 million) since inception in 2008.

- Economic data is good over the past quarter. Most importantly, consumer spending is up.
- Fixed income return is near zero. The 10-month treasury is low. There's not a lot of competition for stocks.
- The American Beacon fund was replaced with the Goldman Sachs Fund.
- Bond duration is at 5.05 years.

B. Review and Possible Changes To Asset Allocation/Investment Policy

- Should the Board consider higher exposure to equities? The average target among funds with over \$10 million is 55%. There's more volatility, but also better investment income. Ease the burden on other contribution sources. Move the target to 60% with a range of 55 – 65%.
- Wait until after the actuary's presentation to finalize the decision.
- The equity target could be increases to 60 or 65%.
- Sometimes if the target is 65%, you could go above the 65% because of appreciation. This could be a problem if it occurs at the end of the fiscal year – the Department of Insurance will issue a notice that the fund is out of compliance with statute.
- Capture investment income now while the Fund is young.
- Should not need to change the allocation for cash flow purposes when more members start to retire.
- Set the target a little below 65% so that it does not go over.

A Motion was made by Leonard Todd Hamm and seconded by Daniel Faber to:

“Change the equity target to 62%, with a range of 55 – 65%.”

ROLL WAS CALLED.

AYE: Faber, Hamm, Brow, Kavanagh, Wilson

NAY: None

ABSENT: None

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

- The fixed income range will be 35 – 45% and cash will be 0 – 10%.

C. Approval of Bills (roll call)

A Motion was made by Michael Kavanagh and seconded by Robert Wilson to:

“Approve the Disbursement Warrant, totaling \$75,509.27, as presented.”

ROLL WAS CALLED.

AYE: Kavanagh, Wilson, Faber, Hamm, Brow

NAY: None

ABSENT: None

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

D. DOI Compliance Fee

- This year's invoice was \$2,700 and is based on the size of each Fund's assets.

E. Discussion on Timeline for Audit, DOI Annual Statement, and Actuarial Processes in 2017

- After the last payroll in May, census information is entered on the Department of Insurance website. By mid-June the unaudited financial reports will be ready and will be sent to the actuary. The actuary will calculate a draft report which will be available at the August Pension Board meeting. The actuarial valuation will be finalized after the audit is done at the end of July, but there usually aren't any adjustments to the audit, so the draft is usually the same as the final.

VI. COMMUNICATIONS AND SPECIAL REPORTS/PRESENTATIONS

A. Review and Possible Changes to Actuarial Assumptions

- Rate studies were done by Lauterbach and Amen in 2016.
- The actuarial process is made up of 2 parts: 1. Estimate when benefits will be paid, 2. Calculate how to pay for those benefits.
- There are only a few people pulling retirement benefits currently, but in 10 years there will be an estimated annual payroll distribution of \$650,000. The fund will then shift from a young fund to maturity and will need to be financially prepared when the time comes.
- Rate of Return Assumption: Currently 6.75%
 - Matches to the Department of Insurance
 - Funds with over \$10 million in assets range from 6.5 – 7.25% with most being at 6.75 – 7%
 - This is a long-term assumption.
 - Investment return is a big piece of the overall actuarial valuation.
 - 6.75% is net of administrative expenses, which are estimated to be 20 basis points. Administrative expenses include attorney, accountant, actuary, and auditor costs.
 - Funds in the 55% equity range usually set this assumption at 6.75 – 7%
 - Adding 5% to equity give a little better long-term opportunity for investment income.
 - Adding pensioners will have no effect on this assumption, unless equity exposure was reduced.
 - The 6.75 to 7% range is not unreasonable for this assumption.
- Pay Increase Assumption: Currently 3.75 – 16.79%
 - Short-term increases are pulled from the union contract.
 - Average Cost of Living Adjustment (COLA) increases are also taken into account.
 - The actuary studies pay increases every 4-5 years: for 336 funds, pay increases are usually 1.25 – 1.75% above the COLA and are volatile in pattern
 - Sometimes the valuation will show a catch-up adjustment when a union contract isn't yet approved.
- Total Payroll Increase Assumption: Currently 3.25%
 - Really an estimate of how fast revenue is expected to increase.
 - Used in calculating how fast unfunded liability is decreasing.
 - The lower the %, the higher the payment.
 - This is usually less than the Individual Pay increase assumption.
 - The Department of Insurance is at 4.5% and they have not reviewed this number in 6 to 7 years.
- Last year's Lauterbach and Amen PUC valuation differed significantly from the Department of Insurance PUC valuation, with Lauterbach and Amen calculating \$500,000 and DOI calculating \$1,200,000.
 - DOI individual pay increase assumption is as high as 5%, which is too high.
 - DOI uses the level dollar basis.
 - Per the DOI, Frankfort Firefighters' Pension Fund is over 100% funded, and DOI is not set up to make corrections for overfunding.
 - The PUC calculation is heavily weighted to active members, so there is a disparity mostly in younger funds.
- Consumer Price Index – Urban Assumption: Currently 2.5%
 - Has a big impact on the Tier 2 membership. The annual COLA increase after retirement and the annual increase in the salary cap are both calculated as half of the CPI-U.
 - The assumption is based on a rolling 25 – 30 year average and is coming down over time.
 - This does have a small effect on current valuation results.

