CECIL COUNTY PUBLIC SAFETY PENSION PLAN

BOARD OF TRUSTEES
200 Chesapeake Boulevard, Suite 2800
Elkton, MD 21921
(410) 996-5250

BOARD OF TRUSTEES

Meeting Minutes

Thursday, May 12, 2022, at 8:53 a.m.

Present: Angie Blodgett, Stephen Brownhill, Steven Overbay, Wayne Tome, Ashely Ewing, Angelia Lawson (via teams) James Appel (via teams) Mary Allen

Guests: Sandy Biggs, Michael Zack, Ryen Sherman, Segal Marco Advisor and Lazaro Guzman, Empower (via teams), Tom Vicente, Bolton Actuary, Janice Twardowicz, Bolton,

Presentations: Empower and Segal Marco Advisors.

Call to Order: Due to technical difficulties the meeting was called to order at 0853 by Angela Blodgett.

Administrative Tasks/Old Business:

- February 10,2022 minutes were approved 1st James Appel, 2nd Angelia Lawson; Angie Blodget advised that according to the bylaws when voting for approval of the minutes via email it must be a unanimous vote by all board members before the minutes can be posted online.
- Financial Items: James Appel advised there were none.
- Human Resource Items: Angelia Lawson explained that the service awards luncheon was today honoring those employees with years of service. She advised to look for those individuals in the upcoming HR Pulse. She also added that there were 2 vendor changes with the Health Care System this year and if there are any questions to do not hesitate to contact HR.
- Discuss actuarial Study: Angie Blodgett, another meeting will be set up to discuss the actuary and the new ideas that have been presented.
- Amendment #9 Signature – Angie Blodgett inquired that the document is awaiting signature.

New Business:

- Empower/Prudential Buyout – By July everyone should see both your 457 deferred compensation and pension plan together.
- Subcommittee Update – Stated: They would like to explore an increase of 63.75 % at full retirement this would be a 2.55% per year versus 50% at full retirement with 2% per year.

Adjournment: Wayne Tome motioned at 10:49 p.m. to adjourn the meeting, seconded by James Appel, and approved by the Trustees.

Next Meeting – August 11, 2022 @ 8:30 a.m., Department of Emergency Services

Respectfully submitted,
Mary Allen

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Notes From Meeting

Thursday, May 12, 2022, at 8:53 a.m.

Investment Performance Presentations:

- Empower: Lazaro Guzman advised the board that Empower has completed acquiring of Prudential. There are no plan changes and business will be as usual. All teams from Prudential have moved over to Empower. Lazaro presented the Economic Review. He advised the U. S. Economy could weaken further over the next several months depending upon the path of the war in Ukraine and the behavior of energy markets. Looking.beyond the next several months, economic growth could accelerate sharply based upon an easing in energy prices and a recovery of service sector spending. Underlying economic and financial conditions are favorable, suggesting that spending and output should strengthen as the year unfolds. Real GDP growth of 3.5% is possible this year followed by growth of 3% in 2023. Lazaro pointed out that world equity markets rode a rollercoaster in the first three months of this year, with major stock indices suffering their worst performance in two years. The sharp increase in market volatility can be attributed to rising uncertainty pertaining to the Russian invasion of Ukraine and the outlooks for energy and commodity prices, inflation, and a sooner than expected shift in monetary policy. Lazaro continued the S & P 500 Sector performance adding nine out of the eleven S&P 500 sectors posted negative performance for the quarter, with Telecom Service, Consumer Discretionary, Information Technology, and Real Estate amongst the weakest performers. Technology related stocks experienced the brunt of the selloff sparked by rising interest rates, resulting in its worst quarterly performance in over two years. Lazaro explained on the U.S. Treasury yield curve that as expected, the Federal Open Market Committee (FOMC) raised the target range for the Federal Funds rate by 25 bps to a range of 0.25% to 0.50% at the March meeting, with further rate hikes expected through the rest of 2022. Federal Reserve officials made a dramatic shift in posture, conceding that inflation is a much larger problem than previously assumed. Lazaro reported on the Economic & Market Outlook that the U.S. real GDP is expected to increase by 5% this year, as economic growth is forecasted to be firing on all cylinders, with virtually all sectors supporting growth. All available evidence suggests that the U. S. economy could be on the brink of the most powerful capital goods cycle since the 1990's. Core capital goods orders are increasing at a 13% rate, the fastest pace in several decades. Robust earnings and cash flow, an exceptionally low cost of capital, and a strong desire of companies to locate factories in more secure locations should boost demand for investment in the U. S. economy. On the Quarterly Update, Lazaro additionally added that the U.S. economic growth slowed sharply in the first quarter to an estimated 1%, while global GDP was flat. The weak performance was the result of several factors: the surge in the Omicron variant, uncertainty surrounding the Federal Reserve rate tightening cycle, rising inflation expectations, surging energy and commodity prices, and the war in Ukraine. The federal funds rate was raised by 0.25% at the March FOMC meeting. Corporate earnings, the main driver of stock market performance, increased an estimated 5% in the first quarter, with revenue growth in excess of 10%. On the Executive Summary, Lazaro added, meets performance criteria; actively managed and enhanced index funds should outperform the index over the 3- or 5-year periods or maintain a top half ranking in the applicable peer universe over the same time periods. Passively managed funds should outperform or underperform the index by no more than 50 basis points (0.50%) over the 3- or 5-year periods.

