CORAL GABLES RETIREMENT SYSTEM
Minutes of March 11, 2021
City Commission Chambers and Zoom
8:00 a.m.

MEMBERS:	J 20	F 20	M 20	J 20	A 20	S 20	O 20	N 20	J 21	F 21	M 21	APPOINTED BY:
Andy Gomez	P	E	P	P	P	E	P	P	P	P	P	Mayor Raul Valdes-Fauli
Rene Alvarez	P	P	E	P	P	P	P	P	P	E	E	Vice Mayor Vince Lago
Alex Mantecon	P	P	P	E	P	P	A	P	P	P	P	Commissioner Jorge L. Fors, Jr.
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Michael Mena
Michael Gold	P	P	P	P	P	P	P	P	P	P	E	Commissioner Patricia Keon
Joshua Nunez	E	P	P	P	P	P	P	P	P	P	P	Police Representative
Christopher Challenger	P	P	P	P	P	P	P	P	P	P	P	Member at Large
Marangely Vazquez	-	P	P	P	E	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	P	P	P	P	P	P	P	P	P	P	P	Finance Director
Raquel Elejabarrieta	P	P	P	P	P	P	P	P	P	P	P	Labor Relations and Risk Management
Need appointment	-	-	-	-	-	-	-	-	-	-	-	City Manager Appointee
Pete Chircut	P	P	P	P	P	P	P	P	P	E	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Manuel Garcia-Linares, Day Pitney LLC
Dave West, AndCo Consulting
Dan Johnson, AndCo Consulting
Pete Strong, Gabriel Roeder Smith

P = Present
E = Excused
A = Absent

GUESTS:
Yolanda Menegazzo, LagomHR

1. Roll call.

Vice-Chairperson Mantecon calls the meeting to order at 8:01 a.m. There was a quorum. Chairperson Gold and Mr. Alvarez were excused.

2. Consent Agenda.

All items listed within this section entitled "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 14, 2021.

2B. The Administrative Manager recommends approval of the following invoices:

1. Verdeja De Armas Trujillo invoice #29162 dated February 19, 2021 in the amount of $8,025.00 and invoice #29329 dated March 3, 2021 in the amount of $2,675.00 for the third and final installments in connection with the audit of financial statements at September 30, 2020.
2. City of Coral Gables invoice for October 1, 2020 to December 31, 2020 in the amount of $80,102.41 for expenses of the Retirement System paid out of the General Ledger account of the City.

A motion to approve the Consent Agenda was made by Mr. Easley and seconded by Dr. Gomez. Motion unanimously approved (10-0).

3. Comments from Retirement Board Chairperson.

No comments.

4. Items from the Board Attorney.

Mr. Garcia-Linares informs that it has been relatively quiet from a legal standpoint. Things have been calm. Dr. Gomez asks if they are up to date with the individuals who were overpaid. Mr. Garcia-Linares answers affirmatively.

5. Update of the Pension Administration System RFP responses by Yolanda Menegazzo of LagomHR.

Ms. Menegazzo reports on the latest update. They received the data for the active members' history report from IT. GRS is currently identifying any discrepancies and will be sending it back to IT for a final review. This is the report that will be uploaded into PensionSoft which will permit the benefit calculations for the active members. That report will be run on a bi-weekly basis for the payrolls happening in the City and GRS will be uploading it into PensionSoft.

They have received what the online pay statements will look like for the retirees. It shows the pay period gross wages, the deductions, the bank name, the net deposit, etc. It is very simple and easy to read. The retirees will have access to go in and see all of their monthly payments, which was basically one of the biggest concerns from the last meeting. Mr. Garcia-Linares states that the question that came up at the last meeting was whether there was a notification going to the retirees as to the fact that that money had been deposited there in their account. Is that notice now going out and then they log in and see this? Ms. Menegazzo informs that issue was discussed at their weekly meeting and PensionSoft has the capability of doing a type of mail merge that the Retirement Administrator would send out the notification saying that they got paid and to access your direct deposit notice click on this link. The system is capable of sending out messages. However, Ms. Groome mentioned that the way active employees do not get an alert that their direct deposit notices have been posted online because they know when payday. They know when to go online to retrieve their pay notice. Basically, the system is capable of sending out notifications.

Dr. Gomez thinks it is good practice to stay in communication with the people in the plan and them know how things are going. Being retired himself, he feels very comfortable when he receives regular notice when there is going to be a change and how things are going. He knows they have had minimal people complain because of the changes, but he thinks it would be wise moving forward sending an email or communicating from the Retirement Office to everyone to let them know where they are and where things stand. Vice-Chairperson Mantecon believes that when people get used to certain process, communication is always important anytime there is any change to any process. Everybody always assumes the worst. When there is communication people can prepare for change. He thinks it is important to have a decent amount of communication with people, so it does not come back later and be a surprise to them.

