

Frankfort Fire Protection District Firefighters' Pension Fund

Minutes of the Special Meeting of the Board of Trustees of the Frankfort Firefighters' Pension Fund of the Frankfort Fire Protection District, Will County, Illinois, held on Tuesday, April 2, 2014 at 9:30 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
Leonard Todd Hamm, Secretary
Michael Kavanagh, Treasurer
Kevin Kocolowski, Trustee

Absent: Robert Wilson, Trustee

Also Present: Kristina Farnum, Recording Secretary
Carolyn Clifford, Attorney
Tom Radja, Attorney
John Falduto, Investment Manager
Kevin Brow, Local 4338
Nick Sunzere
Robert Jacobs
Daniel Rossi
Chris Wolf

III. COMMUNICATIONS AND SPECIAL REPORTS/PRESENTATION

A. Confirmation of tax levy amount from District

- Confirmation of the tax levy amount from the District is on the agenda for the 1st meeting of every year.
- For 2013, the Actuary recommended levy was \$936,890 and the Statutory Minimum was \$631,934. The amount actually levied by the District was \$750,000.
- The Actuarial method (Projected Unit Credit) that is used to calculate the Statutory Minimum has been deemed structurally unsound and inappropriate by the Securities and Exchange Commission (SEC).
- The District Trustees should be educated on the importance of proper funding.
- Government Accounting Standards Board (GASB) changes will make pension liability more transparent on the financial report, and require a Funding Policy.
- The Pension Trustees and District Trustees should work together on a Funding Policy which should address why proper funding is important, the consequences of underfunding, and the impact to the tax payers.
- In order to put together a Funding Policy, the Actuary will have to be willing to educate the District and Pension Trustees.
- The District Trustees were going to have the Actuary (Art Tepfer) present his report to them, but did not because of additional fees involved.
- Auditor input would help, but the Actuary is needed to explain the importance of assumptions.
- Actuarial reports cannot be compared "apples to apples" anymore. There are different actuarial methods, different investment return assumptions, and different mortality rate tables.
- Municipalities have been using methods besides the Pension Levy to catch-up with their pension contributions, such as making one-time surplus payments.

- The District Trustees recognize that the Pension Fund is over 100% funded and is always behind with their calculations because of the timing of the data the actuarial is based off of, the levy process, and the fiscal year funding by that corresponding levy. The Pension Trustees believe they were prudent with their Actuarial Assumptions; they are not trying to adjust their assumptions to get overfunded. Even though investment performance is good this year, that doesn't mean that's the average performance. The percent funded is dropping fast year over year.
- The District Trustees feel that it is their obligation to properly fund the Pension Fund; it is difficult to tell from the Actuary what proper funding is. It was hard to understand Art. Is there someone who can communicate the information better? The Pension Trustees thought it might be good to consider reviewing actuarial services. There are 4 actuaries commonly used for Article 4 Pension Valuations. It wouldn't be a good idea to use the same Actuary as the Department of Insurance.
- The District should stick with what's recommended when levying for the Pension Fund even if it's 100% funded, because that could change fast.
- Actuary proposals should be discussed at the May meeting. The investment managers and District Trustees should all have input in the discussion.
- The District can contribute above and beyond the levy amount, but they are committed to contributing the total amount that is levied for the Pension Fund.
- The concept of Intergenerational Equity requires that you don't over or under fund.
- If the full amount isn't levied, there's still the option of making contributions out of Operational Funds.
- The prior year levy doesn't dictate the next year's levy. While there is no cap on the pension levy, the total levy is subject to a limiting rate.
- Required contributions are built to go up.
- Entry Age Normal valuations go up at a smoother rate than Projected Unit Credit.
- The pension contribution drives the rest of the budget decision and is a strain on operations.
- The District Trustees don't believe there is a gap in funding. They acted prudently and appropriately.
- There is a difference of opinion, and it's based on what the Actuary told the District Trustees vs the Pension Trustees.
- The District needs to trust the numbers. It would be worthwhile to spend the money for another actuarial opinion to show that the numbers are similar and trustworthy. The District and Pension Trustees should agree on which assumptions to use; these should be given to both actuaries, so the valuations are comparable. Valuations should take future assumptions into account. The District needs to understand why the Pension Trustees choose to request the amount that they do; and professionals need to be brought in to explain this.
- The District is concerned about the long run and not just here and now. They need to understand the Actuary, and have the ability to put the money in. The District Trustees gave everything that they thought they could. They looked at the \$936,000 recommendation as utopia, and picked a number in between that and the Statutory Minimum, feeling that was prudent.
- The Pension Trustees feel the District's decision to levy less than the recommended amount was not prudent. The Statutory Minimum using the PUC Actuarial Method should not even be considered.
- Every place is different and the focus needs to be on putting the right amount in.
- The \$936,000 recommendation based on the Entry Age Normal Actuarial Method is not utopia, it's just appropriate. The District needs to be on board with the Actuary and work together with the Pension Fund.
- The District Trustees' levy amount decision was based on the amount most available to put in.
- Are the actuaries just going to give the number that the Pension Board wants? They used to be able to manipulate the numbers a little, but now there are more liability issues being addressed and the numbers can't be manipulated.

- The District was overfunding a few years ago expecting new growth, and now they aren't keeping up with new growth.
- The Actuary presentations need to include District and Pension Trustees.

