Chairperson Joshua Nunez calls the meeting to order and thanks all those who were able to attend the meeting. He begins the meeting with roll call of all board members. All are in attendance except for Michael Gold and Alex Mantecon. All City Commissioners are in attendance except for Mayor Raul Valdes-Fauli and Vice Mayor Vince Lago. City Manager Peter Igelsias was also in attendance.

The meeting is turned over to Dave West and Pete Strong for their presentation. Diana Gomez informs that Mike Tierney is participating by telephone and that the Mayor’s office has the number if he is available to call in. Commissioner Fors states that he will need to leave the meeting early to attend Court but plans to dial in and to return to the meeting to finish the remainder of the meeting.


Mr. West begins by informing he came on Board in 2007 as the Investment Consultant right before the crash and Mr. Strong became the actuary in 2013. Their purpose is to update the Commission on the primary issues, perhaps go back in history a bit and be sure it is clear of the exact challenges that are being faced and the possible solutions as well as an update on the current investment program in place. Mr. West turns the presentation over to Mr. Strong who continues informing as a general overview the current City contribution requirement is $24.2 million which is down a little from $25 million. The total actuarial liability as of 10/1/2018 based on past service is $601.7 million which is slightly up from last year. The actuarial value of assets as of 10/1/2018 is $382.5 million with market value gains being smoothed in. The
unfunded actuarial liability as of 10/1/2018 is $219.2 million which is a little less than the market value. The funded ratio at 10/1/2018 equaled to 63.6%. Over the previous six years, starting with 10/1/17, it was 61.7%, 60.8%, 59.4%, 56.6%, 54.3% and 52.1%. There has been a slow but steady improvement over the last six years. A lot of this is due to investment results but also due to the extra contribution made by the City.

2. Total funding sources.

Mr. West explains that Mr. Strong went back and ran the numbers from 1999-2018. Total funding has come from different sources. For any pension system there are usually three to four funding sources. Usually investment earnings contribute a much higher percentage of returns but due to market volatility and legacy decisions investments have made 40 cents on the dollar. For this plan that means investment earnings make up 40% ($297,944,000), City contributions make up 53% ($393,398,000), member contributions make up 7% ($51,118,000) and State money/other contributions are $1,902,000 which is very minimal in this case due to the structure of this program. Going back from 1999 to 2018, it has been extremely volatile. In 2002 and 2008 the chart shows volatility and these were very painful bear market periods. Investments fell woefully short in regards to the required rate of return set at that time. As a result, City contributions have been steadily rising. Employee contributions have also been slowly increasing and if you are looking for investments to pay for most of the benefit that is where most of the volatility came from.

Mr. Strong points out a page in his presentation explaining that the sheet is a backward extrapolation and rebuild of what the past 20 years would look like if the return on assets had been equal to the expected return on assets. It shows that the City contribution would have been much less now. The contribution would be about $10 million versus the $25 million range. This whole progression would have led right now to having about a 90% funded ratio if the returns had been expected. Mr. West adds that one of the very material changes was the implementation contribution moving forward from the City. There are intermediate times when there are periods of return when there is either excess or a shortfall and either way the City contributions remain the same. Looking back during the time when the plan did spiral, there was either minimal if any contribution made by the City at that time. He explains that the City contribution will smooth out market down turns and aide the plan to not revisit past practices. Dr. Gomez asks for Mr. West to explain the time when there were no contributions made by the City. Ms. Gomez points out that that the City has always made contributions and that there was a time when no contribution was made by City employees. Mr. Strong explains that the contribution requirement got really low in the 1990s and actually hit zero for a while. Commissioner Keon adds that the plan was also over 100% funded during that time.

At this time Commissioner Lago joins the meeting via telephone conference.

