M I N U T E S
Guilford Pension Committee
Regular Meeting # 274 – January 21, 2010
Guilford Town Hall, 31 Park Street
Selectmen's Conference Room, 8:00 A.M.

Note: Minutes not final until approved at subsequent Pension Committee meeting.

Members Present:	George Curry (8:10), Robert Hartmann *(chair),* David O'Connor, Alex Sommers and Wayne Staschke.
Town Officials: Present	Joseph Mazza *(First Selectman),* Sheila Villano *(Finance Director),* Mitch Goldblatt *(Human Resources),* Gary MacElhiney *(BOS)* and Dave Egan *(Bd. of Finance)*
Others Present:	Ken Friedman (*Milliman, Consulting Actuary*), Sharon Milroy (*Board of Education*), Carol Anderson (*Payroll*), John Roach (*ret. Police Officer*) and Sue Gomez *(Recording Secretary).* (Mr. Roach video-taped the meeting)

(8:07 AM – 9:30 AM) - [1:23]

Chairman Bob Hartmann called the meeting to order at 8:07 A.M.

1. Public Forum.
None.

2. Approve Minutes of:
2.1 December 17, 2009

Upon a motion made by Mr. Sommers and seconded by Mr. O'Connor it was unanimously voted to approve the minutes of 12.17.09 with the following two corrections: (5-0-0)

3. Finance Director's Report:
3.1 * Monthly Investment Report from the Finance Director (Nov)

Sheila Villano reported that we had exceeded last year's balance. We were at 31.6M last year and we are at 32M presently. That is +13.3% for the year. Really good.

Anchor is a little more back on track – 11% to 16% increase from Oct. to Nov. (a 30% swing). First Selectman Mazza suggested to Mr. Goldblatt that they let the employees ~~now~~ **know** about this. Ms. Villano said that the Board of Finance meeting is televised so that this news will be put out.

5. Old Business:
5.1 * Discussion of Pension Changes with Guilford Firefighters (IAFF)
(deferred from October meeting)

Mitch Goldblatt reported that collective bargaining was concluded Oct. '09 and there were some Pension issues pending. This had been pending for 5 years and through 3 different Town Attorneys. The Fire Fighters wanted a separate Pension contract similar to the Police. This was too expensive; so they went to ~~Mira~~ **(MERA)** – similar to the State – this was also cost prohibitive. The end result was they took the current Employee Pension Plan and they carved out changes specifically for the FF. The Board of Selectmen has approved the Firefighter contract.

3. Finance Director's Report:

3.1 * Monthly Investment Report from the Finance Director (Dec)

Sheila Villano reported that we were continuing the positive trend – 13.65%. Hillswick took a little shift but the rest continue to improve. She then brought up that the cash account only pays 10 basis points and that is not enough. The Town's cash account pays 30 basis points. Mr. Sommers suggested that Ms. Villano and Mr. Hartmann discuss this as this was "just treading water." Mr. Hartmann said that they could put some of the cash in small cap managers. Ms. Villano retorted that if Well Fargo could invest in a better product that we would receive better interest rate on it. We can tell Wells-Fargo where to invest the 2 million cash. It used to be in overnight Money Market but now it is something else.

Mr. O'Connor said there was not much choice right now. The Town is getting 30 basis points and it is safe. Mr. Curry said that we would see these low rates all this year. Perhaps we can squeeze Wachovia to give us a few more points from Wachovia's portion. Ms. Villano then mentioned the STIF (State Treasurers Investment Fund) Municipal Money Market Reserve with Webster – high deposit account. Mr. Curry said we may get the provider to absorb some of the expense to bump up the yield. Ms. Villano said she would speak to Joe Bivona at Wells Fargo. There's got to be something they can do to improve the yield; she felt that she should investigate this. The Committee agreed.

4. Correspondence:

None

5. Old Business:

5.1 Discussion of Small Cap Pension Managers

Mr. Hartmann said he spoke to Joe Bivona (Financial Consultant) and he said if we approve the two small cap managers he would west the paperwork in motion. Alger and Oakridge were previously mentioned. It will take a month or more to get the paperwork done. Mr. Hartmann said we could approve both managers and then do the allocation. Mr. O'Connor said that Oakridge was the more conservative. Mr. Curry said that Alger was higher risk and that Oakridge was a "low beta style management." He felt they should crawl before they run and that Oakridge would be his choice but if we can approve both and then allocate to only one.

*Upon a motion by Mr. Sommers and seconded by Mr. Curry it was unanimously voted to **approve** Oakridge.*

5.2 Pension Fund Custodian

Ms. Villano asked that they take this up in February as she needed to speak to 2 or 3 pension plan administrators in other towns. She said she would have a report ready for next month.

