

Regular Meeting
Board of Administration
Tacoma Employees' Retirement System
10:00 a.m., May 14, 2020

**Regular Meeting
Board of Administration
Tacoma Employees' Retirement System**

10:00 a.m., Thursday, May 14, 2020
The meeting was held online, with dial-in available for the public

Minutes

Call to Order

Sam Bencoter, Vice Chair, called the meeting to order on Thursday, May 14, 2020 as the Mayor delegated her Chair role for the duration of the meeting.

Roll Call

Members Present: Mayor Victoria Woodards, Sam Bencoter, Gordon Cavanaugh, Andy Cherullo, Matthew Hedges, Kim Moore, Jim Sant, Jonathan Schlaudraff, Tadd Wille and Wayne Reed

Members Absent: None

Investment Advisory Committee Present: Dr. Kevin Boeh, Dr. Alva Butcher, Geoffrey Curran, Lynda Livingston, and Michael Thomas

Investment Advisory Committee Absent: None

Others Present: Tim Allen, Retirement Director
Catherine Marx, Asst. Retirement Director
Kathleen Mason, Recording Secretary
Charles Lee, Deputy City Attorney

Presenters: Felicia Bennett, Wilshire Associates
Brian Bubrick, Wilshire Associates
Ali Kazemi, Wilshire Associates
Mark Olleman, Milliman
Daniel Wade, Milliman
Julie Smith, Milliman
Claire Armstrong-Hann, Milliman

Citizen Comments

Will be accepted in written form at TERSretirement@cityoftacoma.org and will receive written acknowledgement upon receipt. There were none received.

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Consent Agenda

The March 14, 2020 meeting minutes will be approved at a subsequent TERS Board meeting.

Old Business

Investment Update

Tim discussed the global pandemic situation and the substantial impact it has had on the global economy and the investment portfolio of TERS. He cited the speed of the crisis: in 2008, the high yield option adjusted spread (OAS) widened from 5% to 10% over an eleven-month period, as investors demanded higher returns to hold risky assets. This year the high yield OAS also widened from 5% to 10% - it took just 21 days.

He indicated that he has enacted several steps outlined in the Turbulent Markets Policy, including raising cash and harvesting coupon income from some managers rather than reinvesting. He cautioned that private markets will be slower to reprice, so there will be further downdrafts expected in these asset classes in the coming quarters. He noted the primary driver of TERS' underperformance versus the Policy Benchmark is a tilt in the public equity investments towards value.

New Business

Wilshire - Quarterly Investment Report

Tim introduced Ali Kazemi as the new co-lead consultant from Wilshire Associates. Ali addressed the Board and talked about his consulting background and experience.

The Retirement Board and Investment Advisory Committee had previously received the Executive Summary – 1st Quarter 2020 from Wilshire Associates in electronic form.

Felicia Bennett provided the Numbers in Context Report, providing the Board with background context for the subsequent investment performance results. She reported a significant decrease in the markets in the 1st quarter of 2020 from the significant increase observed over 2019.

Ali Kazemi Andrew provided the Total Fund Overview and reported that the Tacoma Employees' Retirement System's rates of return were as follows: -13.53% for the First Quarter, -6.41% for the one-year period, 2.13% for the three-year period, 3.14% for the five-year period, and 6.64% for the ten-year period ended March 31, 2020.

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New Business - Continued

Milliman – Actuarial Annual Valuation

The January 1, 2020 Actuarial Valuation had been previously distributed to the Retirement Board in electronic form. Daniel Wade provided an introduction to the report including the Actuarial Terminology and Funding Principles and the Board's Funding and Benefits Policy.

Claire Armstrong-Hann reported on the mechanics and elements used for the actuarial valuation consisting of data, assumptions, assets and a review of the plan benefits.

Daniel presented an in-depth yet succinct summary of the many exhibits contained in the valuation report. Daniel referenced recommendations that had been made by the Actuarial Audit and that they had been incorporated in this report. More recommendations will be incorporated in the Experience Study, which will be presented to the Board in September.

Julie Smith reviewed the Normal Cost Rate and other significant actuarial data.

It was reported that there was a relatively large difference between the 2019 and 2020 results based on the Fair Value of Assets, due to the 2019 return of 17.0%, which is 10.0% above the 7.0% assumption. Changes in the results based on Actuarial Value of Assets (AVA) are much smaller since they will smooth reporting of the 2019 asset gain over four years, while prior smoothed asset losses continue to be recognized in the January 1, 2020 AVA.

It was reported that at January 1, 2020 the \$1818.7M Actuarial Value of Assets was \$57.4M less than the \$1876.1M Fair Value of Assets. This difference is primarily due to a four-year smoothing of fair value gains and losses.

If only calculations using the Actuarial Value of Assets are used, the Funding Ratio of 98.0% is between 95% and 120% and per the Board's Funding and Benefits Policy, no action is required.

For the 2020 valuation, the Fair Value of Assets basis reaches the same conclusion as the actuarial assets. Using the Fair Value of Assets, the Funding Ratio of 101.1% is between 95% and 120%, there is no UAAL to amortize, and no action is required.

The report noted that as of January 1, 2020, TERS was funded at 98% on an actuarial (smoothed) basis and 101.1% on a fair market value basis.

With the present 21% combined contribution rate, the Unfunded Actuarial Accrued Liability (UAAL) has an amortization period of 6.3 years, and decreased from last year's amortization period of 8.7 years. This shorter amortization period resulted from a decrease in the UAAL to \$37.3M from \$47.8M in the prior report. In addition, a slight increase in the Normal Cost Rate to 18.59% reduced the portion of the combined contribution rate available for UAAL amortization from 2.47% of pay to 2.41%.

New Business - Continued

Milliman – Actuarial Annual Valuation - Continued

Finally, an Experience Study covering 2016-2019 will be performed in 2020; this will be an opportunity to review all economic and demographic assumptions, including the assumed rate of investment return.

Retirement Director's Report

The Retirement Director's report serves as an addendum to the minutes.

Tim briefed the Board members on some City initiatives to deal with the budget issues, including voluntary unpaid furloughs for City Directors and a City-sponsored early retirement incentive.

Tim then provided background on a City IT project that will affect TERS' administration of benefits. He reported that with the latest changes in IRS tax laws, regular SAP payroll functionality can no longer generate pension checks properly starting in July 2020, when the next round of cost of living adjustments (COLAs) begin. The City would need to procure the pension module within SAP to do this. Currently, a more cost effective option would be to transition the payroll portion of TERS members to ADP's managed payroll services rather than procuring another SAP module or customizing SAP. ADP would satisfy both the immediate need related to pension taxes as well as providing a self-service portal (SSP) for members, which TERS does not have today.

Upon motion by Kim Moore, seconded by Andy Cherullo, the Board authorized the TERS staff and the City's IT department to negotiate with payroll processor ADP to provide pension payment processing services along with a self-service portal for a total amount not-to-exceed \$277,000 over a period not to exceed three years in duration with up to three optional one-year extensions.

Good of the Order

Retirement Transactions Report – March 2020 and April 2020

The Retirement Transactions Reports – March 2020 and April 2020 were provided electronically to the Board in the Board Packet. It was noted that the March 2020 report incorrectly reported the years of service – this will be corrected.

Additional Topics

None.

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Adjourn

Sam Bencoter adjourned the meeting at 12:30 p.m.

Melanie Panui

Melanie Panui
Recording Secretary

Victoria R. Woodards

Mayor Victoria Woodards
Board Chair