

**SPRINGETTSBURY TOWNSHIP
POLICE PENSION BOARD**

**NOVEMBER 4, 2015
APPROVED**

The Police Pension Board of Springettsbury Township held a meeting on Wednesday, November 4, 2015 at 6:15 p.m. at the offices of Springettsbury Township located at 1501 Mt. Zion Road, York, PA.

MEMBERS IN

ATTENDANCE: Mark Swomley, Chairman
George Dvoryak, Vice Chairman
Bill Schenck
Cory Landis, Police Representative

MEMBERS NOT

IN ATTENDANCE: Julie Landis
Kathleen Phan

ALSO IN

ATTENDANCE: Kristen Denne, Township Manager
Renee Laychur, F.N.B. Wealth Management
Karen Kenderdine, F.N.B. Wealth Management
Joe Paese, F.N.B. Wealth Management
Tom Zimmerman, Conrad Siegel
Jean Abreght, Stenographer

1. CALL TO ORDER

SWOMLEY Chairman Swomley called the Springettsbury Township Police Pension Board meeting to order.

2. ACTION ON MINUTES

A. Police Pension Board Regular Meeting of August 27, 2015

MR. DVORYAK MOVED TO APPROVE THE MINUTES OF THE AUGUST 27, 2015 POLICE PENSION BOARD. MR. SCHENCK WAS SECOND. MOTION UNANIMOUSLY CARRIED.

3. PUBLIC COMMENT

There were no public comments.

4. CORRESPONDENCE AND OTHER COMMUNICATIONS

A. Police Pension Reports:

- (1) Acknowledge Receipt of Payroll Pension Contribution Reconciliation Report for Police Pension Fund (3rd Quarter)
- (2) Acknowledge Receipt of FNB Management Report for August 2015
- (3) Acknowledge Receipt of FNB Management Report for September 2015

MR. SCHENCK MOVED TO ACKNOWLEDGE RECEIPT OF THE THREE CORRESPONDENCE ITEMS ON THE AGENDA. MR. DVORYAK WAS SECOND. MOTION UNANIMOUSLY CARRIED.

5. REPORTS FROM FINANCIAL ADVISORS

A. F.N.B. Wealth Management

KENDERDINE Karen Kenderdine provided the Net Asset Summary for the 3rd Quarter. She stated the Market Value as of July 1, 2015 was \$14,170,648.92. Employee Contributions were \$31,253.32. Total Distributions including Benefits Paid, Expenses and Other Payments were \$192,724.69. Total Interest and Dividend Income was \$63,280.48. A Realized Loss was \$54,273.34. Accrued Income was \$2,411.73. Unrealized Depreciation was \$708,498.22. Total Market Value as of September 30, 2015 was \$13,307,274.74.

LAYCHUR Rene Laychur reported several key items in the 2015 Third Quarter Highlights. She noted that U. S. Equities experienced a correction of more than 10% for the first time since 2011. U. S. GDP grew at 3.9% in the 2nd quarter; initial read of 3rd quarter GDP reported at 1.5%. Unemployment fell by 5.1%; however, good job growth occurred in the third quarter averaging 167,000 jobs created per month. She reported that the Federal Reserve Board Chairman Janet Yellen indicated the potential for a December interest rate rise potentially of 0 to 25 basis points. The portfolio was down almost 25% for the quarter closing at a low yield of 204 down 1/3 of a percent for the quarter. Consumers spent money on big ticket items such as automobiles with two months of selling at over 18,000,000 units per year. Manufacturing continues to show signs of weakness. She continued reviewing the contents of the portfolio report showing the Third Quarter Market Highlights, Fixed Income Returns, Equity Returns, Index Returns, Sector Returns and Investment Strategy.

Ms. Laychur reviewed the Portfolio Asset Allocation at 54% Equity, 42% Fixed Income and 3-1/2% Cash. The largest sub-class is in Investment Grade, which includes bonds and mutual funds. She concluded her review of the individual pieces documented in the report showing the Market Value of the account at \$13,758,717 which is up approximately \$400,000 from the end of September.

