Actuarial Meeting
PLEASANT RIDGE MANOR EMPLOYEES' RETIREMENT COMMITTEE
Oct 18, 2018

Members present: Fiore Leone
Dr. Kyle Foust
Mary E. Schaaf
James Sparber

Also present: Jack Walburn- PRM
Greg Ferrick- PRM
Deanna Helmbreck- PRM
Mike Anderson- PRM
Robert Smith- PRM
Ray Reede- Erie County Retirees' Association
Tracey Fugagli- Finance
Don Boetger- Boetger Retirement Service
Cindy Marzka- Boetger Retirement Service
Dion Anseluwloy- Capital Group
Clandette Grant- Capital Group
Mark Orlop, County Controller's Office
Daniel Bayletts, County Controller's Office

Chairman Leone called the Pleasant Ridge Employees' Retirement Committee to order at 12:00PM in Room 114A, Erie County Courthouse.
Roll call showed that two members were absent: Mr. Horton and Dr. Foust. Dr. Foust did arrive at around 12:12 PM.
Chairman Leone called for the hearing of the public. No one spoke.
Chairman Leone called to approve the minutes from the August 14, 2018. They were approved unanimous.

Chairman Leone turned the floor over to Frank Burnette from Morrison Fiduciary. Mr. Burnette stated that the Fund is up between 4 to 5% year-to-date, the total fees for the fund are 31 basis points, 20 basis points for investment fees and 11 basis points for administrative fees. Mr. Burnette remarked that the Fund's costs are very low due to the use of index funds and mutual funds. The fund is 67- 68% publicly traded equities. Chairman Leone questioned the returns of the fund and asked if the low fees were causing lower interest returns. Ms. Schaaf pointed out the excellent returns in the report ending 9/30/18 stating the 1 year return on Pleasant Ridge Manor Pension was 8.5 %, the 2 Year was 10.44%, 3 Year was 10.29%, 5 Year 8.07%, 7 Year 10.15% annualized, all well above the assumed actuarial return of 7.5%. Chairman Leone states that he is concerned with the 1st Quarter and YTD returns. Mr. Burnette states the one manager who is underperforming is the DFA Funds which he believes will reverse but is watching closely.

Chairman Leone turned the floor over to Don Boetger of Boetger Retirement Services for the actuarial report.

Mr. Boetger states that the pension covers 635 participates, 225 Active Employees, 27 Active Employees with a frozen benefit, 117 Terminated Vested, 266 Retirees and Beneficiaries. The Plan is paying out roughly $ 2.7 Million a year in benefits and the average benefit is $850 a month. The average compensations for active employees in the Plan are just over $40,000 a year. The formula for the Plan is 1.25% x 3 year average pay x number of years of service.

The market value of the assets in the Plan are $58,425,000, the actuarial value of the Plan is $55,431,961.

The Plan is currently funded as a private ERISA Plan, not a government plan. ERISA rules require higher funding for the fund.

In October 2017 the IRS published updated mortality tables The IRS said you could adopt the new tables for 2018 or wait until 2019 to adopt them, which the Board will have to decide.

If the Board uses the actuarial value the contribution requirement would be $1,828,000 and there would be a need for another $ 28,000 in funding as $1,800,000 has already been funded for 2018.

A second option is to adopt the new mortality tables in 2018 instead of 2019 which would raise the required contribution from $1,828,000 to $2,120,000.

Mr. Boetger states that most of their clients are deferring and that he recommends that the Erie County Pension Board defers as well.

Mr. Boetger states that every five years the Board is allowed to change methodology and use Market Valuation. By doing this, the required contribution would drop by close to $1,000,000 to $878,000 and the Plan would be 100.87% funded.

The last option is to use both the Market Valuation and the new mortality tables in 2018, which would require an additional $1,600,000 contribution.

Mr. Boetger states that there are two decisions that need to be made: First decision to use the new mortality table this year or wait until next year. He recommends the Board wait until 2019 when it mandatory.

The second decision is to consider changing the valuation method from actuarial to the current Market Value. If the valuation is changed to the current Market Value, it must continue that way for five years. The switch to Market Value drops the contribution needed by $1,000,000. The disadvantage is if the market corrects, the Plan may require higher contributions in the future.

