

CORAL GABLES RETIREMENT SYSTEM
Minutes of February 13, 2025
Public Safety Building
Community Meeting Room A
2151 Salzedo Street
8:00 a.m.

MEMBERS: A M J A S O N J F M A M APPOINTED BY:
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Sean McGrover	-	-	-	-	-	P	P	P	P	Mayor Vince Lago
Alex Mantecon	P	P	P	P	P	P	P	P	P	Commissioner Castro
Juan Lucas Alvarez	P	E	P	P	P	P	P	P	P	Commissioner Ariel Fernandez
Vacant	-	-	-	-	-	-	-	-	-	Commissioner Kirk Menendez
Manny Carreno	E	P	P	A	P	P	P	P	E	Commissioner Rhonda Anderson
Joshua Nunez	P	A	P	P	P	E	P	P	P	Police Representative
Christopher Challenger	P	P	E	P	P	P	P	P	P	Member at Large
Sureya Serret	P	P	E	P	P	P	E	P	E	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Rene Alvarez	E	P	P	E	A	P	P	P	E	City Manager Appointee
James Gueits	P	P	P	P	P	P	P	P	E	City Manager Appointee

STAFF:

Kimberly Groome, Finance Administrative Specialist	P = Present
Manuel Garcia-Linares, Board Attorney	E = Excused
Dave West, Mariner	A = Absent
Melissa Zrelack, Gabriel Roeder Smith	
Edemir Estrada, Gabriel Roeder Smith	

1. Roll call.

Chairperson Diana Gomez called the meeting to order at 8:01 a.m. Mr. Easley arrived at 8:21 a.m.

2. Consent Agenda.

All items listed within this section entitled as also in attendance "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.

- 2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes for January 9, 2025.
- 2B. The Administrative Manager recommends approval of the following invoices:
 - 1. Gabriel Roeder Smith invoice #490887 for December 2024 administrative services in the amount of \$23,456.01.
 - 2. Gabriel Roeder Smith invoice #491057 for actuarial services from November 16, 2024 through December 31, 2024 in the amount of \$2,314.00.
 - 3. Verdeja De Armas Trujillo and Alvarez invoice #43674 for retainer (2nd and 3rd installments) of audit of financial statements at September 30, 2024 in the amount of \$23,100.
 - 4. Verdeja De Armas Trujillo and Alvarez invoice #43856 for fees incurred in connection with obtaining electronic bank confirmations with respect to audit of financial statements in the amount of \$37.80.
 - 5. City of Coral Gables invoice due to G/L October 1, 2024 through December 31, 2024 in the amount of \$47,850.89.

A motion to approve the Consent Agenda was made by Mr. Mantecon and seconded by Mr. Juan Lucas Alvarez. Motion unanimously approved (7-0).

- 3. Comments from Retirement Board Chairperson.

Chairperson Diana Gomez indicated that this is her first official meeting as Chairperson and she is very excited to be the Chairperson for the upcoming year; and she will make her comments during several items listed throughout the agenda.

- 4. Items from the Board Attorney.

Mr. Garcia-Linares reported on the agreement that has been signed with Mr. Pedroso and status of his pension payments; he is working on another QDRO for another retiree who's in the process of getting divorced; and he noted there are existing issues with the 2024 1099-R forms that are to be discussed on the next agenda item.

5. Attendance of representatives from PenChecks Trust Company of America for discussion regarding the 2024 1099-R Forms prepared by PenChecks.

Chairperson Diana Gomez provided an overview of the existing issues with the 1099-R forms. The Board is aware that there's some incorrect information on the 1099-R forms and is working with PenChecks to have correct forms out to the members hopefully very soon.

Jesus Aguilar, VP of Finance and Accounting at PenChecks addressed the Board. He was fully aware of all those issues. In terms of having those issues corrected and having new 1099-R forms issued to retirees that is currently underway within the PenChecks operation; they expect to have 1099-Rs complete and produced and turned over to retirees by the end of February, if not sooner. Chairperson Diana Gomez asked whether PenChecks has all the information that they need in order to issue the correct 1099-R, to which Mr. Aguilar responded affirmatively. He said the latest piece of information that they received was that they were waiting for Coral Gables to confirm if PenChecks should ignore a specific column within the spreadsheet that was provided and instead some pre-tax and post-tax values that may have happened over the last couple of days. He is going to seek for confirmation of that but he believes that that was the only item that was outstanding.

