CECIL COUNTY PUBLIC SAFETY PENSION PLAN

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

BOARD OF TRUSTEES

Notes From Meeting
August 10, 2023

Empower Presentation

- Empower: Lazaro Guzman advised the economic data was strong in the second quarter despite the higher interest rates. The corporate earnings and consumer spending have held up well. Unemployment is low and inflation down. Inflation has been trending down but above 2% percent. We will more than likely see more rate hikes this year. The expectation is that there will be a recession, however it will more than likely to happen in 2024. Even though the banking crises put a strain on the regional banks at the beginning of the year, we still performed well in the 2nd quarter with strong returns. The S&P went up 8.74% and 16.89% YTD. Inflation has started to moderate. The economy remains healthy. Ended the quarter with $71.4 million in assets. Returns are good: 3.6% 1st quarter; 9.6% yearly as of June 30, 7.5% 3 years; 4.9% 5 years and 6.5% for 10 years. Bloomberg US Aggregate bond index is a negative for the quarter. Reminder bond prices move opposite of interest rates. Current asset allocation: Equity 67%, Fixed Income 33%. We were overweight in equity, so we looked at moving funds out of Equity into Fixed Income. Empower looks at rate of return, asset allocation, contributions and disbursements. They plan based on these numbers. They needed to rebalance. It will assist if equity numbers drop, we can still make payments from fixed income.
- **<u>Opportunity for questions</u>**.
- No questions
- **Empower Managers Summary**
- Lazaro stated that the majority of the funds are meeting their performance criteria, more specially compared to or relative to the Bloomberg Aggregate Bond Index. We would like to see bonds meeting the index within 4 or 5 years or in the top half of their pier groups. The top half would be between 1 and 50. All bonds are passing except 3: 1) Core Bond enhanced Index is a lower risk portfolio. They do well but have slow periods. 2) JP Morgan is dealing with replacement issues of a previous manager AJO. We only see 3 years (since 2019) and would like to see at least 5 years, before we are concerned. 3) Frontier Fund is a little more concerning. They are struggling a little bit, but they have a reasonable price.
- **<u>Opportunity for questions</u>**.
- <u>Christian Sevier</u> asked Lazaro if he was going to update everyone on fees? Lazaro stated that when they looked at the fees last quarter, some fees were over the median and some funds were better prices. Some bonds were better priced and some lower. The weighted average total was more competitive or more attractively priced than the weighted average using the medians. Effective July 1, we dropped 5 basis points on small value integrity and 5 on international funds, saving $6,500.
- **<u>Opportunity for questions</u>**
- No questions
- Lazaro stated that he and Christian collaborated regarding adding value to the portfolio. They looked at other portfolios to compare to try and lower volatility in the portfolio. They looked at reducing equity exposure, increasing fixed income slightly, adding real estate and adding real estate anti-yields.
- **<u>Opportunity for questions</u>**
- No questions

