MINUTES OF THE REGULAR MEETING OF THE
BLOOMINGTON FIRE PENSION BOARD
October 21, 2016

Attendees: Ron Fowler, Jim Stokes, Carl Reeb, and Curt Oyer, Fire Pension Board members.

Absent: Paulette Hurd, Fire Pension Board member.

Others present: Larry Rankens, Mischler Financial Group's Senior Vice President, Ann Van Vooren and Todd Schroeder, Lauterbach and Amen, and Tracey Covert, Recording Secretary.

The Fire Pension Board met at Fire Headquarters Station located at 310 N. Lee St. Ron Fowler, President, called the meeting to order at 4:00 p.m.

Mr. Fowler opened the meeting to Public Comment. No one came forward to address the Board.

MINUTES

Motion by Jim Stokes, seconded by Carl Reeb to approved the minutes of July 19, 2016 as amended: 1.) see pages 2 and 4 correct the spelling of Mr. Reeb's last name: change Reed to Reeb; and 2.) see page 6. WITHDRAWAL FROM THE FUND: insert June 24, 2016 as the check date and insert April 2, 2016 as Mr. Gleason's withdrawal date.

Motion carried, (viva voce).

Motion by Carl Reeb, seconded by Jim Stokes to approve the Minutes of the Additional Meetings dated February 19, March 17, May 20 and June 17, 2016.

Motion carried, (viva voce).

FINANCIAL INVESTMENT REPORT

Larry Rankens, Mischler Financial Group's Senior Vice President, addressed the Board. He provided the Board with three (3) documents: Summary Report, Fixed Annuity Summary Report and a Variable Annuity Summery Report. Total estimated portfolio value was $54.7 million with $4.3 million held in cash.

Curt Oyer questioned if the Pension Fund has received the second property tax installment. Carl Reeb responded affirmatively.

Mr. Rankens noted that the Board was under the sixty-five percent (65%) equity limit. He addressed the other reports, (Fixed and Variable Annuity Summaries). He addressed the Surrender Values listed on these reports. He directed the Board to the Fixed Annuity Summary. He specifically addressed American Investors Life (Aviva) #569751 and 579488. These annuities were purchased in 2008. The Board had the choice of a fixed rate or an indexed option. The Board had selected fix rate. He recommended that they be moved to the indexed option.

Mr. Rankens made his first recommendation: remove ten percent (10%) or $250,000 from two (2) Aviva accounts. These funds would be moved to better performing options. He cited the potential impact of the Presidential election on the markets.

His second recommendation addressed the Fund's equity level, (below sixty-five percent/65%). He estimated the monthly pension cost at $400,000.

Mr. Oyer questioned annual employee contributions. Mr. Reeb noted $800,000. He added that property taxes were paid to the County in June and September. Utility taxes were paid to the Fund by the City in October/November. Nine (9) months pension costs totaled $3.5 million. The Board should have $3.8 million in liquid cash.

Mr. Rankens reminded the Board of the ability to remove ten percent, (10%), from each annuity without penalty. He believed that Board had $750,000 available for investments to reach the sixty-five percent, (65%), equity level. He noted that PacLife has been a better performer. If the Board chose to reinvest ten percent, (10%), of the fixed annuity holdings, he recommended another EIA, (Equity Index Annuity), be selected. He specifically cited $250,000 be invested with PacLife. He added that putting investments in the market would offer a better return than holding cash. He restated that ten percent, (10%), based upon the Market Value equaled $225,000 - $250,000.

Mr. Rankens requested authority to liquidate ten percent, (10%), of two, (2), Aviva accounts, #569751 and #579488, and to reinvest up to $250,000 in a PacLife EIA.

Motion by Carl Reeb, seconded by Jim Stokes to liquidate ten percent, (10%), of Aviva accounts #569751 and #579488 and reinvest up to $250,000 in a PacLife EIA.

Ayes: Jim Stokes, Carl Reeb and Curt Oyer.

Nays: None.

Motion carried.

