

**AMENDED MINUTES  
ROCKFORD POLICE PENSION BOARD  
SEPTEMBER 17, 2015**

**MEMBERS PRESENT:** Jeff Nielsen, President  
Marcia Mueller, V.P.  
Joe Stevens, Secretary  
Paul Swanberg, Assist. Secretary  
Scott Laue, Trustee

**ABSENT:**

**ALSO PRESENT:** Roberta Holzwarth - Holmstrom & Kennedy  
Mike Piotrowski – Marquette Associates

**GUESTS:** Darren Kleis – Managing Director Principal U.S. Property  
Paul Stover, CFA Principal U.S. Property

**STAFF:** Linda Wlaznik, Finance  
Chris Black, Finance Director

The September 17, 2015 Rockford Police Pension Board convened at City Hall 425 E. State St., Jeff Nielsen called the meeting to order at 8:06 a.m.

Motion by Mueller and seconded by Laue to approve the July 29, 2015 minutes of the Board meeting as amended. APPROVED.

Motion by Mueller and seconded by Laue to approve the August 10, 2015 minutes of the Board meeting as amended. APPROVED.

Motion by Mueller and seconded by Laue to approve the August 20, 2015 minutes of the Board meeting as amended. APPROVED.

**PUBLIC COMMENT**

NONE

**CASH & INVESTMENT REPORT**

Piotrowski stated that today the U.S. Federal Open Market Committee would announce if there would be an interest rate increase. It is anticipated that the markets will remain volatile due to conflicting data surrounding global growth. The month was challenging from a total return perspective. In the month of August the S & P 500 declined approximately 12.5% intermonth, but rallied towards the end of the month to finish down -6.0% for the month. The total value is \$172 million as of August 31. Further discussion ensued regarding overweighting in the Principal Property Fund. There is a contribution queue to join that fund, so it may take several months to reinvest if withdrawals are made for cash needs or rebalancing.

Piotrowski briefly discussed pages 9 and 10, which highlights the managers' performance.

There are no cash needs this month.

Motion by Mueller and seconded by Laue to approve purchases and sales. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

## **CITY BILLS**

Motion by Mueller and seconded by Laue to approve September City Services of \$9,741.67. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve August postage charges of \$135.18. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve payment to Holmstrom Kennedy, P.C. for August attorney fees for general in the amount of \$1,462.50. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve payment to Holmstrom Kennedy, P.C. for August attorney fees for the Gulbrantson disability matter in the amount of \$672.50. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve payment to Holmstrom Kennedy, P.C. for Annual Medical reviews \$1,421.82.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

Motion by Mueller and seconded by Laue to approve payment to The Northern Trust Company for Investment management fees from July 1, 2015 through September 30, 2015 in the amount of \$5,779.97. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

## **ATTORNEY'S REPORT**

Attorney Holzwarth stated that the annual medical reviews are in process.

## **OLD BUSINESS**

C. Black stated that if the board was interested in a refund for City Services he would need something in writing. Nielsen stated the Board wants reassurance that the expected level of service would be provided. Mueller stated that some of the trustees had advocated for going out for bid for City

Services. C. Black explained some of the circumstances that led to delays. Further discussion ensued regarding staffing levels.

## **PAYROLL**

Motion by Mueller and seconded by Laue to approve the September estimated payroll amount of \$1,278,511.76. The Board retains jurisdiction of this matter for purposes of enforcing the Pension Code. APPROVED.

Ayes: Nielsen, Mueller, Stevens, Swanberg, and Laue

Nays: None

## **PRINCIPAL U.S. PROPERTY**

Paul Stover and Darren Kleis were at the meeting to present information regarding the performance of the Police Pension Fund's portfolio with Principal Real Estate Investors.

Mr. Kleis discussed the account overview on page 6. The company recently purchased the Can Plant located in the Pearl District of San Antonio, Texas, on the Riverwalk. Approximately 4.3% of the fund is invested in development. Mr. Kleis reviewed some of their current leasing projects. Page 14 lists the top ten assets and locations. Further discussion ensued regarding the various properties owned by Principal.

## **TELEPHONE CONFERENCE CALL WITH TIM SHARPE**

Prior to the phone call with Tim Sharpe C. Black stated that Mr. Sharpe revised the actuarial assumptions to reflect the actuarial assumptions promulgated in the recent experience study published by the Illinois Department of Insurance.