Segal Advisor Presentation

- **Performance Review**
- Christian started by showing performance review and indicating that the asset allocation is always consistent with the policy. Through the first half of the year, there is nearly a 10% return. The only negatives are the bonds, as Lazara discussed. The strategy is to review the bonds at the beginning of next year. Nothing else negative. International had a lag in US markets this year, but we still are strong overall.
- **<u>Opportunity for questions</u>**
- No questions
- **Asset Allocations**
- The asset allocations are updated for long term every year. We don't necessarily recommend changes to the allocation every year. The year 2023 was a different year in many respects due to what happened with the market in 2022 and higher yields. The biggest impact was the increase in the risk-free rate (cash rate). Christian pointed out that even with the adjustment we saw with the market in 2022, equity in the US is still highly valued. Fixed income is showing higher yields (5% currently), which is better for the long term. Looking out into the long term, the potential return from fixed income assets is a lot greater. As a result, much of the allocation work this year is driving the increase money into fixed income and taking some of the risk out of the portfolio. The focus is 20 years for the assets class, due to the nature of the plan as being pension fund. Another consideration is the fact that we have an inverted yield curve where short term yields are higher than long term yields and rates will not stay as they are now. This makes things very difficult to predict. As a result of what we see today, assumptions from 10-year are much higher than 20-year. Over time what we reflect in the 20-year is more reasonable as far as our expectations. The geometric versus arithmetic is compound. The geometric will always be lower. It is a more conservative approach but returns compound over time. We are focused on the 20-year geometric return. Today 67% in equity and 33% in fixed income which translates to a 20-year geometric return of 6.8%. The standard deviation is 13.6% What we want to see is more return and less volatility. You want to also see your Sharpe Ratio be consistent or a little higher.
- Alternative 1 – We took 2% out of the equity portfolio and reallocated it to the fixed income. One additional change would be to increase the international ratio from 12% to 14% and bring down the US equity. The international rate was underweight compared to other plans (driven by the more attractive evaluation of what we are seeing in the international). The change is modest in the fixed income. It brings the standard deviation down and keeps the Sharpe ratio the same.
- Last scenario models 5% real estate allocation. This real estate is in the form of private real estate (ownership of assets via a vehicle who owns the assets). May look at industry and commercial. Real estate results will take a very long time. Putting this one together is a long process. Agreeing with Lazaro, we recommend not to rush into the real estate today and maybe revisit in about a year.
- We are recommending that you make a move to Alternative 1.
- **<u>Opportunity for questions</u>**
- <u>Shon McCollum</u>– How does this compare to our cohorts? Analysis? Christian - Most pension funds we have worked with historically have some allocations to real estate. Outside of real estate, most plans are not interested in private markets. You need to start thinking about volatility and how the portfolio could be locked up.
- Shon – My question was more on the side of the ratios, the standard deviation versus the Sharpe ratio. If you make these changes, how will they compare to our cohorts? Christian – The standard deviation is still slightly on the high side and the Sharpe ratio is still a bit on the low side but not out of line. Moving to Alternative 1 moves you closer to our Finance and cohorts on the public side. It is a step in the right direction.
- Shon – Is it better to move from equity to fixed income? Do we stay the course? Do we get in defensive posture or get aggressive. Christian - The recommendation from us is to move to Alternative 1.
- Shon – When can you make this move? Lazaro – Once we receive written approval from the Board we can make the change in a matter of days or a week. As soon as administratively possible.

Administrative Tasks/Old Business/New Business

- Meeting minutes of May 11. Motion to approve <u>Shon</u>. Seconded by <u>Captain Steven Brownhill</u>. All in favor.

- <u>Steve Overbay</u>- Introduced Paul Camponelli to be named New Director of Human Resources on

September 5, 2023 for confirmation. Paul will be officially inserted into the Pension play board all on the 5th. In the meantime, Angie Lawson is still acting, officially and signing as Director of Human Resources until Paul is confirmed. The same process that we did when Shon took over for James when he left Finance. As far as votes are concerned, we can wait or leave it up to the Board as Angie L. still acting and signing as such. I will leave it up to the Board. Angie Blodgett – I obtained a legal opinion from the plan attorney. Their legal option is Angie L. is no longer the Director of HR, because it went out on the County website that Paul is now the Director and it went out in the newsletter that he is now the Director. That leaves us open for someone to come back and say that what we voted on is not truly a legal vote. There is a grey area and the attorney said it could go either way. I feel it is in our best interest that we just not include a vote from the Director of HR position until he is confirmed, so that we do not have a chance of anything that we do be overturned. That is my opinion based upon the legal opinion that we received. I am open to the opinions from the board as well. Shon – So who is going to overturn it? Angie B. – The plan attorney said that it could be overturned if someone challenged it. In the event that we voted on something regarding a pension payout and they thought they were being paid less than what they should have and they looked into it and it could cause an issue. Angie L. – The only argument I have with that, is that because I am still a signer, I am still technically considered the HR Director on record with the County in the system, and I have been confirmed approved by the Counsil for that and this Board. I do not see how that could be overturned. Angie B.-Because in the plan document it specifically says the Director of HR until that position has been changed. Angie L – But that has not happened yet. Angie B – But based on the information that was put out there that there is a new Director, the attorney is weighing on the side of caution and saying it is in our best interest. Shon- I agree with Angie Lawson that she is still approved by the Council to be HR Director until Paul is approved by Council. Captain Brownhill – No one is trying to create any animosity. Just trying to make sure if anything does go to a vote today. That is why we have a plan attorney. Just asked for an opinion. Shon – I am giving my opinion as I see it. Captain Brownhill – I'm not really sure that we are going to take a vote today. Angie L – No but I think the comment that Angie made to Christian and Lazaro was that was potentially not taking a vote because of the feeling it could be overturned. So, if that is the case than by all means save the vote until after Paul is officially confirmed. But it should be so duly noted on record that I am still the Director of HR. I am still confirmed by the Council and I am still approved by the Council to be on this Board, until such time I am officially confirmed for both. Angie B.- Understood, but then there is the other side of it for voting purposes, we only need the majority of votes. So, if we vote on moving to Alternate 1 today and we have more than half the votes, it could never be overturned because you were not the deciding vote. There is that situation that occurs as well. We don't want to wait to decide to vote for Alternate 1, due to the potential of it being very beneficial to the plan.

