

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, August 1, 2017 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 Brow, Trustee
Robert Wilson, Trustee

Absent: None

Also Present: Kristi Farnum, Recording Secretary
Carolyn Clifford, Attorney
Colleen Trela, Lauterbach and Amen
Tom Sawyer, Sawyer Falduto Asset Management

III. PUBLIC COMMENTS

- None.

IV. APPROVAL OF MINUTES

A. May 24, 2017 Special Meeting Minutes

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

“Approve the May 24, 2017 special meeting minutes as presented.”

VOICE VOTE. MOTION CARRIED.

V. TREASURER'S/INVESTMENT REPORT

A. Review of Current Investment/Financial Report

- The new equity target as decided at last meeting is 62%.
- The market value of the fund at the end of the second quarter was \$17,212,528; which includes second quarter investment return of \$429,070 (2.53%).
- International stocks are back nicely.
- Total account return for the first half of the year is 6.15% net.
- Total account return since inception is 6.81% or \$5 million.
- An analysis of the market over the last 12 months:
 - Corporate earnings are good. They're increasing a little faster than stock prices.
 - Very low yield on treasuries.
 - Economic data is good. Fundamentals are good.
 - Inflation is at 1.5% so far this year, which is below the Federal Reserve Bank objective.
 - This year's market may be front-end loaded based on a historical perspective.
- On the Fixed Income side, the Federal Reserve Bank has been very transparent. 10 year treasury rates remain low. The fund is a little short of the benchmark.
- Wage inflation has been non-existent in the economic recovery.

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

- None.

C. Approval of Bills (roll call)

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

“Approve the Disbursement Warrant, totaling \$53,497.26, as presented.”

ROLL WAS CALLED.

AYE: Brow, Wilson, Faber, Hamm, Kavanagh

NAY: None

ABSENT: None

ABSTAIN: None

MOTION CARRIED UNANIMOUSLY

VI. COMMUNICATIONS AND SPECIAL REPORTS/PRESENTATIONS**A. Actuarial Report**

- The current contribution requirement is \$1,427,907, which is an increase of 77,000 more than last year’s.
 - Normal Cost: \$ 1,502,575
 - Actuarial Value of Assets: \$16,840,395
 - Total Liability: \$22,005,486
 - Unfunded Liability: \$ 5,165,091
 - Percent Funded 76.53%
- The contribution requirement is slightly higher than expected:
 - Initial Expected Current Valuation: \$1,395,330
 - Salary Increase Greater than Expected: \$ 13,156
 - there were several 8.75% increases because of promotions
 - Demographic Changes: \$ (12,421)
 - + 2 Active Members
 - - 1 Retiree
 - - 1 Termination
 - Assumption Changes: \$ (6,756)
 - The actuarial liability went down because of the change to the mortality improvement assumption. The switch from 2014 to 2016 health improvement tables showed that health was not improving as fast as anticipated. Last year’s assumption was static, and was changed to fully generational this year. Because the fund is made up of mostly active members, this change decreased the liability. Funds that have mostly retired members had increased liabilities because of this change.
 - Asset Returns Less than Expected \$ 8,066
 - The actuarial value of assets is calculated by smoothing gains and losses over a 5-year period. Although there was a gain this year, that was offset by losses in prior years.
 - Contributions Less than Expected \$ 30,532
 - Actual Current Valuation: \$1,427,907
 - Normal Cost: \$1,042,627
 - Unfunded Liability: \$385,280
- The fund’s assumptions are more aggressive than the state’s. The fund assumes payoff by 2035, rather than the state mandated 2040.
- For other funds in the State of Illinois, normal cost is frequently less than unfunded liability. This is not the case for our fund. Our fund is better funded relative to others in the State.
- If actual investment return is higher than assumed, the gain goes into a 5-year smoothed adjustment that is made to the current contribution requirement.
 - Could change assumptions to put gains toward unfunded liability.
 - Smoothing helps to defer losses.

- A layered amortization policy is available, where asset experience is handled separately. This could be used to pay down unfunded liability, but would increase liability if there was a loss. There would be risk depending on what the market does.
- Increasing the interest rate assumption, will also increase the rate that unfunded liability increases, although total liability would be reduced.
- The fund expects significant demographic changes in the next 5 years.
- A short-term (5 year) transition plan is available from the actuary to get from the current funding amount up to the required contribution amount.
- The statutory minimum contribution is calculated at 984,686 using all of the same assumptions except it uses the Projected Unit Credit method rather than Entry Age Normal; and assumes 90% funding by 2040 rather than 100% funding by 2035. This calculation is not recommended as sound.
- Along with the tax levy valuation, a GASB (Government Accounting Standards Board) 67/68 report is done for the financial statements. This calculates the Net Pension Liability (NPL) that is shown on the District's balance sheet. GASB requires that a hundred-year cash flow report is done as a "solvency test". If the solvency test is passed, the GASB NPL would match the Actuarial Accrued Liability (AAL) from the tax levy report. Because the employer contribution as compared to the required contribution has averaged 83% over the last 5 years, the District NPL is \$25 million, \$3 million higher than the tax levy AAL. Also, if the District had a formal funding policy (and followed it), the GASB NPL would be reduced down to the AAL. If the District would like to come up with a formal funding policy, the actuary could come up with a transition plan that would start at the statutory minimum as the required contribution and then work up to the recommended contribution over a 3-5 year period. The District does have a fund balance policy, where any surplus at the end of the year is prioritized to possibly be put into the pension fund to make up any deficiencies. In order to pay down the unfunded liability, the District would need to pay the total requested amount. Changing the level percent of pay assumption to level dollar would increase the contribution requirement.
- The outside the cap amount went up to \$109,000 this year.
- If the District would like to do a transition plan, the actuarial valuation would change.

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

"Table acceptance of the actuarial valuation."

VOICE VOTE. MOTION CARRIED.

B. Approval and Certification of Municipal Compliance Report/Recommendation for Tax Levy

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

"Table approval of the municipal compliance report and tax levy recommendation."

VOICE VOTE. MOTION CARRIED.

C. Quarterly Insights

- A DuPage County group is erroneously reporting on Illinois Pension Funds. They are using 2015 Department of Insurance data and presenting it as 2016 data. They are comparing fund returns to the S&P, which is not comparing apples to apples. They extrapolate that any extra needed to fund the pension funds is coming from the taxpayers.
- You can only control what is going on at your fund. Reassure the District and the public that pension board members are acting as fiduciaries.

VII. OLD BUSINESS

A. Status of Wolf Annual IME Process

- Waiting on treater medical records and current job description.
- The process should get easier once the new doctor is on board.

VIII. NEW BUSINESS

A. Code of Conduct Memo

- Will be signed by Sawyer-Falduto Asset Management as well as other fund professionals.

IX. TRAINING

A. Annual Board Member Training Certification

- Board members should review their training records.

X. CLOSED SESSION

None

XI. ADJOURNMENT

At 11:15 A.M., a Motion was made by Robert Wilson 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, November 7, 2017.