3. Required City Contribution breakdown.

Mr. West explains that when people outside the System are not aware of pension accounting and see a high unfunded liability number they that the Pension should be closed or want to
make changes to the System do not recognize that pensions are made up of two components. The first component is the unfunded liability and the second component is the employer normal cost. He refers to the graph in his presentation explaining that the red shading is benefits that have been earned and must be paid and the blue shading is the normal employee costs to participate in the plan. Back in the early 2000’s the Pension System did cost the City a lot roughly due to the benefits in place. In 2010 there was some pension reform efforts put in place and there were significant concessions for all three groups; Police, Fire and General Employees. The employees all agreed to begin contributing toward their benefits. If you look at the annual contribution from the City, the City is paying roughly 10 cents on the dollar for the everyday normal pension costs. Mr. Strong refers to the graph shown explaining that the red shading is the past expenses that the City is paying for because investment returns were not staying in line with expectations versus the blue shading which shows the current pension expenses. Mr. West comments with that in mind, if an issue will be attacked you would want to attack the issue that will represent the greatest problem and so the recent steps have been on attacking the unfunded liability.

4. Funding history.

Mr. Strong points out that as of 1/1/1999 the plan was fully funded at 104%. The funded ratio at 10/1/2012 was at 52%. There has been a stride to improve this. It will be a slow process and it will take time. Dr. Gomez asks what the State average is for funding of pension plans. Mr. Strong replies that it is around 80%. Dr. Gomez states that at the last Commission meeting Commissioner Lago asked if the System was healthy and it was answered that the System is at the average. He does not believe this system is at the average. He passes a handout to everyone at the meeting. Mr. Strong explains that the average around the State is approximately 83% to 84%. This plan is trailing that. It is hard to point at a specific reason why. Back in 2008, many plans dropped from 100% to 70% but this plan dropped to 52%. He believes this was due to unrealistic assumptions. Back then there was a 9% investment return assumption and now it is at 7.6%. There was also various COLAs and benefits granted. This plan has increased its funding by 12% and he would say this is a healthy change but the plan does not rank where other plans do in terms of funding.

Commissioner Mena recalls that it was reported that anything above 65% was good but he is not for certain if they said 65% or 70%. Ms. Gomez interjects stating that the report was delivered by the City’s auditors. They are not actuaries and may have based their responses on the clients they deal with and that may be their perspective. Commissioner Mena asks if there has been an evaluation to see how the extra contributions are affecting the plan and what the plan would have looked like minus the extra contributions. Mr. Strong answers affirmatively. They will discuss that later in their presentation. Mr. West explains that they need assets to make money and so a 100% investment return would be needed to close the gap. The more money put into the plan, the more money investments can earn and generate more funds to close the unfunded gap. Mr. Strong informs that the unfunded ratio as of 10/1/2018 was 64%. The net reduction of 40% has been due to the expected investment returns which make up 26%. The assumption changes make up 10% and demographic experience is 4%. Commissioner
Mena requests what the numbers look like from the last 10 years not including the two dips of 2002 and 2008. Mr. Strong advises that can calculate that.

5. Actuarial Assumptions.

Mr. Strong reiterates that the investment return assumption was 9% as of 1/1/1999. It changed to 8.25% in 2003; 7.75% in 2004; 7.65% in 2017 and 7.60% in 2018. He is recommending further reductions be made. The forecast has come down a bit in what investments will bring in. Right now the average return assumption is 7.2% and State average is 7.4%. FRS is at 7.4% now and has been lowering the return about 10 basis points. That is his recommendation to the Board, to continue to come down 10 basis points per year. Commissioner Mena comments that he remembered from the last meeting it being said that in comparison to other cities even in low times they still had a low return assumption rate. Mr. Strong informs the poster child in Florida is Clearwater. They had a 7% assumption rate even in the 1990’s. They knew the market would not do well forever. They also put in extra money to build up a cushion. They were well over 100% funded and still put in extra money. When the two recessions did hit they got hurt but had a 22% to 23% loss but only dipped down to 80%. Since that time they have returned back to 100% funded and they actually just reduced their assumption from 7% to 6.75%.

