

## MINUTES

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

Thursday, September 8, 2022

Richard Smith called the meeting to order.

#### PRESENT:

|                        |                          |
|------------------------|--------------------------|
| Richard Smith, Member  | Jonathon Dilly, Attorney |
| Scott Hummel, Member   | Jennifer Best, Staff     |
| Robert Jones, Member   | Lisa Colclasure, Staff   |
| Walter Bixby, Member   | Jason Hoy, Staff         |
| Chad Pickens, Member   | James Pyle, Staff        |
| Wayne Stewart, Member  | Lori Vaca, Staff         |
| Patrick Trysla, Member |                          |

#### SECRETARY REPORT:

#### INVESTMENT COMMITTEE REPORT

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

#### **Rebalance Study Education**

RVK reviewed the firm's study to illustrate the impact rebalancing can have on a portfolio. The current allocation to Real Estate, in both plans, exceeds the target allocation of 13% of the total portfolio and exceeds the maximum asset class limit of 17% of the total portfolio. This overweight has come about because of strong long term performance from PGIM and Morgan Stanley and recent declines in both the equity and bond markets. RVK's recommendation is to rebalance Real Estate back to a 15% allocation, which is still an overweight to the target allocation of 13%. RVK's recommendation is to move \$13 million from Morgan Stanley and \$15 million from PGIM in the Police plan and \$2.1 million from Morgan Stanley and \$2.4 million from PGIM in the Civilian Employees' plan.

The IC recommends adopting the RVK recommendation. Both PGIM and Morgan Stanley require one quarter advanced notice of fund withdrawals or additions. Notices can be provided to both managers by September 30 with the rebalancing taking place on December 31. The Board directed Mr. Pyle to complete the real estate rebalance.

#### **Custodial Banking and Securities Lending Review**

Lindsey Longwell, from RVK, reviewed firm's operational summary of our custodial banking relationship and securities lending program with Northern Trust. The custodial banking relationship is a critical operational partnership and appears to be operating effectively. Northern Trust is a qualified and capable custodial banking provider and their competitive fee schedule contains a typical mix of asset, account and transactional fees. Northern Trust is a qualified provider of securities lending service and the overall configuration and operating model appears to be structured in a sound and prudent manner.

The securities lending proceeds split of 70% KCPERS and 30% Northern Trust is in line with general program size and complexity.

RVK recommends no changes, beyond continued review and discussion, to either the custodial banking relationship or the securities lending program.

The next IC meeting, scheduled for October 4 at 9:00am at the Retirement Systems office and via conference call.

#### APRIL 30, 2022 AUDITED FINANCIAL STATEMENTS

Michael Lowery from AGH presented the April 30, 2022 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, 2022 net position restricted for pensions in the Police plan decreased by \$43.1 million to \$990.5 million. This represents a 4.2% decrease from April 30, 2021 and is due to a \$62.3 million decrease in assets and a \$19.2 million decrease in liabilities. The decrease in assets was related to investment losses and a decrease in securities lending collateral. The decrease in liabilities was related to securities lending collateral. During the fiscal year, additions totaled \$38.5 million and included member contributions of \$11.6 million, employer contributions of \$38.2 million, and net investment losses of \$11.3 million. Deductions totaled \$81.6 million and included benefit payments of \$79.3 million, refunds of contributions of \$1.2 million, and administrative expenses of \$1.1 million.

As of April 30, 2022 net position in the Civilian Employees' plan decreased by \$5.4 million to \$168.8 million. This represents a 3.1% decrease from April 30, 2021 and is due to an \$8.4 million decrease in assets and a \$3.0 million decrease in liabilities. The decrease in assets was related to investments losses and a decrease in securities lending collateral. The decrease in liabilities was related to securities lending collateral. During the fiscal year, additions totaled \$5.0 million and included member contributions of \$1.5 million, employer contributions of \$5.8 million, and net investment losses of \$2.3 million. Deductions totaled \$10.4 million and included benefit payments of \$10.0 million, refunds of contributions of \$224,000 and administrative expenses of \$143,000.

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, 2022 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 in AGH's opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Plans as of April 30, 2022 and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States.

Mr. Pyle said staff had completed their review of the draft audits and did not have any changes. Mr. Smith made the motion to adopt the April 30, 2022 audited financial statements. Mr. Bixby seconded the motion which passed unanimously.

#### APRIL 30, 2022 ACTUARIAL VALUATION

Pat Beckham from Cavanaugh Macdonald presented the April 30, 2022 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 valuations were prepared following the Board's direction to continue lowering the investment return assumption by 0.05% each year.

