

# MINUTES

## City of Murfreesboro Pension Committee January 18, 2023

The City of Murfreesboro Pension Committee met on Wednesday, January 18, 2023, at 8:00 a.m. in City Council Chambers at City Hall.

The following members were in attendance:

Erin Tucker, Chair  
Earl Hull, Jr.  
Charlie Myatt  
Cathy Smith  
Melissa Wright

The following members were unable to attend the meeting:

Greg Sample  
Austin Maxwell

Also present at this meeting were:

Natalka Bukalo, President, Chartwell Consulting via Telephone Conference  
Sterling Price, Vice President & Consulting Actuary, USI Consulting Group  
Catie Gray, Asst. Vice President & Consulting Actuary, USI Consulting Group  
Randolph Wilkerson, Employee Services Director  
Rhonda Darnell, Employee Services Assistant Director  
Jennifer Brown, City Recorder/Finance Director  
Fredia Coldwell, Employee Serv. Generalist & Pension Committee Secretary  
Melissa Pettis, Employee Services Assistant

Chair Erin Tucker called the meeting to order at 8:00 a.m. and determined a quorum was present. Chair Tucker announced the first item on the agenda.

### **Consideration of Minutes:**

Minutes of the July 20, 2022, meeting were presented for consideration. Mr. Charlie Myatt made a motion that the minutes be approved as presented. Mr. Earl Hull, Jr. seconded the motion. There being no further discussion, the motion passed by unanimous vote of the members present.

### **Market Review by Ms. Natalka Bukalo of Chartwell Consulting:**

Chair Tucker welcomed Ms. Natalka Bukalo to review Third and Fourth Quarter 2022 reports, July – December 2022 Plan Performance, Flash Reports, Asset Allocation, and Rebalancing Recommendations.

**Review of Third and Fourth Quarter 2022 reports, July - December 2022 Plan Performance, Flash Reports, Asset Allocation, and Rebalancing Recommendations for the Defined Benefit Pension Plan by Ms. Natalka Bukalo of Chartwell Consulting:**

- The global market rallied in October and November 2022 and reversed a bit in December 2022 resulting with the year finishing with a negative month of performance. However, October and November were strong enough that the Fourth Quarter was the first positive quarter for both stocks and bonds in 2022.
- US Markets
  - 2022 was a negative year
  - Large Cap stocks fell about 18%
  - Worst year for the domestic stock market since 2008
  - Seventh worst performance for the US stock market since 1926
  - In the 4<sup>th</sup> Quarter and for the year, from a market capitalization standpoint, Mid Cap stocks fell the least – for the year they dropped 17%
  - Small Cap's lagged by **-20%** for the year
  - Value outperformed growth
  - In the 4<sup>th</sup> Quarter, there was only one negative performing sector, Consumer Discretionary, led down by Amazon and Tesla
  - All other sectors finished in positive territory – best sectors for the quarter and year were Energy, Materials, and Industrial
- International Markets:
  - For the month, quarter, and year – Developed International Markets dropped less than US Markets
  - Emerging Markets dropped less and made more than Domestic stocks for the month and quarter but down for the year in the same area as US Small Cap stocks, down 20%
- Bond Market:
  - Fourth quarter 2022 was the first positive quarter
  - 10-year Treasury yield rose slightly, closing the year at 3.88%
  - Masked a lot of inter-quarter volatility
  - From October until Year End interest rates fell, enabling Fixed Income markets to finish the quarter in positive territory

- For perspective: 10-year Bond started the year at 1.51% and finished the year at 3.88%
- Fed raised short-term rates about 4%
- Two positive performing segments for the year were Floating Rate Bank Loans and 90-day T Bills
- Real Assets:
  - Positive performing – Commodities and Natural Resources
  - Global and US REIT's (Real Estate Investment Trusts) fell in line with broader equities

Ms. Bukalo presented the attached *4Q22 Trailing Performance vs. Benchmark and Universes*, which documents are attached and incorporated as part of the Pension Committee Minutes of January 18, 2023.