No questions asked from the board.

- Segal Marco Advisors: Ryen Sherman. Recapped Lazaro review and noted that the Asset Allocation is incompliance with the overall guidelines. The fund is doing very well 18% investment gain over a three-year period. The long-term history shows all results are positive. There have been three years of doubledigit positive returns therefore the fund is still looking pretty good. There has been tremendous growth from an investment standpoint.

Question: What does Segal long term assets look like? Per Lazaro & Ryen 6.8% return over the next 20 years.

- Bolton Actuary: Tom Vicente presented the Actuarial Valuation. The board had requested a review of the current retirement age provisions and a cost projection for potentially changing the existing provisions. According to the plan a members Normal Retirement Date (NRD) is the earlier of age 55 with 5 years of service, or after the member has completed 25 years of service. The member can retire early if they have 20 years of service, but the pension is reduced for early commencement by 6% for every year the retirement date is before the NRD. Under the existing terms of the plan, the NRD for anyone with less than 25 years of service is age 55 (since once the member stops work, they will never reach the 25-year mark). The potential plan change is to determine the NRD at the earlier of age 55 or the date the member would have been projected to have reached 25 years of service if the member had not stopped working. Tom explained, as of the most recent valuation (July 1,2021) there were 258 active members of the Public Safety Pension Plan (PSPP). Of that group, 168 (65%) stand to receive some potential benefit from the proposed change. The impact varies across the group and many of those with the largest potential impact have relatively short service currently. A plan change, along the lines of what is being proposed would allow the impacted members to retire with a larger benefit, which would increase the cost of the plan. However, Tom, stressed the cost is highly dependent upon how many members elect to take retirement early. Again, Tom reminded the board that a member retiring at 20 years of service is giving up 20% of their benefit (20 years of service versus 25 years) plus another 30% for the early retirement reduction. Tom, stated in determining plan costs for budget purposes, the valuation looks at several assumptions about when members are projected to retire. According to the valuation, the current assumption is that for members with between 20 and 25 years of service (and not yet age 55) only 5% will retire each year. This relatively low rate of retirement prior to full eligibility moderates the overall cost of the change (i.e., the low rate is conservative and does not assume large benefit reductions will be elected by the members). Tom reported that the financial impact on the Pension Plan (assuming no change in the pattern of turnover or retirement); the liability increases by $1.5 million (approximately a 5% increase in active liability), the funded status percentage declines by 2% and the annual funding budget increases by 1.7% of payroll ($252,000 per year), a 12% increase in annual cash contribution. Tom informed, that all the results that are mentioned in the valuation will be affected by several variables. Two of the primary factors are Retirement - if more members elect to retire earlier (i.e., between 20 and 25 years of service and before age 55) the cost goes down. This is because of the relatively conservative retirement assumption that is being used in this current valuation. Turnover – if more members stay in employment long enough to get at least 20 years of service then the cost of the plan will go up (higher service levels and pay from greater longevity will translate into higher benefits). The review summary of the benefit change is 25 years full pension, 20 years early regardless of age, 5 years and 55 years old. At age 45 retire at a 10-year reduction from 55 years old. Plan review is to move to a 5-year early reduction versus 10 years.

Questions that were asked.

What is the current reduction rate recommended from the results of the evaluation? The Actuary responded that a higher budget number for FY23 $1.7 million based on the FY22 ending at $1.9 million, this is a method to keep the budget more level. The recommendation is to reduce the discount rate to 6.75%.

Respectfully submitted,
Mary Allen