MINUTES OF THE REGULAR MEETING OF THE
BLOOMINGTON FIRE PENSION BOARD
October 20, 2017

Attendees: Carl Reeb, Curt Oyer, and Paulette Hurd, Fire Pension Board members.

Attendees Absent: Ron Fowler and Jeff Emmet.

Others present: Larry Rankens, Mischler Financial Group's Senior Vice President, Dave Wall, Wall & Associates, Ann Van Vooren and Todd Schroeder, Lauterbach and Amen, (L & A), and Tracey Covert, Recording Secretary.

The Fire Pension Board met at Fire Station 2 located at 1911 E. Hamilton Rd. Carl Reeb, Secretary, called the meeting to order at 4:11 p.m.

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

MINUTES

Additions to the July 21, 2017 meeting minutes: See page 3, fifth paragraph, fourth sentence should read: "He noted that the DOI's Consent Order meant no more variable annuities with riders." See page 7, second paragraph, last sentence remove the word "a".

Motion by Carl Reeb, seconded by Curt Oyer to approve the regular session minutes of July 21, 2017 as corrected and the additional meeting minutes of August 21, September 12 and 13, 2017 as presented.

Motion carried, (viva voce).

CAFR (Comprehensive Annual Financial Report)/ACTUARIAL REPORTS

Ann Van Vooren, L & A, addressed the Board. She addressed the Management Letter. She noted that the City's required contribution was $4,673,635. The City's actual contribution was $4,678,635. The CAFR was divided into five (5) sections: Introductory, Financial, Investment, Actuarial and Statistical (unaudited). She reviewed the Introductory Section. The Financial Section included the auditor's opinion which was unmodified. The Management Discussion and Analysis included a summary report. The Basic Financial Statements included Fiduciary Net Position, (see page 3), on April 30, 2016 and April 30, 2017. Statement of Changes in Fiduciary Net Position, (see page 4), on April 30, 2016 and April 30, 2017 addressed investment return. Financial Statement Notes were found on pages 5 – 14.

She informed the Board that there was a new report for Pension Standards for State and Local Government. She addressed GASB, (Government Accounting Standards Board), 67. Financial Reporting for Pension Plans and 68. Accounting and Financial Reporting for Pensions. The result was additional/new disclosures.

Investment Section found on pages 21 – 30 addressed investment detail. The Actuarial Section was found on pages 31 – 75. Todd Schroeder would address this report later in the meeting. A ten, (10), year history was found on pages 72 – 75: 1.) Schedule of Active Member Valuation Data, 2.) Schedule of Retirees and Beneficiaries Added to and Removed from Rolls, 3.) Report of Progress Being Made Toward the Funding Objective, and 4.) Analysis of Financial Experience. She described 2017 as a good year.

Curt Oyer questioned investment returns, (he referenced pages 23). Fixed annuities performed well above the benchmark, (6.48% versus .75%). He believed this was bull market. These were indexed annuities. He questioned prolonged performance.

Larry Rankens, Mischler Financial Group's Senior Vice President, noted that fixed annuities had outperformed the benchmark. Variable annuities use the surrender value. Earnings start at seven percent (7%).

Mr. Oyer questioned gain value as surrender charges fall off. Mr. Rankens stated using the market value would offset this.

Mr. Oyer noted that GASB changed surrender value to market value. Life insurance was exempt. Ms. Van Vooren noted that surrender values were used for annuities not the market value. Insight also used the surrender value. She offered to send the GASB information to Mr. Reeb by next week.

Mr. Oyer questioned L & A staff assigned to this CAFR. Ms. Van Vooren stated Ron Amen, Melissa LAST NAME, and herself.

Mr. Oyer reviewed the Board's RFP, (Request for Proposal), for Audit Services. He noted the L & A's partners' list. Ms. Van Vooren stated L & A staff provided support and assisted with the investment rate calculations.