PAESE Mr. Paese noted that as of yesterday, (November 3, 2015) the Market Value was up by another \$40,000 at \$13,790,000 and had recouped all the distributions amounting to about \$600,000.

LAYCHUR Ms. Laychur reviewed the performance reports as of September 30, 2015, as documented in the report. The overall Account in September was -1.78; 3 months -5.08; YTD -3.57; Year over Year -1.67; 3 years 5.81; 5 years 6.52; 10 years 5.03; since inception 6.02. The results do not include Fulton returns. The IPS benchmark is the number one benchmark in the portfolio. She noted that the entire account was up 3.82 for the month; equities up 7.09 and Fixed income up 31 basis points. Year to Date was flat. She reviewed the Exceptions report where there were a few over 35%.

PAESE Mr. Paese indicated that the quarter had been very volatile but had made significant good moves in the last several days and had held its course.

DENNE Ms. Denne asked what could be anticipated in the first three quarters.

LAYCHUR Ms. Laychur responded that in a recent report it noted that years 3 and 4 of any presidential term tend to be the best years, and 1 and 2 tend to be the worst years. There will be major focus on that next year.

Conrad Siegel Presentation

ZIMMERMAN Tom Zimmerman, Actuary of Conrad Siegel, presented his Actuarial Assumption. He commented that in a previous discussion about a year ago, the board had talked about lowering the 7-1/2% interest rate to 7-1/4% but determined to wait for the 1/1/15 evaluation results.

Interest rate discussion summarized:

- 2013 – 13-1/2% return; 2014 – 5-1/2% returns combined caused cost of the plan to go down about \$50,000. Cost of the plan goes up because payroll goes up.
- Based on current evaluation cost will be approximately \$657,000.
- State Aid steady at \$250,000 based on 30-some officers.
- General Fund requiring about \$470,000 based on 7-1/2% interest rate.
- Act 205 indicates assumptions are chosen jointly by the Actuary and the Board of Supervisors.
- Current exposure is set at 54, less than average funds.

Mr. Zimmerman noted that the equity exposure in the plan is less than the average fund he reviews. He typically sees 60, 65 or 70. However, Asset Allocation is the main driver of returns. Most plans are at 7-1/2% or 8%. He is comfortable with this plan at 7-1/2% or 7-1/4%. In addition, he suggested a change in the COLA assumption from 4% down to 3%. If the interest rate is lowered to 7-1/4% and the COLA assumption changed to 3%, the cost of the plan goes up to \$74,000. There is \$50,000 saved from the asset gain and the cost is only going up \$24,000. The trust fund grows faster because more money is invested and the plan is stronger. The threshold is about 10 years.

SCHENCK Mr. Schenck asked how far out it would be amortized.

- ZIMMERMAN** Mr. Zimmerman responded that it is done in accordance with Act 205 with an average amortization of approximately seven years. The cost will begin dropping and in the 2019 valuation \$136,000 is eliminated and the 2020 MMO will go down to \$136,000.
- DENNE** Ms. Denne asked if the evaluation would begin in 2017 with the change made.
- ZIMMERMAN** Mr. Zimmerman responded that in 2016 the MMO is done at \$707,000. In addition, based on a two-year old valuation and with improvement, the plan no longer is minimally distressed.
- LAYCHUR** Ms. Laychur offered to review the IPS.
- SCHENCK** Mr. Schenck asked about the equity status.
- LAYCHUR** Ms. Laychur responded that the top is 57 with new assets; 47 is the target.
- SCHENCK** Mr. Schenck asked how many points have to be bumped back to make up the \$7,000.
- LAYCHUR** Ms. Laychur responded that most of the plans are going to be at 60 equity target plus or minus or an equity target of 50 plus or minus.
- ZIMMERMAN** Mr. Zimmerman stated he does not see any under 60, at least in this six-year environment. It has edged up.
- DENNE** Ms. Denne noted that she would want to add more. It is still a strong pension at 90%. However, she'd like to see the track continue and never catch the end. Having two years to get to that point gives play in the budget knowing it's coming.
- ZIMMERMAN** Mr. Zimmerman noted that the extra \$74,000 all else being equal will trend down to zero over about 10 years resulting in a stronger plan. It's a good time to do it because it's really only a \$24,000 hit in the budget.
- SCHENCK** Mr. Schenck asked what the outlook would be for some yearly inflation.
- LAYCHUR** Ms. Laychur responded that most people think the Federal Reserve Board's target will be 2%; however, it is too soon to make any projections.
- PAESE** Mr. Paese stated that, given Mr. Zimmerman's outline, they should probably meet again next quarter and review the plan from an asset allocation perspective.
- SCHENCK** Mr. Schenck asked when the decision would have to be made.
- ZIMMERMAN** Mr. Zimmerman responded that the decision should be made by February at the latest as the form for the state must be filed by the end of March.

