

**Board of Trustees**  
**Prince George's County Police and Fire Service Pension Plans**  
**Open Minutes of Meeting**  
**November 28, 2018**

**Members Present**

Nicholas A. Majett, Chief Administrative Officer  
Thomas M. Himler, DCAO for Budget, Finance, Economic Development and Administration  
Mark A. Magaw, Deputy Chief Administrative Officer for Public Safety  
Stanley A. Earley, Director, Office of Management and Budget  
Stephanye R. Maxwell, Esq., CPM, Director, Office of Human Resources Management  
Henry P. Stawinski, Chief, Police Department  
I. Vincent Canales, Fraternal Order of Police, Lodge 89  
John W. Teletchea, President, Fraternal Order of Police, Lodge 89  
Angelo Consoli, Fraternal Order of Police, Lodge 89  
Andrew K. Pantelis, President, Fire, International Association of Fire Fighters, Local 1619  
Michael K. Linynsky, International Association of Fire Fighters, Local 1619  
Thomas G. Breen, International Association of Fire Fighters, Local 1619

**Via Phone**

Gail D. Francis, Director, Office of Finance

**Others Present**

Anthony Schartner, Police Department  
Turkessa M. Green, Designee, County Council  
Mary Lou McDonough, Director, Department of Corrections  
Tammy C. Owens, President, Correctional Officers' Association  
William R. Milam, President, Fraternal Order of Police, Lodge 112  
Gary J. Taylor, President, Police Civilian Employees Association  
Susan Koch, President, AFSCME Local 241  
Orlando D. Barnes, Office of the Sheriff  
Trevor Jackson, Senior Consultant, AndCo Consulting  
Robert Holley, OHRM, Pensions and Investments Division  
Ritchlyn Dantzler, OHRM, Pensions and Investments Division  
Jaclyn Harris, OHRM, Pensions and Investments Division  
Lori Facen, OHRM, Pensions and Investments Division  
Sharon Ware, OHRM, Pensions and Investments Division

**Invited Guests**

Amy Williams, Gabriel, Roeder, Smith & Company  
Kristen Brundirks, Gabriel, Roeder, Smith & Company

**Open Session**

The Boards of Trustees met in an open session (9:16 a.m.) in the County Executive Conference Room of the Prince George's County Government Wayne K. Curry Administration Building.

**Approval of Open Meeting Minutes**

The Boards of Trustees approved the open minutes from the meeting held on October 24, 2018.  
Police: (Motion by: Mr. Teletchea; Seconded by: Mr. Canales)  
Fire: (Motion by: Mr. Linynsky; Seconded by: Mr. Pantelis)

**Presentation of Actuarial Experience Study for Period Covering July 1, 2013 to July 1, 2017 (Amy Williams and Kristen Brundirks - Gabriel, Roeder, Smith & Company (GRS)):**

Gabriel, Roeder, Smith & Company (GRS) provided an overview of the results of the actual experience of the Police and Fire Service Pension Plans during the period covering July 1, 2013 to July 1, 2017. The actual plan experience was compared to current economic and demographic actuarial assumptions. Based on this comparison and future economic expectations, recommendations were made by GRS to the Boards of Trustees for consideration and to be incorporated in future actuarial valuations.

GRS reviewed the two main components of the Experience Study's assumptions – economic assumptions (“money”); which includes the portfolio investment return, inflation rate, payroll growth, and rate of salary increase; and demographic assumptions (“people”); which includes the rate of retirement, termination, death, and disability for plan participants. The main economic findings of the Study were that the expectations for price inflation are lower than the current assumption; which reduces future expectations for investment returns, total payroll growth, and wage inflation. For the demographic findings, actual real salary increases were higher than assumed; there were less retirements than were assumed; and mortality assumptions were not measurable due to the size of the plans and insufficient data, however, GRS recommended the mortality assumption be updated to reflect mortality tables based on the public sector plan experience as well as adjustments to the salary increase, turnover, retirement, and disability assumptions to reflect actual plan experience.

Economic assumptions are based on price inflation. GRS reviewed the forward looking annual inflation forecasts from organizations such as the Congressional Budget office, Federal Reserve Board and Social Security Trustees report to survey the inflation assumption. Based on these sources, expected price inflation ranged from 1.95% to 2.5%, with an average of 2.2%. The expectation for price inflation is lower than the current assumption of 2.75%, which in effect reduces the expectation for the portfolio investment return. To calculate expected investment returns and the probability of achieving a certain return for the Plans' portfolio, GRS utilized the Plans' target asset allocations and the capital market data from 12 investment consulting firms. Each firm surveyed provided a probability for exceeding an investment return of 7.5%, 7%, 6.75% and 6.5%. On average, achieving a 6.5% investment return received the highest probability percentage amongst the firms surveyed.

