Board of Fire Commissioners

Greenfield Fire District
P.O. Box 103
Greenfield Center, NY 12833
(518) 893-0723
Fax: (518)893-7006

LOSAP Review Meeting – August 22, 2017

Meeting began at 7:01 PM

Present were: Commissioners Dussault, Miller, Sadousky; District Administrator Petkus. Excused: Commissioners Chandler, King. Also present: Tony Fiorello from Penflex, Inc. and Gary Mazzarelli from RBC Wealth Management.

Tony Fiorello began by noting the following:

- Penflex is the administer for the District's LOSAP program; they deal with about 50 different investors.
- They do the actuarial calculations to make sure there is enough money in the fund to pay promised benefits;
- Last year they revised the District's Plan Document and point system to make sure it was compliant with General Municipal Law;
- The District is well funded and making excess contributions and that is good practice;
- Costs are going to rise as those that are entitled and receiving benefits continue to earn service credit, and that liability is funded over only one year.
- There is a 30 year cap and once someone reaches 30 years they can no longer collect, so the amortization for that liability then decreases;
- If a firefighter has not earned service credit in 3 years, Penflex no longer projects for them.
- The goal is to be as close as possible to be 100% funded, which the District was several years ago. Currently the District is about 85% funded due to several factors that hurt; the stock market, life expectancy and the change from 6% to 5.5% returns.
- Penflex has the District on a formal plan to get the District close to 100% funded within 14 years. Currently the District has about $200,000 of unfunded liability and paying $19,440 per year for that amortization.
- The assumption rate is currently 5.5%.

Gary Mazzarelli then continued with the following:

- He and Dave Rogers are business partners, and back in the 90's Dave felt that the plans should be run like pensions are run.
- When the LOSAP plans were put into effect in the 1990's no one planned on zero percent interest rates aside from the stock market collapsing.
- They currently have over 200 LOSAP plans, managing about $200-250 million on the platform. LOSAP is their core business.
- Back in the early 1990's they originally started out by laddering insured CD's as they were getting 5-7% in CD's, then keeping cash in the money market that was paying 5%, then add a little risk to boost returns.
- Then when the bear market hit in 2000, it became obvious actuarial assumptions would not be met if the way money was invested was not changed.

- The Focus Portfolio was started in about 2006 and investment policy statements were executed, which is what they have today.
- He and Dave make decisions on investments on an almost daily basis, and all LOSAP customers are experiencing similar returns as all portfolios are almost identical.
- Handed out Portfolio review and went over it in more detail, including revamping the portfolio in 2015. Currently at about 7.25% year to date, and they feel they have a good shot at putting up double digit returns this year.
- Reviewed the portfolio summary allocations, noting that they will probably rebalance the portfolio either in September or October.
- Interest rates have begun to rise, and will continue to rise, which is a risk to the bond (debt) side of the portfolio. There are four bond funds, and all are managing to ultra-short duration, which is synonymous to maturity. This helps to insulate the investments if the interest rates do in fact spike.
- Regarding the equity side, they use the Charles Schwab Total Stock Market Index for the US, which means when they own that ETF they own every stock in America except penny stock, and the internal cost for that is 3 basis points.
- They use the Charles Schwab EAFE Index, which is all of the developed nations excluding US and Canada. When that stock is purchased SCHF, every stock that is out there is owned excluding emerging markets. The internal expense rate is 7 basis points.
- In summary, they have contained costs on the equity side, the bond side is being managed to a short duration and maximized exposure to the equity market in early 2015.
- They did add 5% emerging markets several months ago that is currently working for them.
- The internal yield on the portfolio is somewhere between 3.2 – 3.43, so they only need another couple of percentage points to get the District to the 5.5% number.
- When determining bonds, with defined benefit plans they look at the actuarial assumption and take history returns for asset classes and back test to come up with a blend to get to the number the district is looking for with the least possible risk, which is typically 70% bonds and 30% equity. But you need to keep in mind interest rates, which were in lengthy decline, but are now in reverse so the bond market needs to be treated differently otherwise the rising interest rates can hurt you.
- Believes their fee to manage the District’s investments is 1%.
- If interest rates on CDs rise to 4-6%, they may just go right back there.
- They are asset allocators, not individual stock pickers, trying to guard against what they see as the dangers of the market place.
- The Commissioners can get Prospectus’ online if they want.
- The Fed Rate is either at ¾ or 1, and there were 2 rate hikes this year.
- Recommended the Board review the monthly statements and the quarterly performance reports via email.
- They also send out emails when they make investment changes that explain what the changes were and why they made them that should be reviewed.

It was confirmed by all present that going forward there will be an annual review meeting on the second Tuesday of each July. The Board thanked Tony Fiorello and Gary Mazzarelli for their time.

Meeting adjourned at 7:45 PM.

Respectfully submitted,

Joyce Petkus

Joyce Petkus
District Administrator/Treasurer