Mr. Chircut states that as the assumption rate of return goes down the liability goes up. Mr. Strong agrees explaining that it goes up because you are expecting less return on the assets and discounting those liabilities at a lower rate which increases the present value. Ms. Gomez adds that there was an agreement between the City and the Board that the Board would reduce the assumption rate each year by at least 5 basis points and when there was a gain year to reduce by 10 basis points. This increases the annual contribution of the City the more the assumption rate goes down. This past year the Board voted to reduce by 5 basis points and the previous year by 10 basis points and the City absorbed the extra contribution that was generated by this. She adds there is a plan to continue to lower it. Commissioner Keon asks what will be done this year. Ms. Gomez answers that the Board just did the lowering of 5 basis points last year. Mr. Strong explains that his recommendation has not been voted on by the Board as of yet. His recommendation was to go to 7.5% but the Board has not taken action on that yet.

Mr. Strong moves on with his presentation. The other assumption changes have mainly been the mortality changes. The Mortality Table changed several times. In 2016, the Retirement System was required to change to the FRS Mortality Table. Mr. West adds that this was something that there was no choice in as it was mandated by the State. Mr. Strong adds that it was a good thing because it puts all plans on the same footing. There is no fluctuation in liabilities. The Mortality Table is due to be updated as of 7/1/19. FRS is large enough to have their own Experience Study and set their own Mortality Rates.

6. Extra City Contributions to the Plan.

Mr. Strong states that four years ago after several workshops it was decided to attack the unfunded liability. The City decided to make extra contributions toward the unfunded. The City
began contributing extra money towards the UAAL (Unfunded Actuarial Accrued Liability) in 2015. An extra payment of $4,076,780 was made in October of 2015 ($1,876,780 for FY 2015 and $2,200,000 for FY 2016). In October 2016 an extra contribution was made in the amount of $3,273,396 for FY 2017. In October of 2017 an extra contribution of $3,347,274 was made for FY 2018. In October of 2018 an extra payment of $2,471,544 was made for FY 2019. Due to these extra payments the plan’s UAAL is $15.9 million lower than without the extra payments. The funded ratio as of 10/1/18 would have been 60.9% but is currently at 63.6%. That ratio would have been higher but due to the COLA it is not. There has been an improvement to the unfunded liability by 3%.

Mr. West advises that the decision was made at that time to leave the rate of return assumption as it was and to make that additional contribution effectively outside the system so that it could have a direct impact on the funding. If the rate of return assumption had been lowered it would not have improved the funding. Mr. Strong interjects explaining that his view is if there was an immediate reduction of the investment return assumption there still would have been a required contribution that was within the total City budget for total contributions and there would have been less that was calculated as extra payments. There would then be more money as extra contributions instead of required contributions. Ms. Gomez responds that by doing it that way the funded ratio would not have changed as much and by doing it the way it was chosen to be handled it was better for the Financial Statements of the City.

Vice Mayor Vince Lago and Chief Ed Hudak arrived to the meeting.

Ms. Gomez adds that this year there is roughly $3.9 million budgeted as the extra payment for the FY 2020. Mr. West explains that the approach was to come up with a reasonable rate of return for this system and to balance out what is the vision that is foreseen for the system.


Mr. Strong moves forward to the next slide. He explains that if the total contributions with extra payments continues increasing 1.25% per year, from total of $27.5 million in October 2018 to $27.9 million in 2019 to $28.2 million in 2020 to $28.6 million in 2021 and if all assumptions are fully realized, including 7.6% investment returns, which may be a stretch, and there are no other assumption/plan changes or Retiree COLA’s, the plan is projected to be 100% funded by the year 2030. Commissioner Lago asks what Mr. Strong meant by it may be a stretch. He wants everyone to be honest with themselves because if they are going to continue to increase the City contribution or the City’s taxpayer contributions, by 1.25% and they continue to add and add and add. That is a lot of money. He hopes there is no perfect storm. This is with hopes of meeting expectations and the City continues to provide the extra contributions. What is the chance that with this stretch and everything is perfect that they continue to have another eight years that they just had right now? Mr. Strong replies that you will never meet exactly your assumptions because investments are volatile. Demographic experiences will also not be met and that is why there are losses every year. Having volatile investments is the way to achieve the targeted to return. Commissioner Lago replies it is also a way to lose a lot of money. Mr. West chimes in adding that there is a tradeoff and there is a
slide to better explain this. He adds that at the end of the day the hard reality is that the outcome that is being predicted in the model will never exactly be achieved. Dr. Gomez comments that this is what makes him nervous. He adds that the Retirement System has been very lucky in having great people to keep them ahead in their investments. The bottom line is that additional money will need to come from somewhere now or later. If there is a downturn in the market any time soon the Plan could be down in minutes or wiped out immediately. He believes the time has come for the Retirement Board and the Commission to take a good hard look at where the Pension System is and to decide where to go from here. Mr. Strong adds that according to plan, if actual returns are 7.0% then the plan is expected to be fully funded in 2032. If actual returns are 6.5% a year then the plan would be fully funded in 2034. If the City continues the contributions and there are no COLA’s, no benefit changes and nothing else that could cause the liabilities to increase then things should be fine.