A Motion was made by Robert Wilson and seconded by Daniel Faber to:

“Take a 15-minute lunch break.”

VOICE VOTE. MOTION CARRIED.

- Mortality Rate Assumption: Currently Lauterbach and Amen 2016 Study, Proposed Lauterbach and Amen 2016 Study with MP-2016 Improvement Rates
 - Because of data polls from the Social Security Administration, future mortality is able to be predicted. This will take the volatility out of this assumption as there will be a consistent small change on contributions each year, rather than all at once each time the study is updated.
- Other Rate Assumptions:
 - Based on Lauterbach and Amen 2016 studies.
 - If the pieces of each study are calculated as under 25% credible, a general population study will be used.

A Motion was made by Leonard Todd Hamm and seconded by Michael Kavanagh to:

“Accept Lauterbach and Amen’s assumptions as presented.”

VOICE VOTE. MOTION CARRIED.

VII. CONSIDERATION OF AND ACTION UPON APPLICATION FOR MEMBERSHIP

A. Michael Reinbolt

A Motion was made by Leonard Todd Hamm and seconded by Daniel Faber to:

“Accept Michael Reinbolt’s application for membership, with a start date of May 8, 2017.”

VOICE VOTE. MOTION CARRIED.

VIII. CONSIDERATION OF AND ACTION UPON CHANGE OF RECORDS SUBMISSIONS

A. William Kramer

B. David Scanlan

C. Jeff Otte

- Members cannot change their beneficiaries as they want, they are set by statute.

A Motion was made by Robert Wilson and seconded by Kevin Brow to:

“Accept the Change of Records request as presented.”

VOICE VOTE. MOTION CARRIED.

IX. OLD BUSINESS

A. Status of Wolf Annual IME Process

- There are 3 consultants that are commonly used for pension disability Independent Medical Examinations (IMEs): INSPE, Examworks, and Woodlake. INSPE only had doctors available in Houston, which is 5.5 hours from where Chris lives; Examworks has one doctor near Ft. Worth, but he has only done police disability cases; and Woodlake doesn’t have any doctors in Texas.
- The Ft. Worth attorney was contacted and mentioned that their worker’s compensation carrier has doctors that do IMEs. The workers compensation doctor has worked with firefighters. The doctor’s curriculum vitae was reviewed and approved by the Pension attorney, noting that he belongs to a society of physicians who handle disability evaluations, so he will be familiar with what we are asking him to do.
- Dallas Fire Department was contacted, but they did not want to give their doctor’s name out.