Mr. Rankens readdressed his second recommendation: to invest up to the sixty-five percent, (65%), equity level. He recommended that up to $750,000 from the Board's cash holdings be invested with PacLife, an A+ rated company.

Motion by Carl Reeb, seconded by Jim Stokes to purchase up to $750,000 in variable annuities from PacLife.

Ayes: Jim Stokes, Carl Reeb and Curt Oyer.

Nays: None.

Motion carried.

Mr. Rankens believed that the Board had adequate liquid cash holdings to meet its pension obligations.

Mr. Rankens questioned the status of a hearing with the state Department of Insurance, (DOI). Mr. Reeb informed the Board that he had not heard from Don Craven, Board attorney. He added his hope that the updated Investment Policy would be place on the Board's January 20, 2017 meeting agenda.

Mr. Rankens had heard from other pension funds where the DOI was objecting to the death benefit issue. He was prepared to participate in the DOI hearing. He had support from the insurance companies.

Mr. Oyer questioned Mr. Rankens' response regarding the role of Investment Consultant. In the past, he believed the response had been negative. Mr. Rankens noted that Mischler Financial did not charge the Board any fees. Mischler Financial was willing to sign a fiduciary letter. The firm provided the Board with advice and played an advisor role.

Mr. Stokes questioned if DOI required the Board to have an Investment Consultant. Mr. Rankens informed the Board that Mischler Financial's legal counsel had approved the position. Pension funds are not charged fees. There was a nondiscretionary relationship between Mischler Financial and the Board.

Mr. Oyer cited ILCS's pension code. Mr. Rankens offered to provide a response to the Board which addressed the consultant determination. He added that Mischler Financial was highly regulated, (i.e. broker/dealer). Mischler did not fit in the box. The advantage to the Pension Funds were 1.) saved the fund money and 2.) earned better returns.

AUDIT

Ann VanVooren, Lauterbach and Amen, addressed the Board. She presented the draft Fiscal Year, (FY), 2016 Comprehensive Annual Financial Report, (CAFR). FY 2016 ended on April 30, 2016. She planned to walk the Board through the CAFR. She addressed the Introductory Section which included Officers & Officials, Organization Chart and Letter of Transmittal. The following section was the Financial Section which included Independent Auditor's Report, Management's Discussion & Analysis, Basic Financial Statements, Required Supplementary Information, and Other Supplementary Information. The Fund was given an unmodified opinion/clean audit. Management's Discussion & Analysis was found on pages MD & A 1 – 4. Basic Financial Statements were found on pages 3 & 4. The Balance Sheet was found on page 3. Notes to Financial Statements were located on pages 5 – 14. Required Supplemental Information were found on pages 15 – 17. This section included Schedule of Changes in Employer's Net Pension Liability, Schedule of Employer Contributions and Schedule Investment Returns. The Employer's Net Pension Liability was $59,715,325, (see page 16).

Mr. Stokes noted this figure had increased approximately $8 million over the previous FY. Mr. Reeb cited the impact of new hires.

Todd Schroeder, Lauterbach and Amen, addressed the Board. He addressed pension liability. It increased as an individual worked. The goal was to tract accounts per employee.

Mr. Stokes stated that the more mature a department was the higher the liability would be.

Ms. VanVooren addressed the percent funded which was 45.41%.

Mr. Schroeder added the funded percentage was volatile. GASB, (Government Accounting Standard Board), required that straight market values be used. No smoothing was allowed.

Ms. VanVooren returned to the CAFR. Under Other Supplementary Information, the Board would find the Supporting Schedules: Administrative Expenses, Investment Expenses and Professional Services – by Consultant, (see pages 18 – 20). She addressed the Investment Section found on pages 21 – 30. The Actuarial Section was located on pages 31 – 75. Trending information was found on pages 72 – 75. The Statistical Section was found on pages 76 – 86. Trending information was found on page 76.

Generally, the audit would stop at page 17, Introductory Section through Required Supplementary Information.