Ms. Menegazzo states that she can prepare a notification, or something announcing the new features and then send out another notice when it is officially accessible for them. Ms. Groome comments that what she understood is that they do have a capability of sending lump of the emails, but it was explained that the emails go into the spam of those receiving the email. Then it was mentioned that they could send the email batch to her so she could send it out to the retirees. Also, she does not have every single retirees' email address. That is why she suggested that they use the same method as the City does with their employees. The employees were informed of where they could go to retrieve their direct deposits and that is where we go to see the notices on payday. She suggested that they send out a notice to the retirees informing them where they can log on to view their monthly notices because they know they are paid every month. She does not mind sending out notices and communicating with people. Hopefully, when people start getting on the PensionSoft site that they will enter their emails in the system, and they can have the majority of the people's email so notices can be sent to them.

Mr. Nunez states that PensionSoft should be able to send out the emails. The fact that it goes into automatic spam, they should have an email that is sent once and then have everybody add that email to their contacts, so the emails do not automatically go into spam. You only have to notify them once and then PensionSoft should be able to take that over.

Mr. Garcia-Linares states that the notification should be sent out in March telling people about what information they are going to get. Include a copy of the sample notices. Include the email address the emails are going to come from and tell them to add the email address to their contact list so the email does not go into spam. Then they can get PensionSoft to send the emails directly to the retirees.

Dr. Gomez asks where they are on the timetable. Ms. Menegazzo responds that they are on track. Since they received the data file from IT, they are full speed ahead for everything. Months ago, PensionSoft configured the system so that the benefit calculations can be done, and it has been tested and it is accurate. The data import was the last major component. It is going to be a much faster process now they have the data file. They are still on track to finalize everything by the end of spring.

Vice Chairperson Mantecon asks if there are any other issues any other problems that Ms. Menegazzo sees going forward from here on out. Ms. Menegazzo replies that she does not and thinks that everything is going smooth. They need to figure out the email with the spam and make sure they communicate with as many members as possible when they send out the notices. She will get back with PensionSoft and work with them on that.

Dr. Gomez asks Ms. Groome if she has any comments as to where the processes is and how comfortable she feels. Ms. Groome responds that Ms. Menegazzo reported correctly and everything is going well. Dr. Gomez asks if there is anything she would change at this point. Ms. Groome answers negatively. The software is very simple to use and manage. They people they have been working with have a good back and forth. She is just waiting for the final product.

6. Presentation of the draft 2019-2020 audit report by Verdeja DeArmas Truillo.

Octavio Verdeja addresses the Board. He introduces Tab Verdeja and Michelle Del Sol who will be doing the presentation of the audit. He thanks the Board for allowing them to be the auditors for the past three years. This is their 50th anniversary for the firm in Coral Gables. They have been in Coral Gables since day one. The audit is a clean opinion with no material weaknesses and no significant deficiencies. The assets were up, liabilities were down, net position up and everything went in the right direction. Tab and Michelle will present the highlights for the year.

Mr. Tab Verdeja gives a summary of the financial statements. The financials have been reviewed in detail by the City of Coral Gables. The net income or the total increase in the plans assets was $29,739,459. Last year there was a loss of $8,460,083 so it was quite a significant change. It was due to the move in the investments and also due to a small decrease in the benefits paid as compared to the prior year. It is a clean opinion. They had no material weaknesses or findings and internal controls. Ms. Del Sol will go over some of the internal control testing. The main areas that they test in the audit are contributions, benefit payments, eligibility into the system, the movement in investments and internal controls. They also review the actuary report. The plan membership as of 9/30/2020 is similar and consistent with the prior period. There were some slight increases in current employees. He shows a graph of the investment asset allocation. In a Covid year a lot of the organizations they audit that had investments or endowments pulled back and took everything out of investments and put it in cash or fixed income. They missed all the gains for the past six months. This Board was very prudent, and the investment advisors changed the actual allocation. They kept it similar and were aggressive and that is they have that $20 million bottom line in the plan. The US Government funds were up $12 million from the prior period, corporate bonds were up $9 million and common stock up $8.3 million. Those were the significant movers that helped drive that bottom line.

In 2020 the actual investment return was around 11%. That has been the highest since 2017 when it was around 15%. It was a great year in the market. The actuarial investment rate assumption was lowered 5 basis points every year for the last three years to eventually get to 7.5% for fiscal year 2021. The investment assumption rate was 7.55% for the 2020 fiscal year. The funding status of the plan from 2015 to 2020 keeps going up. The plan continues to be funded to the goal of a 100% with the City's additional contributions as well as investment gains. They were at 69% for fiscal year ending 9/30/2020. All in all, it was a great year for the Plan. They have until March 15th to issue the financial statements. They are working on the State Report, which is also due on March 15th. That report is about 75% complete.

Michelle Del Sol presents the management letter. In prior years, they have had recommendations resulting from the audit that have been centered around one concept of internal controls surrounding the Plan administration and the financial reporting of the Plan. They know the Plan is in the process of implementing the PensionSoft program but effective September 30, 2020 they emphasized that a lot of the processes surrounding the Plan were very manual in nature. The more manual processes are, the more propensity there is for just human error and any mistakes that could go undetected. Coupled with that manual nature of a lot of these processes was the limited opportunity at times for checks and balances internally without reliance on the actuary simply because a lot of times it was Ms. Groome handling the full administration of the Plan. That opportunity for the independent checks and balance, someone that could just review what Ms. Groome would prepare or vice versa, was limited during most of the of the time. Their recommendations have always been trying to find a way to reduce the manual nature of the processes while also enhancing the checks and balances where it is more internal and less reliant on the actuary's review. The good thing is that with the implementation of the PensionSoft system, which is underway and should be close to full implementation, that should really help to tackle their recommendations, which will certainly reduce the manual nature of a lot of the calculations. It should certainly help to mitigate a lot of their recommendations with respect to errors that could happen on the manual side and it also provides for checks and balances without really having to have extra personnel now. They did not change their recommendation from prior years simply because the software system is not fully implemented yet.