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

“Get quotes from multiple actuaries.”

VOICE VOTE. MOTION CARRIED.

Kristi Farnum to work on sending an RFP out.

B. Fiduciary Liability Insurance Policy

- VFIS sent a memo that there are no carriers that will write a policy mid-term.
- The Fund should look for a broker that specializes in Fiduciary Insurance, since other brokers are generally unfamiliar with this type of insurance.
- Mesirow specializes in Fiduciary Liability Insurance.

Kristi Farnum to contact Mesirow and set up a presentation.

C. Approval of Berge Disability Case Written Decision

- According to Section 2C of the Illinois Open Meetings Act, Trustees are allowed to adjourn into Closed Session for purposes of deliberating over findings in a Disability case.

At 9:42 a.m. a Motion was made by Kevin Kocolowski and seconded by Daniel Faber to:

“Adjourn to Executive Session.”

ROLL WAS CALLED.

AYE: Kocolowski, Faber, Hamm, Kavanagh

NAY: None

ABSENT: Wilson

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

At 10:07 a.m. a Motion was made by Michael Kavanagh and seconded by Leonard Todd Hamm to:

“Close Executive Session and re-convene the Open Meeting.”

ROLL WAS CALLED.

AYE: Kavanagh, Hamm, Faber, Kocolowski

NAY: None

ABSENT: Wilson

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

A Motion was made by Daniel Faber and seconded by Kevin Kocolowski to:

“Table approval of the written decision for Eric Berge’s Disability Case until the May 13, 2014 meeting.”

ROLL WAS CALLED.

AYE: Faber, Kocolowski, Hamm, Kavanagh

NAY: None

ABSENT: Wilson

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

- When the written decision is approved, a copy will be sent to Eric Berge and his attorney.

Tom Radja to email the 8/2/13 Executive Session transcription to Kristi Farnum to be distributed to the Trustees.

D. Rauch Retirement Application 4/24/2014

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

“Approve the application for retirement benefits for Assistant Chief Larry R. Rauch, age 61, date of regular appointment 2/1/1996; 18 years, 2 months, and 23 days of service; retirement date 4/23/2014; effective date of benefit 4/24/2014; annual benefit of \$43,490.55, which is 41.4% of \$105,049.64 ending annual salary.”

ROLL WAS CALLED.

AYE: Hamm, Faber, Kavanagh, Kocolowski
 NAY: None
 ABSENT: Wilson
 ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

- This is the first retirement for the Fund.
- It’s not necessary for the Pension Board to approve an insurance deduction.

E. Payroll Service

- It’s standard practice for Benefits administration to be outsourced to CPA firms: Lauterbach & Amen or Sikich. These firms are better able to keep up with legal changes.
- Sikich won’t do the Benefits administration since they do the audit for the fund and they feel that it would violate Independence Standards to do both.
- The Fund should consider using Lauterbach & Amen for Benefits administration.
- There are only one or two retirees now, but it would be good to have the Benefits administration outsourced now and get the experts involved early.
- Lauterbach & Amen prefer to use Harris Bank for all of their direct deposits. It’s more efficient to use the same system for all Funds. This would be a sweep-like account. There are no fees for Harris Bank, and Lauterbach & Amen would charge an additional \$30 per month to use a different bank. The Pension Fund currently has a checking account at Old Plank Bank; this account is free to the Fund, but the bank is charged fees for the online banking services that go along with the account.
- Lauterbach & Amen’s fees seem high for only 1 or 2 pensioners. The cost per their quote would be \$3,050 for the first year and then \$2,050 for the next year. They could be contacted to see if they will reduce their fees.
- Lauterbach & Amen would be the point of contact for pensioners. It would not go back to the Pension Board if there were payroll mistakes.

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

“Use Lauterbach & Amen to process payroll for Fund pensioners, for a max of \$3,050 annually.”

ROLL WAS CALLED.

AYE: Hamm, Faber, Kavanagh, Kocolowski
 NAY: None
 ABSENT: Wilson
 ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

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

“Set up a Harris Bank account to process payroll.”

VOICE VOTE. MOTION CARRIED.

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

“Close the Old Plank checking account.”

VOICE VOTE. MOTION CARRIED.

IV. HEARING ON CHRISTOPHER WOLF’S REQUEST FOR DISABILITY BENEFITS

- Chris Wolf’s attorney, Tom Manzella, would like to introduce additional evidence. He would like to get the treating physician’s reaction to the Independent Medical Examiner Addendum Reports.
- The Fund’s attorney informed Mr. Manzella that there shouldn’t be any depositions; instead the Board should be engaged directly.
- The Hearing will be postponed per the applicant’s attorney’s request.
- Kevin Kocolowski will not be running for another term as Trustee. There is only one nominee, so far, for the open Trustee position. If there is only one nominee, the Board can elect by acclamation. The records for Chris’s case should be passed on as soon as possible; there is no need to wait for the official acceptance of election results at the May meeting. The election process was started before there were any retirees, so the open position will not be offered to retirees this year, it will be offered at the next election.

V. DISCUSSION AND POSSIBLE ACTION ON DISABILITY APPLICATION

A. Action to Approve or Deny Application for Disability Benefits

B. Possible Determination of Disability Effective Date

No Hearing.

VI. ADJOURNMENT

At 11:50 a.m. a Motion was made by Daniel Faber and seconded by Michael Kavanagh 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, May 13, 2014.