- **Alternate 1** – Steven- We need a motion for Alternate 1 or discussion. Angie B. – Do I have a motion for Alternate 1? Shon – I have provided my opinion; I would like to hear everyone else. Major Matthew Carr - Based on what I heard they are not ready to move forward. Angie L – That was for the real estate, they are recommending the Alternate 1. Captain Brownhill- In the past when they made recommendations, it made this not seem clear to me or strong. I am not against it; I just don't seem to feel the same push. Shon- What I heard was completely different. They are showing it in the numbers in the ratios. Steve – How often do they recommend? Sandy Biggs – It has been a while since they have recommended anything. Captain Brownhill – I would like to verify from Lazaro that this is what they are recommending. If they say yes, then I am in favor. Sandy – I agree. It has been a very long time since they recommended anything. Steven- What do we want to get back from them to feel comfortable? Captain Brownhill – Just confirm that they are recommending. Connection was made with Christian to confirm the recommendation of Alternate 1. Angie B. – We need a motion to discuss Alternate 1. Steve. Motion to discuss implementing Alternate 1 Shon – Seconds the motion. Angie B. – Any discussion on Alternate 1 Shon – Explains the less volatile position in moving the funds. Angie B. – Any further discussion. Move to a vote. All in favor. No opposed. Motion carried. Angie B. – Going back to Robert's rules we need to have a motion to vote. I need a motion to vote. Angie L. – Motion to vote; Shon – Seconds the motion. All in favor. No opposed. Motion carried.
- **Financial Items** – We are currently working on year end close and Audit. Afterwards I will get with Bolten for the financial reports. Next quarter we will have the financials.
- **Human Resource items** – Open enrollment this year is Nov. 6 to Nov. 17. Active open enrollment this year. Benefits health fair – October 19th at Administration Building.