Based on GRS' research data, the firm recommended the Plans decrease the current Investment Return Assumption from 7.5% to 6.75% and decrease the current Price Inflation from 2.75% to 2.25%. The Boards of Trustees reviewed the recommended changes for the economic and demographic assumptions. The Trustees discussed the impact of lowering the investment return assumption and implications for higher contribution requirements, higher accrued liabilities, and lower funded ratios. The Trustees discussed modifying the recommended Price Inflation assumption by 25 bps higher given the wide range in the GRS survey responses. Modification of the price inflation assumption would in effect increase the Investment Return Assumption and all other assumptions based on inflation. The Trustees also discussed reviewing the actuarial assumptions every two years instead of the current schedule of every four years.

Approval:

The Board of Trustees for the Police Pension Plan approved by a unanimous vote to accept GRS' recommendations with the exception of the Investment Return Assumption and the Price Inflation Assumption, contingent upon GRS' confirmation that the Board's revised Investment Return Assumption of 7.25% and revised Price Inflation Assumption of 2.50% represent reasonable assumptions.

(Motion by: Mr. Himler; Seconded by: Mr. Teletchea)

The Board of Trustees for the Fire Service Pension Plan approved by a unanimous vote to accept GRS' recommendations with the exception of the Investment Return Assumption and the Price Inflation Assumption, contingent upon GRS' confirmation that the Board's revised Investment Return Assumption of 7.25% and revised Price Inflation Assumption of 2.50% represent reasonable assumptions.

(Motion by: Mr. Breen; Seconded by: Mr. Linynsky)

**Update on Actuarial Experience Study Recommendations**

On November 29, 2018, the Board of Trustees received a letter from GRS which included the following paragraph:

*GRS believes that the assumptions adopted by the Board are reasonable for use in the actuarial valuations as of July 1, 2018, which are currently being completed. However, because the adopted investment return assumption of 7.25% is at the very high end of what GRS considers a reasonable assumption, additional analysis of the price inflation and investment return assumptions will need to be completed prior to the actuarial valuations as of July 1, 2019 to confirm they continue to be reasonable at that time.*

Assumption	Current	Actuary Proposed	Board Adopted**
<b>Price Inflation</b>	2.75%	2.25%	2.50%
<b>Real Rate of Investment Return</b>	4.75%	4.50%	4.75%
<b>Total Investment Return</b>	7.50%	6.75%	7.25%
<b>Total Payroll Growth* (Public Safety and Comprehensive)</b>	3.00%	2.75%	3.00%
<b>Total Payroll Growth* (General Supplemental)</b>	3.00%	2.50%	2.75%

*\*Used to amortize the unfunded liability as a level percentage of payroll.*

*\*\*The Board adopted a price inflation assumption that is 0.25% higher than the proposed assumption. Therefore, all of the assumptions that are based on price inflation are increased by 0.25% (including the individual member salary increase assumptions that are detailed in the full experience study report).*

### **Economic Market and Investment Performance Update**

U.S. equities performed well for the 3rd quarter of 2018 despite repeating many 2nd quarter themes. As investors weighed relatively soft economic data, a strengthening USD, and geopolitical concerns (especially around global trade relations); international indices were the sore spot. Fixed income returns were middle of the road as interest rates continued to rise. Interest rates on the U.S. Treasury Yield Curve continued their year-to-date rise during the 3rd quarter as investor expectations for further monetary policy tightening increased during the period. The Federal Reserve implemented another interest rate increase following their September meeting, citing the continued strength of the U.S. economy and stable inflation.

### **October 31, 2018 Flash Performance Report**

As of October 31, 2018, the market value for the Total Fund was \$987 million for the Police Pension Plan and the Total Fund was \$458 million for the Fire Service Pension Plan.

- The Total Police Fund returned -0.26% for the CYTD outperforming the benchmark by 219 bps. The portfolio returned 6.91% for the Trailing 3-Year and 6.10% for the Trailing 5-Year outperforming the benchmark by 121 bps and 85 bps, respectively.
- The Total Fire Service Fund returned -0.01% for the CYTD outperforming the benchmark by 244 bps. The portfolio returned 6.92% for the Trailing 3-Year and 6.17% for the Trailing 5-Year outperforming the benchmark by 122 bps and 92 bps, respectively.

### **Other Business**

The meeting was adjourned (11:03 a.m.)