Mr. Oyer cited the rate of return: 1.52%, (see page 17). He believed the Fund has lost $924,609, (see page 16). He expressed his concern regarding the underlying investments. Variable Annuity holdings totaled $29,739,853 in FY 2015. In FY 2016, they totaled $31,972,446, (see page 3). He believed the Variable Annuities had lost $2 million if surrender values were cited. He noted Mischler Financial's death benefit value strategy.

Mr. Stokes questioned the other Pension Funds' performances, (rate of return). Ms. VanVooren cited from negative performance to one percent, (1%). Mr. Stokes acknowledged the rate of return was lower than for FY 2015.

Ms. VanVooren informed the Board that Mischler Financial needed to redo some of their calculations.

Mr. Oyer expressed his opinion that the loss would be three percent, (3%). He expressed his concern for the Pension Fund and the funded status. The public was beginning to question investment performance.

Mr. Oyer addressed Introductory Section, Officers & Officials, (see page i). Patti Lynn Silva was not a member of the Pension Board. She was the Fund's Treasurer, (i.e. exofficio), due to employment with City as the Finance Director.

Mr. Schroeder encouraged the Board to contact Don Craven, Board attorney, regarding same.

There were other errors. Tari not Terri Renner, Amelia Buragas not Judith I. Stearns, Diana Hauman not Rob Fazzini, Cherry Lawson, City Clerk not Renee Gooderham, Interim City Clerk.

Mr. Oyer addressed Introductory Section, Organization Chart, (see page iii). He recommended a box be placed to the left of the Firemen's Pension Board. He added the label should read City Finance Director serving as Treasurer.

Mr. Reeb questioned the death benefit value for the Variable Annuities. The current value was $9.3 million. He cited a current estimate and the impact upon the funded status. There was a history of holding contracts. These death benefit values would be realized at some point.

Mr. Oyer added that the death benefit might increase over time. The Board needed a list of annuitants. Mr. Schroeder encouraged the Board to request this list. Mr. Reeb offered to provide the names, ages, contracts and death benefit values to Mr. Schroeder.

Ms. VanVooren addressed the Management Letter summary. It addressed the Net Pension Liability and Required Contributions – Municipality.

Mr. Stokes addressed full funding by 2040. He had expected to see better numbers. He questioned if Lauterbach and Amen had seen any red flags.

Ms. VanVooren responded negatively. She cited market fluctuations which were out of the Board's control.

Mr. Reeb addressed the overall fund's health and if there were any trends. Mr. Schroeder believe the Board was headed in the right direction. He cited the funded percentage: 45.41%. Lauterbach and Amen had seen the average funded percentage at fifty percent, (50%). Going forward the key would be fund contributions. He cited GASB standards. The City had adopted a funding policy of 100% of the actuarial amount. The question was the City's ability to continue this practice. By 2040, state statute required ninety percent, (90%), funding. The City has stated it would be at 100%. He compared the pension fund to a mortgage. The City had a policy. It was headed in the right direction. The key would be adherence to the policy. For Tier 2 firefighters the liability increased more slowly. Long term, two, (2), items needed to grow together in step: 1.) funding and 2.) lower liability.

Mr. Reeb questioned the rate of return. Mr. Schroeder noted that seven percent, (7%), had been used. Ron Fowler expressed his opinion that the range should be six to seven percent, (6 – 7%). Mr. Oyer questioned if a seven percent, (7%), rate of return was realistic. Mr. Schroeder reminded the Board it needed to take a long term view. In the next five, (5), years, Lauterbach and Amen were predicting little return for fixed income. GASB 67/68 addressed expected rate of return by asset class. In the future, the Board may see a change to equities too.

Mr. Schroeder addressed the Actuarial Report, (see page 31 of the CAFR). He addressed step one: what benefits paid. This year's study was updated. The following items were involved in the update: 1.) mortality and retirement rates; 2.) IL Police and Fire Pension Funds – five, (5), year history; and 3.) local data which was limited, (i.e. union contracts, pay scale projections). He addressed actuarial standards and parameter updates. There had been mortality improvements, estimates were compared to actual.

