

**LITCHFIELD PENSION COMMISSION SPECIAL MEETING
TUESDAY, OCTOBER 28, 2014**

MINUTES

Present: P. Perusse, M. Dunn, J. Morosani. Absent: B. Barnes, J. Manes, D.T. Wilson, F. Carpentier. Also present: R. Carroll, Administrative Assistant to the First Selectman, M. Fishman, Board of Finance, Richard Sych and Ellen Kucenski from Hooker & Holcombe, Inc.

The meeting was called to order by Chairman Perusse at 7:02p.m.

Approval of Minutes of August 12, 2014 Regular Meeting: **MOTION:** by M. Dunn seconded by P. Perusse to approve the minutes of the August 12, 2014 regular meeting. Motion passed unanimously.

Actuarial Report and Discussion – Hooker & Holcomb: Richard Sych, President and Consulting Actuary and Ellen Kucenski, Consulting Actuary presented a review of the actuarial valuation report for the Municipal, Merit Service & OPEB Plans (Attachment 1). R. Sych explained GASB 67 was in effect for year ending 6/30/2014 while GASB 68 will go into effect next year. The Town was required to adopt a funding policy for both plans: Municipal Plan with the Town paying the normal cost plus a portion of the unfunded liability over a closed 20-year period and the Merit Service Plan pays the normal cost plus a portion of the unfunded liability over an open 15-year period. There was a terminology change with the Annual Required Contribution (ARC) being replaced with Actuarially Determined Contribution (ADC).

E. Kucenski reviewed the assumptions and noted no changes are needed at this time. The Merit Service Plan costs have dropped due to several members maximizing their years of service at 30-years. The OPEB has seen a drop in the ARC as premium costs decreased. OPEB is 35% funded up from zero 3 years ago. The plans have experienced asset gains of approximately 7%. M. Dunn complimented E. Kucenski on her presentation.

R. Sych suggested that the Board monitor the investments closely as the balance gets closer to 100% funded and reduce the risk of investments.

Benefit Approvals:

Roger Tanner, a Merit Service retiree elected to receive a joint and 100% contingent annuity of \$229.11/mo effective 8/1/2014. **MOTION:** M. Dunn moved to approve, seconded by J. Morosani, all voted aye and the motion carried unanimously.
Joanne Bertrand, a Board of Education employee, elected to receive a joint and 50% contingent annuity of \$1,213.17/mo effective 7/1/2014 from the Municipal Plan. **MOTION:** M. Dunn moved to approve, seconded by J. Morosani, all voted aye and the motion carried unanimously.

2015 Meeting Schedule: P. Perusse distributed a meeting schedule for 2014 (Attachment II).

MOTION: J. Morosani moved to adopt the meeting schedule for 2015 as presented, which was seconded by M. Dunn and the motion passed unanimously.

Communications: J. Morosani received investment results from Union Savings Bank for the second quarter. Concerns were expressed as the accounts continue to underperform their blended benchmarks. J. Morosani will contact USB. Unions Savings Bank will be asked to attend the February meeting.

The next regular meeting of the Pension Commission will be on Tuesday, December 2, 2014.

Adjournment: **Motion:** M. Dunn moved to adjourn at 8:02p.m. and J. Morosani seconded. All voted aye and the motion carried.

Respectfully submitted,

John W. Morosani
Secretary

**SCHEDULE OF MEETINGS
PENSION COMMISSION
2015**

All regular meetings will take place at 7:00 p.m. at the Town Hall unless otherwise posted.

