

**POLICE AND FIREMEN'S RETIREMENT FUND  
CITY OF RICHMOND HEIGHTS,  
MISSOURI**

**REGULAR MEETING, May 14, 2020**

A regular meeting of the Board of Trustees of the Police and Firemen's Retirement Fund was held on Thursday, May 14, 2020, commencing at 11:35 A.M via Zoom video conferencing meeting. Present were Chairman Gerry Rohr, City Manager Amy Hamilton, Tim Day, Joan Provaznik, and Mike Jones. Steve Holmes and John Soltysiak were necessarily absent. Scott Colbert and John Bascio with Commerce Trust were also in attendance. Matt McCarty with Commerce Trust joined the meeting at 12:00. The meeting was recorded by Sara Fox.

**CITIZEN COMMENTS**

None.

**NEW BUSINESS**

**Commerce Bank Trust Company Fund Presentation**

In order to expedite Messrs. Colbert, Bascio, and McCarty attendance at the meeting the Commerce Trust presentation was moved to the opening of the meeting. Scott Colbert informed the Board that Mr. Matt McCarty, Senior Vice President, Senior Portfolio Manager, replaced Mr. Doug Koester, who retired at the end of 2019. Mr. McCarty joined Commerce Trust in 2015, and has 30 years of investment experience. He will be the day to day point person.

Scott Colbert Commerce Trust Company presented the Board with the Pension Fund Portfolio. The Fund is currently at \$18.6 Million.

Commerce manages an investment grade bond fund for the Pension's fixed income investments. They manage it to beat the average fund. When analyzing the fund's performance they use the BBG Barclays Aggregate as the benchmark. The BBG Barclays Aggregate is the S&P 500 of the bond market.

The percentage distribution of the portfolio is on page 3 of the report. The bond market did better than the stock market, holding its own while stocks were crashing. The portfolio remains consistent with Commerce's strategy. To have more bonds that are investment grade A rated or better. Approximately half is invested in Corporates 51.93%, the remaining is distributed among Treasuries 10.38%, Agencies 4.55, Asset-Backed 1.81%, Mortgages 12.05% Municipal 12.13%, and Cash 7.15%. The Yield To Maturity (YTM) for the portfolio is 2.33% compared to Barclays at 1.59%.

Mr. Colbert noted that on page 4 the Plan has 0.78% in investments ranked below BBB. There are a couple of bonds that slipped into this high risk range in prior years. There are 14.87% ranked at BBB. These are investments that were downgraded after they were

purchased. They are still expected to pay off although they bear more risk. The remaining bonds are very high quality.

The Portfolio Performance Comparison graph on page 5 shows the Plan gained 0.69% for the last quarter. The index earned 3.15%. Commerce gained back 79 basis points (0.79%) in April. Treasury bonds are not a good market to earn a reasonable return on investments right now. Today's return for the 2 year treasuries yield 15 basis points, the 10 year treasuries earn 60 basis points.

This is exemplified on page 6. The 3/31/2020 Duration-Adjusted Excess Returns graph shows the 2020 YTD credit market underperformed a pure treasury bond by 12.72 basis points.

Commerce will stick with their long term strategy which is basically to own A and AA rated treasuries that over time provide an extra 1% yield year over year. Lessening short term price movements

Referring to page 10, Commerce is not grossly optimistic for the economic outlook. This will be the deepest recession the country will experience. The economy was run at about 70% of its capacity last month. It will be approximately 80% this month, 90% next month, slowly working its way back to full capacity. In comparison the 2009 Great Recession, that lasted 18 months, took the economy 7 quarters (or 3 years adjusted for inflation) just to get the dollar back to where it was before the recession. This recession is at least twice as deep as the Great Recession. Unemployment is at 14.7%, it will peak at approximately 20%. The 2009 unemployment was 10%. When the economy begins to reopen many jobs will be refilled reducing the unemployment rate to approximately 15%, leaving the remaining job recovery at a slow grind. It took 10 years to create 20 million jobs. We just lost 20 million jobs in the last month. Employers will be slow to rehire based on concerns that earnings will not be sufficient to meet ongoing personnel costs.

Overlaying the economic recovery is how much progress is made against the coronavirus.