Vice-Chairperson Mantecon reviewed the reports. He likes the way everything was spelled out. Very nice, concise, and clear to the average layperson. Mr. Chircut lets the audit company know that they did a great job. Everything was done on time for the City's audit as well. They did a great job. Dr. Gomez states that he sat on a Corporate Board for 12 years and chaired the Audit Committee. He dealt with two big Companies that did the audit. He argued every single year because he could not make heads or tails out of their audit reports. This report is so clean, clear, and concise to read. It is extremely impressive. He expresses his appreciation to Mr. Tab Verdeja and Ms. Del Sol for the tremendous job they did on the report. He suggests that when they fully implement the software system to not hold back on policies and procedures, they think the Plan should have to their job. They welcome constructive criticism.

A motion was made by Ms. Gomez and seconded by Ms. Elejabarrieta to approve the audit report for fiscal year ending 9/30/2020. Motion unanimously approved (10-0).

7. Presentation of the 2014-2019 Experience Study by Pete Strong of Gabriel Roeder Smith.

Pete Strong of Gabriel Roeder & Smith presents the Experience Study report. Doing an Experience Study is something that is important for every pension plan to do about once every five or six years to true up all the actuarial assumptions with experience. They look at retirement rates individually for each of the four divisions that still have active employees; separation from employment or termination rates; rates of disability and rates of salary increases. They also look at actual cost of living adjustment experience because in the last Experience Study they had recommended pre-funding the COLA. They are no longer recommending that to be the case based on the current structure of the COLA. They also look at actual mortality experience compared to the assumption.

They did an Experience Study the covering the six-year period from 2008 through 2014 previously. So that experience was used to set the assumptions that have been in place for the last five years. They want to give some credence to the experience that happened during that period. What they do is come up with an assumption that blends the two periods of experience. They are looking at something to come up with an assumption going forward for the next five years that is in between actual experience and what they were assuming. They are not overweighting experience for either of the two periods but blending them.

They are recommending updating the future salary increase assumption for each division to reflect higher overall salary increases on average net of actual inflation. Actual inflation over the past five years has only averaged 1.5%. That is based on the CPIU looking from 2014 to 2019. Inflation has been unusually low for this period. They want to look at what the actual real salary increases have been net of inflation. They are recommending updating the inflation component from 2.5% to 2.25% and then change the payroll growth assumption from 3.75% to 3.0%. That is used to project the normal cost forward one year to the contribution. Each division had different experience and each division has a different impact. All the divisions saw an increase in their overall salary increase assumption from the last period to this period. The salary increase adjustments would increase the contribution by $991,198.00. It would decrease the funded ratio by .24%

Ms. Gomez states that she looked at the data and the actual experience compared to the expected experience. She also compared it to the previous Experience Study. When she looked at the experience detail for General Excluded and General Non-Excluded employees, the experience showed that it was going down. It was lower than what was expected and for Police and Fire it is higher. She can see how the higher amount would cause an increase overall, but why would the lower cause an increase and not a decrease to those individual categories. If she looks at the prior study when the experience was down, there was a decrease in all of it. It is not consistent. It did not make sense to her in a logical way.

Mr. Strong explains that looking at total General Excluded experience, the current assumption on average was 5.22% but they are assuming 2.5% inflation. The average real increase net inflation is 2.66%. They saw experience of 4.42% to but actual inflation was 1.53%. The actual real increase net of inflation was 2.85%. That real increase average is higher than the real increase of 2.66% that we are assuming. They are coming up with a proposal that generates a real increase in between those two of 2.76%. They are also reducing the inflation component from 2.5% to 2.25%. That does reduce the overall average. They were assuming that most of the salary increases happen in the first six years of employment. This is for General Excluded group. The current assumption was that people with zero to 6 years are getting salary increases of 7.25% and 5%. People with 7 years and more are getting 3.5% salary increases. What actual experience showed is that these salary increases of 7.25% and 5% are more spread out and not concentrated in the first 6 years of service. They varied more by age than by years of service. The reason you are seeing an increase in cost is the 3.5% increase is for ages 55 and older instead of for 7 or more years of service. The overall average looking at demographics for the last 5 years is slightly lower than what they are assuming previously. It is because of who is expected to get those salary increases now and the expected raises of 5% and higher are expected to apply to more people over the next 5 years.

Ms. Gomez thinks that the issue is that there is a skewing effect in this five-year data. They did a very comprehensive compensation study that was a one-time thing, and they gave a lot of increases that will not happen again. This was done in 2017 and 2018. She believes that is skewing these numbers. It is not a representative data. She does not believe that was taken into play in these calculations and she believes it should.

