

~ Draft ~ MINUTES

Guilford Pension Committee

Regular Meeting # 288 – March 17, 2011

Guilford Town Hall, 31 Park Street

Selectmen's Conference Room, 8:00 AM

Note: These are strictly Draft Minutes and are not final until approved at a subsequent Pension Committee meeting.

Members Present: Robert Hartmann (*chair*), Alex Sommers, George Curry, David O'Connor and Wayne Staschke. (5 of 5)

Town Official(s): Joseph Mazza (*First Selectman*), Sheila Villano (*Finance Director*), Present Mitch Goldblatt (*Human Resources Director*), Gary McElhiney (*Selectman*).

Others Present: Ken Friedman (*Actuary, Milliman*), Tom Bivona (*Consultant, Wells Fargo Advisors*), Andy Potochney (*School Business Administrator*), John Roach (*Retired Police Officer*), Sue Gomez (*Recording Secretary*).

(8:03 AM – 9:54 AM) - [1:50]

Chairman Hartmann called the meeting to order at 8:03 AM.

1. Public Forum
None.

2. Approve minutes of:

- 2.1 January 19, 2011 Special Meeting (#286)
February 17, 2011 Regular Meeting (#287) – (February meeting cancelled)

Upon a motion made by Mr. Curry and seconded by Mr. Staschke it was unanimously voted to approve the minutes of 1.19.2011 as submitted.

3. Approve Requests from Board of Education Employees, as follows:

3.1 REQUEST TO WACHOVIA FOR PENSION BENEFITS:

Pamela B. Price, ParaEducator, Guilford High School

Date of Full-Time Hire: 9-23-87

Date of Retirement: 1-31-11

Salary: \$22,014.66

Benefit Option: Lump Sum - \$78,694.72 VESTED

3.2 ADDITION:

Lisa Duncan, Office ParaEducator, Melissa Jones Elementary School

Date of Full-Time Hire: 3-7-11

Salary: \$7,751.25

Reason: Replacement

NOT VESTED

3.3 REMOVE:

Mary Gannon, Office ParaEducator, Melissa Jones Elementary School

Date of Hire: 9-1-04

Date of Termination: 2-12-11

Salary: \$17,900.52

Reason: Resigned

NOT VESTED

Susan Kesselring, ParaEducator, A.W. Cox Elementary School

Date of Hire: 9-1-05

Date of Termination: 11-24-10

Salary: \$17,900.52

Reason: Resigned

NOT VESTED

June Leone, Cook Manager, Guilford High School

Date of Full Time Hire: 2-4-05

Date of Termination: 8-31-10

Salary: \$21,281.40

Reason: Resigned

NOT VESTED

Upon a motion made by Mr. Sommers and seconded by Mr. O'Connor it was unanimously voted to approve items 3.1, 3.2 and 3.3 as submitted. [5-0-0]

4. Finance Director's Report:

4.1 Monthly Investment Report from the Finance Director (Jan & Feb)

Ms. Villano reported that January returns were 13.37%. At the end of February returns were 16.24%. Hillswick rallied in February and there were positive gains in all the accounts.

Update on IPI and Trustee situation

Ms. Villano said we are in the process of moving assets from Wachovia to Wells Fargo. IPI sent out the March 1st Pension checks and all went well. Soon we will be able to press a button and get an actual report for that day.

Mr. Curry asked if Wachovia was charging a fee to move the assets. Ms. Villano replied no. We will be saving \$28,000 – \$30,000 annually by making this move.

Mr. Goldblatt said the only issue so far is that one pensioner did not receive a check stub even though it is direct deposit. Mr. Goldblatt spoke with him and resolved it.

4.2 Review of 7-01-2010 Actuarial Valuation: Ken Friedman, Milliman

Ken Friedman handed out two booklets: Police & Town and School. **Actuarial Valuation Employees' Pension Plan and Police Retirement Fund July 1, 2010** and **Actuarial Valuation Public School Employees' (Non-Certified) Pension Plan July 1, 2010**. This produces a contribution payable as of June 30, 2011. We use this report to make the contributions in July: Fiscal Year begins 7-01-11. This way we know what contribution is needed while the budget is being set.

p.1) Summary of Data. 6 separate cost centers. These are the cost of benefits being earned this year. This report also looks at the accrued valuation of the fund; the amount of money that people have earned to get funded percentage 7-01-10. This does not reflect any asset performance since that date even though rreturns have been somewhat better since that date.