Mr. Boetger suggests we switch to the Market Value method to help with budgeting now and to possibly budget a little more to provide a cushion for any market setbacks.

Mr. Burnette asks Mr. Boetger to verify his recommendations, which he states are to change to the Market valuation and delay changing the mortality table until 2019.

Chairman Leone asks if currently the Erie County plan is on Market Valuation. Mr. Boetger states no, a different averaging method is used. Chairman Leone states it's a five year smoothing.

Mr. Boetger agrees and states Pleasant Ridge Manor is on a 3 year average smoothing.. Chairman Leone asks if it could go to a 5 year average for PRM, Mr. Boetger says no due to ERISA.

Chairman Leone asked if they delay the change in mortality table they would be $300,000 short. Mr. Boetger stated no, they would be fully funded. Only if they implemented the new tables in 2018 then the plan would be short $300,000.

Mr. Boetger states that progress needs to make in getting PRM recognized as a government plan, due to almost $400,000 a year being sent away in Pension Guarantee premiums required for ERISA Plans. Also the pension would be allowed to use what we think will be earned on the investment instead of low yield bond rates. If both of these were to happen then normal contributions based of 7.5 % return would be in the $500,000- $600,000 range.

Mr. Burnette asked what would happen if the Fund just declared PRM Pension a government and inform ERISA that we are not an ERISA plan.

Mr. Boetger stated his firm has that before on a small scale for a client. When they did so PBGC came back asking for fee, penalties, and interest.

Mr. Burnette asked how the government could ask for penalties if the premiums were paid.
Mr. Boetger stated their client had stopped paying premiums.
Mrs. Schaaf asked if their client ever paid the premiums.
Mr. Boetger states no because after a year they were able to prove they were a church plan.
Mr. Sparber asked if the final decision would be made by a bureaucrat in DC and what argument they could make that PRM isn't a government. Mr. Boetger stated he doesn't know.
Mr. Burnette asked if the PBGC premiums have always been $400,000, Mr. Boetger states that the premiums have been increasing yearly.
Mr. Burnette states that the Board should reach out to a specialty firm to get a legal opinion on this and force PGBC to chase us.
Ms. Schaaf states that she believes the worst case scenario of just declaring PRM Pension as a government plan is not that bad but the best case scenario is great in saving the $400,000 in PBGC premiums annually. She urged the Board to be aggressive by declaring the PRM Plan a government plan as soon as possible.

Mr. Boetger states that he forgot to mention that if the ruling went against the plan there would be some additional unfunded liabilities due to the change in funding caused changing to a government plan.

Ms. Schaaf asked Mr. Smith of PRM if the reimbursements they are receiving are currently for a private plan or government. Mr. Smith states that they receive government reimbursement rates.

Mr. Smith informs Ms. Schaaf that he has legal arguments put together by Attorney George Joseph per request by the Board on why PRM is a government plan. The issue there is no mechanism in Washington to make the switch.

Ms. Schaaf states she would like to see that legal opinion, and forge ahead.

Chairman Leone states he believes this subject warrants its own future meeting.

Ms. Schaaf asked if anything needs to be voted on.

Mr. Boetger states yes in order to implement the new mortality tables in 2019 and to change the valuation to a Market Valuation.

Chairman Leone asks for a motion, Dr. Foust makes the monition and Ms. Schaaf seconds it, Chairman Leone asks for a roll call vote:
Mr. Sparber- Yes
Dr. Foust- Yes
Chairman Leone- Yes
Ms. Schaaf- Yes

Mr. Boetger stated that on a positive side from a historical point of view, in 2009 the Plan was $13,333,506 underfunded, and as of December 31, 2017 the plan was $1,620,998 overfunded.

Chairman Leone opens the floor for questions. There were none
Chairman Leone calls for adjournment

Adjournment at 12:08 P.M

Mary E. Schaaf

Mary E. Schaaf, Secretary
Erie County Employees' Retirement Board
Pleasant Ridge Manor Employees' Retirement Committee

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