Chairperson Diana Gomez has been talking with Pete Strong at GRS and asked to chime in. Pete Strong explained that, as of the day before, GRS received an updated file and there are still some issues. Ms. Zrelack responded affirmatively; there are issues with the amounts and when they finish reviewing the spreadsheet she thinks they want to see at least some samples of what the 1099-Rs are going to look like because there's just a column and some have check boxes and some don't. They want to see multiple samples so that GRS can make sure that all four issues described originally have been addressed. Scott Moss from PensionSoft also added that there was an issue from between February and March of last year where there had been an overpayment to participants that for people who had non-taxable amounts and that was kind of what triggered it. PensionSoft had been asked to make a change in the format of the file that was being sent to PenChecks, which they did between February and March. When that happened, the payments were corrected but somehow in that process that resulted in, he believes, they were using some of those columns for producing the 1099-Rs the columns in the files. He believes that change resulted in what happened this year. He does know that ultimately the amounts that were paid were correct after they made the correction, but somehow that correction resulted in a problem with the 1099-Rs.

For background, Pete Strong explained that what GRS has always done is provide the Box 5, the non-taxable portion; which is based on the after-tax employee contributions and that's divided by the IRS factor, which is either 260 or 310 or 360. GRS calculates that Box 5 amount and provide that list to PenChecks. It would have been best for GRS to have seen all of all of the 1099-R information, before the 1099-Rs were mailed, and that would have helped prevent a lot of issues.

Scott Moss added that when checking the 1099-Rs before they go out, him and Ms. Zrelack were discussing things that definitely need to be reviewed like if there's people who have multiple bank accounts, splitting their payment between two different banks; that should be looked at, and then certainly the people who had healthcare deductions or even multiple deductions coming out of the check. That should also be carefully reviewed before it goes back out to participants because that seemed to be where they are seeing the problems. The other concern he had was that he is not sure if any adjustments are made after the file gets submitted from GRS to PenChecks. Pete Strong stated that he is not aware of any adjustments that are being made, he does know that when GRS first looked the previous night at the data provided to them by PenChecks the Box 5 amounts changed from the amounts that GRS gave to them. GRS gave them a spreadsheet of the Box 5 amounts a few weeks ago and now their Box 5 amounts are shown as different for several people, so there has to be some type of adjustment that's being done on PenChecks, but we just we're not privy to that.

Mr. Aguilar explained that in terms of PenChecks' position or what they are doing is they are taking the data and processing it so that it matches the system with which they produce 1099-Rs but there might be some data transformation occurring on their end in order to make the data fit that model. More than that, looking forward to 2026 as they go through this process once more he believes Pete Strong is right and it's a great idea to get GRS the 1099-R data that PenChecks has post-transformation in order for it to fit that model they have. In order to do that, he would like to stress that PenChecks would need to have all of the information related to 1099-Rs, all these figures from PensionSoft and health deductions, the after-tax contributions, they would need all of that early on in January, if not even in December, in order to be able to produce sample 1099-Rs for GRS' team for certification. That's just something to jot down in terms of process improvement for year 2026. As they discuss the 2024 1099-Rs produced in 2025 they are making those corrections, learning the lessons. One of the items that PenChecks identified, they weren't unaware of was the external gross amount field. That's a field that they were using in the PensionSoft data. PenChecks is definitely looking forward to implementing all the lessons they've learned.

Chairperson Diana Gomez stated, from the Board standpoint, they do need those corrected 1099-R forms to be issued as quickly as possible; individuals need to file their taxes, they rely on that information. They're trying to see what is the quickest PenChecks can get them issued and out to members. Vice-Chairperson Mantecon explained he wants to make sure that PenChecks understand this is really, really important and he needs them full attention on this. The Board is not happy with this and this has already been an item for a few years. They need everyone to not just talk to each other because of the Board meeting, but talk to each other on a high level until this gets resolved. This can't happen again; to which Mr. Aguilar responded affirmatively and highlighted that some of the issues that have materialized this year related to 1099-Rs were for example, one of the retirees mentioned Box 16 was incorrect in terms of it just displaying a number. That is not incorrect. He shared that the IRS does not care that there is a figure in Box 16.