5.3 Reallocation

The consensus was to wait for February when Joe Bivona would be present to advise; they could also ask Tom Bivona to come but decided that would not be necessary. Ms. Villano said that there was over 1 million in the contribution account and about 800,000 in expenses for the year so there would be a little there to put in the small cap account. The committee thought that this was a good suggestion. Mr. O'Connor noted that first the account had to be set up with Oakridge. Mr. Hartmann agreed saying to get it set up and then transfer the money to them.

6. New Business:

6.1 Presentation of actuarial reports dated July 1, 2009 by Ken Friedman of Milliman USA

(8:24 AM)

Ken Friedman presented 2 reports with blue covers to the committee: larger booklet is the Actuarial Valuation of the 3 Pension Plans (Town, Police & Fire) July 1, 2009 and the smaller report is the Board of Education non-certified.

Highlights of the Report:
Contributions were higher because of asset performances of 2008. They use a 3-year "smoothing" method. Each year they only recognize 1/3 of the gain or loss in that year's valuation.

Pg. 6 – big book – (Town/Police/Fire) – shows the reconciliation of Jul '08 – Jul '09. The school plan shows in this report and allocates to the different plans to produce the following year's values. There is also the effect of the "transfer gun" – employee who has moved from one plan to another within the town. He explained that they bring assets from the previous year to the current.

Pg. 7 – ID gain or loss   Take the market value – minus out 2/3rds of that amount to get to actuarial value of assets and they check ratio to market value – if rates less than 80% or more than 100% then they have to consider of account value is moving too far away from market value. The ratio used to be 81-20. 90-110 is the "corridor". We have to think about if we are recognizing gains or losses fast enough. This is probably as far apart as they are going to get. If we have another loss year there are only so many smoothing techniques they can use. If we exceed 111%, we could set the Actuarial Value to 120% equal to Market Value. This can also be done on the upside if we go up very fast. He felt we are OK for this year.

In Washington there is talk of Pension Fund Relief for multi-employee plans. Widen the corridor to 70 – 130 for 2 years. This would allow plans to use 130% of MV. Mr. Friedman did not think this would help all that much as at the 3rd year it would snap back and you would have to give back most of what you earned.

We realize 1/3 (of gain or loss) and then that is spread over 5 years. So, it is spread two times; only realize 1/3 each year and then spread over 5 years, so 7 years. Mr. Mazza commented that in better years you put more in to it and then asked to get back to the real problem –
Pg. 1 – shows summary of data (as of July 1, 2009)
Earnings
Gross normal cost
Net employer normal cost – amount we pay. Unfunded accrued liability paid for with mortgage-style amortizations.
Mr. Friedman defined what was in each category.

Pg. 2 – contributions to be made around July 2010 – this eliminates having to do estimates.
Mr. Sommers asked about % of total salary. Mr. Friedman referred back to #4 on page 1 – earnings of participants which divides the contributions by the payers. The number for the Police fund is very high. 50% of pay this towards pension. For every dollar of pay - .50¢ goes to pension. Last year it was around .44¢

Mr. Hartmann thought that a good deal of the expense was to make up to changes in Police Pension Fund. Military Service added about 5.7% to that number. Mr. Friedman said that last year they estimated 44.2%. $117,000 – cost of military service estimate and that's what it came out to be.

Pg. 4 (outstanding balances) & 5 (payments) – The Police Retirement Fund has 2 amendments. $7 Million for unfunded for Police Fund.
Mr. Friedman said there are things we can do concerning the relief proposals in Congress.
Alternative #1   "Overall Fresh Start" – take unfunded liability and amortize over a 30-year period – maybe 20 years for Police Plan – so amortization would go down to $600,000 – $700,000 at 20-year amortization. Mr. Mazza asked what was the rational for 30-years. Mr. Friedman – employee's career time-frame. So, 20 years for Police Plan. Mr. Mazza felt that 30 years was stretching it out there. Mr. Friedman said if you do something shorter you would not get as much relief.

Alternative #2 Unusual 2008. Amortize loss over 15 years instead of 5 because it was an unusual year. Mr. Curry asked if these possibilities had to go through Washington. Mr. Friedman said that we use ERISA when the policies are useful – we use as a model. Some of the relief proposals have merit. Mr. Friedman asked how soon we would we know where our budget numbers are. He said if we could wait until April, we could wait for Washington. Mr. Mazza said we needed by Feb. 11 (the absolute last date) – the budget has to be presented to the BOF. So, after the meeting Mr. Friedman will speak to Ms. Villano and he would propose some numbers to look at. Mr. Mazza said that the Town cannot afford to fund at Mr. Friedman's recommendation all in one year. Mr. Hartmann asked suppose we take an extended payout? Say in 3 years it's worse than now? We can make it up in future years. Mr. Friedman said yes they could.

