

KNOX COUNTY RETIREMENT AND PENSION BOARD

May 22, 2023

The Knox County Retirement and Pension Board met in regular session on Monday, May 22, 2023, at 3:00 P.M. in Room 640, City-County Building, Knoxville, Tennessee.

The following members were present: Chairman Chris Caldwell, Proxy for Mayor Jacobs, Commissioner Larsen Jay, Vice Chairman, Commissioner Kyle Ward, Commissioner Terry Hill, Mr. Chris Simons, Mr. Jim Snowden and Mr. Matthew Schlosshan. Commissioner Richie Beeler, Secretary and Mr. Zac Fullerton were absent.

Also present at the meeting were:

USI Consulting Group: Mr. Bob Cross

Legal Counsel: Ms. Ashley Trotto, Mr. Bill Mason, Ms. Stephanie Coleman and Ms. Sarah Jarrard
Retirement Staff: Ms. Jennifer Schroeder, Ms. Savannah Russell, Ms. Nyla Breshears, Ms. Terri Chase and Ms. Faith Sullivan

Others in Attendance: Ms. Debbie Cox, Merit System Corrections

IN RE: CALL TO ORDER

Chairman Caldwell presided and called the meeting to order.

IN RE: AMENDMENTS TO AGENDA

Chairman Caldwell reported that there were amendments to the agenda.

IN RE: APPROVAL OF MINUTES OF APRIL 24, 2023

Commissioner Jay presented the minutes for the board meeting held on April 24, 2023. Mr. Snowden made a motion to approve the minutes for April 24, 2023, as written. The motion was seconded by Mr. Simons. All members present voted in favor. The motion passed unanimously.

IN RE: APPLICATION FOR RETIREMENT – DEFINED CONTRIBUTION PLAN AND AUTHORIZATION OF CREDITED SERVICE BENEFIT BASED ON COMPLETED YEARS OF SERVICE

The following applications for retirement and the credited service benefit based upon completed years of credited service at the date of retirement, as provided in the Defined Contribution Plan, were presented for consideration:

<u>NAME</u>	<u>DEPARTMENT</u>	<u>CREDITED SERVICE</u>	<u>EFFECTIVE DATE</u>
Cathy Cook	JuvSvcs	16 Years 4 Months	June 1, 2023
Jeffery Hance	Schools	40 Years 3 Months	June 1, 2023
Jerry Hurst	Schools	34 Years 8 Months	June 1, 2023
Patricia Jones	Schools	5 Years 6 Months	June 1, 2023
Barry Newcomb	Schools	10 Years 10 Months	June 1, 2023
Louis Radford	Schools	10 Years 7 Months	June 1, 2023
Evelyn Stooksbury	Schools	11 Years 3 Months	June 1, 2023

A motion was made by Mr. Snowden to approve the applications for retirement under the Defined Contribution Plan as presented and to authorize the Directed Custodian, Charles Schwab, to make

disposition of the benefits upon certification from USI and to authorize the Trustee, State Street Bank, to make payment of the credited service benefit. The motion was seconded by Ms. Hill. All members present voted in favor. The motion passed unanimously.

IN RE: REPORT OF EXECUTIVE DIRECTOR

- **New Employee Faith Sullivan** – Ms. Schroeder introduced Faith Sullivan; a new employee hired in the retirement office on May 8, 2023.
- **Vacation June 5 to June 16, 2023** – Ms. Schroeder informed the Board she will be out of the country from June 5 through June 16, 2023. Ms. Schroeder will have limited access to email and phone calls.
- **Plan Summaries as of 03/31/2023** - Ms. Schroeder provided a packet with the quarterly summary of all the retirement plans. Commissioner Jay requested to receive the quarterly summary by email as a separate attachment. Ms. Schroeder stated she will provide after the Board meeting.

IN RE: REPORT OF DOCUMENT COMMITTEE

Mr. Snowden reported on the document committee meeting held on May 16, 2023. Mr. Snowden reviewed that the document committee heard three appeals from UOPP officers regarding their eligibility and payment of prior military service. Mr. Snowden stated that after discussion, the Committee was unable to come to a consensus on a recommendation to the Board. He noted that the Committee asked Ms. Schroeder and Mr. Cross and his team to put together additional information for the Committee's consideration. Ms. Schroeder is working to schedule another Committee meeting. Commissioner Jay questioned why the appeals went to the document committee. Ms. Schroeder clarified the appeals involve the military service provisions of the UOPP plan document. Additionally, Ms. Schroeder noted the document committee generally hears appeals first then makes a recommendation to the Board. Commissioner Hill asked if there was a specific issue the Committee was still considering. Mr. Snowden replied that the Committee was considering how the officers were notified about their eligibility to purchase military service credit and if it was handled appropriately and the potential costs associated with the purchase of credit if the deadline for applying for military service were extended by the Board, as requested by the Officers. Chairman Caldwell stated the document committee was willing to recommend to the full board reopening military service credit for a fixed period of time and stated that the Document Committee will be considering whether the service should be offered for free or if it should be purchased by the participant. He reminded the Board that the plan states that military service must be purchased for any officer hired after June 1, 2007. Ms. Schroeder stated that the Committee will be looking at the cost for purchasing the military service credit on three potential valuation dates (one year anniversary, August 2016, and present day) as well as how many Officers applied and paid for prior military service in accordance with the terms of the plan document and that the Committee would meet again in July.