Mr. Strong states that the results did not materially differ from the previous 6-year period they just differed more by age than by years of service. If they look at over the 11-year period, there is bound to be compensation studies that are done at least once every 10 years or so. He knows she does not expect this to happen but experience over the last 11 years from 2008 through 2019 is not materially different. They have ranges of 7.25% to 3.5% from the previous Experience Study and 7.5% and 3.5% with this Experience Study. They are trying to come up with a best assumption they can. Ms. Gomez comments that it was a significant increase in 2017 and 2018 solely for that reason. She thinks that it really skews it. It is a large hit. It is going to cost them $1 million more in the contribution. She believes it is based on skewed information. Ms. Elejabarrieta adds to Ms. Gomez’s point. In addition to the Compensation Study that did provide significant increases in 2017 and 2018, they also provided very lucrative Collective Bargaining Agreements during that time also to make up for the salary increases. She agrees with

Ms. Gomez and believes the numbers are skewed. After reviewing the report, she did not see any language in it as to the impact of having a 401 option for new employees.

Mr. Strong informs that the 401 option is taken into account in the analysis of the separation rates. They looked at everybody who separated from the plan when they analyzed the separation rates. They can discuss that more when they talk about the separation rates. The fact that there is a 401a option now and a portion of the people are going to go into that plan, they are still trying to concentrate on what actually happened with pension experience itself. You can say discount the experience from 2017 and 2018 because of but they are trying to come up with a realistic assumption that will not result in experience losses going forward. They want to try and capture what is actually going to happen over the next 5 to 10 years. They are relying on the data that was analyzed.

Ms. Gomez understands but she knows there is an outlier that was significant. You can count the Collective Bargaining into the study as natural because that happens as a natural even though they know it was higher than normal. However, she disagrees that a compensation study would technically be repeated at some point in the future. It has not been done as far as the history at the City of Coral Gables. They have already changed the salary ranges so there is no need for another Compensation Study. She understands and agrees in theory, but it is a very large hit and is significant. She thinks it should be discounted for the effects of the salary increase.

Mr. Strong states that the advantage of implementing the changes they are recommending this year is that there is an offset with the mortality. The mortality went the other way this year for the first time in his career. The mortality is generating a significant savings and it helps to offset the other things that they are recommending. Ms. Gomez asks why not just give the value of the offset if the other things are not needed. Mr. Strong replies that if they are not needed then he agrees. It becomes guesswork though if they deviate from the data and go with something else. Ms. Gomez believes that it is reasonable to deviate from the data when there are obvious outliers. Ms. Strong asks if they are able to quantify the salary increases of the last five years. Ms. Gomez responds that the percentage increase in pay in the Compensation Study was significant. The amount varies by position title as a whole. She believes the HR Department has the data information. Mr. Strong informs that for General Employees they are looking at a combined increase of about a $168,000.00 on a $23.8 million contribution. It is minor for General Employees in terms of on a percentage. Ms. Gomez explains that it was not for only the General Employees. All employees got the increase. The Compensations Study affected Police, Fire and General employees. Ms. Elejabarrieta adds that the Compensation Study was done because raises had not been given out in over 10 years and the Collective Bargaining Agreements were so lucrative because raises had not been given out in 10 years. It was almost like a Compensation Study done throughout the negotiating process.

Dr. Gomez thinks it would be wise to ask the City and Mr. Strong to look at some of these issues and come back to the Board at next month's meeting. Vice-Chairperson Mantecon states that they are taking 10 years worth of changes that should have already been in place and they are assuming that it happened within one to two years. He thinks it might be something to look into. He tries to err on the side of being conservative he does not believe taking into account a one-off like that and assume it is going to be happening in perpetuity. He does not think it is a reasonable or good assumption to be making.

Mr. Gueits asks for Mr. Strong to explain how the increase in the inflation rate assumption plays with the assumed salary increases. If you increase the inflation rate assumption is there a net increase in the contribution? Mr. Strong explains that they break the salary down into two components. They consider that inflation is something that is going to be inherent and pretty much all economic assumptions. There is an inflation component and then there is a real net of inflation component. With the investment return assumption, if they assume it is 2.5% but the total return assumption is 7.5% then they are assuming a 5% real growth assumption net of inflation. They do the same thing with the salary since it is an economic assumption. They break it down into the inflation piece and the real merit, productivity promotion assumption. They are recommending lowering the inflation component from 2.5% to 2.25% which is a cost reduction because the core component of the salary is going down. What they observed from experiences is that the real component, net of actual inflation, was a little higher than it had been assumed to be. Even though they are bringing the inflation component down, the real component is going up which creates a net overall increase. Mr. Gueits asks what the net effect is if you couple that with an assumed salary increase. Mr. Strong responds that the net effect overall is an increase in cost. If the real assumption goes up that is offsetting to inflation going down. If an increase in the real assumption is higher than the negative inflation adjustment, you will still get a net increase in total salary increase assumption. That is why they are seeing an increase. Mr. Gueits states that the inflation rate assumption is canceling out the investment rate. Mr. Strong explains that the inflation component is going to put downward pressure on the investment return assumption.