The reason this year a figure showed up in Box 16 on the 1099-Rs is because of the improved process that PenChecks has related to 1099-Rs. It's putting a state code and putting a dollar amount in Box 16. Box 16, for some of you that don't know, is the state distribution amount and just because there's a number there does not mean that it is taxable. It's simply just information being reported to the state. The state will not tax the individual on that unless it determines that it's a taxable amount and the state won't know that without a state tax filing. Chairperson Diana Gomez indicated that it was something that was not there last year, it was there this year and retirees who are confused as to why it was there, they were questioning it. As discussed, there is no issue with it being there. Mr. Garcia-Linares added that his team also looked at that item and that is exactly what PenChecks confirmed; there's no issue with that.

Mr. Aguilar explained the other item he'd like to bring to the Board's attention is Box 2A being left blank versus having a zero. There're different schools of thought, there's no specific IRS mandate that indicates that a zero should be in there, and by mandate, he meant 1099-R instructions. Pete Strong added that in some cases where there's a known service-connected disability that does not have any tax liability and that's known and they had zero in that box in past years, in those situations there should be a zero and the box should be unchecked.

At this time, the floor was opened to any comments from the public. Retired Police Officer Linda Kiser addressed the Board via Zoom. She is a retired Police Officer and she tried to call GRS and she got through, left a message, and no one called her back; she had to keep calling. She would just like to make a statement and then ask a question. Retiree Kiser said they have been dealing with PenChecks for four or five years now and during that time there has not been a single year in which there has been a perfect 1099-R for everyone. Every year, something is messed up. Then they were told they are not supposed to contact PenChecks, but to contact GRS and they don't call back. So that's an issue that she has. Retirees are now dealing with two people that they don't seem to talk to each other. PenChecks doesn't talk to GRS. Retiree Kiser said in 2022 retiree had to have a corrected 1099-R and she received hers on March 31st; two weeks before they have to file. If they don't do their own income taxes or they don't already have a standing appointment with someone to do them and they have to go to somebody like H&R Block, it's difficult to get in; very difficult to get their taxes done in that time frame when they get a 1099-R on March 31st. So then they have to go, they'll file an extension and sometimes they have to wait until October or something to get that taken care of. It's a very tension filled and to her it's totally unacceptable to get a corrected 1099-R on March 31st. For years retirees had one person taking care of this, and there were very few errors. Retiree Kiser is totally upset with PenChecks; she doesn't know how much the City is paying two companies to do this, but she's sure it's more than what an employee made; to what Kimberly was hired to do; sure it's more than her salary; and the Board could probably hire a person that can do this or even two people. She doesn't understand why they have to go through this every year. Basically, what she had to do this year, she is 77 years old now, every year when she opens up that 1099-R she is very stressed.

This year, she actually had to take a Lorazepam to prevent a panic attack. This is what this issue is causing her. She doesn't feel that she has to go through this every year until she dies. Her suggestion is to hire an employee in-house to take care of this, someone that they can talk to if there's a problem, tell that person directly that filled out that 1099-R, explained it to them what the issue is or what the issue they have found out is, instead of having two companies, one 3,000 miles away in California and the other one not talking to the other one in Fort Lauderdale. That's her question. Why can't they do that? Why can't the City do that instead of paying probably a lot of money to these two companies to not be able to figure this out. And now she hears another name PensionSoft, that's a third group of people that are doing stuff. She doesn't understand. Her question is, she wants to know when she is getting her 1099-R and why can't they hire somebody to take care of this instead of having these corporations mess with their 1099-Rs every year.

