MINUTES OF THE REGULAR MEETING OF THE
BLOOMINGTON FIRE PENSION BOARD
October 16, 2015

Attendees: Jim Stokes, Curt Oyer and Paulette Hurd, Fire Pension Board members.

Member absent: Ron Fowler and Carl Reeb, Fire Pension Board members.

Others present: Larry Rankens, Mischler Financial Group's Senior Vice President, Todd Schroeder and An VanVooren, Lauterbach & Amen, LLC, David Hales, City Manager, and Tracey Covert, Recording Secretary.

The Fire Pension Board met at Fire Headquarters Station located at 310 N. Lee St. Jim Stokes, Vice President, called the meeting to order at 4:05 p.m.

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

MINUTES

Curt Oyer requested that a sentence be amended, (see page 7 of the July 17, 2015 meeting minutes, second to the last paragraph). He requested that "noted that" be changed to "questioned if".

Motion by Paulette Hurd, seconded by Curt Oyer to approved the minutes of July 17, 2015 as corrected.

Motion carried, (viva voce).

TREASURER'S REPORT

Carl Reeb had prepared a written Treasurer's Report due to his absence. The balance of the PNC account this date was $2,159,965.30. Pension payments for July - $383,098.94, August - $381,939.67 and September - $381,939.67. Checks written totaled $17,089.93. The following bills had been paid: AFFI (seminar registration for Mr. Fowler, Mr. Stokes and Mr. Reeb) - $525.00; Insight (accounting services) - $3,609.12; Don Craven, Board attorney – $187.50; Lauterbach & Amen (audit) - $12,500.00; Tracey Covert (recording secretary – April meeting) - $150.00; Carl Reeb (office supplies) - $118.31.

Mr. Oyer questioned if the PNC balance reflected the second installment of property taxes. Paulette Hurd responded affirmatively.

Mr. Stokes added that the Insight figure reflected a number of invoices.

Mr. Oyer questioned if Insight prepared the quarterly statements. Tracey Covert, Recording Secretary, responded affirmatively.

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

Ayes: Jim Stokes, Curt Oyer and Paulette Hurd.

Nays: None.

Motion carried.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Ann Van Vooren, Lauterbach & Amen, LLP, addressed the Board. She thanked Mr. Reeb and Ms. Hurd for the assistance with the CAFR. She reviewed the CAFR with the Board. The Introductory Section included a listing of officers/officials, an organizational chart, the transmittal letter and the independent auditor's report. The Financial Section stated that the Pension Fund was given a clean opinion, i.e. highest rating. The Management Discussion & Analysis provided a review of the fiscal year that ended on April 30, 2015.

Ms. Van Vooren directed the Board to the following pages: Basic Financial Statements reflected a net position which had increased by $3.2 million, (see page 3); Notes to Financial Statements, see Note 3. Other Information, (see page 5); GASB, (Government Accounting Standards Board), 67/68, net pension liability, actuarial assumptions, (see page 13); New Disclosures GASB 67/68, required supplementary information, (see pages 15 – 17); Supplemental Schedules – 1. Employer Contributions, 2. Changes in Employer Net Pension Liability, 3. Investment Returns, administrative expenses and professional services, (see pages 18 – 20); and Investments, letter from Patti Lynn Silva, City Finance Director, (see page 21).

She noted that the Actuarial Report had been included due to GASB 67/68, (see pages 31 – 78). Trend information related to the actuary – 1. Schedule of Active Member Valuation Data, 2. Retirees & Beneficiaries Added to/Removed From Rolls, 3. Report Progress Made Towards Funding Objectives and 4. Analysis Financial Experience, (see pages 74 – 77). The report ends with a Statistical Section – Revenue Trends, Benefit Analysis, Expense Trends and Financial Trends, (see pages 78 - 88). She readdressed the net $3.2 million increase and cited investments and contributions. Ten (10) years of data was included. No audit adjustments were needed. The Board was presented with the Management Letter.

Larry Rankens, Mischler Financial Group's Senior Vice President, projected that equities would be at sixty-five percent (65%) at the fiscal year end. Total equity exposure needed to be below this percentage.

Mr. Oyer addressed the Investment Asset Allocation (see page 24). He questioned if this chart represented total investments or total pension fund assets.

Ms. Hurd informed the Board that investments were listed on page 3, (see Statement Fiduciary Net Position).

Mr. Oyer questioned the CAFR for fiscal year 2016. He noted that Ms. Silva was listed as Treasurer, (this was in state statute). He noted that there were only five (5) Pension Board Trustees. Ms. Van Vooren noted her understanding that the listing was correct.

Mr. Oyer questioned that dates under Funding, (see page v). Ms. Van Vooren stated that the dates were based upon the actuarial reports.