Mr. Friedman said actuarial funding was to get us to a level of orderly funding. We assume 7%/year over a long period of time but if we only get 5% over a long period then our liability will go up 20%. At some point, cost has to be cut or contributions increased. Mr. Mazza said we are one of the lowest towns in contributions.

Ken Friedman/Mitch Goldblatt – the Police are in line, the Firefighters at 4% of pay is a little low. 2 ½ - 3 % would not be low for corporation but we are a town. Ms. Villano added that we also contribute to Social Security. Mr. Sommers said that the increased liability for military service added 5% - he asked what would happen if retirement age for Police went from 20 – 25 years? Mr. Friedman said that would reduce liabilities somewhat but that we are deliberately conservative. The likelihood that someone will get to 25 years is 10% and benefits start later – on the down side, salaries will be higher and we would pay more pension. It would go down 10-15% which is significant if we go to 25 years. 20 years was done when the fund was more flush. Mr. Mazza said this was getting extremely expensive for this town – what would happen if they were to do 401Ks for new hires? Mr. Mazza didn't think we could continue. Mr. Friedman said that this has happened to a degree and they might only be able to do for new hires. The phase-out periods for these costs are very long. If you start expressing as a percentage, plan contribution goes up versus the number of people in the plan goes down. Collective Bargaining – have to get the other side to agree. Some say – OK, better than nothing. Some say – absolutely not and want a defined benefit plan. The Town of Orange went to a 457 plan.

Mitch Goldblatt/Ken Friedman – earlier retirement for non-police – what would happen? Say we offered early retirement incentive – what would that do to valuation? Mr. Friedman said it would depend on who takes it. If you reduce the head count, you save that payroll but if the Pension Plan has extra money you use that – doesn't come out of budget. If there is a subsidy in the early retirement it will increase the plan's liability.

There are a lot of moving parts to this kind of analysis. Not all who you want to take it will and you have a "brain power drain" if the wrong person takes it.

Mr. Curry asked regarding the Police Plan – of the two provisions we've added – military service or overtime? Mr. Friedman said that in the long run – overtime would be more costly. Military Service is a closed group. O/T is difficult to ascertain. We don't have enough experience, we don't know if we will have final year spikes to increase their pensions. Joyce (Forte) [former executive assistant] explained to him that the town only has so much money for O/T – so it would be hard for a person to load up on O/T before they retire. Mr. Curry said that O/T is allocated by seniority so that works against us. Mr. Friedman said that when he did the original analysis he looked at town budgets to see what was available. They went to the high side – the O/T budget wasn't enough to give everyone 25% increase in O/T.

Mr. Mazza said he will sign no more overtime for this year – unless for emergency personnel. So, there are some constraints and the limit for Police is 12 hours.

Mr. Hartmann to Mr. Mazza – worried that if we have problems in future years – he didn't want to spread too far. He asked Mr. Friedman how many to spread and if they could pay it down.

Mr. Friedman said they could pluck a certain amount of money and isolate from the plan. Mr. Mazza said – say ½ million – in better times we could make it up in other years. Mr. Friedman said they would be borrowing at 7% and would have to pay back. Mr. Hartmann said he liked that approach.

Mr. Curry asked when Mr. Friedman thought accountability would come for multi-employee plans; a couple of Trillion dollars. Will the rules change? – "ticking time bomb" Mr. Friedman replied that he was not a lawyer and not a constitutional lawyer - he said it was a state's rights issue. That's why government plans are exempted from ERISA. Sooner or later someone will have to pay for this. He felt that this would be more along the lines like we will pay for health care. Mr. Curry said that tax receipts were down everywhere. Mr. Friedman said that despite the population demands these services – unfunded mandates.

Ms. Villano – queried whether we should re-examine pension obligation bonds. Mr. Friedman replied that he did not think they were a good idea. You're pushing the obligation off even further. It only works if you gain more on the pension fund than what you have to pay out. What's the proper time value of money?
Ms. Villano responded – so our 7% assumption may not be so good. Mr. Friedman said they may have to ask the investment managers if this is sustainable.

Mr. Hartmann - so the Board of Finance and the Board of Selectmen will determine how much we can pay. They will work with Mr. Friedman. Mr. Friedman said that the Board of Selectmen recommends to the Board of Finance.

Upon a motion by Mr. Sommers and seconded by Mr. O'Connor it was unanimously voted to ***ACCEPT*** *the actuarial report dated July 1, 2009. (5-0-0)*

The next Regular Meeting is scheduled for Thursday, February 18th, 2010 – 8:00 AM.

Adjourn

There being no further business, and upon a motion by Mr. Sommers and seconded by Mr. O'Connor, it was unanimously voted to adjourn the meeting at approximately 9:30 AM – [1:23].

Respectfully submitted,

Susan Gomez
January 29, 2010

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