- **Amendment #9 –** Steve – Angie asked me to take this to the Council Executive, which I did**.** I have a couple of questions that I could not find the answers to. I need to understand the intent of item number 1: change of "Credible Service" to "covered employee" in regard to the 36-month total compensation. How does it impact the 36-month period? Sandy – Not based on age. If 25 years of service, they stop making contributions. His rates stop when he stops making contributions. They are changing that so that they look at the whole employment record. Captain Brownhill - They have said in the past that it is a Board interpretation. Does it stop at 25? Some say yes and some no. We need further clarification with the language, with the intent of the Board. The language is saying whatever you stopped at 25 years is what the pay is based on. If someone stays 30 years, it is covered employee. The more we look into it the normal retirement benefit needs to be redefined or changed. Steve – If the normal retirement benefit language changes you are ending up with alternate language. Captain Brownhill - That is his opinion and that is the hiccup. The change to covered employee should stay to support the language in the regular normal retirement benefit. Captain Brownhill – The $250,000 a year was presented prior to the initial vote. The information was known to the Board, and everyone involved when it was sent to the County Executive for signature. Steve – The sick time converting. Shon – I asked for an analysis. Sandy – Sick time is configured after you have left service. It increases your monthly benefit but does not increase your credit of service. Steve – It states in here: entitled to receive credit of 1 month of credible service for each 22 days of sick leave. But may increase participants credited service above 25 years. Price tag of $160 to $210,000. Roughly ½ million dollars on these 2 changes. What is the recommendation of how it is paid? As a board we can make recommendations, but we don't recommend how it gets paid. Angie B. - In the past any changes have always been a cost to the County. My interpretation is the County's cost. Steve - Is that the Boards understanding that changes are a cost to the County? Captain Brownhill – Which is why we have representatives from Finance to advise either it can be done. Angie B. – There is nothing in the documentation that states it has to be funded by the Council. It is just been the past practice. Steve – So as the Board we have opinions. You could even say we could fund it out of the plan. Angie L – If you take it out of the plan, then how is the plan going to be funded for the increase to be able to take on the increase. Then the membership would be responsible. Then the risk you have is changing the economic of the membership that are under 3 different contracts, which in turn violates the union agreement. Angie B. – You would absolutely need a union meeting to make that change. You need their agreement. Steve – I say this to you because when we take it to Council, the questions we get asked of us, it is not spelled out in here. Captain Brownhill – I think what the fear is we cannot tell 100% employees that they are still gaining after 25 years. If interpretation changed this, it is reflecting them of getting pension after 25 years. Then there will be a huge loss coming. In practice, after 25 years, people are gaining pension from increased salary after 25 years. As a Board that was the intent and the documentation shows this and you do not stop at 25. We kept being told it was a Board interpretation and we need to stop this and be able to tell the employee, yes if you stay here you will keep gaining pension. If you take that away, you have a lawsuit. Steve - As a board member hearing that, it is a long-standing issue. So, the Board interpretation is that you can gain after 25 years but you do not have to contribute after 25 years? Captain Brownhill – This was a change made in June 2017 – Amendment 8. Steve – It seems the practice is that if you can gain you should also contribute after the 25 years. Otherwise, you will end up with a funding issue, because you are not putting in additional funds at the high end of the career but allowing you to draw it at different rates. Captain Brownhill – At the time they did not think it would have that much of an impact and did not think it would be an issue. It was all decided by the Board. Steve – Our main concern here is to make sure those who are promised the pension are paid out for the rest of their life. I want to make sure that what we are doing is to not make contradictory language but clarifying language. Changing something that will cause problems elsewhere is a problem. There are things that we need to be 100% clear on. Please clarify, that historically any alterations or recommendations to the plan were worn by County government, but I also believe that of previous 8 Amendments, I don't think there were massive financial implementations regarding the decisions. So as a practice for making recommendations, we should be looking at that. As a Board we have a complex plan due to 3 units. As a Board we do not have the authority to decide or recommend if plan pays 100%, County pays 100%, County ½ and member contributions ½ , or 1/3, 1/3 & 1/3. We do not have the ability to impact member contributions as this Board. Angie B. – I don't think so because they are under contract. Captain Brownhill – Our employees do not have the ability to decide whether or not they are in plan. Lieutenant Michael Zack – I am not sure if the parameters of the pension are covered in the contract. I think the overall pension is mentioned, but the contribution percentage is not mentioned. Angie B. – I believe it states that we cannot make any changes that are not in favor of the union. Captain Brownhill – You cannot take a benefit away. However, it can be argued to increase a percent they will get a bigger payout. Lieutenant Zack – I believe changes to a plan in a beneficial way is looked at by an employee in a positive way. We put our faith in the Board to make positive decisions. Captain Brownhill – You could always just make the increase for new employees. Steve – Everything becomes part of the negotiation, and we need to present opinions, as the 3 unions are represented. We have been selected to represent their best interests. We need to make it a place where someone wants to come and stay. I don't want to make decisions that are grey in language and would rather see it be clear. So we are not in the same position of making the calls over and over again. Lieutenant Zack – We really need to look at doing something for the employees. This DROP has been talked about for months on end with no action. The plan itself has been in existence for years but we have had no action. The inaction by the Board is what is driving employees away. We are one of two Sheriff's Offices in the state of Maryland that does not have a DROP program. Steve – Have we looked at how this will be paid for? Lieutenant Zack: Yes we presented this. Steve - Are they all funded by their county or municipality? Do we know that? It is a quarter million dollars. So again, are we going to present opinions? Are the surrounding jurisdictions that we point to, are they ranked number one with them. Are members making contributions or are they taking in out of the plan? Have we got to the point of who is paying for it? Captain Brownhill - I don't know. That is why we have had the presentation last meeting. What I can say is that we are physically responsible. I have been on the board at least 12 years and we have always operated that way. Even in bad times, the pension plan is doing well. But with that said, we are in a competitive market. It is not just the Sheriff's Office but in Public Safety. We are behind in this and pay. The $10,000 is appreciated but we are still behind in pay and benefits. We have to attract employees and if they are getting more pay and better benefits they will go elsewhere. We are also trying to retain employees and it is more crucial now with police reform and anti-police. We are not getting the applicants we use to. County has to take steps to approve this. If Amendment 9 does not go through, DROP may assist. They go hand and hand. If we don't fix it, it will make DROP more crucial. We will lose more of the force, with the budget between 3 departments. Steve – Very valid on all fronts, on the Counties perspective $250,000 is not a lot of money, but if it $250,000 for the change in credible service versus covered employee, $200,000 for Sick Leave and $250,000 for a DROP program you're at ¾ of a million. Even in the grand scheme of things, it is annually. It is not a one-time payment, it is a commitment to pay year after year after year. The County Executive is struggling with other things like state mandated school increase. For large counties it is easy, but for a small county it is difficult. We don't have a large taxable base. One-time costs are easier when you are doing well, than reoccurring costs. It doesn't mean that there is always a cost to benefits. Is the intent of the sick leave so that individuals can leave earlier than planned? Captain Brownhill – That is not the intent it is to add on afterwards. You cannot use it to get to your retirement date. You cannot use it to leave 6 months earlier. Steve – How as a Board do we want to make recommendations that need to be funded? Do we want to say this is an all or none equation or do we want to present alternatives? And do we have the authority to do that? Lieutenant Zack – To speak for most members, they want to see a change. Most have been here for a while and see other agencies obtaining DROP and pension plans and looking at ours and not seeing any enhancements. We are losing employees and potential employees due to lack of benefits. We are looking at DROP as a retention issue and you are looking at it as a fiscal issue. Steve- I do not disagree, but our role here is to administer the plan as it exists and paying it out. Should we be looking at it as augmenting the plan or looking it as administering as to what we have been charged with as a valid viable plan? Captain Brownhill – I agree but our job is to maintain a healthy pension system, so that we can effect positive change for the employees. It is twofold. We are representing the employees in the pension system, by bringing forth their thoughts and desires. The reality is that they are behind. The people are asking what is the County doing for them. Major Carr – I'm very new to these meetings, but I get asked what are you guys doing and I don't have anything positive to give back to them. I know exactly what Captain Brownhill and Lieutenant Zack are saying because it is the same at the Detention Center. They want to see effective changes when in comes to their benefits. They want to see changes or the Officers will go 45 minutes up the road to Harford County. Captain Brownhill – We are identifying things that we need to improve and how do we figure it out. Yes, I know there are costs, but what can we do even if it is little steps, because they have not seen any steps. We might not be able to this all at once but lets take it one step at a time. Over the years, there has been inaction. It seems to shut down every time. Steve – Meeting quarterly is not meeting the needs. Shawn Mahan – I am not a Board member, but I am a member. The plan was created by the County. They wanted to create a retirement plan so that we can retain the good employees of Cecil County and give the future county governments the ability through this Board to make recommendations for them to change. That is the summation if you are confused to the purpose of the Board. It was what Nelson Bolender said to the members 20 plus years ago. That was the intent but not what the Board has done unfortunately, from a perspective of a member. That is what my colleagues are saying. Captain Brownhill – We are set up similar to many other pension systems. It was set up just like another county, so our employees see that they are making enhancements.