The situation of greatest concern is that the Police Retirement Fund was 60-70% funded and then took a hit and now we are below where we would like to see it. The unevenness of funding reflects someone switching from one unit to another. Some groups might have more turnover, raises or retirements than another. Police is more predictable from a pay standpoint; some of the others, not so much. Volatility – one disability can add a significant amount of liability to the plan. One case can affect the numbers significantly. Another volatile is unfortunate premature death; then the liability would go down. Mr. Goldblatt added that when someone retires with a lump sum, it skews the numbers but takes away liability.

2006 Pension Protection Act. Lump sum basis was changed. We are in the last year of the phase in of moving from Treasury rates to longer corporate bond rates. Lump sums have been coming down. The Board voted to stay with Treasury; this decision is still available. We are on a pre-PPA basis and we could possibly phase in. We are not bound by ERISA requirements; this would soften the blow for future retirees. If interest rates rise then lump sums come down (the rates are changed once a year in July). This decision was made years ago probably in the 1980's. You will pay lump sums at market rate in the month of distribution. Then they saw problems with the timing – a plan can have a 'stability period', lock the rate in for 3 months or a time period. Most plans choose a 1-year stability period and look back. Mr. Hartmann asked if they changed the calculation rate could they lower the lump sums. Mr. Friedman replied that if interest rates go down the lump sums would be higher. Mr. Hartmann asked if they wanted to implement, how long would it be to action. Mr. Friedman replied it could be in effect for July 1, 2011 if it were done now. Ms. Villano asked if this was part of the experiences study. Mr. Friedman said no. Mr. Curry asked would a change have to be negotiated or could the committee decide. Mr. Friedman said he was not a labor lawyer but he felt that yes, it would have to be negotiated. Mr. O'Connor asked how much it would change the lump sum. Mr. Friedman replied around 15-20%. The Police Plan does not pay a lump sum. Mr. Friedman confirmed that our present plan states Treasury based.

p. 7) Mr. Mazza asked as of July 1, 2010 what year are we in of the 'smoothing'?" Mr. Friedman explained that it is a 3-year smoothing. July 1, 2010 is 1/3 of gain or loss of year before and 2/3 of the year before that. This year we are absorbing the last 1/3 of 2008. Take the Market Value and subtract the gain we can't taste yet and loss we don't have to suffer yet and that equals the Actuarial Value. 2009 was a pretty good year. Next year – if there is no meltdown we still have 2009 gains that will come in and it might look better. By next year we may have more reserve.

Back to p. 2) Funding policy contribution for each unit and this is the amount to put in the budget for next FY and pay in July '11. 2008 valuation: Police 28 ½%, now it is 63%. The Town was 9.96% - now it is 15.56%. Mr. Curry commented that these were wide swings. Mr. Friedman explained that when contribution amounts are not made then they show up like a 5-year mortgage. You get a double hit for not making a timely contribution. Mr. Friedman advised staying as close as possible to the contribution numbers understanding the budget constraints. In 2008 it was \$677,000, now it is \$1.819 million. Because we under funded it went up a lot. Mr. Curry commented that these numbers were eye opening.

p. 6) Shows the assets during the year – 13.22% rate of return. On page 9 are the projections of estimated cash flows. This is a kangaroo projection – it shows every 3 years. We are expecting cash outflow to increase over the next decade or so and this has an impact on the investment policy. It means you have to disinvest to meet cash flow. We need to keep a watch on. As plans become more mature Cash Flow becomes very important for what level of funding you want to be at. Ms. Villano referred to page 6 – 1.9 M is the projected Town and Police contribution. The benefit payments are \$100,000/month. Mr. Friedman and Ms. Villano will look at that. Mr. Sommers commented that this assumes all policies remain fixed. The only way to decrease would be to change the policies for new people and not give them the same option. Possibly the plan could be amended so that future benefits are earned at a lower rate. No change can be made to what has already been earned.

p. 9 Shows the forecast for the next 13 years. Mr. Goldblatt asked if this was retire and replace or retire only. Mr. Friedman said yes, just the current people in the plan. New entrants do not affect this. Lump Sums are the single biggest liquidity issue in the plan and they tend to be a surprise.

Mr. Mazza asked about rates of salary increase and Mr. Friedman went to the graded scale on page 26. This assumes higher increases for the younger employees. Mr. Mazza said we would not see 6% increases in the next year. Mr. Friedman said this is on average over a long term that salary will be at this level. Mr. Mazza asked what if we drop from the current percentage to a lower percentage in the next contracts. The pre-2008 rates were higher. Mr. Friedman said if they know what the next contract is they can build it into the numbers. If the actual rates are lower then the actual benefits will be lower. It takes awhile to play out but if Mr. Friedman changes the salary assumption it will change the numbers some but it is amortized over 15 years.