IN RE: REPORT OF INVESTMENT COMMITTEE

- **Recommendations from Investment Committee** – Mr. Simons introduced the proposed changes addressed during the investment committee on May 9, 2023. USI proposed the following changes for

the closed DB plan, UOPP, and Teacher's plan: replacement of the Columbia Emerging Markets Institutional 3 with the Invesco Developing Markets R6 and replacement of Lord Abbett High Yield R6 with the Eaton Vance Income Fund of Boston R6. In addition, USI proposed various allocation changes for the DB plans and Disability Plan as attached in the Investment Committee Summary and Recommendations. Mr. Simons explained the allocation changes are being proposed to move from a value approach to more of a balanced approach which should offer more growth opportunities. Mr. Cross verified the value orientation is being changed to a balanced approach. To further explain, Mr. Cross stated Eaton Vance funds are high yield, and are expected to be a better performer as interest rates drop. Mr. Simons stated the investment committee has also recommended leaving the participant loan interest rate at 6%. Mr. Simons summarized the Investment Committee's recommendations as follows: (1) to approve the two fund changes for the DB plans; (2) to approve the allocation changes for the DB and Disability plans; and (3) to maintain the 6% interest rate on participant loans. A motion was made by Mr. Simons to approve the recommendations of the investment committee. The motion was seconded by Commissioner Jay. All members present voted in favor. The motion passed unanimously.

- **Monthly Rates of Return** –Mr. Simons presented the rates of return for the Defined Contribution and Defined Benefit Plans and stated the overall rates of return are in line with respective markets.

IN RE: REPORT OF LEGAL COUNSEL

- **Owings, Wilson & Coleman** – Ms. Coleman had no report.
- **Kennerly, Montgomery & Finley** – Mr. Mason stated he would report during the discussion of the Uniformed Officers Pension Plan.

IN RE: REPORT OF ACTUARY BOB CROSS

Mr. Cross had no report.

IN RE: DISCUSSION OF THE UNIFORMED OFFICERS PENSION PLAN

Ms. Schroeder reported on the special called Board meeting held May 12, 2023. The Board asked to be provided with additional information on the different options to be explored to maintain or enhance the fiscal stability of UOPP. The Board specifically requested more data for options 2 & 3: the impact of COLAs and capping salaries at a 3% increase each year. Mr. Mason compiled the information requested and created charts for presentation to the Board. The charts summarize the history and projections of the UOPP ADC, GASB funded ratio, and GASB total pension liability. According to the charts, the ADC from 2011 to 2023 has steadily increased from ~\$4 million to ~\$10 million, GASB funded ratio has decreased from ~90% to ~63%, and the total pension liability has increased from ~\$150 million to ~\$315 million. In the graphs presented, if there were a 30% salary increase in officers' pay based on the salary suit, the estimated ADC would rise by ~\$3 million per year, the GASB funded ratio would decrease (under 60%), and UOPP GASB total pension liability would significantly increase. Commissioner Ward inquired about the assumptions used in the projections. Mr. Cross explained that assumptions include a 7% return, raises of 3% to 4%, retirement age, and the mortality rate. The assumptions are derived from the experience study that is performed every

five (5) years. If any of those assumptions are different, the ADC can fluctuate depending on how drastic those assumptions are off. Mr. Cross explained that USI uses more conservative assumptions and the practical timeline to look at is 5 years, but the Board must also look at 20-year projections.

Ms. Schroeder stated that the Board is to decide if they will take no action or act based off projections requested: no COLA, 2% COLA, no COLA for new retirees, 2% COLA for new retirees, or cap UOPP compensation at 3% per year. Commissioner Jay stated that he would be hesitant to react until the Mayor and Sheriff have taken action. Ms. Schroeder stated that the legal team, Mr. Schlosshan, and herself met with the Sheriff on May 18th and briefed him on the data and how the pension is funded. Commissioner Jay requested to receive hard copies of the graphs presented by Mr. Mason. Ms. Schroeder stated that the information would be sent after the meeting.

