

**SPRINGETTSBURY TOWNSHIP
POLICE PENSION BOARD**

**MARCH 27, 2014
APPROVED**

The Board of Supervisors of Springettsbury Township held a Police Pension Board Meeting on Thursday, March 27, 2014 at 6:00 p.m. at the Township Offices located at 1501 Mt. Zion Road, York, PA.

MEMBERS IN

ATTENDANCE: George Dvoryak, Chairman
Julie Landis
Kathleen Phan
Bill Schenck
Mark Swomley

MEMBERS NOT

IN ATTENDANCE: Scott Altland, Police Department Representative

ALSO IN

ATTENDANCE: John Holman, Township Manager
Joe Paese, F.N.B. Wealth Management
Rene Laychur, F.N.B. Wealth Management
Karen Kenderdine, F.N.B. Wealth Management
Jean Abreght, Stenographer

A. Call to Order

DVORYAK Chairman Dvoryak called the meeting of the Police Pension Board to order.

B. Action on Minutes

1. Police Pension Board Regular Meeting of November 1, 2013
2. Police Pension Board Reorganization Meeting Minutes of January 6, 2014

Consensus was to table the minutes of the November 1, 2013 Police Pension Board Regular Meeting due to an omission at the bottom of page 4, as well as a review of the attendance.

MS. LANDIS MOVED FOR APPROVAL OF THE JANUARY 6, 2014 REORGANIZATION MEETING. MOTION UNANIMOUSLY CARRIED.

C. Public Comment

There were no public comments.

D. Correspondence and Other Communications

1. Police Pension Reports:
 - a. Acknowledge Receipt of Payroll Pension Contribution Reconciliation Report for Police Pension Fund.
 - b. Acknowledge Receipt of Fulton Financial Trust Report for October 2013.

- c. Acknowledge Receipt of Fulton Financial Trust Report for November 2013.
- d. Acknowledge Receipt of Fulton Financial Trust Report for December 2013.
- e. Acknowledge Receipt of Fulton Financial Trust Report for January 2014.
- f. Acknowledge Receipt of F.N.B. Management Report for October 2013.
- g. Acknowledge Receipt of F.N.B. Management Report for November 2013.
- h. Acknowledge Receipt of F.N.B. Management Report for December 1 – December 31, 2013.
- i. Acknowledge Receipt of F.N.B. Management Report for December 11 – December 31, 2013.
- j. Acknowledge Receipt of F.N.B. Management Report for January 1 – January 31, 2014 (92-0010-01-4).
- k. Acknowledge Receipt of F.N.B. Management Report for January 1 – January 31, 2014 (92-0022-01-1).
- l. Acknowledge Receipt of Springettsbury Township Police Pension, Death and Disability Fund Actuarial Valuation as of January 1, 2013.

MS. LANDIS MOVED TO APPROVE CORRESPONDENCE AND OTHER COMMUNICATIONS, POLICE PENSION REPORTS A THROUGH L. MOTION UNANIMOUSLY CARRIED.

E. Reports from Financial Advisors:

1. F.N.B.: Police Fund

PAESE Joe Paese introduced himself to the new board members as the Managing Executive for First National Investment Advisors. He also introduced Rene Laychur, who is the Senior Portfolio Manager, as well as Karen Kenderdine, the Relationship Manager. He noted that F.N.B. would take about 15 minutes for a report on the quarterly portfolio performance.

KENDERDINE Ms. Kenderdine presented a Summary of the report as of September 30, 2013. Beginning market value as of 9/30/13 was \$6,400,487.91. Receipts included Fulton assets and MMO was approximately \$600,000. Total contributions were \$5,704,935.67; Fiduciary fees were \$10,060.65; Earned Income was \$73,159.44; Realized gains were \$608,115.39; Accrued Income was \$36,184.80 and Unrealized Appreciation was \$444,190.98 bringing the Market Value as of year end to \$13,257,013.54.

Ms. Kenderdine provided a summary as of the end of February, which included the receipt of the reserve balance that Fulton held for final pension payments of \$256,968.15. In addition, a Fee Rebate of \$205.74 was received from Fulton. Employee Contributions for January and February were \$22,392.86; Total Receipts were \$279,566.75. Fiduciary Fees were \$8,318.92 and the Net Pension Payments of \$91,543.70; Tax Withholding of \$15,883.26 and Insurance Withholding of \$3,286.28 making Total Disbursements \$119,033.16. Earned Income for two months was \$31,723.56; Realized Gains

of \$8,613.41, a Negative to the Accrued Income of \$19,755.79 and Unrealized Appreciation of \$124,578.22 making the Market Value of the account as of February 28, 2014 \$13,562,706.53.

Ms. Kenderdine noted that F.N.B. did not practice sending out advices to pensioners. That proved to be something the pensioners wanted. They are now getting the advices. The transition process is completed.

LANDIS Ms. Landis asked what the Fiduciary Fee percentage is.

PAESE Mr. Paese responded that it is 36 or 37 basis points.