Mr. Colbert's estimate is it will take much more than 3 years to have tax revenues and economic activity back to where it was in February 2020, before the coronavirus. It will not be business as usual for quite some time.

Mr. Day asked what will the inflation do a year from now?

Mr. Colbert stated that we are in a disinflationary environment. The Feds will have a difficult time ginning up the 2% inflation target. Salaries are dependent on Business's profits and the City's tax revenues and they are coming down. The Federal Government will help by providing funding. It will not be nearly enough to make up the chasm that has been suffered before economic recovery returns to full tilt.

Mr. Day asked what are the portfolio's average bond maturities?

Mr. Colbert stated between 5 and 7 years. The yield is 2.33%.

Mr. Day asked if this will stay steady?

Mr. Colbert stated it will hold fairly steady coming down as it approaches the treasury market. Any losses will be made up in capital appreciation.

Mr. Day is more concerned with one to two years from now. We borrowed \$400 trillion that will have to be paid back. Who will buy the bonds from us?

Mr. Colbert stated this is the largest federal deficit ever, it is annualizing at \$2 trillion, possibly up to \$4 trillion. Who will lend us the money? There are two sources, the normal treasury bond investors such as; individuals, banks, pension, insurance companies, global investors. There is also the Federal government that is printing money to purchase the bonds. This quantitative easing means that there will be less stimulus the next time. The economy is pulling future growth into the present. The future is paying for the current situation. Doing this keeps the economy from dropping too low where the recovery would be more grave.

Mr. Day asked, since this Plan goes into perpetuity, what is this really going to cost five or more years into the future when we are paying people that are vested now?

Mr. Colbert stated that pensions are a huge expense, they don't go negative, at best they stay flat with increases over time. The biggest danger for a pension plan is disinflation or deflation. Generally, pension benefits are fixed. Inflation tends to erode them over time, particularly if there isn't a cost of living adjustment. It becomes increasingly tough to make up the difference, asset values do not help in a down economy. The average pension plan fell 13.1% in the first quarter (the RH Pension Plan fell 14.7%).

Mr. Day asked if Mr. Colbert had any recommendations?

Mr. Colbert restated that the recovery will not be quick. Try to control costs in general. The stock market is better than everyone thought it would be. The average value stock is down 25%, average international down 25%, average emerging market is down 25%. Only the mega cap stocks have held up. Mr. Colbert recommended rebalancing the portfolio. Realizing that it is a very low disinflationary environment and there will be low nominal returns for asset values going forward.

Mr. Colbert stated that it will take approximately 4 years for the economy to get back where revenues and economic activity are the same, on an inflation adjusted basis, as they were going into the recovery.

With no further questions, Mr. Rohr thanked Messrs. Colbert, Bascio, and McCarty for attending the meeting.

(Let the record show the Commerce Trust Company Fixed Income Investment Management Report is attached as a record of the May 14, 2020 meeting).

Mr. Rohr stated that the Plan is probably one of a few in the country that can weather this storm. He was struck by one comment, "Do everything we can to control costs". It is his position, as the Police Department representative, to relay to active Officers that any benefit improvements will be put on hold for at least 4 years. He anticipates that Mr. Soltysiak will relay the same information to the Fire Department staff.

## **APPROVAL OF MINUTES**

**February 10, 2020**

Ms. Hamilton moved, Ms. Provaznik seconded, a motion of approval of the minutes of the February 10, 2020 meeting. Carried unanimously.

## **ACCOUNTS PAYABLE**

<b>Gabriel, Roeder, Smith, &amp; Co. –</b>		
<b>7/1/2019 Valuation Report</b>	<b>\$</b>	<b>6,575.00</b>
<b>Supplemental Valuation Reports</b>	<b>\$</b>	<b>8,000.00</b>
<b>James Dahm –</b>		
<b>Financial Review Services</b>	<b>\$</b>	<b>2,500.00</b>

Mr. Jones moved, Ms. Hamilton seconded, for the approval of the Accounts Payable as submitted and be received and filed. Carried unanimously.

## **Plan Rate of Return**

Mr. Day asked if the Board plans to discuss the expected rate of return on investments. He asked if the 6% APR should be further reduced or remain as is moving ahead.