Mr. Nunez comments that the 10-year raise was basically done over two years. In the past study was the lack of raises accounted for in it? Mr. Strong answers affirmatively. They reflected the actual experience during the previous study. Mr. Nunez states that everything is averaging out with this study. Mr. Strong explains that they reflected actual experience from 2008 through 2014 and then looked at actual experience from 2014 to 2019. They blended the two because they targeted a new assumption that is in between the last assumption in the current assumption.

Ms. Gomez reiterates that she is concerned about the outliers with the salary assumption and her recommendation is that they factor in some kind of discount for the for the outliers. They need to look at that data and possibly discount the results of it. It is a large hit. Mr. Gueits asks if they can smooth it out over the 10-year period for that specific item. Ms. Gomez states that they have to be forward looking because of the fact that most likely there will not be another Compensation Study done. Mr. Strong informs that they can work separately with the with the City and with the HR Department to try and separate exactly what the raises were due to the salary study. They also need to keep in mind that the raises were probably artificially low during the previous time period. He thinks that looking at the whole 10 years of history is a good idea.

Mr. Strong moves on to the retirement rates. Retirement rates deviated from expectations. The rates of retirement were generally lower than expected except for Firefighters who had a higher rate than expected. Because of this there is an increase in costs as a result of the new proposed rates. The experience showed that people are tending to retire at the most ideal time to maximize their retirement income. For Police Officers they are seeing that they are waiting to retire when they reach their 25-years of service when they max out their benefit at 75% and not when they are first eligible to retire. For people who are going to wait and retire when they have the maximum impact increases the cost. It is about a 1% to 1.5% increase to the cost, and it does not do much to the funded ratio either. It goes from 65.1% to 64.9%. It is a relatively minor impact but gets the assumptions more in line with experience.

Ms. Gomez does not see consistency with the prior year Experience Study. When experience was down in the prior Study the amount was down and it was a decrease in the cost. In this Study, even though experience is down there an increase. It does not seem to match to the last Experience Study in the direction of the experience equating to the dollar amount. Logically it does not make sense. Mr. Strong explains that it has to do with who is retiring and when. There are some buckets where the retirement rates went up particularly at age 62. They are expected everybody to retire by the time they reach age 62 for General and General Excluded. Even the younger rates are lower than they were before. They have a big retirement probability that means people are retiring when they max out. They looked at the experience in four or five different ways. They picked the one that had the strongest trend actuarially speaking. They did not cost them out until they saw what made the most sense with the trends they were observing. They did not see a trend that that would apply to keep the current assumption. After they came up with where they thought the best trends were then they costed it. They came up with the most logical assumption for the future and then costed it.

Mr. Strong moves on to the separation rates. They saw different experience for the different groups. They saw higher separation rates for General Excludable employees and Firefighters and lower separation rates than expected for non-Excludable General employees and Police Officers. This is a detailed assumption. They made sure to exclude people from the analysis who were transfers to the 401a plan and removed them from the experience. There were not a lot of separations on account of the 401a transfers. Most of the 401a participation is new people choosing to enter the 401a. It is about a $83,000.00 cost increase and the funded ration would go from 65.1% to 65.04%.

Ms. Gomez asks if the breakdown between male and female completely necessary. That breakdown led to an increase. Mr. Strong explains that they split it out to more accurately reflect the probability of separation and if it is a significant deviation between the two where they did not see a significant deviation. Breaking down between males and females is not going to affect the cost very much because you are still going to assume that the overall separation experience is approximately the same. If you have higher separation experience for females that is going to save you some money because females tend to cost a little more because they have a higher longer life expectancy. People that choose the pension plan tend to stay longer in the plan. The prior assumption and actual experience show that actual experience was very low. They want to try to reflect the fact that people are staying in their jobs versus having high turnover.

Mr. Strong moves on to the disability assumption. They have been assuming for the last five years that that actual disability experience will match FRS and FRS updated their disability assumption with the same Experience Study that they updated their new mortality table. Overall, the new disability assumption from FRS saw a slight decrease in disability rates. Where they are seeing deviations from FRS experience is for non-Excludable General employees and for Police. General Excluded employees had zero disabilities. They expected 0.53 during the five-year period and over the entire past 11 years they expected 0.81 and they had zero. General Excluded employees tend to be white collar workers. You are not going to see much disability experience among General Excluded employees. They are fine staying with the current assumption of FRS disability.