The fiscal year market rate of return for the plans was -1.1%. The market value of assets in the Police Plan is \$990.5 million, a decrease of \$43.1 million, and the market value of assets in the Civilian Employees' Plan is \$168.8 million, a decrease of \$5.4 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 6.9%. The actuarial value of the assets increased by \$35.0 million to \$1.0 billion in the Police Plan, and increased by \$8.0 million to \$172.7 million in the Civilian Employees' Plan.

Using an investment return assumption of 7.2% Cavanaugh Macdonald calculated the actuarial liability for the Police Plan to be \$1.34 billion, an increase of \$40 million, leaving an unfunded actuarial accrued liability (UAAL) of \$329 million and a funded ratio of 75%. The UAAL increased by \$8.4 million mainly due to lowering the investment return assumption from 7.25% to 7.20%. The total actuarial contribution rate in FY2024 will be 50.4% of projected payroll, with the normal cost totaling 26.4% and the amortization of the unfunded liability totaling 23.9%. The valuation assumes that member contributions will remain at 11.55% and City contributions will increase to 38.8% of projected payroll. For FY2024 the annual actuarial required contribution amount from the City will be \$35.8 million plus \$3.7 million for the supplemental benefit.

Using an investment return assumption of 7.05% the calculation of the actuarial liability for the Civilian Employees' plan is \$220.6 million, an increase of \$9.1 million, leaving an unfunded actuarial accrued liability (UAAL) of \$47.9 million and a funded ratio of 78%. The UAAL increased by \$1.2 million mainly due to lowering the investment return assumption from 7.10% to 7.05%. The total actuarial contribution rate in FY2024 will be 26.8% of projected payroll with the normal cost totaling 16.2% and the amortization of the unfunded liability totaling 10.6%. The valuation assumes that member contributions will remain at 5.0% and City contributions will decrease to 21.8% of projected payroll. For FY2024 the annual actuarial required contribution amount from the City will be \$6.6 million.

Ms. Beckham said retired members, in the Police plan, continue to outnumber active members (1497 to 1138). The active membership includes 771 Tier I members and 367 Tier II members. In the Civilian Employees' plan active members continue to outnumber retired members (498 to 313). The active membership includes 281 Tier I members and 217 Tier II members.

Ms. Beckham said the actuarial assumptions included a 2.5% simple cost of living adjustment for each year. Following the Board's COLA policy and matrix, which takes into account the plans' funded status and actuarial rate of return for this valuation, Ms. Beckham said the Board could approve a 1.25% COLA without increasing the unfunded liabilities. Following a lengthy discussion, Mr. Smith made the motion to provide a 1.25% 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, 2021 as authorized in sections 86.1220 and 86.1590 RSMo. The Pension Systems Manager was instructed to grant this COLA effective with the October 31, 2022 benefit payment for the Police plan retirees and the November 1, 2022 benefit payment for the Civilian Employees' plan retirees. Mr. Jones 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. Smith made the motion to adopt the April 30, 2022 actuarial valuations. Mr. Stewart seconded the motion which passed unanimously.

#### SECRETARYS UPDATE

##### **Legal Update**

Mr. Pyle said the Krasovec trial was held on August 29 and 30. Findings of Facts and Conclusion of Law are due to the Court on September 12.

##### **NCPERS Public Safety Conference**

Mr. Pyle reminded Board members that the National Association of Public Employee Retirement Systems (NCPERS) Public Safety Conference will be held in Nashville starting on October 23. If any Board members want to attend staff will assist with registration.

##### **HR82 – Social Security Fairness Act**

Mr. Pyle said both NCPERS and the National FOP are encouraging members to contact their US Senators to support HR82 and Senate Bill 1302 which would eliminate the Social Security Windfall Elimination Act. The Windfall Elimination Act reduces Social Security benefits for first responders, and others, who receive a public pension but have become eligible for Social Security benefits through other employment.

#### BOARD MEMBER COMMENTS

There were no additional board member comments.

#### PUBLIC COMMENTS

Captain Nate Simecek asked Ms. Beckham about the impact, on the plans, of having fewer active members in the Retirement Systems.

#### OMNIBUS MOTION

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

RESOLVED, that the Retirement Board hereby unanimously approves:  
The minutes of the previous meeting of August 11, 2022;  
The monthly financial statements for July 2022;  
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 13 at 9:00am at the Greater KC Public Safety Credit Union 2800 E. 14<sup>th</sup> Street.

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BOARD SECRETARY

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CHAIRMAN