Chairperson Diana Gomez explained to Ms. Kiser that the expectation is that the corrected 1099-R will be out to everyone by the end of February; two weeks from now. The Board has decided to outsource the administration and that is the decision that was made and they are working through the transition and the hiccups that may happen here and there, but she does believe that PenChecks and GRS communicate when they need to communicate. There is no lack of communication when it's needed. PensionSoft is just a software program that GRS uses. Regarding receiving a phone call back from GRS, they have a call center that they do return calls; they don't know what happened. Ms. Kiser explained she called on February 3rd, they told her that she had to go to an extension, left a message for a person by the last name of Estrada and on February 10th she had to call again. She did speak to a person by the name of Erin and she really doesn't know if her information was forwarded as to her 1099-R or not. She doesn't see that she should have to wait a week to hear from someone when she wants to call in and explain here's her 1099-R, here's the problem. That's all she wanted to tell them.

Chairperson Diana Gomez said they will discuss callback times with GRS and see how that can be improved moving forward. Pete Strong said GRS has an internal policy to return calls within 24 hours so he is not sure how that happened.

Mr. Harry Pickering addressed the Board next. He retired in 2006 and he is the Chairman of the Fraternal Order Police Retiree Committee and he hears from quite a few retirees every year regarding different issues that come up and the 1099-R issue has been something that's been going on since 2019 even before PenChecks took over the processing. Most of the complaints that he heard revolve around the boxes indicated, Box 1, Box 2A Box 2B and Box 15 and Box 16. The 15 and 16 boxes, he understands, but what kind of scares him is Box 2A and 2B. What if there was a mistake checking that box 2B?. It just sounds confusing to him. What happens with the retirees is every year they take their previous year 1099-R and they're comparing them to their 2024 1099-R and if there's any differences, then they're calling GRS. Some retirees are calling PenChecks, which they've been told to call PenChecks numerous times but he doesn't have any control over that other telling people not to call PenChecks. They compare these numbers and last year when they received their corrected 1099-Rs the only boxes that were filled out was Box 1 and then

Box 5. Mr. Pickering did hear from a couple other retirees who contacted him before about their gross distribution amount.

Chairperson Diana Gomez thanked Mr. Pickering and he concluded by saying that he did receive callbacks from Ms. Zrelack and Ms. Estrada returned his email requests. They weren't able to get back to him because GRS was getting a lot of phone calls. Pete Strong added that if there was a call that slipped through the cracks, he apologized on behalf of the administration if someone didn't get a call back. During those first few days of February, GRS got probably in excess of 100 to 150 phone calls about these 1099-Rs.

Vice-Chairperson Mantecon recommended to Pete Strong to take a sample audit, across different scenarios, to make sure the data is being captured appropriately; from the final product, not just from the spreadsheets. They want to look at the final product; look at that final product of what's going to be in the hands of the retirees and actually do an analysis and make sure that everything is the way it's supposed to be before it goes out and he thinks that should be a standard practice. Pete said yes, and GRS should have asked to review the whole list before the 1099-Rs went out. There possibly could have been a timing issue because the January 31st deadline is tight and he is not sure what date GRS submitted all the Box 5 amounts; maybe it was in mid-January, but then that would have required PenChecks to get GRS a file very early or by mid-January at the latest and then back and forth dialogue. GRS will review all of the data that's being used this year for the revised ones and they will request to spot check PDFs of the actual 1099-Rs before they go out.

Ms. Estrada explained that this year the problem that they see with the 1099-Rs are new problems; this didn't happen last year. A month ago when one of the Board members asked if everything was ready and prepared for PenChecks to produce the 1099-Rs GRS said yes, because GRS' responsibility is just to provide one piece of information, which is the amount in Box 5. From there PenChecks is going to take over, but again, this is a new problem that they didn't have last year. Ms. Estrada is hoping that if GRS is still working with PenChecks next year that there's nothing coming up regarding the 1099-Rs.

Mr. McGrover asked is would it be advantageous to maybe like at the beginning of each year have an open Zoom forum for the retirees to listen in to see what the process is happening in the beginning, because maybe this could have been caught earlier if there was some sort of engagement with retirees and they can just say, are you guys looking at this? Are you guys looking at that? Mr. Garcia-Linares is not sure if that would work. Vice-Chairperson explained that it's the Board's responsibility to just provide it. PenChecks has the system to know what they are paying to individuals. Therefore, they know what amounts go into what boxes.