Ms. Gomez states that the current expected disabilities is 0.53% but now it is going to be 0.41%. Mr. Strong informs that he applied the same 2019 new FRS disability rates to all the past 11 years, and they would expect the 0.81% if those new rates applied to the past 11 years. They have a very low incidence of disability. It is difficult to use just five years to set a disability assumption when you have a couple of a few exposures and only one or two disabilities. For non-Excluded General employees, they were expecting 1.07% disabilities using FRS rates and they actually had three. Ms. Gomez informs that her concern is that their data is a very small population. Why not just use FRS as it is? She understands that there were six disabilities over the past 10 years but there has been a lot of changes in the way they do things over the past 10 years. They have many more safety precautions than they had 10 years ago. The data is so small, and the disabilities are very infrequent. Why not just stick with the FRS recommended rates? Mr. Strong responds that they are getting consistent experience losses and when that happens it is time to update the assumption. Mr. Chircut comments that the FRS rate they are recommending is 0.81%. There was no actual disability, but they are using that because it is the standard. In the last 10 years they had six incidents. They are recommending to not use the FRS at 195 but 486 and he thinks that is a little much. You will go back to the FRS rates if it is zero. You are going from one side to the next. Mr. Strong believes the FRS rates include a lot of white-collar type positions. It is all regular class. It is like combining Excluded General employees with non-Excluded General employees and looked at all of the experience combined. They have separate assumptions for non-Excluded General employees and Excluded General employees because the groups are different. FRS combines their Excluded General employees and non-Excluded General employees together and Coral Gables does not. He thinks that delineation itself justifies using a different assumption than FRS. If over the last 10 years, they only had 3 or 4 disabilities he would be fine staying with FRS assumption but they 6 which is three-times more than what was expected. Maybe 2.5 times the rate is a little much and they could do 2 times the rate instead which would bring them to 3.9 instead of 4.8. He thinks the demographics of this group justifies a little bit higher disability assumption than FRS. Looking at the Police, they had almost 8 times the disability experience in the past 5 years than what was expected. They had four and those disabilities created experience losses each time. The disability benefit is a high benefit. You get 75% of total wages. It is a higher benefit than the FRS benefit. If you applied the new FRS rates, they expected 1.13 and they had 6. The new rates come out to 4.5. He would be alright with bringing it down from 4 times to 3 times then they would be looking at 1.5 expected disabilities instead of 2. FRS disability benefit is not as lucrative as this disability benefit. In FRS there is more incentive to stay on the job and get your full retirement benefit. It justifies in a municipal plan having a higher disability assumption than FRS. Dr. Gomez points out that another way of looking at it is to look at the City's Policies and Procedures in place and make sure that they are consistent and up to date when they apply them to declare an individual as disabled or not disabled. Mr. Strong informs that his goal is to prevent the Plan from incurring experience losses, and he wants the assumptions to try to reflect the data and forward-looking expectations as much as possible. Ms. Gomez agrees. At the same time, they have to consider the impact to the funding source, which is the City and how it is going to affect additional contributions to the Plan. If it is not absolutely necessary, then they may want to consider if they have to do the changes all at one time or because there is a decent sized offset. Vice-Chairperson Mantecon states that the facts are there. The facts are the facts and there are six people in the last 10 years that went out on disability. There has been no outlier. There has been no catastrophic event. There has not been a riot that caused three or four Police Officers to get hurt. They have to go by what the facts are. Dr. Gomez sees both points. They also have to consider environmental factors and living conditions they have gone through in the past year. There are more diseases being identified that could lead to partial or full disability. Realities are realities and those rates will continue.

Ms. Gomez does not deny disabilities are happening and did happen. She wonders if they need to multiply it by 2.5 times or 4 times of what the what the what the recommended FRS rate is which has a bigger population. FRS data is more credible, and this Plan has a smaller population. If Mr. Strong believes he can lower the recommendation and be comfortable with it then they can find middle ground to make the argument that it is safer to use the FRS. Dr. Gomez states that if you live in a small town compare to an area as Coral Gables the chances of disability for Police or Fire is greater. Mr. Strong informs that they tend to see higher disability rates in South Florida than throughout the State. He thinks Dr. Gomez has a good point that the FRS covers a lot of rural areas, a lot of County plans and in Central and Northern Florida disability rates are lower than South Florida.

Mr. Strong moves on to the mortality rate. This is the first time in his career that a change in the mortality assumption resulted in lower life expectancies looking ahead than the previous assumption. The main reason that the life expectancies are lower is because the mortality improvement projection skills resulted in less mortality improvement going forward than the previous one did in 2014. It is creating across-the-board, more for Police and Fire but for all groups, a cost reduction and increases the funded ratio by 1.3% because it lowers the liability in the Plan. You are seeing 1-to-2-year different decreases in life expectancies. It is about a $1.4 million decrease in the City's contribution. It is a great offset and was not expected is something. A lot of the Plans he consults are using this to help strengthen or make more conservative their other assumptions. Across the board the new mortality rates create quite a significant decline in life expectancy and it is interesting that this whole study was done before Covid. It is based on the years 2013 to 2018 and was completed in 2019. A lot of people believe Covid is going to be short lived, and the impact is going to be temporary for a 1-year or 1.5-year increase in mortality rates and then level back down. The next FRS Experience Study they will probably see an upward mortality experiences for the 2020-2021 period.

Mr. Strong states that overall if you look at all of the impact of salary rates, retirement rates, separation rates, disability rates and mortality rates, there is a $397,000.00 increase which is in-line with the impact of about an 8 to 10 basis point change in the investment or an assumption. Overall, it is about a 1.5% increase in the contribution. Your total liabilities would go down. Your increase is driven by an increase in the normal cost of each year's benefits being earned, but the overall liability would go down so that the funded ratio would go up to 65.9%. Once they layer in the already scheduled 0.05% reduction because all of these numbers were done as of 10/1/2019 when they were using 7.55% as the investment assumption rate. Once they factor 7.5% the total increase is $639,000.00. They had a strong return during fiscal year 2020 11% when the gains from fiscal year 2020 are layered on to the 10/1/2020 results he has a feeling that most of that $639,000.00 increase will be offset by positive investment experience. He believes the contribution for fiscal year 2022 will be under $24 million even if you adopt all of these changes. If they lower the investment return assumption to 7.25%, which they are recommending, the overall increase would be about $1.87 million, and the contribution would be $25.7 million, and the funded ratio would go down to 64.1%.

