

CITY OF OLNEY
FIRE PENSION BOARD
JANUARY 22, 2015

AGENDA #1 “CALL TO ORDER” The City of Olney Fire Pension Board met in the Fire Station at 9:07 a.m. on January 22, 2015, with Firefighter Taylor Akers presiding.

AGENDA #2 “ROLL CALL” The following members were present: City Treasurer Charles Sanders, Retired Firefighter Clarence Smith, Dave Lobacz and Firefighter Taylor Akers. Firefighter Mike Hill was absent. Also present was Mayor Ray Vaughn.

Due to an incident that required response of firefighters, Firefighter Akers needed to leave the meeting. At that time, Firefighter Akers authorized Mr. Lobacz to preside the meeting in his absence. Firefighter Akers left the meeting at 9:10 a.m.

AGENDA #3 “APPROVE MINUTES FROM FIRE PENSION BOARD MEETING DECEMBER 2, 2014” Mr. Sanders moved to approve the minutes from the Fire Pension Board meeting on December 2, 2014, seconded by Mr. Lobacz. A unanimous voice vote was received.

AGENDA #4 “TREASURER’S REPORT”

4-A “Discussion: Income and Expense May 1, 2014 - December 30, 2014” Mr. Sanders distributed the income and expense statement for May 1, 2014 to December 30, 2014. As of the end of December 2014, a total of \$2,179,890.32 was invested. There were no current maturities. In the summer of 2015, tax levy funds would be received.

4-B “Discussion: Investment Schedule and Maturities” Mr. Sanders distributed a schedule of investments and CD investment options. With upcoming interest payments, Mr. Sanders felt that everything looked as it should.

Mayor Vaughn asked the Board how much could be invested in equities. Mr. Sanders replied that the current amount was 10%. When \$2,500,000.00 in total assets is reached, 35% or 45% could be invested in equities. The increase would significantly help the return on pension funds over time.

Mayor Vaughn then wondered if the City should consider pre-funding in order to unleash the 10% restriction. Mr. Sanders indicated that if the City wanted to levy or use general funds to make such an investment, that would put the fund over the plateau for additional equities, and could help with underfunding.

Mayor Vaughn told the Board that Art Tepfer, actuarial for the Police Pension Board, indicated that if their fund was sustained over a long amount of time, advantage should be taken of equity investments.

The Mayor was also concerned about transaction costs. He was specifically asking both Fire and Police Pension Boards to be sure they were receiving the best deal possible on investment costs.

Liability insurance cost was also of concern to Mayor Vaughn. He felt the Boards were paying too much for the insurance. If there was a major problem, the City would ultimately hold the responsibility. The City would be required to make sure the funds were paid; not the Fire Pension Board. Liability insurance was needed to act as a buffer, but should not be at its current level of expense. For example, the insurance could assist when people needed to take off of work and in hiring counsel.

Mr. Sanders detailed his recent difficulty in receiving appropriate insurance quotes. While he would like to believe that the City indemnified the Board members, he could not find any written obligation of that being the case. The City would indemnify him, but that would be because he was an actual employee of the City. Alternatively, the City could have liability that would extend to him. If the City Council could take action to indemnify the other Board members, he felt that would make a huge difference. Mayor Vaughn would be in touch with the City Council, City Manager/City Attorney and insurance companies to see what was needed in regard to coverage. It was to be noted that the pension fund would be obligated to pay the deductible.

Mayor Vaughn exited the meeting at 9:38 a.m.

AGENDA #5 “MORGAN STANLEY INVESTMENTS CONFERENCE CALL” Mr. Sanders distributed a portfolio review prepared by Eric Laughlin, and a Wall Street 2015 forecasts sheet. Mr. Laughlin was reached by phone at 9:41 a.m.

The Fire Pension Fund's bond and equities performed well. The end of the last quarter held a total return of \$16,171.00. The total assets ended at \$953,143.00. The year-to-date total return came to \$46,203.00.

Mr. Laughlin continued to review various charts.

Mr. Laughlin suggested selling about 7% of Vanguard Small Cap Index in order to add to the American Europacific Growth. There would be no cost to sell or buy. He would need the Board's approval before taking any action.

The McDonnell account returned 4.9% year-to-date. The Consulting Group Advisor returned 5.7% year-to-date.

The Wall Street top strategists were all on the same page on forecasts for 2015. Mr. Laughlin agreed with the strategists in thoughts that the S&P 500 would increase.

Regarding the available \$100,000.00 in the money market account, Mr. Laughlin recommended leaving the funds in the account or looking for a CD. A three year CD could earn about 1.5%. Before a decision was made, Mr. Laughlin wanted to wait to look at the inventory next week.

Mr. Laughlin had to admit to the Board that an error had been made on the part of Morgan Stanley. In December, taxes ended up being withheld in the amount of \$2,000.00. Morgan Stanley was unable to have that reversed. Mr. Laughlin apologized, and indicated that if there were any fees associated from the error, that Morgan Stanley would compensate. Mr. Sanders would speak with Kemper C.P.A. group to hear their recommendations.

Mr. Sanders was interested in scheduling a time that Mr. Laughlin could be present during a meeting. Mr. Laughlin was willing to do so. A meeting date would be scheduled at a later time.

Because it had been the Board's experience that fiduciary liability insurance premiums and deductibles had increased, Mr. Sanders asked Mr. Laughlin if he had also encountered similar increased. Mr. Laughlin had not.