Mr. Rohr stated that it should remain fixed over time, even despite an economic downturn. It was fixed for a significant amount of time. The board was just adjusting the rate over the past few years to more accurately reflect reality over time. Continually moving the rate would provide an inaccurate depiction of the Plan.

Ms. Hamilton stated that the Plan's 10 year rate of return is at 6.6%. She recommended that the Board continue to monitor this until the next actuary report in July 2021.

## **FINANCIAL STATEMENTS**

**Total Fund Assessment – Quarter ending March 31, 2020  
Commerce Trust Quarterly Report at March 31, 2020  
AJO Funds January 2020 Statement  
AJO Funds February 2020 Statement  
AJO Funds March 2020 Statement**

**Silchester International January 2020 Group Trust Report**  
**Silchester International February 2020 Statement**  
**Silchester International February 2020 Group Trust Report**  
**Silchester International March 2020 Statement**  
**Silchester International March 2020 Group Trust Report**  
**Silchester International April 2020 Statement**  
**Silchester International April 2020 Group Trust Report**  
**Vanguard January 2020 Statement**  
**Vanguard January 2020 Total Return Chart**  
**Vanguard February 2020 Statement**  
**Vanguard March 2020 Statement**  
**Vanguard March 2020 Total Return Chart**  
**Vanguard April 2020 Statement**  
**Vanguard April 2020 Total Return Chart**  
**ADD ON: AJO Funds April 2020 Statement**

Mr. Jones moved, Ms. Provaznik seconded, for the approval of the Financial Statements as submitted and be received and filed. Carried unanimously.

#### **OLD BUSINESS**

None.

#### **NEW BUSINESS**

##### **Gabriel, Rhoeder, Smith, & Co. Actuary Supplemental Valuation Report**

Mr. Rohr stated that given the economy the report is a moot point now. He asked if the Board wished to discuss the report and if there were any questions. The Board did not discuss the report.

(Let the record show the July 1, 2019 Supplemental Actuary Report is attached as record of the May 14, 2020 meeting).

##### **New Hire Fire Chief Phillip Goode**

Fire Chief Phillip Goode was hired by the City on February 12, 2020. He graduated from the National Fire Academy Executive Fire Officer Program in 2014. He received his Bachelor of Science degree in Fire Science Management from Lindenwood University in 2008. He is a graduate of Maplewood-Richmond Heights High School class of 1990.

Chief Goode previously worked with the Eureka Fire Protection District for 31 years. He is skilled in fire protection, fire management, crisis management, emergency management, and law enforcement.

Mr. Rohr stated that Chief Goode's start date with the Fire department was just before the coronavirus pandemic outbreak, on March 9<sup>th</sup>. Mr. Rohr stated that Chief Goode has been doing an excellent job.

#### **Deceased Widow Gloria Tisius**

Mr. Rohr informed the Board that Mrs. Gloria Tisius, wife of former Richmond Heights Firefighter/Paramedic Ronald Tisius, died on February 8, 2020. Mrs. Tisius was receiving \$23,581.84 annually. These benefits will no longer be distributed.

#### **Retiree John Connolly Change in Benefits**

Mr. Rohr informed the Board that Police Retiree John Connolly has begun receiving Social Security Benefits. His benefits began April 8, 2020. Fifty percent (50%) of Mr. Connolly Social Security Benefits will offset his pension retirement benefits.

#### **Senior Police Officer Mario Doss Application for Regular Retirement**

Mr. Rohr stated that Senior Police Officer Mario Doss submitted his Application for Regular Retirement. Mr. Doss served 29 years and six months with the City's Police Department. His last day with the Police Department will be June 25<sup>th</sup>, making his first day to begin receiving retirement benefits June 26<sup>th</sup>. His annual benefits will be \$54,698.44. He will also receive a lump sum contribution refund of \$48,851.25.

Ms. Hamilton moved, Mr. Day seconded to accept and file Mr. Doss's Application. Carried Unanimously.

#### **Donation from Carole Loss**

Mr. Rohr informed the Board that Ms. Carole Loss sent a \$100 donation to the Police Department. Ms. Loss extended her appreciation to then Captain Rohr and Police Officer Martin for their assistance during last year's Party on the Pavement.