Commissioner Lago asks how good things were last year. Mr. Strong replies that fiscal year 2018 was good. There was a 10% return on the market the 4th quarter happened. Mr. West replies that the strategic matter on the table here is to put together a portfolio with reasonable probability of achieving what they would hope is a reasonable return assumption. Commissioner Lago asks where they are in the first week of June. Do they believe the plan will make the rate of return this year? Mr. West replies it’s not over until it’s over. Commissioner Lago replies that he would like a yes or no answer. Mr. West responds that with the recent correction given the recent volatility it is entirely possible. Commissioner Lago interjects to add that these are the very decisions that need to be made and he wants to be upfront that the plan may not be making these returns. Dr. Gomez comments that they are relying too heavily on investments and he would like to see investments as a positive like an add-on. Commissioner Keon comments that it was her understanding that pension plans are not to always be 100% funded. Mr. Strong responds that it is the goal to be 100% funded. If your ratio is in the 80’s and 90’s the plan is healthy. The plan is in the 60’s because of the steps that were taken. The plan is a healthy 64% because it is moving in the right direction. Commissioner Lago comments that he does not mean to be negative but everyone has been doing well in the market so that is not the best example. Mr. Strong points out that this plan has gone up more quickly than the average. The good news is that there is a cushion because the market has surpassed expectations in recent years and so the market value is actually higher than the actuarial value because there is about a 4% or 5% cushion.

City Manager Mr. Iglesias comments that the issue is that there has not been consistency. If you look back at past practices there was no consistent work at improving the unfunded liability. He believes that they could get out of this issue with consistently making the extra payments as the City has been doing as well with choosing reasonable assumption rates and reasonable contributions versus zero contributions. These are just numbers and they must stay the course. He thinks that with consistency the plan can return to 100% funding. Mr. Iglesias states that once the plan is 100% funded the extra payments will no longer be needed. Commissioner Mena adds that would also mean that the assumption rate would have to be brought down.

8. Investment Program.
Mr. West thinks that the City Manager’s explanation was quite good. They are not depending on investments to close the gap. It is a question of what are they expecting from investments. He explains that the goal is to establish an expected rate of return assumption appropriate for this System that will achieve a desire level of contribution from investment sources while balancing the associated costs required to achieve it. This recognizes that current funding levels do not provide sufficient assets for an investment program to earn it way out of the funding gap. They need money to make more money. They are in the second percentile in the pension plan universe. They are definitely doing the right things and they are outperforming. Mr. Hoff asks where both Mr. Strong and Mr. West would like the Assumption rate to be. Mr. Strong replies he believes they both would like the rate to be at about 6.5% to 7.00%.

Commissioner Lago asks how much it will cost to get there. Ms. Gomez replies every 5 basis points is $240,000 so it would be about $100,000. Mr. Strong replies that the total liability impact would be about $2.6 million so the extra required payment would be $26.5 million. Ms. Gomez believes the current approach is better because they funded ratio is going up quicker. There is a Resolution that says that the City will pay at least a certain amount so they are going to make that payment but it affects the Plan differently on how it looks on paper and it would be a more conservative Plan if the rate is lowered. However, the same amount of money will still be going into the Plan. It is more of a “win-win” to do it the way they have been doing it. Mr. Iglesias adds that they want to build gradually and it looks better from a financial standpoint to handle it the way they have by gradually making the required and additional payments. It gives the City more flexibility financially.