Mr. Oyer addressed updated mortality. He believed individuals living longer was a liability.

Mr. Schroeder noted the assumption changes equaled $2.6 million. He noted the following factors: 1.) change to retirement rates. This was impacted by retiree health care cost. People were working longer. There was limited access to jobs. This factor mitigated the mortality rate. These were two, (2), big items: 1.) mortality and 2.) retirements. He directed the Board to Contribution Recommendation, (see page 37). There were three, (3), figures: 1.) Statutory Minimum Contribution; 2.) Prior Year Recommended Contribution; and 3.) City Recommended Contribution.

Mr. Reeb addressed the City's actual contribution, $4.4 million, (see Statement of Asset Changes on page 44). He noted actual 2015 receipts, (recommended contribution was $4.6 million). Mr. Schroeder presented information regarding the lag/timing which was shown in the GASB report.

He readdressed the two, (2), step process: assumptions and how to pay for it. He directed the Board to the Funded Status, (see page 37). There were three, (3), columns: 1.) Statutory Minimum Contribution; 2.) Prior Year Recommended Contribution and 3.) City Recommended Contribution. The percent funded represented the actuarial versus the market. This was a GASB requirement. The actuarial used a five, (5), year smoothing which addressed less volatile contributions. Actuarial showed a higher percentage than the market. For the three, (3), columns the Actuarial Value was 52.23%, 48.77% and 48.59% versus Market Value at 48.81%, 49.45% and 45.41% respectively.

He directed the Board to the Actuarial Contribution Recommendation – Reconciliation, (see page 42). This page addressed contribution changes. He offered to send the Board a chart which showed percentage basis. The chart on the top of the page showed the expected changes. There were three, (3), rows: 1.) Prior Valuation; 2.) Expected Changes and 3.) Initial Expected Current Valuation.

Mr. Stokes informed Mr. Schroeder that the Fire Union had worked without a contract for two, (2), years. There had been no pay increases. This addressed the chart on the bottom half of the page, see row labeled Salary Increase Less than Expected.

Mr. Oyer noted the impact of retroactive pay. Mr. Schroder directed the Board to the Management Summary, (see page 40). It addressed demographics: New Hires, Disability, Retirement, Mortality and Salary Increases. He restated that asset returns were done with a five, (5), year smoothing. To be 100% funded would equal $109 million. He addressed the Market Value of Assets, (see pages 44 – 46). There had been a loss of 2.9%. Return on the Investment the Market Value of Assets for the Fund was Approximately (2.9%) Net of Administrative Expenses, (see page 44). He directed the Board to the Market Value of Assets (Gain)/Loss. The expected return on investments was $3.5 million. The actual return on investments was -$1.4 million. The current market value (gain)/loss was $5 million.

Mr. Schroeder addressed the Development of the Actuarial Value of Assets, (see page 46). The Actuarial Value of Assets was equal to the Fair Market Value of Assets with Unanticipated Gains/Losses recognized over five, (5), years. The Actuarial Value of Assets currently was

107% of the Market Value. The chart addressed the full amount expected versus actual. The value was seven percent, (7%), higher and the actuarial return was 5.3%. These values were due to the five, (5), year smoothing. The Return on Investment on Actuarial Value of Assets for the Fund was approximately 5.3% net of Administrative Expenses. See (Gain)/Loss on the Actuarial Value of Assets chart, (see bottom of page 46).

Mr. Oyer noted the difference between the audit and actuarial report. Mr. Schroeder directed the Board to the Column labeled Full Amount in the Development of the Actuarial Value of Assets, (see top of page 46). Lauterbach and Amen will track these figures for five, (5), years. In year two, there was reduced contribution volatility. Mr. Oyer questioned the rate of return over five, (5), years. Mr. Schroeder offered to add a chart to the report. Mr. Stokes believed this would provide a more complete picture.

Mr. Reeb questioned administrative and training costs. Mr. Schroeder directed the Board to Market Value of Assets, (see page 44). The Statement of Changes in Assets chart, Less – Other Expenses row $57,305.

