

MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY BOARD MEETING

Thursday, September 9, 2021

Scott Hummel called the meeting to order.

PRESENT:

Scott Hummel, Member
Robert Jones, Member
Walter Bixby, Member
Leslie Lewis, Member
Chad Pickens, Member
Wayne Stewart, Member

Jonathon Dilly, Attorney
Jennifer Best, Staff
Lisa Colclasure, Staff
Jason Hoy, Staff
James Pyle, Staff

SECRETARY REPORT:

INVESTMENT COMMITTEE REPORT

Mr. Pickens said the Investment Committee (IC) met in September to review the following topics:

FCI Advisors Fund Review

Peter Greig, Gary Cloud, and James Braunsdorf provided a portfolio review of the FCI Advisors Fixed Income accounts. Mr. Greig gave a brief firm update and reviewed FCI's investment process to add value through duration management, sector selection, and issue selection. Mr. Greig said the fixed income accounts were negative for the one year period, ending July 31st, but in line with the Bloomberg Government/Credit Index. The accounts have outperformed the index for the 3, 5, and 10 year periods.

Mr. Cloud and Mr. Greig provided a review of actions by the Federal Reserve, their thoughts on the economy and inflation, and their outlook for fixed income markets. FCI expects recent price increases to remain in place, but they do not see inflation continuing to increase. FCI expects interest rates to remain low for the long term.

July 2021 Investment Portfolio Analysis

Ryan Sullivan from RVK, said the Police plan gained 0.54% net of fees in July and had an ending market value of \$1.054 billion. The Civilian Employees' plan gained 0.56% net of fees and had an ending market value of \$177.9 million. The target benchmark for both plans gained 0.58%. For the one year period ending in July, both plans gained 16.8% net of fees. The target benchmark for the same time period gained 13.9%.

The next IC meeting, scheduled for October 5 at 9:00am via conference call.

APRIL 30, 2021 AUDITED FINANCIAL STATEMENTS

Michael Lowery from AGH presented the April 30, 2021 audited financial statements for the Police plan and Civilian Employees' plan. The audits include information to comply with the provisions of the Government Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans.

As of April 30, 2021 net position restricted for pensions in the Police plan increased by \$159.3 million to \$1.033 billion. This represents an 18.2% decrease from April 30, 2020 and is due to a \$176 million increase in assets and a \$16.7 million increase in liabilities. The increase in assets was related to gains in investments and securities lending collateral. The increase in liabilities was related to securities lending collateral. During the fiscal year, additions totaled \$235.2 million and included member contributions of \$12.5 million, employer contributions of \$36.1 million, and net investment income of \$186.6 million. Deductions totaled \$76.0 million and included benefit payments of \$73.9 million, refunds of contributions of \$1 million, and administrative expenses of \$979,000.

As of April 30, 2021 net position in the Civilian Employees' plan increased by \$28.8 million to \$174.2 million. This represents a 19.9% increase from April 30, 2020 and is due to a \$33.4 million increase in assets and a \$4.5 million increase in liabilities. The increase in assets was related to gains in investments and securities lending collateral. The increase in liabilities was related to securities lending collateral. During the fiscal year additions totaled \$38.4 million and included member contributions of \$1.5 million, employer contributions of \$5.3 million, and net investment income of \$31.5 million. Deductions totaled \$9.5 million and included benefit payments of \$9.2 million, refunds of contributions of \$227,000 and administrative expenses of \$132,000.

Mr. Lowry said AGH's letter to the Board of Trustees will include required communications, internal control deficiencies, and other comments. Mr. Lowry said no new accounting policies were implemented this year, there were no audit adjustments to the April 30, 2021 financial statements prepared by staff, and there were no uncorrected misstatements. Mr. Lowry said the small size of the staff leads to a significant internal control deficiency related to segregation of duties. He said compensating controls have been in place for several years to mitigate the risks related to the segregation of duties. Mr. Lowry said they were issuing an unmodified opinion, which is the highest level opinion that can be issued, for both plans.

Mr. Pyle said staff had completed their review of the draft audits and did not have any changes. Following the discussion of the proposed changes to the actuarial valuations Mr. Jones made the motion to adopt the April 30, 2021 audited financial statements, including any changes resulting from the revised actuarial valuations. Mr. Stewart seconded the motion which passed unanimously.

APRIL 30, 2021 ACTUARIAL VALUATION

Pat Beckham from Cavanaugh Macdonald presented the April 30, 2021 actuarial valuations for the Police plan and Civilian Employees' plan. Ms. Beckham said the purpose of an annual actuarial valuation was to: measure the assets and liabilities; determine actuarial contribution rates; analyze experience (actual vs. expected) in the last year; provide disclosure information for financial reports; and report on trends.

The fiscal year market rate of return for the plans was 21.7%. The market value of assets in the Police Plan is \$1.033 billion, an increase of \$159.3 million, and the market value of assets in the Civilian Employees' Plan is \$174.2 million, an increase of \$28.8 million. Ms. Beckham said the market value was used in calculating the actuarial value of assets but was not specifically used for the valuation process. The fiscal year actuarial rate of return for the plans was 8.4%. The actuarial value of the assets increased by \$49.3 million to \$978.3 million in the Police Plan, and increased by \$10.1 million to \$164.7 million in the Civilian Employees' Plan.