Mr. Oyer questioned assets/liabilities. Todd Schroeder, Lauterbach & Amen, addressed the Board. He cited GASB and the one (1) year lag.

Mr. Stokes noted that the Board had received a clean audit opinion. He stressed that this fact needed to be included in the minutes. Ms. Van Vooren affirmed same.

Mr. Rankens questions comparative numbers/performance by other pension boards. Ms. Van Vooren referred the Board to the IL Department of Insurance (DOI). Mr. Rankens did not believe that DOI provided this type of information.

Mr. Schroeder informed the Board that his firm performed portfolio performance reviews. Clients were divided – over/under $10 million. This report was only based upon Lauterbach & Amen's clients.

Ms. Van Vooren readdressed the Management Letter. Ms. Hurd had a pdf copy of same. It would be provided to the entire Board. She readdressed the Fund's Net Pension Liability (GASB 67/68). She cited required contributions and whether the municipality meets/exceeds the minimum required contribution. The GASB standard addressed full funding. The City made the minimum contribution required by state statute.

David Hales, City Manager, addressed the Board. The City's Pension Funding Ordinance addressed same. The City was in the ramping up phase. He also noted GASB 67/68.

Ms. Hurd referred the Board to the actuarial report.

Mr. Stokes noted that the Fund was approximately fifty percent (50%) funded. Mr. Schroeder responded affirmatively.

Mr. Oyer questioned if Lauterbach & Amen would address this with further information.

Ms. Van Vooren restated that the SAS letter had been prepared for the Board. There was a hard copy for Mr. Reed. She would provide a pdf copy to Ms. Hurd for distribution to the Board.

Mr. Schroeder noted this year's actuary report was dated as of May 1, 2015. He addressed Lauterbach & Amen's approach to same. Pension funding included data (assets, participants), benefit payments (time, amount), and how to pay for – 1. Standard recommended basis and 2. Statutory minimum which deferred contributions into the future with a target of ninety percent (90%) funded. Every four to five (4 – 5) years Lauterbach & Amen conducts a study of police/fire pension funds. This includes approximately 300 Illinois pension funds which are equally split between police and fire. The City of Chicago is not included. Lauterbach & Amen used the standard recommended basis and the state of Illinois used statutory minimum.

He added that the DOI annual filing triggered state action.

Mr. Schroeder presented the Actuarial Valuation Report. He added that this was based upon the City's Funding Policy adopted by the City Council on November 12, 2013. He planned to address the highlights. He addressed Contribution Recommendation, (see page 3). There were three (3) columns: Statutory Minimum Contribution, Prior Year Recommended Contribution, and City Recommended Contribution. The second column was last year's recommendation. The third column was this year's recommendation, (i.e. Fiscal year 2017). He cited the $1 million difference between the first and third columns. This figure will have to pay plus interest. He also cited the Funded Status. There were the same three (3) columns: Statutory Minimum Contribution, Prior Year Recommended Contribution and City Recommended Contribution. The percent funded was listed as Actuarial Value of Assets and Market Value of Assets. He noted the percent fund was approximately forty-eight to forty-nine percent (48 – 49%). The Fund was half the value of what Lauterbach & Amen would like to see.

Mr. Hales cited IMRF (Illinois Municipal Retirement Fund). All retired employees must be 100% funded. There was a practice of separate accounting for IMRF. He questioned if Lauterbach & Amen used a similar practice and if there would be any impact upon the percentage funded.

Mr. Schroeder referred the Board to the Actuarial Accrued Liability, (see page 15). Lauterbach & Amen would like a figure of $56,613,156. The Fund was short by $6 million. This figure addressed total inactive employees. He addressed the figure for active employees - $45,694,195. The City's Pension Funding Policy included 100% funded on an Entry Age Normal Cost Method by 2041.

Ms. Hurd referred the Board to Funded Status (see page 3). Statutory guidelines required ninety percent (90%) funded by 2040 utilizing the Projected Unit Cost Method.

Mr. Schroeder acknowledged the state's method lowered liability. Contributions would ramp up in the future. He noted the difference between Entry Age Normal versus Statutory Minimum.

Mr. Oyer noted that different methods were utilized. He questioned if all of the assumptions were the same. Mr. Schroeder responded affirmatively.

Mr. Hales believed that Entry Age Normal was widely used. Mr. Schroeder responded affirmatively. He estimated eighty-five percent (85%) of the public sector used this method. Contribution increases were tied to wage increases.