Mr. Oyer questioned the fourth partner. Ms. Van Vooren stated Matt Behren. L & A was a government accounting firm. All accounts were public entities. Todd Schroeder, L & A, informed the Board a fifth partner was recently added.

Mr. Oyer questioned management involvement with this CAFR. Ms. Van Vooren stated that she acted as manager and performed the field work. Mr. Oyer questioned the draft CAFR. Ms. Van Vooren stated that once the audit was finalized, the draft was sent to Mr. Reeb for Board review. L & A staff reviewed the draft CAFR at the same time.

Mr. Oyer questioned if Mr. Amen had reviewed and provided a response prior to the document being sent to Mr. Reeb. Ms. Van Vooren responded negatively.

Mr. Oyer questioned Ms. Van Vooren's experience. Ms. Van Vooren held a CPA, (Certified Public Account), designation, and had been employed with L & A for eight (8) years.

Motion by Paulette Hurd, seconded by Curt Oyer to accept the CAFR for the Fiscal Year Ended April 30, 2017.

Motion carried, (viva voce).

Todd Schroeder, L & A, addressed the Board. The Actuarial Report was included in the CAFR as the Actuarial Section found on pages 31 – 75. He directed the Board to page 37, Contribution Recommendation. This chart had three (3) columns: Statutory Minimum, Prior Year Recommended and City Recommended. This year's City Recommended contribution was $5,075,717. This was a $614,250 increase over the previous year. He cited the City's Pension Funding Policy.

Mr. Schroeder referred the Board back to page 15 on the CAFR, Required Supplementary Information Schedule of Employer Contributions. This report was required and documented City's contributions for 2016 and 2017, both recommended and actual contributions. This report will be added to each year to develop a ten (10) year history.

Mr. Reeb noted that for the past two, (2), years the City had been able to meet a hundred percent of its funding contribution. Mr. Oyer questioned the funding's revenue sources. Paulette Hurd stated property, utility and PPRT, (Corporate Personal Property Replacement Tax) taxes.

Mr. Schroeder reminded the Board that there was a two, (2), step process: 1.) benefits paid to the fund and 2.) state policy ninety percent (90%) funded, (state takes back ten percent). He directed the Board to page 37, see Funded Status. This chart lists assets and liabilities. He addressed the percent funded. There were three (3) columns: statutory minimum, prior year recommended and City recommended. L & A used a five (5) year rolling basis. Under the City column the Actuarial Value of Assets lists 49.46% and Market Value of Assets lists 48.69%.

Ms. Hurd questioned why the normal cost was higher. Mr. Schroeder stated payment for active employee, the funding method used and the state started with a lower number.

He directed the Board to the Actuarial Contribution Recommendation – Reconciliation, see page 42. He noted the four percent, (4%), increase per year. The expected change was $170,579. He directed the Board to the lower portion of the page that listed five, (5), factors: 1.) Salary Increase Greater than Expected; 2.) Demographic Changes; 3.) Assumption Changes; 4.) Asset Return Less than Expected; and 5.) Contribution Less than Expected. This equals the Total Actuarial Experience. He noted that Salary Increase was greater than expected. Demographic changes were generally small, (zero to two percent/0 – 2%). Demographic Data detail was found on pages 40 – 41. He restated that L & A used a five, (5), year smoothing method. He noted other assumptions. There was a four, (4), year cycle. He cited two, (2), recommendations: 1.) new union contract, (i.e. salaries), and 2.) mortality improvement. Current mortality tables show improvement. Staff looks at Social Security data from 1950 – 2009. Additional data has been gathered. In 2014, mortality was updated.

Mr. Oyer questioned if the data was for the general population or for the public safety sector. Mr. Schroeder stated for public sector employees. Data for the private sector was very different.

In the next four to five (4- 5) years, he hoped to pull Police and Fire Pension funds and address them separately. Data creditability for Illinois firefighters was forty-five percent (45%). This data was for retirees. There was limited data for active members. Data for blue collar workers has been used. The creditability theory was also used. L & A serves 316 pension funds. They did not have 1,096 deaths. He restated that the data on firefighters was forty-five percent (45%) reliable.

