

**SPRINGETTSBURY TOWNSHIP
POLICE PENSION BOARD**

**MAY 27, 2021
APPROVED**

The Springettsbury Township Board of Supervisors held a Police Pension Board meeting on Thursday, May 27, 2021 at 6:00 p.m. at the offices of Springettsbury Township located at 1501 Mt. Zion Road, York, PA by Zoom technology.

MEMBERS IN

ATTENDANCE: George Dvoryak, Vice Chairman
Charles Wurster, Assistant Secretary/Treasurer
Don Bishop
Robert Cox
John Lawton, Police Department Representative
Christopher Ford, Police Department Representative

MEMBERS NOT IN

ATTENDANCE: Mark Swomley, Chairman

ALSO IN

ATTENDANCE: Mark Hodgkinson, Township Manager
Charles Rausch, Solicitor
Mark Renzini, F.N.B.
Adam Runk, F.N.B.
Teresa Hummel, Director of Finance
Jean Abreght, Stenographer

1. CALL TO ORDER

DVORYAK Vice Chairman George Dvoryak called the meeting of the Police Pension Board to order at 6:00 p.m. He ascertained that a quorum was present.

2. ACTION ON MINUTES

A. Police Pension Board Meeting Minutes – February 25, 2021

MR. WURSTER MOVED TO APPROVE MINUTES OF THE FEBRUARY 25, 2021 POLICE PENSION BOARD AS PRESENTED. MR. COX WAS SECOND. MOTION UNANIMOUSLY CARRIED.

3. PUBLIC COMMENT

There was no public comment.

4. CORRESPONDENCE AND OTHER COMMUNICATIONS

A. Police Pension Reports:

- (1) Acknowledge Receipt of First Quarter Payroll Pension Contribution Reconciliation Report
- (2) Acknowledge Receipt of February 28, 2021 F.N.B. Management Report
- (3) Acknowledge Receipt of March 31, 2021 F.N.B. Management Report
- (4) Acknowledge Receipt of April 30, 2021 F.N.B. Management Report

MR. WURSTER MOVED TO ACKNOWLEDGE RECEIPT OF THE REPORTS 1 THROUGH 4 AS LISTED ON THE AGENDA. MR. BISHOP WAS SECOND. MOTION UNANIMOUSLY CARRIED.

5. REPORTS FROM FINANCIAL ADVISORS

A. F.N.B. Wealth Management

RENZINI Mark Renzini, Market Manager, F.N.B. presented the Net Asset Summary. He reported that 2020 was a very good year, which ended at \$21,448,666.56. Beginning in 2021 there were Contributions of \$57,733.73, Distributions of \$460,573.56, Income of \$111,736.80; Gains and Market Appreciation of an additional \$1,000,000. The Ending Market Value as of 5/26/21 was \$22,120,025.48. He noted the balance in the fund continues an upward trend with good, healthy returns.

RUNK Adam Runk, Portfolio Manager provided an in-depth review of the Portfolio. He stated that the second quarter had begun very strong the beginning of April and they had been assessing closely the inflation impacts and the trajectory from the Federal Reserve on short-term interest rates. He noted that housing activity is very strong. Globally Europe is not recovering as strongly as the U. S. nor is China. Low global inflation is affecting the U.S. commodity prices down. Vaccination rates follow the same indicators with the U.S. dosage at 50%; Germany's is about 30%. Additional stimulus money, unemployment benefits, the Family Tax Credit and paychecks will affect inflation and is producing a very healthy economy.

The 10 Year Treasury rate stabilized at 1.5% but inflation remains a focus from a risk standpoint. The next best alternative to stocks is bonds. If the 10-Year Treasury remains at 1.5%, valuations are not overly expensive concerning the earnings growth.

Fixed Income brings a lower maturity than the benchmark; however, corporations are very healthy. Equities are neutral; U. S. Large Cap are overweight. MThey are owing growth stock into value stock; underweight international and emerging markets.

- RENZINI** Mark Renzini reported that they monitor the portfolio daily along with the jobless claims, and GDP numbers. The returns are behaving well. Manufacturing plants are opening which will bring more activity into the economy in the middle or final quarter of 2021.
- RUNK** Adam Runk reviewed the overall Performance Net of Fees. The year-to-date percentage is up 4.98% versus the benchmark of 4.62%. Bond Performance showed negative performance as interest rates had risen; long-term that is good for bond returns. Equity portion in the portfolio is up 11.18% over the past 12 months; over the year it is up 48.24%, very strong. Over the past 15 years it is up 15.75%. Mid-Caps are doing well, but Large Caps are not doing well along with the EAFE.
- WURSTER** Mr. Wurster questioned his comment concerning rotating a little bit into value. He questioned if the interest rates continue to hold whether there would be a rotating to growth. He asked what the tipping point would be.
- RUNK** Mr. Runk responded that the portfolio is a growth-style portfolio. He noted his reference to rotating to value would indicate moving slightly more into large mega banks. It is not only due to the level of interest rates, but also the shape of the curve. He explained that due to rising interest rates along with a 10-year plus end of the curve and the short-term constraint, it has been very good for banks in general. The steeper the curve, the better for banks.
- DVORYAK** Mr. Dvoryak noted that during the last meeting there were conversations and discussion surrounding whether or not the Asset Allocation return expectation matched up with the assumption that is in the Actuarial Plan. It was questioned whether the Investment Policy Statement was not providing enough flexibility needed to deliver the long-term returns that was called for in the Actuarial Assumption. He was looking for some possible recommended changes in the Investment Policy Statement from F.N.B.
- RUNK** Mr. Runk responded that they had spoken with the Actuary about the discount rate at 7%. It is ultimately up to the Board in terms of the setting of the discount rate at 7%. F.N.B.'s recommendation to the Board was to review the rate and decide whether to continue going forward as to the target allocations. Their forward-looking thoughts are roughly 6 7.5% for equities going forward, a blend of 50/50 of 7.5% for equities and 2.5% for bonds, slightly less than the 7% for the whole discount rate. In addition, a consideration was suggested to becoming more aggressive with the equity allocation, 60% overall equity exposure up from 54% as a target, and considering adjusting the discount rate. He added that it is a very sensitive topic as it will affect the funding of the pension.
- DVORYAK** Mr. Dvoryak noted that these conversations are easier held when times are good, and he noted that the current 10-year average annual return is right at 7%, which is the actuarial rate.

RUNK Mr. Runk agreed. The 10-year return is right at 7% and it had met that discount rate. However, when he looks forward at the current interest rate, and the future equity valuations are his primary concern to getting closer so that the equity returns going forward can meet the 7%.

WURSTER Mr. Wurster asked Mr. Runk what he thought the next steps would be to evaluate the portfolio.

RUNK Mr. Runk responded that the Board should have a discussion with the Actuary, which was an Agenda item this date in order to get a recommendation. Following that the Board would discuss how reasonable the recommendation is. What would a change do to altering the discount rate from 7% to perhaps 6.5%; whether it is attainable. Would the Board be comfortable having 60% in equities versus 54%.

WURSTER Mr. Wurster responded that he understood. The Board needed to determine guidance focusing on the discount rate and modeling before giving F.N.B. a portfolio direction,

RENZINI Mr. Renzini noted that they will build everything around the assumption.

RUNK Mr. Runk added that the Investment Policy Statement would be adjusted to match the new target.

B. Police Pension Discount Rate Evaluation – Conrad Siegel

DVORYAK Vice Chairman Dvoryak introduced the next Agenda item for discussion on the Actuarial Study.

HODGKINSON Manager Hodgkinson introduced John Vargo, who was substituting for John Cramer from Conrad Siegel.

DVORYAK Mr. Dvoryak welcomed Mr. Vargo.

VARGO Mr. Vargo stated that had been with Conrad Siegel for 25 years and leads the Pennsylvania Municipal Pension Market. He had been working side-by-side with John Cramer for over 24 years. He noted he appreciated the discussion from F.N.B. He stated that he would be discussing the impact of lowering the interest rate. John Cramer had put together a handout in order to walk through the current state of the plan, how it got where it is, and reviewing lowering the discount rate.

For the purpose of these minutes main points are summarized:

- Actuarial Evaluation takes place every two years, January of the odd year. Valuation Results of January 1, 2021 began on January 1, 2019. Historically the fourth quarter of 2018 the equity market dropped and the bottom of the

market was on December 27, 2018. Focusing on a much lower market value of asset returns evolved and the clients instead of using a Market Value Valuation, went to a Smoothing, which smooths out the inevitable equity issues and uses a five-year average.

- Equity market made a full recovery April, 2019 followed by a stellar return in 2019. The fund returned 17.1% followed by a good year 2020 with 13.33% - all above the 7% assumption.
- In addition to the 7% interest rate is the Salary Increase of 5% with mortality of life expectancy. Retirement Assumption is age 53 and 25 years of service.
- Review of Smooth Value Returns for 2019 (5%) and 2020 (8.7%).
- Key Actuarial Statistic, 2019 – Actual Accrued Liability is \$21 Million, which has increased to \$23.1 Million as of '21. Actuarial Value of Assets increased leading to an Unfunded Actual Accrued Liability, which is a deficit of the plan going from \$3.58 Million to \$3 Million, positive trajectory on the plan decreasing by about \$570,000.
- Market Value of Assets has increased over two-year period from \$16 Million to close to \$21.5 Million.
- Funded Ratio on the Smooth Value was 83% in 2019; that increased to 87%.
- Funded Ratio currently on Market Value Basis – 76.2% two years ago; current at 92.6%. The Smooth Value range between 83 and 87 is small, but the range for Market Value Funded Ratio is quite dramatic up to 92%.

DVORYAK Mr. Dvoryak asked for clarification of the two Funded Ratios, 87% and 92.6%. He asked which would be more meaningful.

VARGO Mr. Vargo responded that the more meaningful number is 87% because that is what is being assumed for Cash Funding, and that is what is reported to the state. What the 92% indicates is that a slight amount of the positive returns over the last two years is being held back. The plan can absorb a slight decrease in Investor Returns where the plan is at 8%.

VARGO Mr. Vargo reported that there was a small Actuarial Gain, but relative to the size of the plan, it is actually very small. He noted that demographically everything stayed about the same. From an Investment standpoint and the Smooth Returns, everything stayed the same. Mr. Cramer had reviewed the 10-year History of the return, which is close to what the investment people are showing; a return of 7.25% for the 10-year period.

Mr. Vargo reviewed the Interest Rate study, summarized:

- MMO History – State Aid estimated at about \$310,000, already calculated. MMO is calculated for 2021. Based on the Actuarial Assumption, the estimated State Aid MMO number for 2022 is about \$875,000. There will be no dramatic result by staying with the Assumption from 2021 to 2022.
- Initial study lowered interest rate and salary increase assumption by 25 basis points. Recommended keeping Salary Increase at 5%.

- Decreasing the interest rate increases the cost of the plan by about \$75,000 per year. Over a 20-year period it will only return 6.75% Changing the plan by a quarter percent has a significant impact over a longer time period.
- Mr. Vargo and Mr. Cramer reviewed all the other assumptions in the plan. They approve where the plan is from an assumption standpoint. They believe it is well within a reasonable rate of 7%.

DVORYAK Mr. Dvoryak questioned the mention of State Aid of \$310,000. That amount is determined by a calculation. He asked whether the change in discount rate from 7% to 6.75%, requiring an additional \$75,000 payment each year. He asked whether that would impact the amount of State Aid the Township receives or whether that is fixed regardless of what the discount rate is.