There were no management fees that a CD or annuity would accrue. There was a possibility that an annual maintenance fee could be issued, however Morgan Stanley would reimburse any of those fees.

Mr. Sanders indicated that fees were negotiated with brokers. The fees that the Board pays are for more than investing funds. For example, at Morgan Stanley, Mr. Laughlin specializes in fire and police investments. He knows the rules and regulations, and keeps the Board within those guidelines.

Action on this topic was taken after Firefighter Akers returned to the meeting. The action can be found under Agenda #10.

AGENDA #6 "EDWARD JONES AGREEMENT AND INVESTMENTS" As indicated at the prior meeting, Edward Jones now requires that two trustees sign an indemnification agreement. Without the signatures, the funds will be unable to stay at Edward Jones. The topic had been tabled in hopes to have the full Board present to vote.

At the last meeting, Mr. Sanders, Mr. Lobacz and Mr. Smith indicated that they would not sign the agreement. At that time, Mr. Sanders had told the Board that he had been speaking with Katie Fehrenbacher with Investment Centers of America as an alternative option.

AGENDA #7 "FIDUCIARY RESPONSIBILITY AND INVESTMENT TRANSACTIONS"
Agenda #8 was discussed before Agenda #7.

At the last meeting, Mr. Lobacz provided information on what Ameriprise could offer with regard to investments. Mr. Sanders handed out an excerpt from the Illinois Pension Code. Section 1-110 indicated Ameriprise could not be considered at this point because Ameriprise employed Mr. Lobacz and it would be a conflict of interest. City Attorney Larry Taylor agreed.

At 10:58 a.m., Firefighter Akers rejoined the meeting.

AGENDA #8 “INVESTMENT CENTERS OF AMERICA, INC. PRESENTATION” Katie Fehrenbacher, of Investment Centers of America, was present to answer any questions from the Board. Investment Centers of America is the investment center offered through First National Bank. Mr. Sanders left the meeting at 10:31 a.m. to find Ms. Fehrenbacher. Both parties returned to the meeting at 10:32 a.m.

Ms. Fehrenbacher handed out an information sheet and a copy of their Non-Corporate Resolution. Essentially, Investment Centers of America could offer the same features and benefits as Edward Jones. Instead of an indemnification agreement like Edward Jones was requiring, Investment Centers of America simply needed a form signed to indicate who would be authorized to make trades and purchases.

The transfer process would be as simple as filling out a transfer form. It was possible that Edward Jones would charge a transfer fee any where between \$100.00 and \$150.00, but Investment Centers of America would charge no such fee. Mr. Sanders felt that considering the circumstances, Edward Jones would not charge the fee.

If no activity, Investment Centers of America would have a \$25.00 fee. Other small transaction fees could be absorbed by Ms. Fehrenbacher, depending on the commission amount.

Mr. Sanders indicated that he was in favor of the presented option, and recommended to the Board that the funds be transferred from Edward Jones to Investment Centers of America.

Additionally, Ms. Fehrenbacher would provide guidance and an annual accounting of fees and earnings recognized from the account.

Ms. Fehrenbacher exited the meeting at 10:47 a.m.

The meeting took a short break at 10:50 a.m. and resumed at 10:56 a.m.

AGENDA #9 “ACTUARIAL SERVICES DISCUSSION” Last year, the Board had discussed engaging in a third party actuarial. The Police Pension Board engaged Art Tepfer as their actuarial in 2014. Mr. Tepfer’s report and recommendations were used in decided levy amount.

Mr. Tepfer would be in the area in the latter part of April or early May to present his actuarial report for the Police Pension Fund. A meeting would be scheduled with Mr. Tepfer and

two members of the Fire Pension Board. After the meeting , the Fire Pension Board would decide if they would like to use Mr. Tepfer’s services. The fee for a full report would be \$2,000.00

AGENDA #10 “FIDUCIARY LIABILITY INSURANCE RENEWAL PREMIUM PAID” Mr. Sanders reiterated that if the City Council extended liability coverage to the rest of the Fire and Police Pension Boards, other insurance policies could be considered.

Mr. Lobacz wondered if the Board’s policy could be a rider on the City’s current policy. Mr. Sanders was doubtful. According to his research, the City’s liability policy did not extend to non-City employees. A City employee would be defined as a documented, paid employee of the City. Mr. Lobacz wondered if Board members could be paid a nominal fee of around \$100.00 per year in order to be considered an employee. Then, the City’s policy would include the Board members. Mr. Sanders was not confident that would work. He gave an example of how the City Council members were compensated, but not considered City employees.

Based on information received under Agenda #5, Mr. Lobacz moved to withdraw half of the Vanguard Small Cap to transfer to the American Europacific Growth, seconded by Firefighter Akers. A majority affirmative voice vote was received.

AGENDA #11 “SCHEDULING OF NEXT MEETING” The next meeting would normally be scheduled late in February or early March, however Mr. Sanders asked for flexibility on scheduling due to the City’s budget process. He would like to present the proposed Fire Pension budget to the Board for their approval before it went before the Council. The next meeting date would be determined at a later time.

AGENDA #12 “ADJOURN” Mr. Smith moved to adjourn, seconded by Mr. Sanders. A majority affirmative voice vote was received.

The Fire Pension meeting adjourned at 11:31 a.m.

Clarence Smith
Secretary