Mr. Oyer noted a figure of forty-five percent, (45%) for firefighters and fifty-five percent, (55%), for the general population blend. Mr. Schroeder stated that the population table was based on known things. Work was done on a public sector study from the Society of American Actuaries. This group teaches public safety to everyone else. There was the potential for new population tables. He restated mortality improvement. People were living longer.

He directed the Board to page 46, see Development of the Actuarial Value of Assets and (Gain)/Loss on the Actuarial Value of Assets. Asset, (investments), for the past year were higher than expected. The Return on Investment was approximately 6.5% net of administrative expenses.

Mr. Oyer noted that the Board used seven percent, (7%), net of administrative expenses. Mr. Schroeder noted that L & A used 10 basis points for administrative expenses. He directed the Board to the Statement of Fiduciary Changes in Net Position for the Years Ended April 30, 2017 and 2016, (see page 4). See Deductions, Administration.

Mr. Rankens questioned the number of pension funds that were meeting their projections. Mr. Schroeder informed the Board that there was an annual report. In the past, most funds met their projections. He believed that one needed to look beyond one year. Most funds set a 6.75 – 7.25% return range.

Mr. Wall questioned if the report was broken down by plan size. Mr. Schroeder noted that funds over $10 million have more authority. The report was broken down by fund size. He addressed Contributions Less Than Expected. This was a timing issue due to when payments were received versus the April 30, 2017 fiscal year end. The bottom line was the fund had increased.

Mr. Reeb questioned the overall health of the fund. Mr. Schroeder stated that it was doing well. It is funded forty-five to fifty-five percent, (45 – 55%). The report showed past performance prior to April 30, 2017. The key issue was where the fund is headed in the future. There were a variety of projections. If you looked at assets, there were dollars being deposited. The fund has the ability to pay the benefits. He added his belief that if the City continued to implement its Pension Funding Policy then the Fund would meet the full funded goal. The funded percentage can be driven by interest. The fund could start some small changes which overtime would result in larger improvements.

Ms. Hurd addressed the long term table, GASB Projections – Summary and Procedure which included the GASB Solvency Test. (See GASB67/68 Reporting, page 34.)

Mr. Schroeder addressed Actuarial Valuation. He cited two (2) factors: 1.) tax levy recommendations and 2.) tie to CAFR. The GASB Solvency Test was an eighty (80) year table. Computations were done on a closed group basis. He informed the Board that pages 36 – 44 of this report included details to support the Solvency Test.

Mr. Oyer questioned if this report was based on current retirees and active members. Mr. Schroeder noted the Test was done as of April 30, 2017 and based on the City's Pension Funding Policy.

Mr. Rankens questioned the dollars needed to be one hundred percent, (100%), funded. Mr. Schroeder directed the Board to the Funded Status, (see CAFR page 37). The Unfunded Actuarial Accrued Liability was $58,499.430. Mr. Rankens noted that the Pension Fund's value was $57,251,103. The City has to pay the Pension Fund $58 million.

Mr. Schroeder noted that the unfunded liability was spread over generations of taxpayers. There were various factors which impacted unfunded liability: 1.) updates to actuarial assumptions; 2.) contribution shortfalls due to changes in mortality; 3.) rate of return on assets; and 4.) portion of fund assets that meet investment earnings. If the fund was currently one hundred percent, (100%), funded, the City's contribution would be $1,352,023, (see CAFR page 59, Contribution Recommendation).

Mr. Oyer noted that City's history of providing the state's minimum contribution. Mr. Schroeder stated that the state's minimum contribution would not allow the fund to meet full funding. Mr. Reeb noted the recent intercept statute for funds not receiving the minimum.

Motion by Carl Reeb, second by Paulette Hurd to accept the Actuarial Report for the Fiscal Year Ended April 30, 2016.