LAYCHUR Ms. Laychur provided an overview of the economy. She began with the Investment Strategy and noted that every single major index was positive with the exception of emerging markets. That was the only major worldwide index that was negative and all of the bond indices except high yields were negative. Interest rates rose, prices went down and stock prices went up. There was a lot of strength in the U. S. economy with over 4% GDP in the third quarter. The winter weather affected the Christmas shopping season as well as retail, auto and home sales. The month of January revealed a lot of profit taking. The February employment number, as documented by the Bureau of Labor statistics noted the number of people who could not come to work due to the weather which was 600,000 versus an average of 317,000.

Currently the S&P 500 is up .23% for the year. Markets are flat with the Dow down slightly. Interest rates are very tight. Janet Yellen, the new Chairman of the Federal Reserve indicated they will continue buying less bonds every month to be completed by the end of the year, which will put pressure on interest rates and short-term interest rates may go up. The consensus was that rates would not go up until 2018; however, they believe it will begin in 2015.

Ms. Laychur reported that they continue to like equities. They deployed some of the cash from February and the fund remains at about 2% cash. They shortened the duration of bonds but favor corporate over government as corporate results in a higher yield. They favor specific sectors such as technology, health care and financials. Microsoft will not support Windows XP as of April 8th, which is a big operating system used in many offices; all will need to be upgraded or replaced. Within the health care sector, they believe in the Affordable Care Act and pharmaceuticals to be less expensive than procedures and continue to be favorable. They continue in the dividend paying structure with individual stocks.

Ms. Laychur reported on the Performance. Returns for the year were slightly over 17% versus a Blended Benchmark of 12.2%. Stocks were highly overweight, and at the top of targeted performance by Investment Policy Standards. Equity returns were 32.46% versus the Index of 28.04%. Fixed

Income was positive .04% versus a benchmark of -.86% Over three years Total Return was 9.76% versus a Blended Benchmark of 7.74%. Returns over five years: 11.23% versus a benchmark of 10.38%; 10 years: 6.89% versus 6.37%. Returns Gross of Fees were up 1.08%; Net of Fees was up 1.03% slightly under the benchmark of 1.14%.

Ms. Laychur commented on unemployment. The government defines the total labor force as everyone over 16 who is not institutionalized. They review the individuals who are working or looking for a job and divide those by the total labor force, and that is the participation rate. Currently the participation rate is 63%, as low as it was in 1978, 20 years ago. At the end of the year, the U. S. was creating jobs on an average of 225,000 a month. If that pace continues that will put a lot of unemployed people, as well as students looking for jobs, into the work place. A positive note is that net exports are picking up, and an additional encouragement is that the U. S. is now one of the largest energy producers in the world. Natural gas in the U.S. is very cheap compared to four times its price in Europe and in Japan. So for a manufacturer, even though wages in the U.S. are higher, the cheaper energy is a big influence.

SWOMLEY Mr. Swomley noted that the people being hired are not replacements for the higher paying jobs that were lost. They are mostly lower income jobs.

PHAN Ms. Phan commented that the poverty level is dropping and that will make it even worse.

LAYCHUR Ms. Laychur noted that she had done a very interesting study that compares education, the unemployment rate and earnings. She noted that she would bring that for the board at the next meeting.

DVORYAK Chairman Dvoryak commented on Section VII, which documented the assumptions which will generate the average annual return of 7-1/2%, the calculations and the health of the pension plan. He noted that the graph from 1926 to 2012 with a 50/50 mix shows that despite the Great Depression, the World War, a couple of Iraq wars and other wars that are mixed, the tech bubble of 2000 and then the market meltdown of 2008, despite all that the average return over that period with a 50/50 mix is over 8%. He noted that, as a fiduciary plan that indicates 50/50 is a reasonable target going forward.

LAYCHUR Ms. Laychur responded that even with the worst years since the Great Depression, the average is at 7% in the portfolio.

DVORYAK Chairman Dvoryak thanked her for putting that together as he found it very useful.

HOLMAN Mr. Holman asked if the financial reports could be emailed as opposed to mailing.

LAYCHUR Ms. Laychur requested that Ms. Bowders send the email list to them.

HOLMAN Mr. Holman added that it will be loaded on the computer and can then be shown on the wall during the meeting. He added that the board would like to go paperlite. Additionally, the Auditor General's office would rather receive reports electronically.

KENDERDINE Ms. Kenderdine added that another software possibility is Client Point, and she offered to send information to Mr. Holman.

2. Conrad Siegel Actuaries

ZIMMERMAN Tom Zimmerman of Conrad Siegel Actuaries introduced himself to the new board. He stated that he, personally, had been the Actuary for at least 20 years, and prior to that another individual from their firm had handled the plan. The report this date was to provide the January 1, 2013 valuation, which is required under state law, Act 205. Valuations are required every other year, every odd numbered year and are used to determine subsequent contributions for the next one to three years. Act 205 not only requires the reporting, but also necessitates that the Minimum Municipal Obligation requirements are made.

Mr. Zimmerman had provided a report entitled, Springettsbury Township Police Pension, Death & Disability Fund – Actuarial Valuation as of January 1, 2013 – Comments. He guided the board through the report with notations of specific interest, summarized:

Unfunded liability in 2009 - \$3.1 million; 2011 - \$2,088,971; 2013 - \$2,387,844. Did not meet the 7-1/2% return.