Mr. Strong reviews the investment return analysis. They worked with Dave West to obtain the specific details of the asset allocation. Then they applied the assumptions they get from 13 different investment consultants and the short-term outlook is grim. The next 10 years they were expecting a 50th percentile of 5.87% on the return assumption with a 27.4% chance of exceeding 7.55%. On a long-term outlook they are assuming a 50th percentile of 6.7% and a 38% percent chance of exceeding 7.55%. They blended the short term with the long term and overlaid it on the cash flows. They took the actual projected cash flows the Plan assumed. If you get 5.87% during the next 10 years but get 6.7% over the long-term period, you need to get 7.19% and years 11 to 27 to get to 6.7% and total for the next 27. If you earned it over the entire 27-year period, you would break even assuming you are taking into account the actual cash flows of the plan. That single equivalent rate was 6.56% The best estimate for a 27-year horizon is 6.56% at the 50th percentile. The Plan is currently coming in above the 50th percentile on a regular basis but assuming it did not hit the 50th percentile, 6.56% is their best estimate. They have 13 different consultants they draw from so each can range as much as 50 to 75 basis points. So, based on the range of 50 to 75 basis points, they believe a reasonable range would be 6% to 7.25%. They do not believe it significantly deviates from the reasonable range but believe they should target getting the investment assumption rate down. Going down to 7.25% or 7% should be the goal of this Board. You do not have to do it all at once. They have been trending down .5 basis points a year. They are recommending they continue to trend down. That is where plan all plans are going.

Dave West of AndCo states that they have this discussion every year. They encourage discussion that lowers the rate of return for the reasons Mr. Strong has stated. They also suggest that this is done in a manner that is consistent with the general plan that is in place right now so that it has a minimal impact on the City's required contribution. What Mr. Strong is presenting is a potential way to get these assumptions adopted and to have a minimal impact. He is not sure that it is going all the way to 7.25% but moving in that direction. Their perspective as the investment consultant is to use the forward-looking Capital Market assumptions in their modeling and as this Board knows they have had these discussions in the past. Forward-looking Capital Market assumptions are assumptions, and they go into an assumption-based model. It is a baseline. It is a great way to try and predict what future returns will be but again from their perspective it is one methodology. Now consistent with what Mr. Strong was saying they use the JP Morgan Capital Market assumptions and have reduced the return expectations looking forward for the primary asset classes that the system is involved in. However, at Andco, they think it is important they consider historical perspective. They also use rolling 4-year historic returns to come up with their calculation. If you recall at previous meetings, he presented some perspective on this and were working this up for the pending Workshop with the City Commission. In a nutshell looking at 40 years of annual data, at an interest assumption rate of 7.5% they had a basic 60/40 portfolio with domestic, international and bonds they exceeded the 7.5% in 27 of the 40 years or 67.5% of the time. You have to lower the investment assumption rate down to 6% to get one more year where they exceeded that rate of return assumption. That takes the number from 28 observations to 240 observations. In the past the point here is when they miss it, they miss it in a big way because it is a bear market event year. This pulls down the returns significantly, so it really does not matter what the assumption is taking that perspective and they would not be changing the portfolio allocation even if you bring it down to a 7% allocation. He is suggesting that there is a happy medium here. They are trying to apply forward looking, backward looking and the third part of the process is to apply some practical considerations when they establish the portfolio. They would encourage any modest reduction in that rate and encourage it be done in a manner that does not disrupt the current program. The City is making contributions in excess of what is required every year and that has been very beneficial, and they would not want to jeopardize that program. Mr. Strong informs that he is not suggesting they need to go to 7.25% all at once. He thinks that a measured approach is fine. If they continue to go down 5 basis points a year, they would be at 7.25% in five years. He thinks each of those steps would still not fall out significantly outside of their reasonable range.

Mr. Strong continues. Mr. West mentioned that 27 out of the last 40 years they exceeded the 7.5% target but what they have to look at is what the compound average return has been because when you miss it, you miss it by a lot which brings the compound average way down. The compound average return matters when you are looking at in the next 50 years of funding the pension plan.

Ms. Gomez states that the City has been committed to lowering the interest rate each year by 5 basis points. She is recommending that the Board have Mr. Strong look at the salaries and maybe look at the 10-year or look at the outliers of the Compensation Study to see what difference that may result in. She still feels that the disability should probably be lowered. Then they can see where they are at with those changes so they can make a better decision as to which ones to implement. Implementing everything in any one year is expensive from a City standpoint. They are trying to put every extra dollar towards reducing the unfunded liability in order to get that unfunded liability paid off in a in a quicker timeframe. She wants to make sure they are looking at it and are not just making changes for the sake of making changes. They need to agree to look at those few things in order to a place where they can feel more comfortable with the overall fatality. Vice-Chairperson Mantecon agrees. He thinks a few items could be tweaked. It makes a lot of sense. He thinks that a few things were raised merit a second look.

