

Board of Fire Commissioners

Greenfield Fire District
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June 27, 2011 Special LOSAP Meeting

Meeting began at 7:25 pm.

Present were: Commissioners Atwell, Chandler, Waite, Secretary Petkus; please see sign in sheet for others in attendance.

Purpose of Meeting: To meet with Ed Holohan, President of Penflex and Dave Rogers, Financial Consultant from RBC Wealth Management to talk about the District's Service Award Program and investments, with subsequent question and answer session. A copy of the District's Investment Policy Statement, LOSAP Portfolio Reviews and Portfolio Performance Reports were handed out by Dave Rogers.

Mr. Holohan began by giving an overview of the LOSAP, including:

- 2005 was the first year of the program, 2010 was the sixth year of the program.
- Pays \$20 per month for life beginning at age 65 for every year a volunteer earns points under the points system.
- Original estimated cost was to be \$229,000, with credit being given for the previous 5 years.
- Those buy back years were estimated to cost \$65,000 per year, to be paid back over 10 years. District has done so well that it is already paid off.
- Calculated cost for 2010 is just under \$94,000, which is well under referendum and prior services cost has been paid off ahead of schedule.
- Funded ratio: definition of funded ratio is a measure of if the program was frozen today, how much money would be needed to pay off the service awards already earned? 100% means you are right where you should be; and the District has already paid off prior service costs ahead of schedule; the District's funded ratio is at 104% in 5 years, which is outstanding and means the District has a little bit of a surplus.
- Ideally the funded ratio should be at 110%, and although the District has sent in what was asked for, if there is any money left over at the end of the year, suggested putting more money into the fund. Mr. Rogers added that, although for people it is a little scary, usually the best time to add additional money is during a down year, because typically you get a couple of good years after that.
- Information Penflex is getting is very high quality; 88 people made the points for 2010, which helps the District with active people.
- Despite the one bad year (2008) regarding investments, the District has more than made up for that.

- Costs should be decreasing unless you are fortunate enough to get new members, and then your costs would go back up.
- The District only starts paying into LOSAP on members beginning the first time they make their 50 points in a given year. That is when they are included in the calculations. They then project funding based on how many years they think the volunteer will have in the department. If a member has never made their points they are not included in the calculation.
- Assumes a 6% earning in investment incomes when he does his cost calculations.
- Members must be in the department for 5 years before they are vested in the program; if they leave before the 5 years, that money goes back into the program as a surplus.
- The District is only paying for this as it happens, did not have to pre-fund it, and thinks it is a good deal for the taxpayers as well as the volunteers earning points.
- The annual LOSAP audit is about where you are as it pertains to your funded ratio, and that information is good to report to the Comptroller.

Mr. Rogers followed up with the following:

- Noted he is the District's investment guy.
- Noted the Investment Policy that was adopted years ago, located in the packet handed out earlier, generally which established an allocation of 30% in the equity markets, 70% in fixed income markets, with a goal of a 6% return.
- Currently under that at the moment, but feels that despite the last few years, we have done better than most people he knows.
- Need to stay the course and it should work out okay.
- Have been letting CDs come due as you can't get great interest rates on them, but is also trying to minimize the amount of cash. Whole world of fixed income, where things aren't riskless, but aren't necessarily risky either.
- Gave brief overview of portfolio.
- Goal is to try to get to 6% total return with the least amount of risk possible.
- Has the legal discretion to make day to day decisions for the District, if he thinks something needs to be done, he has already done it.
- Hopefully 2008 was an aberration and there will not be any more years like that, trying to preserve capital, tweak things here and there.

Question and answer session as follows:

- Commissioner Atwell questioned that the basis of payments to Penflex were based on the 6% return; Mr. Holohan confirmed that he calculates payment into the investment account based on a 6% return.
- Commissioner Atwell asked what the increase in payment would be if we had a 1% drop; Mr. Holohan noted that if there was only a 5% return in a given year, it would be approximately \$10,000. But there is something called a spread gain, where that loss is spread out over time, but then in other years there may be a gain, which aids in reducing the loss. For approximately every percent down in a given year, it would increase costs about \$800-900 per year.
- Barring any complete catastrophe, you will always be over or under with the markets, but costs should remain fairly smooth.

