

## MINUTES

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

Thursday, September 14, 2023

Chad Pickens called the meeting to order.

#### PRESENT:

Chad Pickens, Member	Jennifer Best, Staff
Scott Hummel, Member	Lisa Colclasure, Staff
Walter Bixby, Member	Kasey Hiltgen, Staff
Robert Jones, Member	Lori Vaca, Staff
Leslie Lewis, Member	Jason Hoy, Staff
Nathan Simecek, Member	Jonathan Dilly, Attorney
Wayne Stewart, Member	
Patrick Trysla, Member	

#### SECRETARY REPORT:

##### INVESTMENT COMMITTEE UPDATE

Mr. Stewart shared an update from the Investment Committee (IC) meeting on September 5. As per the July capital markets flash report, the Police Plan achieved a net gain of 1.48% (net of fees) and ended with a market value of \$967 million. Similarly, the Civilian Employees' Plan achieved a net gain of 1.5% (net of fees) and ended with a market value of \$168 million. Both Plans' target benchmark gained 1.52%. For the one-year period ending in July, the Police Plan gained 2.90% (net of fees), and the Civilian Plan gained 2.86% (net of fees). However, the target benchmark for the same time period gained 3.74%.

The following IC meeting is scheduled for October 3 at 9:00 a.m. at the Retirement Systems office and via conference call.

Mr. Hoy reviewed the proposed changes to the Investment Policy Statement (IPS), Policy #004. The changes reflect updating the IPS to reflect the current asset allocation and to make grammatical changes. The following changes are recommended:

- Changing Direct Lending to Private Credit throughout
- Changing the Private Credit Benchmark from the ICE BofAML 3 Mo US T-Bill Index +5% to the Credit Suisse Leveraged Loan Index Fund +2%.
- Appendix B – Asset Class Target Allocations – Update the asset classes, asset class target allocation, and target benchmarks.
- Appendix B – Update the manager list by adding Ares Pathfinder Core Fund, L.P.

The IC recommends approving the proposed changes to the IPS. Mr. Jones motioned to amend Policy #004 Investment Policy Statement to include the recommended changes. Mr. Hummel seconded the motion, which passed unanimously.

### **APRIL 30, 2023 AUDITED FINANCIAL STATEMENTS**

Michael Lowery from AGH presented the April 30, 2023, audited financial statements for the Police and Civilian Employees' plans. 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, 2023, the net position restricted for pensions in the Police plan decreased by \$37 million to \$953 million. This is a 3.9% decrease from April 30, 2022. The decrease was due to a \$25.8 million decrease in assets caused by investment losses and a decline in Global Stocks and Bonds. Additionally, there was an \$11.2 million increase in liabilities related to securities lending collateral. In the fiscal year, there were \$46.8 million in additions, including member contributions of \$11.4 million, employer contributions of \$38.8 million, and net investment losses of \$3.4 million. Deductions totaled \$83.8 million, which included benefit payments of \$81.5 million, refunds of contributions of \$1.2 million, and administrative expenses of \$1.0 million.

As of April 30, 2023, the net position restricted for pensions in the Civilian Employees' plan decreased by \$3.0 million to \$165.8 million. This is a 1.8% decrease from April 30, 2022. The decrease was due to a \$.5 million decrease in assets caused by investment losses and a decline in Global Stocks and Bonds. Additionally, there was a \$3.5 million increase in liabilities related to securities lending collateral. In the fiscal year, there were \$7.7 million in additions, including member contributions of \$1.5 million, employer contributions of \$6.4 million, and net investment losses of \$.3 million. Deductions totaled \$10.7 million, which included benefit payments of \$10.2 million, refunds of contributions of \$.3 million, and administrative expenses of \$.2 million.

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, 2023, 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 the 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, 2023, and the changes in fiduciary net position for the year that ended in accordance with accounting principles generally accepted in the United States.

### **APRIL 30, 2023 ACTUARIAL VALUATIONS**

Pat Beckham and Aaron Chochon from Cavanaugh Macdonald presented the April 30, 2023, actuarial valuations for the Police and Civilian Employees plans. 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 lower the investment return assumption by 6.95%.

In the fiscal year, the market rate of return for the plans was -.3%. The market value of assets in the Police Plan decreased by \$37.0 million, currently at \$953.5 million. In comparison, the market value of assets in the Civilian Employees' Plan decreased by \$3.0 million to \$165.8

million. It's worth noting that the market value was used in calculating the actuarial value of assets but wasn't explicitly used for the valuation process. On the other hand, the fiscal year actuarial rate of return for the plans was 4.6%. The actuarial value of the assets increased by \$12.0 million to \$1.02 billion in the Police Plan and increased by \$5.0 million to \$177.7 million in the Civilian Employees' Plan.