- Total Plan finished the 4<sup>th</sup> Quarter up 7.4%
- Negative year for the Plan down (14.4%)
- Asset standpoint – Plan finished the year \$155.6M. This is up from September 30, 2022, but down for the year.
- Four Investment teams (year to date vs. blended target):
  - The Global Fixed Income Team (11.7) vs. (10.4)
  - Domestic Equity (15.1) vs. (21.4)
  - International Equity (17.1) vs. (18.5)
  - Real Assets (15.1) vs. (11.9)
- Performance and trends were outlined for each manager/fund on the investment team.
- Monthly Flash Reports and Rebalancing recommendations were discussed by Ms. Bukalo

Chair Tucker opened the floor for questions on fund performance or managers. With no additional discussion, Chair Tucker went to the next item on the Agenda, the Annual Review of the Pension Plan by USI Consulting Group.

**Sterling Price and Catie Gray of USI Consulting to present the Annual Review of the Pension Plan**

Chair Tucker turned the meeting over to Sterling Price and Catie Gray of USI Consulting Group for a presentation of the Annual Review of the Pension Plan:

- a. July 1, 2022, Actuarial Valuation and Report; and,
- b. GASB Statement No. 68 Actuarial Report for the reporting date June 30, 2022.

Mr. Price referred all Committee members to the presentation material entitled *City of Murfreesboro, Tennessee Employees' Revised Pension Plan July 1, 2022 Annual Review*, which is incorporated as part of the Pension Committee minutes of January 18, 2023. The Agenda of the report is found on Page 1.

The funding method utilized by the Plan is the Entry Age Normal Funding Method with the Unfunded Accrued Liability amortized over 40 years starting in 2001.

The investment return assumption was identified as 7%.

The salary increase assumption utilized by the Plan since 2011 is four percent (4%) long term, which reflect inflation increases and promotions going forward.

The Plan currently uses the RP-2014 Combined Mortality Table with MP-2021 Mortality Improvement (updated annually).

Plan expenses are being paid from the Pension Trust Fund and are reflected in costs each year. The Water Resources Department contributes the same percentage of payroll into the Pension Trust Fund as City General.

Withdrawal rates and retirement rates were discussed.

The Asset Valuation Method is a five (5) year asset smoothing method which recognizes twenty percent (20%) of the gains and losses each year.

As of July 1, 2022, the Plan had an unfunded accrued liability of \$207,097,784 amortized over 40 years (with 19 years remaining) in the amount of \$3,394,939.

The City is currently funding the Plan during Budget Year 2022-2023 at 18.73% of payroll. The recommended Actuarially Determined Contribution Rate for Budget Year 2023-2024 is 19.79% of payroll. Total covered payroll is \$34,098,691. Discussion among members regarding the 19.79% recommendation being higher than the current 18.73% funding.

Risks to the Plan were discussed: interest rate risks, contribution risks, longevity risks, and demographic risks.

The *GASB 68* report was reviewed. *GASB 68* was effective with the fiscal year ending June 30, 2015, and is intended to show the true assets and liabilities of the Plan on financial statements.

Under *GASB 68*, the pension expense calculation is different from the Actuarially Determined Contribution (ADC) rate for the funding purposes. The pension expense is

based on the Entry Normal Funding Method. GASB 68 reporting date is June 30, 2022; however, the valuation date and measurement date is June 30, 2021.

The Net Pension Liability balance for Fiscal Year ending June 30, 2022, is \$12,857,346.

Mr. Price opened the floor for questions or comments for him or Ms. Gray. Discussion of the *City of Murfreesboro, Tennessee Employees' Revised Pension Plan July 1, 2022 Annual Review* on slide 5 regarding the actuarial assumptions updated in 2018 and the recommendations on when they should be updated. Mr. Price stated it would be studied for the fiscal year ending July 1, 2023, and presented to the Committee next year. It is usually done on a 5-year basis. Chair Tucker thanked Mr. Price for his presentation.

### **Other Business:**

#### **State of Tennessee Compliance Letter**

Chair Tucker presented for the Committee's information only, State of Tennessee Compliance letter regarding the Public Employee Defined Benefit Financial Security Act of 2014, dated December 15, 2022, which noted the Plan follows State law with regards to funding requirements.

#### **Pension Committee Information Sheet**

Pension Committee members reviewed the information contained in the Pension Committee Information Sheet, as of December 31, 2022:

- Current number of retirees: 378
- Employees utilizing benefit hours for retirement: 18
- Employees who have put in notice of retirement: 1
- Deferred vested Annuitants: 278
- Monthly average contribution (City General and Water & Sewer) \$550,994

There being no other business to come before the Pension Committee, the meeting was adjourned at 9:21 a.m.