Mr. Schroder addressed the Management Summary Comments/Analysis (see page 4). He specifically cited the Defined Benefit Plan Risks. This area saw growth. Benefit payments should be monitored and the impact upon asset growth. He anticipated a forty-five to fifty percent (45 – 50%) increase to benefits over the next five (5) years. The dollar figure would be

$1.9 million. In the next ten (10) years, the percentage would be eighty-five to ninety percent (85 – 90%). The dollar amount would be $3.7 million. He also addressed the Unfunded Liability. This was a mature pension fund and the percent funded was common. Contributions were expected to increase. In the future, there could be cash flow concerns. The audited plan assets were used for this report. Lauterbach & Amen used five (5) year smoothing to address market volatility. This deferred $698,000 in gains (Market Value of Assets).

Mr. Rankens questioned if benefits/contributions were expected to be close to the same for the next five (5) years. The Board needed to look at its investments and future obligations, (i.e. cash flow).

Mr. Schroeder directed the Board to Actuarial Contribution Recommendation – Reconciliation, (see page 8). Contributions included payment by active employees and payment towards unfunded liability. He anticipated contribution increases of four percent (4%) per year. He added that there were other factors to consider: salary increases, demographic changes (noted six new hires) – disability, retirement, termination, asset returns (five year rolling), and spectrum smoothing. Contributions may be less than expected. He cited last year's recommendation (timing/City's transition).

Mr. Schroeder directed the Board to Development of Actuarial Value of Assets, (see page 12). He addressed the smoothing process. Numbers were based upon assumptions. The market value was less than expected.

Mr. Oyer questioned last year's tax levy versus the recommended amount. Ms. Hurd responded affirmatively. It was used for Fiscal Year 2016.

Mr. Hales added the increase of Utility Tax dollars as a second funding source for police and fire pensions. This was in addition to Property Taxes.

Mr. Oyer added that in the past the police and fire pension funds had been given PPRT (Personal Property Replacement Tax) dollars. Ms. Hurd responded affirmatively. A small percentage of PPRT dollars was directed towards pensions.

Mr. Schroeder believed that there would be better alignment in next year's report. Lauterbach & Amen would provide a ten (10) year history. This information would be built over time.

Mr. Oyer questioned the use of Utility Tax dollars. He hoped the primary source of funding was Property Tax dollars. Mr. Hales noted that Utility Tax dollars were higher than anticipated. These dollars were being held in reserve.

Ms. Hurd added that Utility Tax dollars would be carried over for future years. Utility Tax dollars would control Property Tax increases. Mr. Hales added that Utility Tax dollars were restricted to police and fire pension funding. Ms. Hurd affirmed. The current ordinance stated that Utility Tax dollars were dedicated for police and fire pensions.

Mr. Hales stated that contribution levels had been addressed over the next five (5) years. Based upon Lauterbach & Amen's report recommended contributions were lower than expected. He also cited the one percent (1%) Sales Tax increase.

Mr. Schroeder addressed funding perspective. He cited new GASB standards for financial reporting. Funding was based upon state of Illinois rules. GASB was a national body. There was no change to responsibility. The CAFR did not list any new contributions. The Recommended Contribution Detail included the new standards, (see pages 15 – 17).

Mr. Schroeder directed the Board to the CAFR's Schedule of Contributions, (see page 59). The Actuarial Determined Contribution compared the actuary recommendation to actual contribution.

Ms. Van Vooren directed the Board to the CAFR's Schedule of Employer Contributions (see page 15).

Mr. Schroeder added that the CAFR followed the markets. There was no smoothing.

Mr. Rankens addressed Variable Annuities. He questioned if the surrender or market value was used. Ms. Van Vooren stated the surrender value based upon information received from Insight.

Mr. Hales complimented Lauterbach & Amen for their efforts. He was pleased with their work. It was important to keep the Council and public informed regarding police and fire pension funding. It was important for the City to keep its commitments to fund same.

FINANCIAL INVESTMENT REPORT

Larry Rankens, Mischler Financial Group's Senior Vice President, addressed the Board. He addressed the Summary Report. The estimated Portfolio value was $49,781,200. He had prepared a Fixed Annuity Summary and a Variable Annuity Summary. He cited the market downturn. Equities represented 61.23% which was under the statutory limit. The Board had flexibility. Fixed assets were at 38.77%. He cited the difference between the surrender value versus the death benefit value, ($10.1 million contractually). Market value was down and death benefit value had increased. The challenge was to project returns to meet the actuarial standards.

Fixed rates were low. Surrender values were used based upon accounting standards. He restated that the Fund was under the sixty-five percent (65%) for equities. The Board could make additional equity investments.

He directed the Board to the Fixed Annuity Summary and the American National holding. He recommended that the Board withdraw the market value by November 15, 2015 (i.e. $840,078.15). This was the contract's termination date. These funds could be used for cash flow if needed. The Board needed to have $2.5 million in cash to meet pension obligations.

Mr. Hales left the meeting at 5:15 p.m.