Motion carried, (viva voce).

TREASURER'S REPORT

Carl Reeb presented the Treasurer's Report. The account balances on September 30, 2017 were as follows:

Bloomington Municipal Employee Credit Union:	$98,333.39
IL Funds:	$XXXXXXXX
PNC:	$9,386,713.34
Mischler Financial:	$XXXXXX

He noted the PNC balance on October 20, 2017 was $9,435,522.05.

The monthly pension costs were as follows:

July 2017	$XXXXXXXX
August 2017	$419,144.54
September 2017	$426,130.60

Mr. Reeb noted the following amounts had been paid during the preceding quarter:

Checks written:

Insight (financial)	$260.24
AFFI (conference for R. Fowler and C. Reeb)	$350.00
Don Craven (Board attorney)	$3,162.50
TOTAL:	$3,772.74

Checks to be written:

L & A (Board auditor/actuary)	$12,500.00
Insight (financials)	$2,348.55
Don Craven (Board attorney)	$937.50
TOTAL:	$15,786.05
GRAND TOTAL:	$19,558.79

Mr. Reeb provided a summary of the first quarter financials. He read the balances for the Money Market account and the Mischler Cash Account. He addressed the investment value and cited the dollar growth. He addressed the pension benefits paid to date and the dollar increase over the previous year.

Mr. Oyer noted the fund's $58,897,000 value as of July 31, 2017. The fund's value had increased $2.5 million in the past two (2) months.

Motion by Paulette Hurd, seconded by Curt Oyer to accept the Treasurer's Report with additional information from Mr. Reeb.

Ayes: Carl Reeb, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

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. The portfolio value had increased to $61.3 million. He cited equity performance and the strong market. Equities equaled fifty-seven percent, (57%).

Mr. Rankens cited the $9,807,713 cash holding as of September 30, 2017. Fixed Income Securities (annuities) were valued at $16,475,667. The death benefit value was $8,164,077 which was thirteen percent (13%) of the total portfolio.

The fund has done well since April 2017. He encouraged the Board to participate in the equity market. The growth in last six (6) months had been ten percent (10%). He estimated lost opportunities at $500,000. The Board needed to put dollars to work. He believed the markets would see continued growth through the year end. There was $6 million being held in cash. Monthly spending equaled $420,000. He recommended that the Board hold $2 million in cash to meet cash flow needs.

Dave Wall, Wall & Associates, addressed the Board. He had a lot of questions. He offered no opinions at this time. He needed to speak with the Board in order to determine their risk tolerance. There was room to invest in equities. He questioned what the Board wanted going forward. He believed there Board needed to meet in Special Session. He also needed to understand the history of the fund. He questioned if the annuities were indexed/linked. He questioned guarantees.

Mr. Rankens noted the Board's risk tolerance. He cited the concern regarding cash flow. Fixed annuities had performed well.

Mr. Wall questioned product protections. Mr. Rankens stated this would not occur unless there was a downside of the market. Mr. Wall restated that he needed additional information.

Mr. Rankens added that higher performing funds have insurance protection. Mischler had been aggressive in the subaccounts. Mr. Wall needed information regarding asset allocation of each account. He would need information on an ongoing basis. The Board was interested in a performance report.

Mr. Rankens would welcome a performance report. In the past, he had used Standard & Poor's (S & P). Equities were invested in large/small cap sector.

Mr. Wall needed to know the annuitants and their ages. He had a host of questions. He requested online access to all accounts. Mr. Rankens noted that the Board received quarterly reports for every account. Access must be authorized. Mr. Wall was confident that the Board would grant authority.

Mr. Rankens had a historical ledger for each account. A performance system would need to be developed to see the true performance of each account. Mr. Wall wanted to know which accounts were past their surrender charges.

