CECIL COUNTY PUBLIC SAFETY PENSION PLAN

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

BOARD OF TRUSTEES

February 10,2022

Present: Angie Blodgett, James Appel (via zoom), Angie Lawson, Stephen Brownhill, Steve Overbay, Wayne Tome and Mary Allen

Guests: Sandy Biggs; Christian Sevier, Segal Marco Advisor and Lazaro Guzman, Prudential (via Zoom).

Presentations: Prudential, and Segal Marco Advisors.

Meeting called to order at 0831 by Angie Blodgett

Investment Performance Presentations:

- Prudential: Lazaro Guzman presented the Economic Review. He advised an abrupt slowdown in the third quarter, the U.S. economy rebounded strongly in the fourth quarter, with real GDP growth estimated at 6%, led by consumer spending on goods and services. 2021 was accompanied by heightened uncertainty and enormous economic and financial market volatility. Although full year GDP growth of 5.5 % was the fastest in four decades, the economy experienced numerous daunting challenges as the year unfolded, resulting in highly uneven and volatile growth with widespread imbalances and distortions. Lazaro continued that the Financial Market Returns show the ultimate paradox of 2021 was that financial markets generated very strong returns despite widespread investor caution and a prevailing risk off mentality for most of the year. While there were strong gains in the major U. S. indexes, the past year was challenging because of several key factors; an exceptionally high concentration of returns in a relatively small number of advancing stocks; heightened volatility; extreme divergences across segments of the equity market; and sudden shifts in market leadership. Lazaro confirmed that domestic equities ended the calendar year with all styles and market caps posting positive returns. Mid-cap value and small – cap value stocks significantly outperformed their growth counterparts for the first time in four years as the sharp divergence in performance faded in 2021. Large-cap growth, supported by a stampede into mega-cap technology stocks, finished on par with large-cap value. Lazaro explained that on International Index Returns, the International developed market equities delivered respectable returns for the calendar year but continued to lag U.S. equities on a relative basis due to reemerging pandemic restrictions and slower economic growth. European equities were the best performing segment for the quarter, supported by a more gradual monetary approach from the European Central Bank and strong corporate earnings. Lazaro reported on the U. S. Treasury Yield Curve, reporting that in response to rising inflation and unemployment rates back near pre-pandemic levels, the Federal Reserve pivoted to a more hawkish stance in the fourth quarter. In December the Federal Reserve announced it would double the pace of tapering its asset purchases, speeding up the timeline to an expected finish from June to March of 2022. Additionally, the Federal Reserve signaled its ready to begin its rate tightening cycle, with the latest projections now indicating three rate hikes in 2022. Lazaro additionally added that the Quarterly Update, following an abrupt slowdown in the third quarter, the U. S. economy rebounded strongly in Q4, with real GDP growth estimated at 6 %. Core consumer inflation averaged 5 % in Q4 while wages increased at a nearly 5 % annual rate. U. S. and world GDP could have been even stronger in the absence of painful supply limitations. Supply chain disruptions, surging prices for shipping and containers, and depressed labor participation rates retrained the production and distribution of goods. Aggregate demand continued to expand at a rate that exceeded productive capacity, causing ongoing shortages that pushed inflation to multi decade highs. Lazaro added that the Executive Summary 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. Lazaro continued to advise that the Plan Summary is doing well.

No questions were asked from the trustees.

- Segal Marco Advisors: Christian Sevier. recapped Lazaro's review and noted that the portfolio balance is $71 million in assets for the calendar year 2021 there was a 13 % return for the calendar year. Stocks are doing very well. Looking at returns there are no concerns currently. There has been a very good bounce back from a year ago. The portfolio in the whole is around 60 stocks and it is cash flow driven. There is a different market environment, and we will continue to handle underperforming managers. Prudential will be looking at a different approach in this area. There still is room for a covid recovery on performance.

No questions were asked from the trustees.

Administrative Tasks / Old Business

- Angie Blodgett – November 4,2021 meeting minutes were approved on December 9,2021.
- James Appel – reported that there was a slight drop in the first quarter.
- Angie Lawson – advised that Care First switched prescription coverage. The prescription card is included with the health coverage card (there is no separate card to get prescriptions). In addition, there is no change in Dental, no new card is required.
- Sandy Biggs – Empower has acquired Prudential. This switch over is to go into effect around mid-March.
- Angie Blodgett - ask when will the official announcement go out to employees?
- Angie Lawson – answered sometime in mid-March.
- Angie Blodgett – confirmed that the trustees can vote by email, this is stated in our plan document.
- James Appel – Reminded the trustees that email votes must be at 100% participation when voting by email.
- Sandy Biggs – added that this does not need to be a unanimous vote only 100 % of members (trustees) voting.
- Angie Blodgett – There is no update on Amendment # 9, she informed the trustees that on November 24,2021 she reached out via email to the County Attorney, the County Administrator, and the County Executive, but received no response. She stated that she reached out via email again on January 13,2022 with no response. On February 4,2022, she contacted James Appel for assistance. Angie Blodgett stated that according to the County Attorney there is concern that 20/25 year was not removed from the document.
- Angie Blodgett – She questioned the trustees on Amendment 9 whether to combine Amendment 9 & 10.
- James Appel – advised not to combine the amendments to keep 9& 10 separate. Any changes coming from the actuarial report with 10th amendment will be reviewed and his recommendation is to keep the amendments separate due to both being financial items.
- Angie Blodgett – stated that she will send an email request to Mr. Vicente for the actuarial report regarding a change in the plan changing the normal retirement date to 25 years or age 55 which ever provide the greater benefit to the plan member. The boards intention is to wait to submit amendment #10 after the actuarial report is received and reviewed. If the board moves forward with the change to section 3.3 of the plan the change will be included in amendment # 10.