Mr. Hoff asks Mr. West what is his point of view. Mr. West believes that the rate of return and current portfolio is reasonable as it is right now. He agrees with Mr. Strong that if they can reduce the assumption rate it is a good thing long term but putting his investment hat on he is looking at the numbers and trying to see how they are going to make that number. If he goes back 30 years and runs the same portfolio that is in place today and run it against the number of times they have hit or exceeded the assumption rate at 8% versus 7% they have only achieved that number a handful of times more by going to a 7% return than a 8% return. The only reasons why they did not make it was because there was a major bull market correction and so it didn’t matter if it was 5% or 3%, they were not going to make it. Mr. Strong disagrees with Mr. West’s statement that it does not matter what the return assumption is. Mr. West continues explaining that he is suggesting that the actuary is looking at the iceberg and so it matters. From the investment consultant standpoint they need to achieve a number and so when they miss it they miss it and it has been due to the bear market. State law requires that the Plan be funded 100% based on the accounting measures of the actuary and so Mr. Strong is technically working toward 100% funding every year. Mr. Strong states that a 50 basis point difference in assumptions does matter. It matters stretched out over a 15 to 25 year period because whether you achieve a return assumption only a couple more times is irrelevant. It is where your compound average return is that matters. He provides the example of if your compound average return is 7% but you are assuming 7.5% you are consistently falling short on a compound average basis. It does not matter if you are over or under a few times it is the compound average over a long period of time. That is what goes into sound pension funding and targeting an ultimate funded ratio of 100%. He has actuarial practices to follow ad they
must come up with what they believe is the compound expected return and not just the number of times they will hit the return in a volatile market. The rate of return of 7% is where he believes this Plan needs to be and 7.6% is at the top range of reasonability in terms of being able to sign the reports confidently it is believed that it continuously needs to come down. Ms. Gomez adds that staying the course they are currently on is ok from actuarial standards and so if they make all of the assumptions at 7.6%, which will decrease because it was agreed to be lowered 5 basis points each year, but saying if the Board decides to stay at 7.6 they will make it there in 11 years. So whether it is 7.6% or 6.5% they must meet all assumptions.

Dr. Gomez suggests looking at the Funding Policy that was created a few years back, review it and perhaps amend it accordingly. He adds that the Board needs to come up with some ideas to recommend to the policy makers. The bottom line is he is still apprehensive. He believes that they have been depending too much on investments. Mr. Gueits thinks that they should focus the questions for them and that is whether they take more aggressive steps. He really liked Mr. Iglesias comments on consistency. Perhaps looking at something that is structural. Commissioner Lago comments that everything he has heard is in line with what he believes is their fiduciary responsibility in doing everything in their power to protect the employees’ pensions. Mr. Gueits agrees adding that the Retirement Board also does not want to lose any of the progress that has been made. Commissioner Lago states that he would like to get to 100%, and he believes that would be incredible. He would love to get to even 80% funded. Ms. Gomez comments that they are going to get there and it will take time but they will get there. Commissioner Keon comments that there is a plan set in place and the Board along with the Commission must be consistent and be careful with decisions that are made. She adds that she believes if the Plan is adhered to the Plan will work. She goes on further to say that the Commission has a whole City to run in addition to the pensions and there are many other needs with limited resources. Mr. Strong recommends moving down ten basis points a year. Commissioner Keon adds that perhaps this should be looked. She does not believe this generation or community as whole should have to pay for the past and definitely not all at one time. Dr. Gomez is asked by Vice-Mayor Lago for recommendations on ways to help in lowering the funded liability. Dr. Gomez replies that he has no specific ideas but he will meet with the Board and further discuss this and provide these details to the Commission.

The meeting is adjourned at 10:19 a.m.

The next scheduled regular Retirement Board meeting is set for Thursday, June 13, 2019 at 8:00 a.m. located in the Police Community Meeting Room, 2801 Salzedo Street, Coral Gables, FL.