- Secretary Petkus questioned how the district's investment strategy would be categorized; Mr. Rogers noted it is conservative balanced, with stocks, bonds and cash. He also noted that in the last decade, it has paid to be more conservative and thinks it is probably going to be like that for a while.
- George Habig, resident, noted there was a LOSAP meeting in 2009, questioned if there was one in 2010. Secretary Petkus noted that she did not recall there being one in 2010.
- Mr. Habig noted that in 2009 they got into the Ridex Gold Fund, and questioned if we are still in it; Mr. Rogers noted no, it wasn't doing what he had wanted it to do, although he does have some exposure to gold in some of the other funds.
- Mr. Habig questioned when choosing funds, is there any guidance in choosing the ones with the lowest maintenance fees? Mr. Rogers noted he uses Morningstar, and expenses are one thing you have to look at, but he looks at five star ratings and goes down, looks at yield, expenses, it is a little bit science and little bit art. Brief discussion continued regarding different funds, what the theme is, where you want to go and where a particular investment fits into that.
- Mr. Habig questioned what would happen if the Board decided to raise the firefighter benefits from \$20 to \$30, and for some reason the fund tanks out and there is no money to cover that, can the increased benefit be taken back from the firefighters? Mr. Holohan noted that first the Board would have to go to the taxpayers for a vote to increase the firefighter's benefits, and if so, would those volunteers' benefits be protected like State employees, because you can't take away what has already been promised people. They have asked, and are waiting for the Comptrollers legal opinion on this, although Mr. Holohan noted that he believes it does. The best thing to do is to try to keep your funded ratio at 100%, and if the voters approve the increase, it only applies to future years; all the years at the \$20 level are not going to change.
- Mr. Habig asked what the current fee is that is charged to the taxpayers. Mr. Rogers noted it is $\frac{3}{4}$ of 1% annually, which roughly translates to \$7500; there are no loads, no redemption penalties or anything like that, it is the fee only. Mr. Holohan noted that the Penflex fee is by contract, which is roughly \$4500 annually, and with the annual audit package of \$500, the total is around \$5000.
- FF Nancy Waite questioned if it is possible to roughly guess what a new member will cost per year. Mr. Holohan noted that yes it is possible, and that taking in a younger person is far cheaper than taking in an older person; this is due to the fact that a volunteer cannot start collecting until they are 65 and so they have all those years of investing before they have to start paying out on the younger person. The older the new entrant the higher the cost. Every single individual that earned their points is looked at and then they calculate the projected benefit and actuarial value, and then they are all added up.

Mr. Rogers noted that his card is in the packet he gave out, and if anyone has any questions or concerns, they are welcome to call him. Mr. Holohan noted that the District is a very good client, there is great communication and if Joyce or Rich have questions, they call, and that is what he wants. Secretary Petkus noted she needs to give Tony Hill tons of credit, because he is the one she speaks to most often, and he is always pleasant and if he doesn't know the answer, he will find it for her.

Commissioner Atwell noted he is happy we are overfunded at 104%, and that if there is another bump in the road with our economy, we are not going to take a big hit.

Mr. Holohan noted that when the District starts working on their budget, they can give a more refined estimate by giving a preliminary list of people the District thinks are going to make their points for the year. Secretary Petkus noted she has that on her list already for September.

Commissioner Waite noted he is very happy with the whole arrangement.

FF Nancy Waite questioned that new members that do not make their 50 points do not count for anything; Mr. Holohan noted that is correct, but they are required under State law to keep track of them for the record.

Commissioner Atwell confirmed that once a firefighter makes their points that first year, then the District has to start paying on them; Mr. Holohan noted this is correct unless he quits before he is vested, and then that money becomes surplus. Secretary Petkus questioned what happens if a firefighter makes their points one year, but then the next year does not; Mr. Holohan noted that then the projected benefits on that firefighter would go down until he earns another year of benefits and the projection would then increase.

Mr. Holohan noted that they follow generally accepted actuarial practices and procedures, and have to make several assumptions, and like Dave is conservative with investments, he is conservative and assumes people are a little healthier and are going to live a little longer.

Mr. Holohan noted that although he and Dave work separately from each other and are separate companies, they look over each other shoulders, and sometimes they may not agree, but their job is to make sure that the last dollar is paid to the last volunteer.

Commissioner Atwell thanked both Mr. Holohan and Mr. Rogers for meeting this evening, he got a lot of good information out of it.

Meeting ended at 8:10 PM.

Respectfully submitted,

Joyce A. Petkus
District Secretary