- DVORYAK** Mr. Dvoryak commented that if 43% of the portfolio is in an asset class that will go up 2% a year for the next several years, that means to generate 7-1/2%, 57% has to go up 15% a year. He stated it did not seem realistic based on history.
- LAYCHUR** Ms. Laychur responded that 2013 was a great year, and they were pushing the limit that year on equity. If the board thinks we need to be pushed, we'd have two more percentage points there as well.
- PAESE** Mr. Paese agreed that perhaps looking ahead to just a three-year window makes some sense.
- LAYCHUR** Ms. Laychur noted it may be as simple as changing the targets in the policy.
- ZIMMERMAN** Mr. Zimmerman noted that there will be some losses, which already took place this year being flat. That means 7% down for this year. There are long-range decisions and 7-1/2 to 7-1/4 should think long term.
- LAYCHUR** Ms. Laychur noted that during worst market in our lifetime in 2008, they were still at 5% a year. Soon that year will be eliminated from the 10-year record.
- SCHENCK** Mr. Schenck commented even though that the board has until February, it might be appropriate to have a special meeting for this decision. He stated that Mr. Zimmerman had explained the smoothing option, which had paid off. Mr. Schenck stated he was comfortable with the approach he had outlined. The COLA impact is not significant. It will help get the plan in the right direction.
- ZIMMERMAN** Mr. Zimmerman stated he was comfortable with the current percentage. Over 100 years stocks had earned 10% a year. Fixed Income will normalize. Even 7-1/2% is eventually justifiable and probably cheaper.
- SWOMLEY** Chairman Swomley asked what is required of the board to make this change and when does it have to be done.
- ZIMMERMAN** Mr. Zimmerman responded that the Board of Supervisors need to make a decision by February, 2016 in order to submit the paperwork to the state by the end of March. A note in the minutes will be sufficient.
- DENNE** Ms. Denne questioned whether it should be an agenda item for November or December.
- LANDIS** Police Department Representative Cory Landis commented that he understood and would absolutely agree to look long term.
- ZIMMERMAN** Mr. Zimmerman stated that the plan is in a great track at 90% and the future is 54% funded.
- DENNE** Ms. Denne asked if F.N.B. would be open for a December 10th meeting.

PAESE Mr. Paese responded that he thought that might be possible.

6. OLD BUSINESS

There was no Old Business.

7. NEW BUSINESS

- A. Acknowledge COLA Payment Increase to Gregory Witmer from \$4,154.10 to \$4,162.41 effective November 1, 2015. As stated in Mr. Zimmerman's attached letter, Mr. Witmer should also receive a one-time payment for September and October 2015 totaling \$16.62

MR. SCHENCK MOVED TO ACKNOWLEDGE COLA PAYMENT INCREASE TO GREGORY WITMER. MR. DVORYAK WAS SECOND. MOTION UNANIMOUSLY CARRIED.

8. COMMITTEE MOTIONS

There were no committee motions.

9. ADJOURMENT

SWOMLEY Chairman Swomley adjourned the meeting at 8 p.m.

Respectfully submitted

Kathleen Phan
Secretary

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