A Motion was made by Robert Wilson and seconded by Michael Kavanagh to:

“Use the Fort Worth Workers Compensation doctor, Dr. Karl Erwin, for Chris Wolf’s Independent Medical Exam.”

VOICE VOTE. MOTION CARRIED.

B. Receipt of Final Revised Board Rules and Forms

- The rules and forms were received and completed.

X. NEW BUSINESS

A. Election Results – 1 Active Member

- There was one expired term, previously held by Alphonso Jackson. The spot was offered to the retirees, and all declined. The spot was then offered to active personnel, and the only one nominated was Kevin Brow. Since he was the only one nominated, he is elected by acclamation per Board rules.

A Motion was made by Leonard Todd Hamm and seconded by Robert Wilson to:

“Accept Kevin Brow as the new pension trustee.”

VOICE VOTE. MOTION CARRIED.

B. Trustee Appointment

- At the April 18, 2017 District Board of Trustees meeting Michael Kavanagh was re-appointed to the pension board for another 3 year term.

C. Election of Board Officers

A Motion was made by Robert Wilson and seconded by Michael Kavanagh to:

“Elect Daniel Faber as President of the Board.”

VOICE VOTE. MOTION CARRIED.

A Motion was made by Robert Wilson and seconded by Daniel Faber to:

“Elect Leonard Todd Hamm as Secretary of the Board.”

VOICE VOTE. MOTION CARRIED.

D. Investment Professional Review

- The attorney put together an Annual Investment Professional Review and Oversight Checklist to be reviewed annually to insure that the Board’s fiduciary duty to monitor these professionals has been appropriately fulfilled.
- Sawyer Falduto Asset Management LLC provided copies of their current contract, their most recent ADV – Parts 1 and 2 filings with the SEC, and the Board’s investment policy. It was noted that a current performance report on the Fund’s portfolio is provided at each quarterly Pension Meeting.
 - They abide by the Board’s investment policy.
 - They provide disclosure of all management fees and the expense ratio of the mutual fund portfolio in each quarterly report to the Board.
 - They promptly update the Fund when fees change.
 - They submit quarterly written reports for the Board’s review at its regularly scheduled meetings.
 - They are familiar with the statutory requirements governing Illinois pension fund investments.
 - The current contract does not specifically require disclosure of disciplinary action/conflict of interest. Their annual filing of ADV Part 1 and 2 would contain such information if existed.
 - The contract between Sawyer Falduto and the Board contains language confirming Sawyer Falduto is a fiduciary to the Fund.
 - They do subscribe to a code of ethic. A copy was provided
 - They described their investment system during the RFP stage. On an ongoing basis, investment system topics are discussed during the quarterly meeting process at various levels and detail.
 - Quarterly reports include performance versus agreed upon benchmarks, and benchmarks can be discussed at the request of the Board.
 - Reports are customizable upon request.
 - Sawyer Falduto is an investment manager, so the Board is not required to do a 5-year RFP.
 - If they were aware of conflicts, they would notify the Board immediately.

- They have no disciplinary action or litigation to discuss.
- The Fund has good documentation of investments in its minutes.

E. Schedule Attorney Training for the Membership

- A few years ago attorney Shawn Flaherty did benefit training for pension members. It would be good to another training session for the members. There are more Tier 2 members since then and other members are getting closer to possible retirement.
- Attorney Carolyn Clifford will provide training for free.
- Allison Barrett at Lauterbach and Amen provides a member workshop for a fee. Allison is excellent at presenting on pension benefits and does these presentations frequently.

XI. TRAINING

A. Annual OMA and FOIA Training

XII. CLOSED SESSION

None

XIII. ADJOURNMENT

At 1:45 P.M., a Motion was made by Daniel Faber and seconded by Robert Wilson to:

“Adjourn the meeting.”

VOICE VOTE. MOTION CARRIED.

Minutes taken by: Recording Secretary Kristi Farnum

Secretary, Pension Board

Approved by the Board of Trustees at a meeting held on Tuesday, August 1, 2017.