School Plan numbers. Mr. Sommers asked Mr. Friedman if there was model they could play with to answer some of these questions also to do a 7-year projection and change the variables and see. Mr. Friedman said he could bring a model and show the committee. Mr. Sommers said if we have an extraordinary investment what would be the decrease on the contribution – right now they are guessing.

Going back to the Town Plan, Mr. Mazza said the GSA is funded at 95.15%. There are many in that group who could retire. Page 2 shows that as a result of that, their contribution rate is the lowest. So the oldest group in age and longevity is pretty well funded. The report assumes that there are no lump sums in that calculation. Mr. Goldblatt added that for Police who have chosen not to retire the fund is not as buoyant, that calculation is not as good. Mr. Friedman explained the rationale of 20-year funding.

School Plan. p. 1) just under 83% funded. No employee contributions. Almost \$2 million under funded.

4.3 Presentation of new **2011 Actuarial Experience Study** (draft): Ken Friedman, Milliman

This is discussion draft; it is still a work in progress. The results are fairly heartening. Mr. Mazza asked when they would issue the final report. Mr. Friedman said the end of June and by then we would have one new contract. Mr. Friedman said this report looks at what happened. They recognize the differential each year once they get the actual numbers. They do a study by group to see what plusses and minuses are offsetting one another.

The committee reviewed the Executive Summary. The assumption for mortality is working so they will leave as is. Mr. Friedman felt that 7% was a reasonable assumption and recommended staying with it. He would like to extend the assumption for Police retirement to 30 years. On the school side he recommended extending the assumption to 70 years. He would like to select an ultimate rate on how many years of service is first five-years based and then after vested based on age. We had a number of terminations of males in their early 40's with only a few years of service. All the rest is unchanged. Mr. Curry commented that pushing out the assumptions would improve the valuation of the plan. Mr. Friedman directed them to pp 9 & 10 – recap of 2005-2010 asset performance with approximate return for each year. The 2008 impact shows in 08-09 but 2010 is one of the best numbers he's seen on all of his plans. There was very good asset performance through that tough period. (Our asset manager choices and advisor (Wells Fargo) are doing a good job for us). He felt that the 7% assumption is working for us.

p. 7) expected return model over 75 years shows 6.48% expected justifying the 7% rate of return.

Mr. Friedman finished with small things of interest - conclusion and recommendations:

p. 20) new proposed retirement rate for the school plan (70). What would 2010 be if we used these numbers? It reduces liability and gives more years to fund and the resulting contribution requirement would have dropped by over \$200,000.

p. 21) Police – change assumption to 30 years. It will not change the numbers much but will be a better reflection of the actual pattern. Our plans have no caps in service.

School Plan – recommended lowering the withdrawal rate on the school plan. It would be a minor effect but would lower contribution by \$10,000.

Ms. Villano asked about amortization periods to help them smooth the payments. Mr. Friedman went to pp. 4 & 5 Funding Report. It shows the components of the unfunded liability and page 5 shows the amortization period. [David O'Connor and Tom Bivona leave the meeting at @ 9:47 am]

5. Old Business:

5.1 Update on IPI and Trustee situation

Addressed in 4.1 above.

6. New Business:

6.1 Executive Session: Discuss a potential disability pension

Mr. Goldblatt asked to hold this to the next meeting.

Adjourn

There being no further business and upon a motion made by Mr. Sommers and seconded by Mr. O'Connor it was then unanimously voted to adjourn the meeting at approximately 9:00 AM – [0:55].

Respectfully submitted,

Susan Gomez
March 21, 2011

THE NEXT REGULAR MEETING IS SCHEDULED FOR THURSDAY, April 21, 2011, 8:00 AM
with the [Defined Benefits Plan Committee Meeting](#) *Immediately following.*

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Guilford Pension Committee – Defined Benefits Plan Sub-Committee
Regular Meeting # 9 – March 17, 2011
Guilford Town Hall, 31 Park Street
Selectmen’s Conference Room, following Pension Committee Meeting

Note: *These are strictly Draft Minutes and are not final until approved at a subsequent Pension Committee meeting.*

Members Present:
Excused:
Town Official(s):
Others Present:

Meeting was not held due to Lack of Quorum