

## **Howey in the Hills Police Pension Board Meeting February 23, 2021**

**Board Members Present:** Chief Rick Thomas - Chairman  
William Herrington – Secretary  
Trey Purser  
Clay Ormsbee  
Corporal George Brown

**Others and Members of the Public:** Mr. Kevin Stone, (attorney with Stone & Gerken)  
Mrs. Francesca Sabatini (attorney with Stone & Gerken)  
Mr. Jeremy Langley, Florida League of Cities  
Mr. Chuck Carr via Zoom

Chief Thomas called the meeting to order at 4:00 pm. The meeting agenda is attached.

Since Mr. Carr was participating via Zoom, the Chief elected to discuss the assumed rate of return with Mr. Carr first. Mr. Herrington noted that based on Mr. Carr's preliminary results, the Town's contribution rate would be 22.7 percent of police payroll if the Board adopted an assumed rate of return of 6.0 percent. Mr. Herrington noted that two factors lead him to believe that this estimate is conservative since the Town's current budget and current contribution rate is 27 percent. This will continue for the remainder of the fiscal year resulting in what Mr. Carr termed a "pre-pay." Additionally, Mr. Herrington noted that the actual realized investment returns fiscal year to date (thru 1-31-2021) is 9.5 percent exceeding the Town's assumed rate of return of 7.0 percent. Pending comments by other Board members, Mr. Herrington moved that the Board adopt an assumed rate of return of 6.0 percent. Mr. Purser seconded the motion. Mr. Stone noted that lowering the assumed rate of return will increase the likelihood that the plan will have an actuarial surplus which may increase the current costs of the pension fund if the actual rate of return exceeds the assumed rate of return. He advised that an assumed rate of return of 6.0 percent would place the Howey Plan below the average police and fire pension plan in Florida. Mr. Carr advised that in his opinion an assumed rate of return of 6.0 percent is conservative but not unreasonable and ultimately makes the plan cheaper. Following additional discussion, the Board approved the motion to set the assumed rate of return at 6.0 percent unanimously.

The Chief noted with this action, he had all the information needed to submit the annual report.

Mr. Carr advised that the Actuarial Report based on the new assumed rate of return will be provided prior to the next meeting of the Pension Board.

The Chief proposed that the draft ordinance prepared by the Town attorney and distributed to all Board members be considered next. Mr. Herrington noted that it was his recollection and interpretation of the discussion at the last meeting, the proposed ordinance would only consider the Chief's opt-out alternative and although a DROP plan was discussed, it was not to be included

in the draft ordinance. Mr. Stone stated that since the Board authorized the actuary to prepare an impact statement on the Chief's opt out option and the Board discussed a DROP plan, he felt that it would be beneficial to include both the Chief's opt out option and DROP plan in the proposed ordinance.

Mr. Herrington also advised he did not feel knowledgeable enough regarding DROP plans nor understood the actuarial impact on the pension fund and therefore could not support the proposed ordinance that included a DROP plan at this time. Mr. Stone summarized DROP plans and noted that the plan proposed in the draft ordinance was a "fairly vanilla" plan that would be cost neutral for the pension fund. The draft ordinance proposed that returns to DROP participants would be equal to the actual return of the pension fund or the assumed rate of return at the DROP participant's choice. Mr. Herrington noted that allowing the DROP participant to select the assumed rate of return basically transferred risk from the DROP participant to the pension fund and therefore would have an adverse impact on the pension fund. Mr. Herrington also expressed concerns that improving police pension benefits may impact the perception of other Town employees that the police are receiving favorable treatment at their expense. The Chief advised that the Town was considering participation in the Florida Retirement System which, in that case, would include a DROP plan. Mr. Langley suggested that the earnings on DROP accounts probably should not be equal to the assumed rate of return but may be set equal to a guaranteed rate set at a low value or possibly equal to the results of a stable value fund. He stated that the objective should be to adopt a plan that does not impose any additional risk or cost to the pension plan. Mr. Stone advised that the proposed ordinance would allow the DROP participant to select either the actual investment performance of the pension fund or the assumed rate of return. Mr. Stone noted that this would impose some additional risk to the Town.

Mr. Carr advised that a fixed return will typically present difficulties with the IRS since it is viewed as a defined benefit DROP and there needs to be some variability in the return on DROP accounts for it to be viewed as a defined contribution DROP. This may become an issue to the participant since IRS limitations can be imposed on future retirement benefits. Mr. Herrington noted that he thought the limitation on retirement benefits is over \$180,000 per year and therefore would not impact the Town employees based on current and probable future salaries.

Mr. Carr also advised that many cities impose an administrative charge of about 0.5 percent. He noted that if the Town credited the full amount of plan earnings to DROP accounts based on a preliminary review, it would increase the Town's contribution rate by about 0.5 percent. He concluded that if the Town imposed an administrative fee, he would expect that the addition of a DROP plan would be cost neutral.

The use of risk corridors was discussed for DROP plan accounts; for example, the DROP plan participant would receive returns based on the actual plan investment return not to exceed a fixed percent (maybe 9 percent) and not to be less than a fixed percent (maybe 2 percent) less an administrative fee. This would limit the risk of both the Town and the participant.

Mr. Carr also noted that a DROP plan would tend to have the effect of extending the employment of senior officers.

The Chief thanked Mr. Carr for his insightful commentary. Mr. Herrington suggested deferring any consideration until the Board had additional time to become familiar with the proposed ordinance and DROP plans. In response to a question, Mr. Carr advised that when a DROP plan is added to the pension fund, older police officers tend to continue employment for a longer period of time.

The Chief requested that the actuary summarize several options for a proposed DROP plan for Howey. Mr. Carr agreed to provide this information.

Various attendees further discussed Opt-out alternatives, DROP plans and in-service distributions however there was no Board action. Following this discussion, the Chief requested that Mr. Stone revise the proposed ordinance to remove the DROP provision. The Chief advised that the addition of a DROP plan can be considered at the next meeting.

During Board member comments, Mr. Brown advised that he felt a DROP plan was beneficial to the police officers and encouraged the adoption of a DROP plan.

There being no further business and a motion to adjourn was made by Mr. Ormsbee seconded by Mr. Purser, the Chief adjourned the meeting at 5:07.

Respectfully Submitted,



William Herrington  
Secretary