Mr. Strong recommends that they look at salary and he will work with the HR Department and Ms. Gomez to try and isolate the impact of the Compensation Study and also look at the last 10 years of total of salary increase experience. They can tweak the disability assumption as well from 2.5 down to 2 times for non-Excluded General employees and from 4 to 3 for the Police.

A motion was made by Ms. Gomez and seconded by Mr. Chircut to have Mr. Strong look at those areas and come back with a revised experience study. Motion unanimously approved (10-0).

8. Investment Issues.

Mr. West reports on the investment performance. They are modestly overweight in domestic equities largely due to appreciation. They are at 41.7% versus the target of 40%. They had the opportunity to take some profits to get back to target and that is approximately $8 million dollars. The domestic fixed income is at 14.7% versus the target which is 2.8% percent underweight. These allocations on the margin have been helpful for them. They are in a wonderful position when you look at these returns to take some profits and pare back some of the equity allocation and move that into next couple of quarters to the NT cash account for operating funds.

For February the fiscal year to date is at 13.29%. They are nicely ahead of their self-imposed policy benchmark. The one-year number at the end of February is 23.7%. The three-year number was at 11.18% and the five-year number was at 12.75%. The value managers have outperformed, and they have participated more than 100% there. Eagle Capital was at 27.9% fiscal year to date. Brandywine was at 26% fiscal year to date. Your RBC International Equity up 34% fiscal year to date. The International Equity value orientation is a very good manager with a stupendous track record and outperformed both the core index and the value benchmark. These were your biggest contributors to returns for February and fiscal year to date. Regarding cash flow, the bottom line for the month is they had $5 million going out for distribution. They had $520,000 income, $12,103,000.00 earned from appreciation. That left $481,164,000.00. Fiscal year to date they have earned $3.9 million in income and $55 million in net appreciation. They had a net outflow of $8 million for benefit payments.

He included a summary memorandum describing their recommended rebalancing. The bottom-line recommendation is to take $6 million from the S&P 500 Index Fund and bring some of that growth overweight down in International Equities little bit closer to equilibrium. That would entail selling $3 million of the WCM fund. They will be transferring a total of $9 million to the NT cash fund and that will get them through the next couple of months for operating funds looking forward.

A motion was made by Mr. Gueits and seconded by Mr. Easley approving the recommended rebalancing. Motion unanimously approved (10-0).

Dr. Gomez asks Mr. West's opinion on the stimulus bill being signed today.

Mr. West states that it is a massive stimulus bill that hopefully pushes economic growth that will continue to surprise investors to the upside. He thinks the faster the vaccinations can be distributed the more likely these forecasts are to come to pass. The marketplace is suggesting that there is a lot of investor optimism out there that the more the sensitive areas should recover and hopefully surprised us all to the upside with the earnings that come out faster than hoped recovery in the economy. Looking at the general consensus opinion for all the smart financial people out there and market participants it is suggesting a positive outcome.

9. Old Business.

There was no old business.

10. New Business.

Dr. Gomez asks for Ms. Gomez to give the Board a quick rundown of what is going on with the City. Ms. Gomez informs that the City is in the process of finalizing the financial statements for fiscal year 2020. They had a projected budget shortfall of about $8.2 million. They did cut down expenses in fiscal year 2020 and the results of fiscal year 2020 show that they are breaking even after reducing their expenditures with very small increase of about $1 million dollars. They did fairly well for fiscal year 2020 on their projections and cuts they did as a result of the loss of revenues from last year for the current fiscal year. They projected a $12.6 million dollar deficit, so their expenditures were reduced in order to meet that expected revenue budget. They had a lot of budgetary cuts throughout the year for the first quarter. She presented to the budget to the Advisory Board and sent it to the City Commission about two weeks ago. There is some talk about some stimulus money coming forward to the City of Coral Gables, but they do not know yet what that is going to mean. She does not know how that is going to come to play; if it is going to replace lost revenue then obviously that would be great. They do have 25% allocated in their fund balance reserve and about $4.5 million that is pending from FEMA for a hurricane Irma. They are at about 22% of where they should be based on their policy of 25%.

Dr. Gomez asks for Mr. Garcia-Linares to discuss with the landlord about the office lease. Also, in a month or so from now they will have a new Mayor and two new Commissioners. They should try to have the joint meeting. If there is a spacing problem, they may be able to get a space at the University of Miami. Mr. Strong states that if they have approval on the new experience assumptions at the April meeting then it is likely that we will have the Valuation Report ready at the May meeting. Usually, the Board likes to focus on the Valuation Report and then have a joint meeting at the next meeting. He believes in the past that joint meeting has been in June. Dr. Gomez informs that he has no problem with that. He wants to continue the good working relationship that they have with the City.

11. Public Comment.

There was no public comment.

12. Adjournment.

Meeting adjourned at 10:23 a.m.

APPROVED

MICHAEL GOLD
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER