Minutes

DeKalb County Pension Board

January 12, 2023

The DeKalb County Pension Board met on January 12, 2023 at the Marriott Courtyard in Decatur, Georgia. The following members were present: Michael Goff, David Littlefield, John McMullan, Diane McNabb, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Weston Lewis and Brad Penter of Callan LLC, Terri Taylor of Benefits Law Group, Bob Killorin of Faruqi & Faruqi, Malichi Waterman of Segal, Larry Jacobs, Kenny Pinkerton, and Paul Wright.

Ed Wall called the meeting to order.

The Board reviewed the case for disability retirement for Mr. Richard Clay, a Fire Rescue employee. Mr. Wall explained that the Board is approving him because he cannot perform his current job. Mr. Robertson asked him if he understood that he must be 100% disabled at the end of 12 months to continue receiving the benefit. Mr. Clay acknowledged this. Mr. Robertson motioned, Ms. Stevens seconded, and the Board approved Mr. Clay for a 12-month disability retirement.

Mr. Littlefield motioned, Ms. Stevens seconded, and the Board approved the November 17, 2022 minutes.

Mr. Jacobs indicated that ISSI changed their name to Bridgeway and predicted they will continue to bill us for at least two more years. He added pension refunds are paid through October and that Bridgeway is 98% converted from the old system. Mr. Littlefield motioned, Mr. Goff seconded, and the Board approved the following payments:

Vendor	Service	Period	Amount
Benefits Law Group	Legal Consulting	Nov-Dec 2022	$1,160.00
Callan LLC	Investment Consulting	4Q 2022	24,000.00
ISSI	Software Support	4Q 2022	48,500.04
ISSI	Software Programming	4Q 2022	1,000.00
State Street Corp.	Custodian Services	2Q 2022	38,700.31
State Street Corp.	Custodian Services	3Q 2022	39,376.74
Total			**$152,737.09**

Mr. Wall indicated that the Investment Committee had a lengthy meeting on January 10 and discussed several items. He turned the meeting over to Mr. Penter and Mr. Lewis. Mr. Lewis reported that Ken Harris is retiring from Segal, Bryant, and Hamill and that Darren Hewitson will replace him. The Committee interviewed Mr. Hewitson and feels good about this change. There was a discussion about active management results, particularly in the large cap growth area, which has been very challenging. Jennison had one of their worst years ever. Jennison buys high priced, high growth stocks while Loomis buys high priced stocks that are more quality oriented. The expectation is that while Jennison "zigs," Loomis will "zag," the result being that Loomis is starting to gain while Jennison has not caught up. Mr. Lewis also mentioned that Jennison's main director had recently passed away.

There was also discussion around the Russell 3000 Index versus the S&P Index, and the Committee was convinced the S&P 500 Index is a solid benchmark to follow. Mr. Lewis also feels that the proper weighting on the fund is accurate.

The next item was a review of passive index providers. The trend is to rebalance some of the existing funds from active to passive. Mr. Penter explained that the fund has $370 million ready for execution – $230 million from State Street and $140 million from Jennison and Loomis and to transition the money to a new S&P 500 Index. The goal is to reduce the make-up of these funds in the portfolio to bring in a more style-neutral approach to investing. No existing manager has beaten the S&P 500 index, so it makes sense to combine funds in this way. Active management has not outperformed the S&P 500 Index for a very long time.

There were four firms that made their final pitch to manage the new fund: Northern Trust, BlackRock, State Street, and Vanguard. After some discussion, Mr. McMullan motioned, Mr. Littlefield seconded, and the Board approved engaging State Street to manage the S&P 500 Index fund.

Mr. McMullan motioned, Mr. Goff seconded, and Board approved moving approximately $220 million from State Street Global 1000 Value fund, $75 million from Jennison, and $75 million from Loomis to the new State Street S&P 500 Index fund. Callan will ask State Street to reduce their fee.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved selecting transition managers from this pool that Callan will utilize: Macquarie Portfolio Solutions, PGM Global, Russell Investments Implementation Services, and State Street Global Markets.

Mr. Wall explained the general make-up of the bimonthly drawdown: the total in 2022 of the benefits, pension refunds, and the managers' invoices was $185 million. The County and the employees contributed about $100 million. The pension fund must supplement the remaining amount. Because the Board meets bimonthly, the average amount is approximately $15 million that the Board must approve.

For the $15 million request for the January-February benefit payments, Callan recommends that the Board withdraw this amount from the State Street Global 1000 Value Index, since this is where the overweight exists, and it also will be transitioned. Ms. Stevens motioned, Mr. Goff seconded, and the Board approved this transaction.

Mr. Waterman presented the 2022 actuarial valuation report. The recommended contribution is 22.32% of pay. The funded ratio increased 57.2% in 2022. On a market basis, the funded ratio increased from 63.9% to 68.2%. These are the highest funding levels in several years. The market rate of return for the 2022 plan year was 14.52%. On an actuarial basis, the return was 11.07% vs. the assumed rate of 6.75%. The County also approved a one-time 2% across the board cost-of-living increase for the County's retirees and beneficiaries. As a result of this change, the actuarial accrued liability increased by $35.5 million. The total impact was an increase in the recommended contribution of $2.6 million, or 0.78% of projected compensation.

Mr. Wall asked if the County has budgeted the minimum requirement of $74 million. Mr. Jacobs confirmed that it had. Mr. Robertson also asked about a COLA in 2023. Mr. Wall replied that no COLA was provided in the 2023 budget. The plan is also subjected to the five-year experience study which is due the end of this year. This type of study is needed to keep the plan in balance by adjusting a few assumptions. Mr. Wall noted that the actuarial value of assets is $1.5 billion, and the accrued liability is $2.6 billion, leaving the unfunded accrued liability at $1.1 billion.

Mr. Waterman noted that the number of police officers decreased by 11% and firefighters decreased by 8.5%. Ms. Ransom reported that these results are being acted on and there will be upcoming announcements about them. Mr. McMullan asked about the mortality of the policemen and was told there is a difference in their life expectancies. He also asked about the possibility of the firemen and policemen being in their own pension plan. Mr. Waterman responded that there are some differences in their positions based on their level of pay and what these employees do. Mr. Jacobs said noted that the police department surveyed their officers and determined that compensation, education benefits, work culture and advancement were the most important issues. He also commented that certain police officers hired after 2015 will now receive a 6% contribution to their 401(a) instead of 3%.

Mr. Wall noted the historical market value of assets fluctuates that actuarial value smooths things out and brings things into focus. Mr. Waterman also noted that the fund realized a 7.96% return on a market value basis and 6.00% on an actuarial basis over the last 19¾ years. He went on to say that County is paying off the unfunded liability over 20 years. Mr. Wall stated that the County is not paying all of this amount – they are paying about half the benefits, and the unfunded liability is coming from the earnings.

The GASB Accounting disclosures reflect on the plan status using different assumptions, such as the market value of assets disclosing $718 million as the Net Pension Liability. These values are different based on mortality and rolling items forward to the end of the year. The costs are calculated based on the funding method chosen, Ultimate Entry Age. Starting with the 2024 plan year, GASB will forbid this funding method. If the plan used the traditional Entry Age method now, the contribution would be 25.79% and the funding ratio would be 59.0%. Segal will revisit all of this prior to the 2024 result, but they are presented it now for consideration.

Reviewing projected results, assuming the fund earns 6.75% in 2022, the County's contribution declines to 15% by 2037, stays about the same on the contribution side at $74 million, and the funding status grows to around 83.8%. If there is a 15% drop in 2022 pension assets, the contribution as a percent of pay grows to 27.9% in 2037 and funded percentage grows to 70.5%.

Mr. Wall then updated the status of the necessary continuing education hours for each member.

Mr. Littlefield motioned, Mr. Goff seconded, and the Board approved the service buyback application for D'undre L. Anderson, a Police Services employee.

Mr. Wall reiterated that persons applying for disability can get approved the first year based on their current status and in their second year based on anything. Mr. Goff motioned, Ms. Stevens seconded, and Board approved the 12-month disability retirement application for Ms. Fiorella Soto.

Mr. Wall reiterated his desire to add a 2% COLA for retirees by asking CEO Thurmond to include this increase in his 2023 budget. Mr. Robertson expressed his desire to obtain an increase in pay and outlined the steps to draft the letter to Mr. Thurmond. Mr. Robertson motioned, Mr. Goff seconded, and Board approved asking Mr. Pinkerton to send the letter to the CEO for the increase in pay.

Mr. Robertson motioned, Mr. Littlefield seconded, and the Board approved entering Executive Session to discuss the status of litigation. After exiting, the Board had nothing to report.

Mr. Wall then adjourned the meeting.

Kenny Pinkerton

Kenny Pinkerton
Clerk of the Pension Board