Mr. Rankens added that withdrawals impacted the death benefit value. If the Board made the decision to liquidate, he would assist with same. Currently, the Board could liquidate $3.5 million without surrender charges. The Board had flexibility. Equities should be at sixty-five percent (65%). In the past, annual adjustments have been made at the fiscal year end to ensure equities did not exceed this limit.

Mr. Oyer added Mr. Rankens went back a year. Mr. Rankens stated the Department of Insurance report was used to set the sixty-five percent, (65%), ceiling. Mr. Oyer acknowledged that the practice may have been technically correct. He questioned the practicality. Mr. Rankens acknowledged that there two, (2), different numbers: 1.) CAFR and 2.) DOI Report.

Mr. Rankens noted that some accounts allowed two, (2,) annuitants. Initially the individual had to be age seventy, (70), and the hope was the individual would live for fifteen, (15), years. The auditor does not recognize the death benefit value. Mr. Oyer noted that this would be a future event that had two, (2), requirements: 1.) person must die and 2.) the fund must hold the contract.

Mr. Wall cited DOI's stance that these riders were no longer permissible. Mr. Rankens stated that all accounts had riders. There were no issues with same until the Rauner administration. Today, DOI states no riders. He added that the principal was protected.

Mr. Wall questioned if the DOI required liquidation. Mr. Reeb responded negatively. Mr. Rankens informed the Board that there were some Pension Funds that will continue with their current practice.

Mr. Wall questioned the Attorney General's opinion. Mr. Rankens noted that Don Craven, Board's attorney, informed the Board that the DOI had the authority. There was the possibility of a challenge. He added his willingness to meet with Mr. Wall and review each contract.

Mr. Wall requested monthly pricing with all transactions. Wall and Associates used Morningstar. Mr. Rankens noted all of the contracts would not be found in Morningstar. Mr. Wall questioned if the insurance companies prepared history reports.

Mr. Rankens restated that the Board needed to take action due to the funds on deposit at PNC. There were missed opportunity costs in the range of $500,000 - $750,000.

Mr. Oyer recommended that the Board open a custodial account. Mr. Wall noted that equities were not at sixty-five percent, (65%), and there was room for other investments. He noted that bond funds were not an equity. Mr. Rankens added that the underlying investments must be in equities. Mr. Wall noted an unknown percentage may be invested in open ended mutual funds. He was not excited by bonds.

Mr. Rankens recommended that the Board put money in Illinois Funds. These dollars would earn 100 basis points. The money needed to be put to work. He had expressed his willingness to meet with Mr. Wall. It appeared the Board wanted to diversify its holdings. The Board should look at fees. He offered to provide a variety of short term options.

Mr. Wall questioned the Board's next meeting. He believed the Board needed to meet in November. He restated the need for him to gain a complete understanding and history of the fund. He was interested in the variable annuities without surrender charges.

Mr. Rankens added his willingness to make recommendations. Mr. Wall restated that he was not a proponent of annuities. Mr. Rankens noted that annuities provided principal protection. Mr. Wall again questioned the Board's risk tolerance.

Mr. Oyer noted that annuities were only good if they are held for fifteen (15) years and the annuitant died.

Mr. Rankens restated that the Board needed to put dollars to work. He added his willingness to provide information and could provide same. Mr. Wall questioned if part of these recommendations would be tied to the DOI. Mr. Oyer recommended a stock indexed ETF which would provide easy access. He added his interest in a full analysis of the Board's existing portfolio.

Mr. Wall stated that Pension Funds were long term investors. Investments needed to be at sixty-five percent, (65%), equities. There was risk in the market. There were things that needed to be work through. He needed three, (3), months to review and develop a plan. He planned to use phone and email. He needed to input data into his system. He questioned what the Board wanted to see. In his opinion, there should be Asset Allocation. Funds should be placed in an index fund. There would be market risk.