Another option would be to reinvest these dollars. He questioned if the Board had any concerns regarding pension obligations. The Board needed to plan for 2016 cash flow. He added that the Board could withdraw ten percent (10%) from its Fixed Annuity holdings without penalty. $1.6 million would be available if needed.

He wanted to know the pension payments for 2016 & 2017. He added that Sun Life (Delaware) holding would expire on January 30, 2016.

He requested Board approval to liquidate $840,078. An investment decision would be made by the Board at its January 15, 2016 meeting. The Board needed to set a direction.

Mr. Stokes noted that if the Board did not take action the contract would lock in for an additional five (5) years.

Mr. Rankens added that it the Board granted authority he would meet with Mr. Reeb in November. Work had been done quarter to quarter. The Board could take action after it knew the cash flow needs. There would be options for investments in both fixed and/or variable annuities. The Board could be aggressive and withdraw ten percent (10%) of the Fixed Annuity holdings and invest these dollars in Variable Annuities. There would be a discussion at the Board's January 15, 2016 meeting. Total equity holdings must be at sixty-five percent (65%) at the fiscal year end.

He requested authority to liquidate the American National Fix Annuity.

Motion by Curt Oyer, seconded by Paulette Hurd to liquidate American National Fixed Annuity holding in the amount of $840,078.15.

Ayes: Curt Oyer, Paulette Hurd and Jim Stokes.

Nays: None.

Motion carried.

Mr. Rankens noted that the return had been 2.15%. He questioned authority for reinvestment. He would look at Fixed Annuity (equity indexed) and a nine (9) year contract with Nationwide. It had been a good performer and offered a better rate than bonds. Another option would be a move to Variable Annuity. He would use American General. It offered good programs with limited access. Principal would be protected. He always looked for Variable Annuity providers. He noted that Board holdings in Jackson National, (surrender value $16,791,901.18). This was a top rated company.

Mr. Oyer noted that one third of the Board's holdings were with one (1) company. Ms. Van Vooren stated that Lauterbach & Amen looked at totals. Mr. Rankens noted that each contract was in a set aside account, not in a general account. He added his preference that the Board look somewhere else. The key was cash flow. He noted that Lauterbach & Amen had offered to provide projections. He planned to review same with Mr. Reeb.

Mr. Stokes expressed his preference for a nine (9) year contract. At the Board's January 15, 2016 meeting a discussion would be held. Variable annuities would be looked for these dollars, ($840,078.15).

Mr. Rankens stated that there was no cap for Equity Index Annuities. There were twelve (12) indices. He would look at the top six (6) performers based upon the last thirty (30) days. Options would cover fees.

Motion by Paulette Hurd, seconded by Curt Oyer that based upon cash flow projections, a nine (9) year contract be executed with Nationwide for a fixed income annuity (equity indexed annuity) in the amount of $850,000.

Ayes: Curt Oyer, Paulette Hurd and Jim Stokes.

Nays: None.

Motion carried.

COMMUNICATIONS

Mr. Stokes informed the Board that Mr. Fowler, Mr. Reeb and he would complete the statutory required training by attending the AFFI Conference in October 2015.

APPLICATION FOR RETIREMENT

Mr. Stokes informed the Board that Les Siron would retire on November 30, 2015. Approval of his pension would appear on the Board's January 15, 2016 meeting agenda.

OLD BUSINESS

Ms. Van Vooren informed the Board that Mr. Reeb had mailed the signature page to the DOI. She requested a copy of same.

Mr. Schroeder added that the deadline was October 30, 2015. DOI had stated that no extensions would be granted.

Ms. Van Vooren stated that the Municipal Compliance Report was a work in progress.

NEW BUSINESS

Mr. Oyer questioned the schedule of meetings. He believed that by statute the Board was required to meet four (4) times a year.

Ms. Hurd questioned bimonthly meetings.

The 2016 schedule of meetings was presented: January 15, April 15, July 15 and October 21, 2016 at 4:00 p.m. prevailing time.

Motion by Paulette Hurd, seconded by Curt Oyer to approve the 2016 schedule of meetings as presented.

Motion carried, (viva voce).

PENSION BENEFITS

Motion by Curt Oyer, seconded by Paulette Hurd to approve pension benefits with the Cost of Living Adjustment as required by statute.

Ayes: Curt Oyer, Paulette Hurd and Jim Stokes.

Nays: None.

Motion carried.

Motion by Paulette Hurd, seconded by Curt Oyer to adjourn. Time: 5:50 p.m.

Motion carried, (viva voce).

Respectfully submitted:

Tracey Covert
City Clerk

Signed by:

Ronald E. Fowler

Ron Fowler, President

Carl R. Reeb

Carl Reeb, Secretary