Mr. Oyer returned to the CAFR, Schedule of Administrative Expenses, (see page 18). This chart listed these costs for FY 2015 and FY 2016. For FY 2016, he estimated these costs at ten percent, (10%).

Mr. Schroeder informed the Board that Lauterbach and Amen could perform some metrics across various pension funds.

Mr. Schroeder addressed the GASB 67/68 Reporting. This report used the same methods/parameters for all pension funds. He directed the Board to page 24 of this report. It addressed the Funding Policy including timing. It included the Actuarial Determined Contribution (ADC) number. There were three (3) schedules found on pages 27 – 29: 1.) Changes in Net Pension Liability; 2.) Total Pension Liability & Related Ratio and 3.) Contributions. Eventually these schedules would cover a ten (10) year period.

Mr. Reeb questioned percentage of payroll, (see Employer Net Pension Liability as a Percentage of Covered Employee Payroll on page 28). Mr. Schroeder believed this number would continue to grow until the unfunded liability was met. He directed the Board to GASB Projections – Summary & Procedure, (see page 33). He noted the City's Funding Policy and fund health. The GASB Solvency Test graph was described as a supplementary table. It was based upon a number of factors plus the City's Funding Policy. He directed the Board to Statement of Total Pension Liability chart, (see page 6). The anticipated liability was $4.5 million.

TREASURER'S REPORT

Mr. Reeb presented the Treasurer's Report. He cited the following bank balances: PNC $3,629,839.54; IL Funds $258,284.16, Bloomington Municipal Employee Credit Union $98,136.92 and Mischler Financial $70,871.35. He added that on September 21, 2016 there was a deposit for the Genworth contracts, ($528,440 and $939, 100 respectively).

Monthly pension costs were as follows: July 2016 - $402,212.49; August 2016 - $396,003.61 and September 2016 - $394,073.48. Checks written totaled $22,867.13. The following bills had been paid: Tracey Covert – Recording Secretary - $325; Lauterbach and Amen – audit - $12,900; Insight - $3,381.67; Don Craven, Board attorney - $3,562.50; Van Gundy/personal property insurance for three (3) year term - $1,267; AFFI – registration for Mr. Fowler, Mr. Stokes and Mr. Reeb - $525; Ron Fowler /AFFI Conference reimbursement - $39.78; Jim Stokes/AFFI Conference reimbursement - $40.77 and Carl Reeb/AFFI Conference reimbursement (three/3 hotel rooms, gasoline and meals) - $825.41.

Mr. Reeb added that an invoice for the Municipal Compliance Report and Actuarial Report had not been received from Lauterbach and Amen.

Motion by Jim Stokes, seconded by Curt Oyer to accept the Treasurer's Report and place it on file for audit.

Ayes: Jim Stokes, Carl Reeb and Curt Oyer.

Nays: None.

Motion carried.

Mr. Oyer informed the Board of his intention to register for the IPPFA's Spring 2017 Conference.

APPLICATION TO FUND

Mr. Reeb presented the following individuals who had made Application to the Fund: Kyle MacDonald, Eric Davison, Louis Hoffman, Joshua Kreml, Aaron Larson, Christian Merkau, and Matt Burke. Mr. MacDonald, Mr. Davison, Mr. Hoffman, Mr. Kreml, Mr. Larson and Mr. Merkau commenced their employment on July 25, 2016. Mr. Burke commenced his employment on September 6, 2016.

Motion by Carl Reeb, seconded by Jim Stokes to accept the following individual into the Pension Fund: Kyle MacDonald, Eric Davison, Louis Hoffman, Joshua Kreml, Aaron Laron and Christian Merkau effective July 25, 2016 and Matt Burke effective September 6, 2016.

Ayes: Jim Stokes, Carl Reeb and Curt Oyer.

Nays: None.

Motion carried.

WITHDRAWAL FROM FUND

Mr. Reeb presented the following individuals who had applied to withdraw from the Fund:

Greg Fisher: start date – March 31, 2008, last day – October 3, 2016. Mr. Fisher was employed with the City for eight (8) years. Mr. Fisher's goal was to become an RN. Mr. Fisher was relocating to South Carolina. Mr. Fisher had contacted Mr. Reeb this date.