Mr. Simons asked if the Board should consider adding a protective policy to UOPP by capping pay increases at 3%, regardless of the result of the pending salary suit. Mr. Simons noted his preference for the option of capping compensation increases if the Board decided to act. For clarity, Ms. Coleman added that current legal research indicates that changing the COLAs does not create more legal liability than capping pensionable pay increases at 3%. Commissioner Jay told the Board he asked Ms. Schroeder whether moving Officers to TCRS would be an option and reported that it is not an option unless the whole County decides to move as well. Ms. Schroeder stated that the UOPP pension plan is stable as long as the County funds the ADC. Commissioner Ward added that Commission would have to raise taxes to continue to fund after the salary suit. Chairman Caldwell responded if the 30% increase takes place it could cost \$13.5 million for salary increases plus \$32 million to fund in the first year. This equates to a \$60 million pension liability over 20 years. Commissioner Ward stated it would be best to act when more information is received regarding the suit. Chairman Caldwell stated that a proactive decision could be made to limit liability in the future, regardless of the outcome of the salary suit. Commissioner Hill agreed with Mr. Simons and Chairman Caldwell, commenting on the desirability of considering action on UOPP fiscal soundness. Further consideration of possible UOPP amendment will be deferred to the June meeting.

IN RE: APPROVAL FOR PAYMENT- STATEMENT OF ACCOUNT

The following statement of accounts for professional services was presented for consideration and approval of payment, in accordance with agreements, audits and recommended for payment by Ms. Schroeder:

Invoices for May 2023 For FY 23 (Legal Invoices are approved for the previous Months Expense)	Fiscal 23 YTD Approved 4/30/2023	Invoices For Approval	Fiscal 23 YTD Approved 5/31/2023	FY 23 Budget vs. Actual 5/31/2023
BENXL Invoice #				Budget \$50,000.00
				Expenses -\$12,000.00
TOTAL BENXL	\$12,000.00	\$0.00	\$12,000.00	Remaining Budget \$38,000.00
KENNERLY, MONTGOMERY & FINLEY, P.C. Invoice #		\$0.00		QDRO* \$2,000.00
Invoice #		\$0.00		Rec'd from Particips \$4,000.00
TOTAL KENNERLY, MONTGOMERY & FINLEY, P.C.	\$2,900.00	\$0.00	\$2,900.00	Expenses \$2,900.00
				Remaining Budget -\$4,900.00
Owings, Wilson & Coleman Invoice # 9993M Rathbone		\$587.50		Budget \$125,000.00
Invoice # 9942M Elters		\$12,238.25		
Invoice #		\$0.00		Expense -\$74,124.37
*** TOTAL OWINGS, WILSON & COLEMAN	\$61,298.62	\$12,825.75	\$74,124.37	Remaining Budget \$50,875.63
USI CONSULTING GROUP Invoice # 90081526		\$1,000.00		Budget \$475,000.00
Invoice # 90081527		\$3,750.00		Expense -\$246,746.00
Invoice #		\$0.00		Remaining Budget \$228,254.00
TOTAL USI CONSULTING GROUP	\$241,996.00	\$4,750.00	\$246,746.00	
Invoices for May 2023 For FY 23	\$318,194.62	\$17,575.75	\$335,770.37	

***** Retainer not included in approved billings for the Board**

		Fiscal 22 YTD
Owings, Wilson & Coleman Retainer	\$4,000 per month	\$44,000.00
Kennerly Montgomery Retainer	\$12,000 per month	\$132,000.00
USI Quarterly Fee for DB Advisory Services	\$37,000 per quarter	\$111,000.00
Fees Received from QDRO* Participants	\$500 (DC Fee)	\$0.00
	\$2,000 (DB & UOPP Fee)	\$4,000.00

*QDRO fee is Paid to Retirement Office which offsets the legal fee

After review of the statement of accounts and invoices, a motion was made by Commissioner Jay that the Board authorize the payment indicated above to be paid from the designated Retirement Plans. The motion was seconded by Mr. Simons. All members present voted in favor. The motion passed unanimously.

ADJOURNMENT

Chairman Caldwell asked if there was a motion to adjourn. Commissioner Ward made a motion to adjourn, which was seconded by Commissioner Jay, and the meeting was adjourned.



MAYOR GLENN JACOBS, CHAIRMAN
BY PROXY, CHRIS CALDWELL



COMMISSIONER RICHIE BEELER, SECRETARY

- 1.) Investment Committee Recommendation

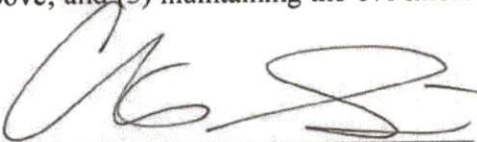
**Investment Committee
Summary and Recommendations**

USI proposed the following changes:

1. Fund changes for the Closed DB Plan, UOPP, and Teacher's Plan ("DB Plans"), as follows:
 - a. Replacement of Columbia Emerging Markets Inst3 with Invesco Developing Markets R6
 - b. Replacement of Lord Abbett High Yield R6 with Eaton Vance Income Fund of Boston R6
2. Various allocation changes for the DB plans and Disability Plan as described in the attached *Recommended Allocation Changes* document

Additionally, after discussion, the Committee proposed leaving the Participant loan interest rate at 6%.

Recommendation: The Investment Committee recommends that the Board consider and approve: (1) the two fund changes for the DB Plans described in item 1 above; (2) the allocation changes for the DB Plans and Disability Plan described in item 2 above; and (3) maintaining the 6% interest rate on Participant loans.

 5/18/23
Chris Simons, Chairman