- Angie B. – We will meet in two weeks specifically for Amendment 9 and the DROP. Clarify the language. Read line by line and make any adjustments and changes and give it to the County Executive to get it signed, move forward and put in place. Steve – What we are saying now as the Board, we want to put ¾ of a million dollars annually in front of the County Executive and say put this in front of the Council to fund solely from the County Government. Sandy – The Maryland state retirement fund is looked at every year to see if there should be an adjustment. It is looked at the Board every year. Steve – We need to know what we are asking for and as the Board, are we looking at stacking the changes? Captain Brownhill – We were under the impression that Amendment 9 was already given to Council. The cost was known to the County at the time. Sandy – What does the actuarial state? We need clarification. What is the intent with Amendment 9 and DROP? Further discussion. The plan attorney needs to look at the retirement date. Was the intent to have the plan fund? Captain Brownhill - The membership was under the impression that the Amendment was passed, the cost was known to the County and now they are going to backtrack on the employee. Shon – The Plan Attorney and Tom from Bolton should be in the meeting. Angie B. - I will set up a meeting to meet in two weeks time with the plan attorney and Tom from Bolton.
- The bylaws require Quarterly meetings. You need to meet 70% in person or you are in violation of membership. We need to think about meetings more than quarterly, without the financial presentations. Sandy – The presentations could be condensed.
- **Empower Secure Act 2.0 Directive**
- We need to make a decision by September 15 regarding the 2 directives. Directive 1 – option to move age component to 73 and 75 in 2033. Directive 2 – Maximum dollar limit for involuntary cash distributions from $5,000 to $7,000. Shon – We have an option that it is not mandatory. Captain Brownhill – I would like to ask if it is a recommendation. Angie L. – What are the ramifications if we do not make the change? Angie B. – We can discuss this in the planned meeting in two weeks.
- Angie B. - This concludes our meeting.
- Angie Blodgett called for a motion at 1102 to adjourn the meeting, Captain Brownhill made a motion to adjourn. Angie Lawson seconded the motion. All approved by the Trustee.

Respectfully submitted,

Carol Seldomridge

For Major Matthew Carr, Secretary