New Business:

- Empower is purchasing Prudential – Prudential is starting to receive information regarding the communication plan for their upcoming move to Empower. Communication to employees is planned for mid – March. Employees will receive messaging to let participants know that the move is coming and that there is no action for employees to take, and that Prudential will keep them fully informed along the way. Empower is purchasing Prudential's full-service retirement business. The transaction is expected to close early in the second quarter of 2022. Nothing changes for the employee between now and the close of the transaction. All account access and phone numbers remain the same. Starting at the close of the transaction participants will begin to experience branding changes on the website, mobile app and participant service center.

Adjournment:

- Stephen Brownhill motioned at 0930 to adjourn the meeting, seconded by Angie Lawson and approved by the trustees.

Next Meeting – Thursday, May 12, 2022, 0830, Department of Emergency Services

Respectfully submitted,
Mary Allen
Mary Allen

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BOARD OF TRUSTEES
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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 double-digit 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

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Meeting Minutes

Thursday, August 11,2022, 8:30 a.m.

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

Guests: Michael Zack, Matthew Carr, Timothy Dow, Christian Sevier Segal Marco Advisor (via teams), Lazaro Guzman, Empower (via teams), Tom Vicente, Bolton Actuary, and Janice Twardowicz, Bolton,

Presentations: Empower and Segal Marco Advisors, Bolton Advisors

Call to Order: Angie Blodgett at 8:30 a.m.

Administrative Tasks/Old Business:

- The length of the prior minutes from May 12,2022 was discussed, it was approved by the trustees that the meeting minutes will be rewritten with a separate documentation for notes. This will ensure that Roberts Rule is not being violated.
- Financial Items: James Appel advised there were none.
- Human Resource Items: Angelia Lawson explained that the wellness fair will be held at the administration building October 13-15,2022. Open enrollment for health benefits will begin November 1,2022. In addition, Jackie Guerra is a new staff member working the front desk for Human Resources. It is also reported that recruitment continues for Anna Gardner's position due to her recent retirement.

New Business:

- Stephen Brownhill made a motion to put together a sub committee for discussion on putting together the information on a DROP. Wayne Tome seconded the motion. Approved by the trustees

Adjournment: Angelia Lawson motioned at 10:00 am. to adjourn the meeting, seconded by Wayne Tome, and approved by the Trustees.

Next Meeting – November 10,2022 @ 8:30 a.m., Department of Emergency Services

Respectfully submitted,
Mary Allen

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Notes From Meeting

Thursday, August 11,2022, 8:30 am

Investment Performance Presentations:

- Empower: Lazaro Guzman advised the U.S. economy expanded at a sluggish pace in the second quarter, with real GDP increasing at an estimated annual rate of only 1%, roughly comparable to that of the first quarter, and below the long-term trend of 2%. Investor confidence in the U.S. economy continues to deteriorate, as fears of a recession have become increasingly widespread. Markets are also fearful of excessive monetary tightening by the Federal Reserve in coming months while GDP data has undermined economic confidence. Lazaro continued that the financial market returns experienced their worst quarter since the first three months of 2020, with virtually all asset classes deeply in the red. Second quarter losses in common stocks and bonds were among the worst on record, as global investors stressed over Russia's ongoing war with Ukraine, global supply disruptions, rising interests' rates and slowing economic growth. Lazaro commented that on domestic equity style returns the domestic equities ended the quarter with all styles and market caps posting negative returns. Value stocks continued to outperform their growth counterparts, as investors favored higher dividend yield and lower valuations. Growth stocks driven by a combination of high valuations and rising bond yields. Lazaro explained the S&P 500 sector performance all eleven S&P 500 sectors posted negative performance for the quarter, with high growth sectors such as consumer discretionary, telecom service and information technology experiencing the brunt of the selloff. The less volatile defensive sectors, including health care, utilities and consumer staples have held up the best during the downturn. Generally, stocks from these sectors provide services that are less influenced by the current market cycle. Lazaro informed that international index returns, while international equities outperformed U.S. equities on a relative basis during the quarter's downturn, both developed and emerging market equities ended with double digit losses. International developed market equities were again dominated by geopolitical risk, supply chain disruptions, and inflation pressures, as implications from the Russia Ukraine conflict weighed on economies still recovering from the coronavirus pandemic. Lazaro noted that fixed income returns components of the Bloomberg U.S. aggregate bond index posted negative returns for the quarter, as bonds continued to sell off sharply. Although bonds rallied towards the end of the quarter over rising growth concerns, elevated inflation data and hawkish central banks led to sever losses across interest rate sensitive sectors of the market. Investment grade corporate issues, as measured by the Bloomberg U. S. credit index, suffered during the broad market sell off, as credit spreads widened markedly across all sectors. Lazaro reported on the U.S. treasury yield curve. The major event during the second quarter was the June 15 federal open market committee (FOMC) meeting. The federal reserve shocked the markets with a larger than expected 75 basis point increase in the overnight federal funds rate, the biggest rate increase since 1994. The one percent monthly increase in the May consumer index (CPI) raising the year over year headline inflation rate to 8.6% was the trigger for the FOMC to pivot to a more aggressive strategy. The initial market reaction was a steep increase in long term interest rates and a sharp compression in equity valuations. Lazaro stated that the economic & market outlook the central issue facing investors, businesses and households is the timing of the next economic contraction. A recession is an inevitable component of the classic business cycle, but timing can be elusive. Expectations are that a recession is not imminent and is unlikely to occur prior to the middle of next year as classic preconditions for recession are not yet in place. Financial conditions remain favorable, labor market remains extremely strong, household debt burdens are the lowest in decades, real interest rates are in deep negative territory, and the physical imbalances that normally cause recessions are not evident. However, implementation of an aggressive rate tightening cycle will ultimately result in a slower pace of U.S. economic growth of 2.5% over the next four quarters is anticipated while slowing sharply during late 2023 and early 2024 to 1%.

No questions asked from the board.

- Segal Marco Advisors: Christian Sevier Recapped Lazaro review and noted that the fees contract charge for some accounts that are managed by a third party. Some revenues go back to Empower which assesses those fees to offset investment fees. Some investments (Harbor (Marathon)) & MFS will not allow those fees to pay therefore there is an upcharge fee between the two totaling $93,750.00 (1.25%)

No questions asked from the board

- Bolton Actuary: Tom Vicente & Janice Twardowitz presented the DROP. They advised that a DROP has two common interpretations, it mimics in service retirement and the exchange higher annuity for a lump sum and lower annuity benefit. They continued that the DROP may mimic in service retirement payments, but the DROP is not an in-service payment to the active participant. Tom & Janice explained DROP participants are legally active employees. DROP participants receive active medical and regular wages as well as all other active benefits. Tom & Janice informed that DROP accounts are not payable to participants until they separate from service. The IRS code does not allow in-service distributions prior to age 59 ½ (recently was age 62). Tom & Janice noted that the pros to a DROP are to encourage experienced employees to continue to work; assists with succession planning; gives lump sum payment to employees at retirement and reduced training/recruiting costs. The cons are potential cost; give up increases from pay and service increments; reduced promotional opportunities for less senior staff; higher payroll as senior staff remain on; and headline risk. Tom & Janice reported the components of DROP design; when is an employee eligible for DROP, when employees qualify for a DROP. The length of the DROP can fix or variable. Treatment of employee contributions. Interest crediting on DROP account. Colas while in DROP. Number of entrants in the DROP. May limit how many participants can elect the DROP each year. Inclusion of sick leave. Tom & Janice reported that other components of DROP design are form of payment, lump sum only or annuity options, disability benefit, death benefit, termination prior to DROP exit date and the sunset provision. Tom & Janice stated in their presentation that there are many DROP design options. Additionally, they advised the cost implications; payment trade off; lump sum plus lower annuity vs higher annuity. Heavily impacted by actuary's retirement assumptions and salary increase assumptions. Length of DROP and eligibility can affect cost. Interest credit: fixed rate could be higher or lower depending on assumed return for the period. Employee contributions & colas. Ancillary benefits (death and disability) depending on approach taken. Non pension impacts; health benefits, salary trade offs and promotion opportunities. Tom continued that as of July 1,2022 that the updating of the actuary has been started. The next step for determine a DROP is to; determine initial provisions; and alternatives and evaluate cost implications and draft regulation.

- **Questions that were asked.**

On pay raises due you get them when in the DROP? According to Tom, the day you enter the pension stays the same. However, the plans can be customized.

What should we do? Tom advised to come up with what you want, examples given forward DROP, retirement date. Back DROP more expensive, most DROPs are forward DROP.

What is the age? Tom explained 25 years of service to enter DROP, you could consider 20 years, the organization needs to look at what they want out of it.

Further discussion pertaining to meeting minutes, should they be archived or removed.... they will be archived.

Sub committee for DROP will include trustees, Stephen Brownhill, Wayne Tome, Michael Zack, Matthew Carr and Timothy Dow.

It was suggested that the sub committee will come back to the board of trustees, this will be an in-person meeting, in addition it is suggested that the subcommittee meet back in 30 days.

Respectfully submitted,
Mary Allen