6. Items from the third-party Pension Administrator.

Ms. Estrada confirmed GRS has received lots of calls and emails related to the 1099-R and people asking why are their 1099-R incorrect again? GRS team are not tax advisors, and if the retiree has a tax-related question, they have to talk to a tax professional; they don't provide tax advice.

The next item was in regard to payment that some retirees receive into their Credit Union accounts. GRS had to contact the Credit Union reps and they explained that they had a problem with their system and that's why they didn't get the payment on time. That was another group of phone calls GRS received. Some retirees get the regular pension into two separate accounts.

GRS is also currently working with the auditors, and providing the exhibits on what's needed for the Annual State report.

The last item was regarding an employee who works for the City and is trying to move the funds that he has from his 401 account to the pension plan to purchase credited service. It was explained to the employee that he's allowed to have up to three years to pay the cost of the purchase; however, the employee would like to know the Board's opinions and see if the Board can allow more than three years because during those three years the employee is not going to be able to pay that cost. Normally for a service purchase, you have up to three years to make the payment, pay the full cost, whether it's from a transfer from another account or through payroll deduction.

Chairperson Diana Gomez mentioned that a policy is in place. Mr. Garcia-Linares said the only exception they've made is if somebody leaves, the person has 60 days from that point to finish paying off. He doesn't think the Board should be changing the policy.

Pete Strong added that the employee was on the call. The employee reached out to Pete directly; and explained this is a unique situation now with 401 transfers. Mr. Stefan Batic addressed the Board via Zoom and stated that the cost to purchase his eight years of service is almost \$90k and he has \$40k in his 401 account; he also has an outstanding loan of about \$18k. The remaining amount is still a challenge for him to pay off in three years. It's not something that's feasible.

Chairperson Diana Gomez mentioned there's no further discussion on the item and the present policy stands at three years from repayment from payroll deductions and the option to transfer to 401 available.

7. Investment Issues.

Dave West indicated they didn't have final numbers for the quarter, but was going to be talking about November and December. He said it might be an appropriate time to remind everybody some of the strategic initiatives they have in place for the portfolio and remind everybody of some of the nuances and some of the decisions they have made. The market outlook has changed, they had a huge change in market activity and it was very beneficial for equities. Perceived to be a very pro-growth administration but also inflationary, still uncertainty about tariffs and the potentially negative impact that they may have on growth and the economy. Dave West spoke about tariffs and the supply chain disruption. The portfolio had a pretty sideways period in December, and in January, we had a nice rally in equities again. There was rotation out of the expensive growth stocks into the value arena.

Dave West provided an update on the rebalancing that was done. Now the markets are forecasting maybe a 25 basis point rate cut in December; great returns coming out of PIMCO; they have a material allocation to the fixed income hedge fund manager there who is designed to typically go up in price for their portfolio when the bond market is going down.

Garcia Hamilton continues to have a strategic positioning suggesting, that the economy is going to slow down, go into a recession. And so, they have been more sensitive with their interest rates management in their portfolio than their policy index. The other item which is inconsequential in his opinion is in the international equity side. RBC GAM International Fund is struggling a little bit in here. Their year-to-date number for RBC is 1.18% versus the benchmark which is up 6%. This is a pretty significant underperformance. Bottom line here, they had three investments in South Korea who could have anticipated the government disruption there; so that is the sole reason for their underperformance.

The last manager of consequence that we've been following is TerraCap. Mr. West received on Monday a notification from the president of TerraCap that they are going to be looking at additional write downs and the portfolio this quarter, since they met with them, they have been getting a deep, deep dive doing all the accounting with the cap rates, assumption rates, everything that they're putting on every single property in their portfolio. To make sure that the transparency and the assumptions that they're making is correct.

Vice-Chairperson asked Dave West about Boyd Watterson and his take on it; to which he said their take on it is at this point the government would have to be breaking legalese. Number one, the way the properties are structured; number two the way their tenancy is structured.

Mr. Easley commented on Garcia Hamilton. He did meet with them when he went to the Florida Public Pension Trustees Association conference in Orlando and they were telling him certain things that they were following a certain policy that they believed in. Is this something that we should consider? Maybe giving them a couple more quarters to see if they start panning out and some tweaks to their methodology? Or is it something that we should start looking at other fixed income money managers? Dave West responded they have not put Garcia Hamilton on watch internally. Mr. West then provided an overview of the January Flash report, and no action recommendations for the rebalancing.