Holzwarth suggested since there were two new board members, Mr. Sharpe give a basic overview of the report and details.

Mr. Sharpe stated that the actuarial report has two primary purposes, to provide a calculation of the contribution requirement and report on the financial position of the Fund for the City of Rockford audit. Mr. Sharpe referred the board to page 4 of the actuarial report. Mueller requested Mr. Sharpe also review the Department of Insurance (DOI) report. There has been a complete overhaul as to how public pensions are reported. New GASB accounting rules require support of interest rate assumption. Marquette provides support for the rate of return based on the Fund's investment policy, investment classes, and expected returns. Mr. Sharpe stated that the second change is GASB now requires disclosure of **the basis of actuarial assumptions**. His study uses the four tables in the DOI 2012 study. Mr. Sharpe reiterated the two biggest changes to the tables are the mortality rate; used to be slightly adjusted for public safety employees and secondly the turnover table (probability that an employee will quit). The new study has reduced the probability that an officer will quit, which lowered the turnover assumption. The increased life expectancy and the change in the turnover has had a significant impact. Approximately two-thirds of the increase in the City's contribution is attributable to change in the tables.

Mr. Sharpe referred the board to page 21, differences between expected and actual expense, \$3,503,406 was mainly due to high number of disabilities and retirements. Changes of assumptions increased the liability \$41,577,440, and reflects table changes and use of the adjusted discount rate of 6.86%. \$22 million of the unfunded liability is due to table changes (this means that without the

changes in tables, the % funded would have been 69%). Tim referred to this as "future event liability".

Mr. Sharpe referred the board to page 6. This page reflects the balance sheet as of January 1, 2015. The Market Rate Value of Assets was \$182,974,009; \$178,726,025 is the Actuarial Value of Assets. Page 7 does not reflect Actuarial Assumptions. Mr. Sharpe noted that, on an average, \$20,000,000 should be expected to come into the fund and \$15,000,000 going out each year. Page 7 reflects the cash flow and the reserves. Page 12 reflects a "worst case scenario" of everyone retiring at their earliest possible eligible retirement age. C. Black asked Mr. Sharpe if he anticipated the assumptions changing over time. Mr. Sharpe responded that he did not anticipate any additional changes in actuarial tables other than the mortality table in the near future because they typically change every 10 years, however the mortality table may be changed more frequently. C. Black asked if the 6.86% rate was due to the City amortizing 90% of the unfunded liability rather than 100%. Mr. Sharpe responded yes. If 100% of the liability was amortized, 7.5% rate of assumption would be used.

Mr. Sharpe stated if the 100% entry age was used, the contribution requirement would then be \$8.4 million and the funding percentage would be 61.8%. Based on the long term expected interest calculation provided by Marquette Associates and Board Members input, Mr. Sharpe is comfortable with the 7.5% return rate assumption. The board thanked Mr. Sharpe for discussing the 2015 actuarial report with them.

C. Black stated it is typically expected entry age normal would result in higher contributions. The tax cap is the total amount that will be levied for property taxes for a non-home rule community; calculated by CPI (.8%) plus growth of property. The City contribution in 2014 was the amount that was expected to be funded in 2015. Attorney Holzwarth encouraged the board to continue its discussion of an appropriate assumed rate of return every year. C. Black stated that GASB 68 was not the reason for the change in assumptions. The State uses the assumption rate of 6.75%, based on the experience of all Article III funds in the State. Piotrowski stated that a majority of the funds are unable to invest like the Rockford Police Pension Fund; they have restrictive parameters. C. Black stated that the aldermen were informed of the 2017 contribution increase in July. The larger change was in the (police) turnover rate that Mr. Sharpe discussed.

Piotrowski stated he is comfortable with a 7.5% assumed rate of return as a long term target. The Peoria Police Pension Fund dropped their rate of return from 7.5% to 6.75%, and other funds have dropped theirs also. Wlaznik asked if the market is still in a reactionary period and what is the history going back as far as 20 to 30 years as far as the rate goes; has any fund reacted this way to a market. Piotrowski explained the reason for the rate of return decreases is due to the funds believing the low interest rate environment is going to continue.

Mueller suggested Attorney Holzwarth draft a letter to City Council regarding the Police Pension funding.

Wlaznik updated the board regarding the affidavits.

Motion by Mueller, seconded by Laue to issue letters to retirees stating affidavits are due by October 8, 2015. APPROVED.

