

MINUTES

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

Wednesday, September 10, 2020

Scott Hummel called the meeting to order.

PRESENT:

Scott Hummel, Member
Robert Jones, Member
Walter Bixby, Member
Leslie Lewis, Member
Thomas Mills, Member
Chad Pickens, Member

Patrick Trysla, Member
Jonathon Dilly, Attorney
Sharon Blancett, Staff
Lisa Colclasure, Staff
Jason Hoy, Staff
James Pyle, Staff

SECRETARY REPORT:

OMNIBUS MOTION

Mr. Bixby made the following motion, seconded by Mr. Trysla. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:

The minutes of the previous meeting of August 13, 2020;

The monthly financial statements for July 2020;

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.

INVESTMENT COMMITTEE REPORT

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

Equity Structure Analysis

Ryan Sullivan and Marcia Beard, from RVK, presented a structure analysis for the equity portion of the portfolio. Following a review of the role of equity investments in the portfolio; RVK's public equity capital markets assumptions and expectations; and a review of the current global equity portfolio, associated fees, and five year performance, RVK made the following recommendations: 1) Consolidate the small cap investments with Wellington and LSV into one global small cap investment; 2) Move the LSV Emerging Markets investment to a manager that is more growth oriented; 3) Increase the allocation for small cap equity to 15% of the total equity allocation; 4) Increase the allocation for emerging markets equities to 10% of the total equities portfolio; 5) Decrease the allocation for passive large cap global equities to 31% of the total equities portfolio; 6) Leave both the large cap global growth and value allocations unchanged at 22% of the total equities portfolio.

The IC also reviewed the statistical metrics and fee structure of the proposed equity portfolio as well as the proposed funds from Wellington and GQG Partners.

Mr. Sullivan reviewed RVK's recommendation to move the emerging markets investment to GQG Partners Emerging Markets Equity Fund. He provided information on statistical metrics for the fund, the growth of assets under management, and GQG's plans to close the fund to new investors. He also discussed the tracking error that the fund carries against the MSCI EM benchmark.

Mr. Sullivan also reviewed RVK's recommendation to move the small cap investments to Wellington's Global Perspectives Fund. The Global Perspective fund uses the same analysts and a similar investment approach to the Wellington International Small Cap Research Equity fund.

Mr. Woodard thought the recommendations to consolidate the portfolios, increase the allocations to small cap and emerging markets, and to hire GQG and Wellington were thoughtful and well-reasoned by RVK. The GQG investment process, growth orientation, and portfolio concentration are all characteristics that fit well within our asset allocation. The Wellington fund is also a good fit for the portfolio based on the experience we have had with the two current investments. A core manager with a slight value tilt in the small cap space provides us with broad exposure, at a reasonable fee, with good downside protection.

Mr. Pickens said the IC supports the RVK recommendations and made the motion to increase the allocation to small cap global equities to 15% of the equity allocation and consolidate the small cap allocations into the Wellington Global Perspectives fund; increase the allocation to emerging markets equities to 10% of the equity allocation and hire GQG to allow for consolidation of the emerging markets allocation into the GQG Emerging Markets fund; and lower the allocation to passive global equities to 31% of the equity allocation. Mr. Mills seconded the motion with passed unanimously.

APRIL 30, 2020 AUDITED FINANCIAL STATEMENTS

Michael Lowery from AGH presented the April 30, 2020 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, 2020 net position in the Police plan decreased by \$16.9 million to \$874.3 million. This represents a 1.9% decrease from April 30, 2019 and is due to a \$13 million decrease in assets and a \$3.8 million increase in liabilities. The decrease in assets was related to investment losses. The increase in liabilities was related to securities lending collateral and accounts payable. During the fiscal year additions totaled \$54.4 million and included member contributions of \$11.4 million, employer contributions of \$33.4 million, and net investment income of \$9.5 million. Deductions totaled \$71.2 million and included benefit payments of \$69.3 million, refunds of contributions of \$1 million, and administrative expenses of \$897,000.

As of April 30, 2020 net position in the Civilian Employees' plan decreased by \$823,000 to \$145.4 million. This represents a 0.6% decrease from April 30, 2019 and is due to a \$1.6 million decrease in assets and an \$814,000 decrease in liabilities. The decrease in assets was related to investment losses and securities lending activity. The decrease in liabilities was related to securities lending collateral. During the fiscal year additions totaled \$7.7 million and included member contributions of \$1.4 million, employer contributions of \$4.8 million, and net investment income of \$1.4 million. Deductions totaled \$8.5 million and included benefit payments of \$8.2 million, refunds of contributions of \$174,000 and administrative expenses of \$149,000.

Mr. Lowry said AGH's letter to the Board of Trustees includes 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, 2020 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. Mr. Mills made the motion to adopt the April 30, 2020 audited financial statements. Mr. Jones seconded the motion which passed unanimously.

APRIL 30, 2020 ACTUARIAL VALUATION

Pat Beckham from Cavanaugh Macdonald presented the April 30, 2020 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 1.1%. The market value of assets in the Police Plan is \$874.3 million, a decrease of \$16.9 million, and the market value of assets in the Civilian Employees' Plan is \$145.4 million, a decrease of \$0.8 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 4.6%. The actuarial value of the assets increased by \$15.1 million to \$929 million in the Police Plan, and increased by \$4.5 million to \$154.6 million in the Civilian Employees' Plan.