Dave West spoke to the Board about a Winslow Capital Management trading error; he had forwarded the communication he had with the Winslow team where there was some system connectivity confusion (that is his interpretation) between Northern Trust and the Winslow in-house trading system and it led to an incorrect double sale of the rebalancing directive that it was sent out in January. So, for the out of market time during that period where we were out of market, the market moves up and we're entitled to compensation there, to the point of where it got reinvested. There were negligible SEC fees involved with the trading and the commissions; we're entitled to a rebate as commissions. There was a \$159,131.92 opportunity cost involved with that error.

Winslow has been very, very upfront, very immediate with the communication, brought this to our attention right away, and Dave West worked with them to expedite, how are we going to fix this? The question for the Board is would you like Winslow to deduct this from their ongoing fees which is customary or would you like them to cut a check?

A motion to get the funds immediately in order to get the benefit of the returns was made by Vice-Chairperson and seconded by Mr. Easley. Motion unanimously approved (8-0).

Next item was the periodic review of the Investment Policy Statement. They last reviewed the statement in August of 2023. Every one or two years they want to review the document and Dave West forwarded a summary memorandum with his suggested changes.

Mr. West went over the memorandum and summary of suggested changes. He is suggesting that under the objective priority that's in the front of the policy that they reorder the objective; this is a great time to get this fixed. He just wants to reverse the order. The primary objective should be to achieve an average annual rate of return greater than the actuarial assumed rate of return over the longer term. This was originally a secondary objective. This should be the primary objective. That was his suggested amendment number one. Suggested amendment number two is he found a typo in the asset allocation table. It didn't affect how they are working because everything from the asset level still added up to 100%, but there was a typo in the total real estate target. Next item pertains to rebalancing and he would like to thank Mr. McGrover for bringing this up for discussion; as a new trustee, they don't know what investment philosophy that's being followed by the Board with regard to rebalancing and market adjustments to the portfolio. Dave West added language which basically says that the Board, with assistance from the consultant, will monitor the aggregate allocation of the portfolio and rebalance to target allocation based on market conditions at the end of any calendar quarter.

The other item is contributions and withdrawals from the portfolio and rebalancing will be executed proportionally and done the most cost-effective manner; also, the Board does not intend to exercise short-term changes to the target allocation.

The last item on the IPS review is the HB3, House Bill 3 policy provisions. They had limited languages in there and this is the Florida statutory requirements that all investments be done on a pecuniary basis, which the state defines as must be done for investment purposes only. No sociological, geopolitical considerations or anything else can go into the decision-making process behind any investment.

There's also reporting requirements and compliance requirements. No changes to the target allocations. Dave West doesn't think an asset allocation study is necessary.

A motion to approve the changes suggested by Mr. West to the Investment Policy Statement was made by Mr. Juan Lucas Alvarez and seconded by Vice-Chairperson Mantecon. Motion unanimously approved (8-0).

Mr. West concluded by speaking about a previous interest expressed in Affiliated Development; the workforce Housing Real Estate; very much a localized niche manager. Before any further discussion, Dave West suggested a short investment committee meeting. This particular product requires a much deeper dive into what's going on with it. Mr. Garcia-Linares and Chairperson Diana Gomez agreed with meeting the team from Affiliated Development by having an Investment Committee meeting prior to the next regular Retirement Board meeting.

The second suggestion by Dave West was in regard to the private equity investment in Taurus Private Markets. They are performing very well; also, they are coming out with an additional fund. Dave West asked if the Board would have interest in considering offering making additional pledges to their new fund, which is being offered to. The experience with this manager has been extremely positive with the initial investment and he thinks this would be a good opportunity to maybe look at adding more assets .

The Board agreed to bring both managers to the Investment Committee meeting.

8. Old Business.

There was no old business.

9. New Business

There was no new business.

10. Public Comments.

There was no additional public comment.

11. Adjournment.

Meeting was adjourned at 9:50 a.m.

APPROVED ON: _____