According to Cavanaugh Macdonald's calculations, the actuarial liability for the Police Plan is \$1.43 billion, assuming a 6.95% investment return. This represents an increase of \$92 million and leaves an unfunded actuarial accrued liability (UAAL) of \$409 million, resulting in a funded ratio of 71%. The UAAL increased by \$80 million, with the most significant increase attributable to the investment return assumption being lowered from 7.20% to 6.95%. The total actuarial contribution rate for FY2025 is 58.4% of the projected payroll, with the normal cost totaling 28.7% and the amortization of the unfunded liability totaling 29.7%. The valuation assumes that member contributions will remain at 11.55% and City contributions will increase to 46.84% of the projected payroll. The City's annual actuarial required contribution amount for FY2025 will be \$44.4 million, plus an additional \$3.8 million for the supplemental benefit.

The actuarial liability for the Civilian Employees' plan is \$241.2 million, assuming a 6.95% investment return. This represents an increase of \$21.0 million and leaves an unfunded actuarial accrued liability (UAAL) of \$63.4 million, resulting in a funded ratio of 74%. The UAAL increased by \$15.6 million, with the most significant increase attributable to the investment return assumption being lowered from 7.05% to 6.95%. The total actuarial contribution rate for FY2025 is 28.33% of the projected payroll, with the normal cost totaling 14.8% and the amortization of the unfunded liability totaling 13.5%. The valuation assumes that member contributions will remain at 5.0% and City contributions will increase to 23.33% of the projected payroll. The City's annual actuarial required contribution amount for FY2025 will be \$7.6 million.

According to Cavanaugh Macdonald, there are currently more retired members (1523) than active members (1091) in the Police plan. Of the active members, 703 are Tier I, and 388 are Tier II. On the other hand, in the Civilian Employees' plan, the number of active members (492) exceeds that of retired members (324). The active members consist of 261 Tier I members and 231 Tier II members.

Ms. Beckham said the actuarial assumptions included a 2.5% simple cost of living adjustment for each year. She reminded the Board of the COLA policy and matrix adopted at the November 12, 2020, Retirement Board meeting. The policy states that an ad hoc cost of living adjustment may be granted if the definition of "actuarially sound," which requires the following condition, is met based on the results of the annual actuarial funding valuation:

1. The plan's funded ratio (actuarial value of assets / actuarial accrued liability) is at least 75%, and such ratio will not fall below that level as the result of any specific COLA amount granted.

Following the Board's COLA policy and matrix and a lengthy discussion about current economic conditions, Mr. Pickens motioned to adopt Cavanaugh Macdonald's recommendation and not authorize a COLA for eligible retired members and surviving spouses in 2023. Mr. Bixby seconded the motion, which passed unanimously.

Mr. Hoy said staff had completed their review of the draft audits and the valuations and had no changes. Mr. Stewart motioned to adopt the April 30, 2023, audited financial statements and actuarial valuations. Mr. Trysla seconded the motion, which passed unanimously.

## **SECRETARY UPDATE**

### **Membership Outreach**

Mr. Hoy said we have recently designed a two-page flyer containing essential details about the pension benefits of new employees. He mentioned that we do not always have the opportunity to communicate with civilian new hires in person, and this flyer serves as a means to inform and educate them about their benefits.

### **Ares Subscription Update**

Mr. Hoy reported that all subscription documents have been fully completed and are currently being reviewed by Ares Management. The team at RVK assisted in determining the redemption amounts from Grosvenor and has already submitted the necessary letters. The redemption and funding process is expected to occur in the first quarter of 2024.

## **BOARD MEMBER COMMENTS**

Mr. Simecek inquired about how members would be informed of the COLA decision. Mr. Hoy stated that they would send an email and also post a notification on the KCPERS website.

## **PUBLIC COMMENTS**

Time was made for public comments.

## **OMNIBUS MOTION**

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

RESOLVED, that the Retirement Board hereby unanimously approves:

The minutes of the previous meeting of August 10, 2023;

The monthly financial statements for July 2023;

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.

**CLOSED SESSION**

Mr. Hummel made the motion to close this part of the meeting pursuant to Sections 610.021(1) RSMo for the purposes of discussing legal issues. Mr. Jones seconded the motion.

The following board members were present and voted to go into closed session as follows:

Mr. Bixby	Mr. Simecek
Mr. Hummel	Mr. Steward
Mr. Jones	Mr. Trysla
Mr. Pickens	

**ADJOURNMENT**

The next regularly scheduled board meeting will be October 12th at 9:00 a.m. at the Public Safety Credit Union, 2800 E. 14<sup>th</sup> Street.

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BOARD SECRETARY

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CHAIRMAN