Cavanaugh Macdonald calculated the actuarial liability for the Police Plan to be \$1.2 billion, an increase of \$36 million, leaving an unfunded actuarial accrued liability (UAAL) of \$318.3 million and a funded ratio of 74%. The UAAL increased by \$21 million mainly due to actuarial asset experience, changes in the actuarial assumptions, and the expected change due to the amortization method. For the Police Plan the total actuarial contribution rate in FY2020 will be 46% of projected payroll. The normal cost will be 25.4% and the amortization of the unfunded liability will be 20.6%. The valuation assumes that member contributions will remain at 11.55% and City contributions will increase to 34.4%. For FY2022 the annual actuarial required contribution amount from the City will be \$34.7 million plus \$3.4 million for the supplemental benefit.

The calculation of the actuarial liability for the Civilian Employees' plan is \$197.4 million, an increase of \$8.9 million, leaving an unfunded actuarial accrued liability (UAAL) of \$42.8 million and a funded ratio of 78%. The UAAL increased by \$4.4 million mainly due to actuarial asset experience, changes in the actuarial assumptions, and expected change due to the amortization method. For the Civilian Employees' Plan the total actuarial contribution rate in FY2022 will be 24.3% of projected payroll. The normal cost will be 14.9% and the amortization of the unfunded liability will be 9.4%. The valuation assumes that member contributions will remain at 5.0% and City contributions will increase to 19.27%. For FY2022 the annual actuarial required contribution amount from the City will be \$5.8 million.

Ms. Beckham said retired members, in the Police plan, continue to outnumber active members (1404 to 1297). The active membership includes 951 Tier I members and 346 Tier II members.

In the Civilian Employees' plan active members continue to outnumber retired members (537 to 290). The active membership includes 321 Tier I members and 216 Tier II members.

Ms. Beckham reviewed projections for the plans to identify trends and to compare various scenarios rather than predicting some future state of events. The projections model a change in one key variable to provide insight into the longer term trend of 1) Projected City contributions; 2) Projected System funded ratio (actuarial assets divided by liabilities); and 3) Unfunded actuarial accrued liability (actuarial accrued liability minus actuarial assets). The projections are based on many assumptions, including the following: 1) Reflects a step down of the investment return assumption over the next three years to 7.25%; 2) Assumes the investment return assumption is met in all future years except for scenario purposes where returns are run at 1.5% higher than the current assumption and 1.5% lower than the current assumption; 3) All other actuarial assumptions are met; 4) The number of active members remains constant; 5) Assumes no changes to current benefits; and 6) Contributions are paid in full each year, including for the closed amortization periods. Ms. Beckham said the dispersion of results was much greater in the Police plan than in the Civilian Employees' plan under the +/- 1.5% return scenarios, showing the importance and impact the investment rate of return can have on the plans.

Ms. Beckham also reviewed Actuarial Standard of Practice (ASOP) 51, the Assessment and Disclosure of Risk Associated in Measuring Pension Obligations and Determining Pension Plan Contributions. ASOP 51 measures different risk metrics in pension plans. Ms. Beckham said the ratio of active members to retired members and the ratio of the market value of assets to projected payroll are two measurements used to evaluate contribution rate volatility. As expected, those ratios show the Police plan to be a very mature plan with more retirees than actives and an 8.9 ratio of assets to payroll. Those factors mean the plan is more sensitive to investment volatility, i.e. harder to recover from investment losses with increased contributions. The Civilian Employees' plan is less mature, with more active members than retirees, and a 5.0 ratio of assets to payroll. ASOP 51 also requires projecting key valuation results at various rates above and below the assumed rate of return of 7.40%. In those examples the City Contributions and Unfunded Actuarial Accrued Liabilities increase, and the Funded Ratios decrease with the 6.90% assumed rate of return and the opposite happens with the 7.90% assumed rate of return.

Mr. Pyle said staff had completed their review of the draft valuations and did not have any changes. Mr. Pickens made the motion to adopt the April 30, 2020 actuarial valuations. Mr. Jones seconded the motion which passed unanimously.

SECRETARYS UPDATE

Pre-Retirement Seminars

Mr. Pyle said the response to virtual pre-retirement seminars has been very good, 17 participants attended the first seminar for sworn members yesterday. Two additional seminars for sworn members and one for Civilian members are scheduled for next week. Staff from Human Resources and Nationwide are assisting with the seminars.

KCPERS Website

Mr. Hoy showed the Retirement Board a mockup of the new KCPERS website. Staff is currently reviewing the content for accuracy and functionality. The next step will be to move the domain to the new hosting site and upload the new website.

BOARD MEMBER COMMENTS

There were no additional board member comments.

PUBLIC COMMENTS

A time was set aside for public comments.

ADJOURNMENT

The next regularly scheduled board meeting will be October 8 at 9:00am via conference call.

BOARD SECRETARY

CHAIRMAN