Chad Carlson: start date – July 6, 2015, last day – September 30, 2016. Mr. Carlson was employed with the City for two (2) years. Mr. Carlson had relocated to the Joliet area. He was currently employed with the Aurora Fire Department.

Kyle MacDonald: start date – July 25, 2016, last day – September 9, 2016. Mr. MacDonald had resigned and relocated to be closer to family. It had been reported to Mr. Reeb that there was a resignation letter. This request was an anticipatory one.

These withdrawals would appear on the Board's January 20, 2017 meeting agenda. Mr. Reeb would have separation dates, amounts paid to each individual and the date the check was issued.

APPLICATION FOR PENSIONS

Mr. Reeb informed the Board that Dave Burke would retire on Friday, November 10, 2016. Mr. Burke had over twenty-six (26) years of service. The formal Application for Pension would appear on the Board's January 20, 2017 meeting agenda.

OLD BUSINESS

Mr. Reeb addressed the Disability Medical Reviews. Bill Crohe had been schedule for his physical. Steve Hill had relocated to South Carolina.

Mr. Craven had not contacted the Board regarding a hearing before the DOI.

Mr. Craven had researched the draft updated Investment Policy. Mischler Financial did not fall under a statutory definition. Mr. Rankens was not an investment advisor. Mr. Rankens might function as an investment consultant. The Board may need to retain an investment advisor or secure an affiliated firm as an investment advisor. This issue has not been addressed by DOI.

Mr. Oyer stated that there were requirements in the state statute. Mr. Reeb offered to forward the Board copies of Mr. Cravens' emails to Mr. Rankens.

Mr. Reeb questioned if there was Board interest in an RFP, (Request for Proposal), for an Investment Advisor.

Mr. Stokes recommended that the Board wait for Mr. Craven and Mr. Rankens responses. Mr. Fowler believed there were still some unknowns.

Mr. Reeb informed the Board that the Investment Policy would appear on the Board's January 20, 2017 meeting agenda. He would invite Mr. Cravens and Mr. Rankens to attend same.

Mr. Oyer addressed performance information. Mr. Rankens has focused on the death benefit values. He expressed his concern regarding investment performance. The Board needed to push Mr. Rankens for additional information.

Mr. Reeb added that the Board needed to know what made up each contract. He also wanted to know what Mischler Financial received for each contract.

Mr. Stokes wanted to know what other pension funds were working with Mischler Financial.

Mr. Oyer addressed three (3) items: 1.) fee disclosure; 2.) investment performance and 3.) fiduciary responsibility.

Mr. Reeb suggested that the Board needed a counterpart to Mischler Financial. Mr. Oyer recommended Wall & Associates. This firm could provide a performance analysis and provide key performance benchmarks.

Mr. Reeb offered to send Mr. Rankens an email addressing information the Board would like to see in the quarterly reports.

Mr. Stokes noted that Mr. Rankens had not addressed investment losses. Mr. Reeb noted the time lag between tax levy to actual receipt of property tax dollars. There was proposed legislation that would allow Board ability to intercept property tax dollars if not given the minimum statutory contribution.

Mr. Reeb left the meeting at 6:15 p.m.

Discussion of 2017 meeting schedule. Consensus reached to meet quarterly and schedule additional meetings if needed.

Motion by Jim Stokes, second by Curt Oyer to retain the existing quarterly meeting schedule, (i.e. third Friday of the month at 4:00 p.m.), January 20, April 21, July 21 and October 20, 2017.

Motion carried, (viva voce).

Motion by Jim Stokes, seconded by Curt Oyer to adjourn. Time: 6:40 p.m.

Motion carried, (viva voce).

Respectfully submitted,

Tracey Covert
Recording Secretary

Signed by:

Ronald E. Fowler

Ron Fowler, President

Carl R. Reeb

Carl Reeb, Secretary