Using an investment return assumption of 7.35%, Cavanaugh Macdonald calculated the actuarial liability for the Police Plan to be \$1.28 billion, an increase of \$36 million, leaving an unfunded actuarial accrued liability (UAAL) of \$305 million and a funded ratio of 76%. The UAAL decreased by \$13 million mainly due to actuarial asset experience and demographic experience. The total actuarial contribution rate in FY2023 will be 46% of projected payroll, with the normal cost totaling 25.5% and the amortization of the unfunded liability totaling 20.6%. The valuation assumes that member contributions will remain at 11.55% and City contributions will increase to 34.5% of projected payroll. For FY2023 the annual actuarial required contribution amount from the City will be \$33.6 million plus \$3.5 million for the supplemental benefit.

Using an investment return assumption of 7.35%, the calculation of the actuarial liability for the Civilian Employees' plan is \$204.9 million, an increase of \$7.6 million, leaving an unfunded actuarial accrued liability (UAAL) of \$40.2 million and a funded ratio of 80%. The UAAL decreased by \$2.5 million mainly due to actuarial asset experience and demographic experience. The total actuarial contribution rate in FY2023 will be 23.8% of projected payroll with the normal cost totaling 15.1% and the amortization of the unfunded liability totaling 8.7%. The valuation assumes that member contributions will remain at 5.0% and City contributions will decrease to 18.8% of projected payroll. For FY2023 the annual actuarial required contribution amount from the City will be \$5.7 million.

Ms. Beckham said retired members, in the Police plan, continue to outnumber active members (1449 to 1239). The active membership includes 862 Tier I members and 377 Tier II members. In the Civilian Employees' plan active members continue to outnumber retired members (522 to 303). The active membership includes 303 Tier I members and 219 Tier II members.

Ms. Beckham said based on the actuarial gains generated in both plans during the year, the Retirement Board has an opportunity to accelerate the reduction in the investment return assumptions and incorporate those changes into the FY2021 valuations. She reviewed investment return assumptions of 7.25% and 7.10% and the resulting actuarial contribution rates, City contribution amounts for FY2023, actuarial accrued liabilities, actuarial value of assets, unfunded actuarial accrued liabilities, and funded ratios for both plans.

With an investment return assumption of 7.25% for the Police plan the actuarial accrued liability would increase for the FY2021 valuation by \$15.3 million to \$1.298 billion, and the unfunded actuarial accrued liability would increase by \$2.1 million to \$320.4 million. The funded ratio would be 75.3%. The City contribution amount would increase from FY2022 to FY 2023 by \$489,000 to \$35.2 million

With an investment return assumption of 7.10% for the Civilian Employees' plan the actuarial accrued liability would increase for the FY2021 valuation by \$14 million to \$211 million, and the unfunded actuarial accrued liability would increase by \$3.8 million to \$46.6 million. The funded ratio would be 77.9%. The City contribution amount would increase from FY2022 to FY 2023 by \$644,000 to \$6.4 million.

The Board discussed the implications of having separate investment return assumptions for the Police plan and Civilian plan as well as the differences in the make-up of the two plans related to active and retired participants, and the percentage of active membership in Tier II. Both Ms. Beckham and Rob Woodard, from Mariner, said there were enough differences in the actuarial values and demographics, of the two plans, to warrant different return assumptions. They also recommended continuing the plan to further reduce the investment return assumptions by at least 0.05% until the next actuarial experience study is completed in 2023.

Following extensive discussion, Mr. Pickens made the motion to adopt investment return assumptions of 7.25% for the Police plan and 7.10% for the Civilian Employees' plan for the FY2021 valuations. Mr. Jones seconded the motion which passed with Mr. Bixby voting no.

Ms. Beckham said the actuarial results, based on the reduced investment return assumptions, also included an assumption of a 2.5% simple cost of living adjustment for each year. Following a review of the COLA policy and matrix, current and historical Midwest Region Consumer Price Index information, and the prior COLA history, Mr. Pickens made the motion to provide a 2.5% COLA to the base pension for all members whose retirement or whose deceased spouse's eligibility to a pension were effective on or before December 31, 2020 as authorized in sections 86.1220 and 86.1590 RSMo. The Pension Systems Manager was instructed to grant this COLA effective with the October 29, 2021 benefit payment for the Police plan retirees and the November 1, 2021 benefit payment for the Civilian Employees' plan retirees. Mr. Bixby seconded the motion which passed unanimously.

Mr. Pyle said staff had completed their review of the draft valuations and did not have any changes. Mr. Jones made the motion to adopt the April 30, 2021 actuarial valuations, including the changes resulting from the revised investment return assumptions. Mr. Stewart seconded the motion which passed unanimously.

SECRETARYS UPDATE

Legal Update

Mr. Pyle said Victoria Quinones-Wells had filed suit against the Retirement Board and the Board of Police Commissioners regarding her disability determination.

BOARD MEMBER COMMENTS

There were no additional board member comments.

PUBLIC COMMENTS

A time was set aside for public comments.

OMNIBUS MOTION

Mr. Pickens made the following motion, seconded by Mr. Jones. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:

The minutes of the previous meeting of August 12, 2021;

The monthly financial statements for July 2021;

The payment of bills as listed in the Secretary's Reports for this meeting;

The return of contributions to those persons, who have resigned or terminated service, as listed in the Secretary's Reports for this meeting;

The purchases and sales of assets as listed in the Secretary's Reports for this meeting;

The payment or commencement of pensions or other benefits as listed in the Secretary's Reports for this meeting; and

Any purchases of creditable service as listed in the Secretary's Reports for this meeting.

ADJOURNMENT

The next regularly scheduled board meeting will be October 14 at 9:00am at the Retirement Systems Office.

BOARD SECRETARY

CHAIRMAN