#### **2020/21 FY Benefit Increases**

Mr. Day asked if the pre-1986 retirees were included in the benefit increase.

Ms. Fox explained that they were not. The City did not provide a Cost of Living Adjustment (COLA) increase to active employees in the prior fiscal year. The pre-1986 retirees only receive an increase if the City provides a COLA increase to active employees in the prior fiscal year.

Mr. Day asked how many retirees were still in the Plan and how much it would cost to give them the same increase as the other retirees.

Ms. Fox stated that there were two widows and one disabled retiree in the pre-1986 Plan. The annual cost of a 3.58% increase for these individuals is \$2,365.57.

Mr. Day motioned, Mr. Jones seconded that the pre-1986 retirees also be given a 3.58% annual increase. Four Ayes, One Nay. Motion Carried.

### **2020/21 FY Proposed P&F Pension Budget**

Ms. Fox explained the budget projections. Revenues: Real estate & personal property taxes are flat, although actual receipts this year were higher than anticipated, no growth was projected as the impact of the COVID-19 virus cannot be known. Contributions are down because the City has a hiring freeze. Investments show a growth at 6% based on the Board's current assumed APR.

Expenses: Pensions & Annuities do not include a benefit increase next year, it does include a full year with Mario Doss's benefits plus one additional retiree and their contribution refund. Contribution refunds for three non-vested employees at approximately \$7,000 each are included based on historical trends, there are also five terminated employees that have left their contributions in the Plan who's refunds are included as possible distributions. There is \$5,500 for Actuary fees for GASB 68 valuation report. A budget for training and travel is included. The remaining items are neutral from the prior year.

### **Joint Committee on Public Employee Retirement (JCPER) 2020 Report**

The Board received the JCPERS 2020 report.

Ms. Fox provided a brief summary of the Plan's ranking out of 86 defined benefit plans. Based on Market Value the Plan was ranked 3<sup>rd</sup> highest The Maplewood Police & Fire Retirement Fund legacy Plan was the highest ranked. That Plan does not support active employees only a few remaining retirees that were in the Plan before Maplewood Police and Fire Departments joined LAGERS. When all of that Plan's retirees are deceased the remaining funds will go back to the City of Maplewood. If the Maplewood Police and Fire Department is omitted from the ranking the Richmond Heights's Plan would be 2<sup>nd</sup> highest.

Based on the Actuarial Value the Plan is ranked 2<sup>nd</sup> highest behind the Maplewood Police & Fire Retirement Fund legacy Plan. First if that Plan is omitted.

The Plan assumes an APR of 6%. There are only five plans that assume 6% and only four plans that assume an APR lower than 6%. Our assumption is very conservative.

The Plan's annual benefit increase of 4% is about mid-range. There are 12 other plans that also provided a 4% increase, approximately 20 plans provided a higher than 4% increase, the remaining plans provided a lower or no increase.

## Plan Redistribution

Mr. Day asked about the Plan's redistribution. He recommended that the Board wait for the economy to cool down a bit before funds are moved.

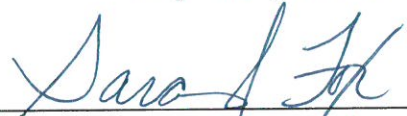
Ms. Fox stated that funds have not been redistributed yet. She informed the Board that the Vanguard investments are slightly higher than the Plan's distribution guidelines. The Vanguard overage, plus tax revenues and some Commerce fixed investments will be moved to Eastern Shore Capital Management, the investment company recommended by Mr. Holmes. Ms. Fox stated that the full Board did not send their consensus via email. She asked if the Board was in agreement moving funds to this investment firm.

Mr. Rohr asked Ms. Fox to resend the information to the Board. He asked the Board to send their comments to the Board via reply all email.

## ADJOURNMENT

With no further business to come before the meeting, at approximately 12:26 P.M., Mr. Day moved, Ms. Provaznik seconded, a motion that the meeting be adjourned. Carried unanimously.

Respectfully submitted,



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Sara J. Fox, Recording &  
Transcribing Secretary