Mr. Oyer questioned if the Board should be at sixty-five percent, (65%), now or wait until next the Board's next meeting. Mr. Wall informed the Board that he would not have a final solution in three, (3), weeks. Mr. Rankens recommended that funds be moved to a government only fund. It would provide same day cash and be viewed as an equity. Mr. Wall suggested a mint money market for the short term. Mr. Oyer cited Illinois Funds. Mr. Reeb informed the Board that an individual needs to be added to this account. He expressed his interest in consolidating accounts. Mr. Rankens suggested that the Merrill Lynch account could be transferred to a government funds. Mr. Wall questioned the dollars involved. Mr. Reeb stated he would need to prepare breakdown but the total was $6 million.

Motion by Paulette Hurd, seconded by Carl Reeb to transfer $6 million from PNC to Fidelity US Government American Freedom Fund.

Ayes: Carl Reeb, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

Mr. Wall requested to be added to the fund's accounts in order to receive information.

Motion by Carl Reeb, seconded by Curt Oyer to approve the Board's instruction to Mischler Financial to grant access to David Wall and Barbara Bobbitt, as interested party, on all accounts.

Motion carried, (viva voce).

Motion by Paulette Hurd, seconded by Curt Oyer to accept the Investment Report.

Ayes: Carl Reeb, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

Mr. Wall questioned the Board's opinion regarding annuities. Mr. Oyer expressed his interest in diversification. Mr. Reeb cited the DOI audit. Currently, the Board's portfolio was 100% annuities. He noted DOI's concern regarding the death benefit riders. He also was interested in diversification.

Mr. Wall questioned if the Board was comfortable with risk. Mr. Reeb cited two, (2), concerns: 1.) principal protections and 2.) hitting the benchmark.

Mr. Wall noted the following: 1.) the financial reports used the annuity's surrender value – this was a positive; 2.) annuities offered principal protection; and 3.) annuities had strong earnings this quarter.

APPLICATION TO FUND FOR RETIREMENT

Mr. Reeb reported that Ken Pouliot's last day of employment was August 3, 2017. He retired at the following:

Rank: Captain
Service: 30 years and 1 day
Type: Regular
Monthly Pension: $6,348.42
Three percent increase: September 2018

Motion by Carl Reeb, seconded by Paulette Hurd to approve a regular pension for Ken Pouliot.

Ayes: Carl Reeb, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

Mr. Reeb reminded the Board that the hearing for Matt Augsburger's Duty Disability Pension Application was on August 29, 2017.

Pension Information

Rank: Engineer
Service:
Type:
Monthly Pension:

OLD BUSINESS

Mr. Reeb informed the Board that the DOI Report was not ready. He expected to receive it in the next week. He believed that he had received the Municipal Compliance Report.

NEW BUSINESS

Mr. Reeb addressed the Annual List of Meetings. The Board must meet quarterly. He expressed his willingness to meet bimonthly.

Mr. Wall informed the Board that he would attend meetings on a quarterly basis.

He would attend the Board's additional/special meeting on Friday, November 17, 2017 at 9:00 a.m. at the Headquarters station. He needed to know what the Board wanted, i.e. type of investments/accounts and reporting.

Mr. Oyer expressed his concern regarding Ron Amen, L & A. Mr. Wall believed that the City's Police Pension plan to go out for bid due to dissatisfaction with L & A. Mr. Oyer believed that the Board needed to review the Engagement Letter with L & A.

Mr. Reeb expressed his concern with Mischler Financial. It was death benefit driven, i.e. life insurance. The fees and subaccounts were unknown. Mr. Oyer expressed his concern regarding the high expense ratio. Mr. Wall noted the surrender charges.

Motion by Carl Reeb, seconded by Curt Oyer to authorize Ron Fowler, President, to execute the contract with Wall and Associates.

Ayes: Carl Reeb, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

Motion by Paulette Hurd seconded by Curt Oyer to adjourn. Time: 7:04 p.m.

Motion carried, (viva voce).

Respectfully submitted,

Tracey Covert
Recording Secretary

Signed by:

Ron Fowler, President	Carl Reeb, Secretary