

# **Board of Fire Commissioners**

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## **Annual LOSAP Review Meeting – June 8, 2022**

Meeting began at 6:05 PM.

**Present were:** Commissioners Hays, Ramsey, Russo, D/A-Treasurer Petkus; Dave Rogers from RBC Wealth Management, and Kati Young and Jay Lee from Penflex, Inc. Excused: Commissioners Chandler and Dussault. There were no others present.

Handouts from both Penflex and RBC distributed.

Commissioner Ramsey questioned the percentage of membership enrolled in LOSAP; Joyce noted she would need to ask the Operations Secretary. Katie noted that there are currently 68 active members, not including those that are already entitled.

Commissioner Hays questioned the process of those members that leave prior to being vested in the program. Kati noted in order to be vested in the program, an individual needs to earn 5 years of service credit; if they leave before the 5 years, the money accrued is forfeited and remains within the trust fund; if the individual returns within 5 years and then also earns a year of service credit they can then get that forfeited credit back.

Commissioner Russo questioned that if an individual is already collecting, and they pass away after collecting for 10 years, the beneficiary then gets nothing; Kati noted this is correct, it is a *guaranteed* 10 year benefit, but as long as the individual is still alive he/she continues to collect after 10 years, but the beneficiary would then get nothing. If a beneficiary is entitled to collect, they can continue to collect monthly or take a discounted lump sum payment as determined by actuarial assumption.

Kati Young noted the following:

- She and Jay Lee are both actuaries from Penflex.
- The fire district has a defined benefit plan, which means at age 65 participants can begin to collect for their lifetime a monthly defined benefit that is equal to \$20 x the number of years of service they have accrued, up to a maximum of 30 years, which equates to a maximum of \$600 per month.
- An annual actuarial evaluation was completed based on the assets as of January 1<sup>st</sup>, which determined the recommended contribution in 2023 of \$100,608.00 for FY 2022.
- 2021 was a good investment year, with a funded ratio of 97%. As of 1/1/2022 this is a very healthy ratio; the target goal is always 100%, but this number will always fluctuate as it is based on the market value of assets, which is measured just once a year. The recommended contribution in 2022 for FY 2021 is \$110,249.00. Joyce noted that the Board had budgeted \$130,000, and she expects that they will contribute the full amount as they have done in the past. Kati notes that this helps keep contributions more stable, offsetting any possible losses.

- Penflex also smooths the assets in calculating the contributions by preserving some of the gains (or losses) over a 3 year period to an actuarial value of assets. This minimizes any fluctuations and helps with budgeting.
- Long term gains are assumed at 5.25%, and there have been 3 years of returns greater than the assumed rate.
- There was a slight decline in active participants, as well as a decent decline in the number of people who earned service credit in a year; 64 in 2020 vs 54 in 2021.
- Penflex is responsible for preparing the annual LOSAP report for the auditor.
- Looking forward, the future economic outcome isn't as good, and so Penflex is cautioning that next year they may be reducing their long term rate of investment a bit to possibly 5%, which in term will cause liabilities to increase a little bit.
- Joyce questioned what to do with a particular individual who has in the past noted he does not want his contributions. Discussion continued; Joyce will meet with him and attempt to get him to complete the paperwork. Kati noted for now this will be held as a payable; the individual could sign a waiver forfeiting it back to the trust fund, or it may ultimately go into unclaimed funds, or to his beneficiary or estate upon his death.

Dave Rogers then noted the following:

- RBC is the district's financial advisor and portfolio manager;
- There is a written agreement between the district and RBC that mandates he manage a 40% equity and 60% bond portfolio, which drives Penflex's actuarial assumptions. He was fairly accurate all last year, but became a little more cautious in the fall with some hedged equity.
- Returns have been generally good over the years, with an occasional down year, most recently in 2018.
- Pointed out in the report handouts, that in years 2021 and 2022 things looked a lot different. He has made a lot of changes since year end, and he is concerned that inflation is going to be more persistent and higher than what is being read about, noting his concern regarding a possible recession.
- Has been positioning since early January for higher inflation and higher interest rates which result in lower stock process.
- Reviewed the handouts in some detail, noting that as of June 3<sup>rd</sup>, they are down 8%, which is better than most who are down double digits. Government guaranteed treasury rates have gone up and so slightly less than 10% of the assets are in two short term treasury notes. Brief description continued. Core positions remain fairly the same with some minor changes. Briefly described the three Pimco funds that address inflation that are now doing well and hedging the current stock and bond positions. Also pointed and summarized another fund, US Energy Partnership, on the equity side that addresses the same issues.
- Regarding bonds, briefly summarized US Bank Loan and Crane Shares.
- Also pointed that whatever happens this year does not affect the district's contribution until 2024, so there is time to plan. When considering the LOSAP contribution, recommended thinking more, not less.

Commissioner Hays questioned if adding an additional \$10,000 to the contribution would help; Dave noted anything would help; he has a diversified approach to the energy investments which is why he has only a low percentage invested in those asset classes, and energy infrastructure seems to be a good theme for a while. Brief discussion continued.

Kati Young added that she believes the district has positioned itself well by putting in excess contributions, and the district has been trending upwards. Brief discussion continued. Dave

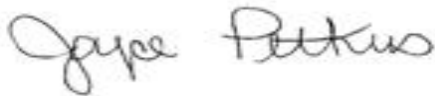
also pointed out that we have gone through this before, with the tech crash in 2000 and the financial crisis in 2008.

Joyce asked Dave if another meeting in September would be beneficial considering the current uncertainty in the markets. The board agreed; tentative meeting scheduled for September 14<sup>th</sup> at 6:00 pm.

The Board thanked everyone for attending.

Meeting adjourned at 6:46 PM.

Respectfully submitted,

A handwritten signature in cursive script that reads "Joyce Petkus".

Joyce Petkus  
District Administrator/Treasurer