VARGO Mr. Vargo responded that it is fixed regardless of the discount rate. The Township receives the maximum State Aid of \$310,000.

BISHOP Mr. Bishop questioned why other people are reducing the rate on their plans. Mr. Vargo had mentioned a trend toward reducing the rate.

VARGO Mr. Vargo mentioned the comment by the Investment Advisors concerning the future bond returns to be very low given the current low interest rate environment. The long-term view of the bonds will drive down investment earnings.

DVORYAK Mr. Dvoryak questioned the average interest rates on similar investment plans. He asked how the Township compares with its current 7%.

VARGO Mr. Vargo responded that the Township compares very favorably in a middle range. Some have plans at 7.25%; some 6.5%

WURSTER Mr. Wurster commented that lowering the discount rate in a low interest rate environment will create an extra burden on the Township in terms of the MMO funding. Taking the opportunity to revisit the investment mix potentially to receive some additional return over the longer run might mitigate any impact that a lower discount rate would have. Otherwise keeping it high runs the risk that the returns are not where they need to be. That results in an underfunded situation. The investment managers would then be challenged to meet the current rate.

BISHOP Mr. Bishop stated that there is very little reason not to challenge the investment advisors to do better and give them the tools they need to take advantage of the markets. Trust that Investment Policy so that they can continue to meet the 7% target, which they have been making for 10 years.

DVORYAK Mr. Dvoryak stated that Mr. Vargo indicated that based on the plans he reviews at Conrad Siegel, the Township's equity target is conservative. Mr. Dvoryak indicated he would have no opposition to making a modification to the Investment Policy Statement to increase the allocation to 60 for equities. As far as the discount rate he would prefer to have more time to think through whether 7% is

the right number or not. Moving the Target Allocation from 54 to 60 would position the plan with other similar plans across the state and increase the likelihood to hit the Discount Rate over the long term.

BISHOP Mr. Bishop noted that it would not expose the Township to any kind of significant risk.

WURSTER Mr. Wurster indicated that YAUFER had the opportunity to review its Investment Plan for the Springettsbury Fire Pension and went up to 65% along with nearby counties which were doing the same. The Police Pension plan has within it a requirement for individual securities, which the Fire Pension plan does not. He suggested to keep the Police plan at 60% in order to fulfill the obligation.

BISHOP Mr. Bishop questioned Mr. Wurster's reference to a requirement for individual securities.

WURSTER Mr. Wurster responded there are individual security lines as opposed to just being exclusively all ETF's or mutual funds. Mr. Wurster understood that there is a requirement to have individual positions in individual securities, which is evident in the F.N.B. report. He was not sure if that would make it more difficult with that allocation model or not.

BISHOP Mr. Bishop noted that the individual security requirement might be to reduce fees.

WURSTER Mr. Wurster questioned whether 60% is enough if there are those individual securities, or whether it should be higher.

BISHOP Mr. Bishop stated that he would much rather place the responsibility on the advisors and provide them with more leeway. Changing it to 60% or 65%, it is not a requirement; it is a limitation. Additionally, if they think they can get better returns at 50%, then they can go to 50%.

6. OLD BUSINESS

There was no Old Business

7. NEW BUSINESS

A. Acknowledge Receipt of \$5,900 Reimbursement from F.N.B. for Actuarial Services Provided by Conrad Siegel for the Period June 15, 2020 through April 11, 2021

MR. WURSTER MOVED TO FORMALLY ACKNOWLEDGE RECEIPT OF \$5,900 REIMBURSEMENT FROM F.N.B. MR. BISHOP WAS SECOND. MOTION UNANIMOUSLY CARRIED.

8. COMMITTEE MOTIONS

There were no Committee Motions.

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9. ADJOURNMENT

DVORYAK Vice Chairman Dvoryak adjourned the meeting at 6:58 p.m.

Respectfully submitted,

Charles Wurster
Secretary

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