Estimated Minimum Municipal Obligation (MMO) 2009 - \$641,437; 2011 - \$612,176; 2013 - \$687,869.

Asset Reconciliation for 2011 – 1.6%; 2012 – 10.8%; did not meet the 7-1/2% annual assumption.

Summary of Plan Membership: Active Members, 2009 & 2013 – 32.

Vested former members: 4;

Retirees currently receiving pensions; one spouse – 18

Plan is paying out approximately \$659,000 a year in pension payments.

Actuarial Assumptions: Interest rate – 7.50%; Salary Increase Assumption - \$5.0%. Retirement assumption at age 53 with completion of 25 years of service.

Unfunded Liability - \$2.4 million; Actuarial Accrued Liability - \$14.3 million. Plan Assets: \$11.9 million; Difference is Unfunded Liability of \$2.4 million.

Normal Cost, 2013 – Cost for a new hire: 15.4% of payroll.

Unfunded Liability 2011 to 2013 – Investment Loss: \$308,000; Experience Loss: \$260,324 (due to mortality; no deaths)
Total Loss over two years: \$595,808.

Amortization of Unfunded Actuarial Accrued Liability:
Act 205 amortized over 18 years, \$136,319 (component of MMO; expires in five years lowering cost by that amount in 2020).

Cost Components making up MMO: Normal Cost Accrual for 2013: \$415,181
Expenses (investment and actuarial plus amortization equaling \$335,000; Total of \$822,000)
Members contribute 5% of pay, about \$134,000; MMO is \$687,869.
State aid portion – estimated \$250,000; Net to township: 437,869
MMO for this year set during fall of 2013: \$640,000. Next year \$715,000.
Costs are directly related to payroll.

GASB – Government Accounting Standards Board: Schedule State publishes funded ratios of the plan. Springettsbury is funded the same at 1/1/13 as 1/1/11, 83.3% (Minimally distressed Level 1 70 – 90% funded).

GASB Sensitivity Analysis of a 1% interest rate could swing numbers from \$4.3 million to \$750,000 in Unfunded Liability.

MMO History – Mortality table, affected by payroll, medical advances and people living longer, cause an increase in MMO liability. Investment returns also affect the MMO.

Projection of Future Township Contributions & Funded Ratios.
Assume earnings of 7-1/2% per year or 15% in a two-year period.
MMO in 2014 \$640,000; 2015 \$715,000 due to payroll increases.
In 2020 MMO will dip back down; built in relief because amortization base expires.

Funding ratio will improve, estimated at 86% 2015, 2017 89%, 92%, 94% moving rapidly toward 100% funded. Over the long term if 7-1/2% is met, this will come to pass.

LANDIS Ms. Landis noted that the 7.5% is a huge factor. She asked if he would provide some projections if the 7.5% is not met.

ZIMMERMAN Mr. Zimmerman agreed to provide projects considering a 5% factor a year. He asked if that was something the board would like to see.

SWOMLEY Mr. Swomley noted he had heard that in one of the years there was a 10% return.

ZIMMERMAN Mr. Zimmerman responded that there was a 10% return in 2012; only 1.6% in 2011, averaging about 5%.

DVORYAK Chairman Dvoryak noted that in the 80's and 90's 9% was generated.

HOLMAN Mr. Holman asked if he would also add what the estimate of the MMO would be into the future because that would significantly affect what the payment would be.

ZIMMERMAN Mr. Zimmerman agreed to do so.

LANDIS Ms. Landis questioned the affect of the mortality rate.

ZIMMERMAN Mr. Zimmerman noted that Actuaries calculate a person's age and assign a probability of death. In round figures it might be 1% per year. With 18 retirees over two years, a half a person is expected to die. If nobody dies during those two years, there is a modest loss.

F. OLD BUSINESS

1. Investment Policy

HOLMAN Mr. Holman stated that he did not expect a review of the Investment Policy Statement this date; however, he wanted the board to have the most up-to-date copy for review.

Consensus of the board was to review the draft and discuss during the next meeting.

G. NEW BUSINESS

1. Acknowledge COLA payment increase to Michael Sciangula from \$3,626.29 to \$3,684.94 effective March 1, 2014 with a partial payment for January and full payment for February in the amount of \$109.73. Letter from Consulting Actuary is attached.
2. Acknowledge COLA payment increase to Robert A. Drawbaugh from \$3,760.53 to \$3,820.70 effective April 1, 2014 with a payment for February and March in the amount of \$120.34. Letter from Consulting Actuary is attached.

MS. LANDIS MOVED TO APPROVE COST OF LIVING ADJUSTMENTS AS WRITTEN IN THE AGENDA, ITEMS 1 AND 2. MOTION UNANIMOUSLY CARRIED.

H. Committee Motions

There were no Committee Motions

I. ADJOURNMENT

DVORYAK Chairman Dvoryak adjourned the meeting at 6:55 p.m.

Respectfully submitted,

John Holman
Secretary

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