Tuesday, February 10, 2015 (second Tuesday)

Tuesday, April 14, 2015 (second Tuesday)

Tuesday, June 9, 2015 (second Tuesday)

Tuesday, August 11, 2015 (second Tuesday)

Tuesday, October 13, 2015 (second Tuesday)

Tuesday, December 1, 2015 (first Tuesday)

Approved at 10/28/14 Special Meeting

Margaret K. Perusse, Chairman



Town of Litchfield

Review of July 1, 2014 Actuarial Valuation Reports (Municipal, Merit Service & OPEB Plans) Pension Commission Meeting Tuesday, October 28, 2014

**Richard S. Sych, FSA, EA, MAAA
President and Consulting Actuary**

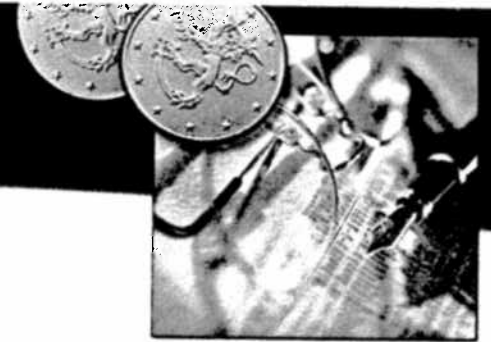
**Ellen A. Kucenski, FSA, EA, MAAA
Consulting Actuary**

Overview



- GASB 67 & 68
- Municipal Employees' Retirement Plan Valuation Results
- Merit Service Retirement Plan Valuation Results
- OPEB Plan Valuation Results
- Questions & Answers

GASB 67 & 68



- GASB 67 went into effect for the fiscal year ending 6/30/2014. GASB 68 will go into effect next year.
- Results move from a footnote to the financial statements.
- Entire unfunded liability is reflected as a liability (Net Pension Liability).
- Assets are measured on a market value basis.
- Town was required to adopt a funding policy for both plans:
 - Municipal: Town pays the normal cost plus a portion of the unfunded liability over a closed 20-year period. As of July 1, 2014, 18 years remain.
 - Merit: Town pays the normal cost plus a portion of the unfunded liability over an open 15-year period
- Decision made to “close” the amortization period for the Municipal plan to avoid the “depletion date” (defined by GASB as date in the future when assets will be depleted)
- Old term: Annual Required Contribution (ARC) replaced with Actuarially Determined Contribution (ADC)

Municipal Employees' Retirement Plan



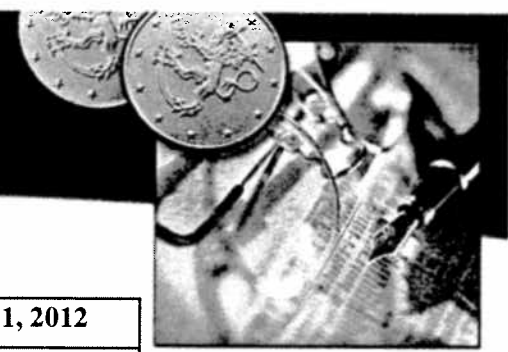
- Key assumptions include: 7.0% investment return, 4% salary scale, 100% retire at age 65
- Reviewed demographic assumptions for reasonability. No changes were needed. Full experience study not done, could consider with 2016 valuation.
- Investment return of 7.0% continues to be appropriate based on input from Union Savings Bank (investment advisor)
- Asset gains relative to the 7.0% assumed return for the prior 2-yr period (11.6% for 12/13 and 13.8% for 13/14).
- Normal cost down 9.5% due to significant decrease in number of active participants. Additional decrease of 10% due to plan change (employees contribute 1% of pay beginning July 1, 2015).
- Asset gains and reduction in normal cost led to lower ADC this year

Municipal Employees' Retirement Plan

Summary of Fund Activity	
	Market Value
1. Beginning value 7/1/2012	
a. Trust assets	\$ 8,192,297
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Adjustment to accruals	(521,161)
f. Net: (a)+(b)-(c)-(d)+(e)	7,671,136
2. Contributions	
a. Contributions during year	838,325
b. Change in accrued contribution	0
c. Total for plan year	838,325
3. Disbursements	
a. Benefit payments during year	521,161
b. Administrative expenses during year	0
c. Change in benefits payable	(521,161)
d. Change in administrative expenses payable	0
e. Total for plan year	0
4. Net investment return	
a. Interest and dividends	206,191
b. Change in accrued income	0
c. Realized gain (loss)	7,814
d. Unrealized gain (loss)	761,738
e. Expected return	N/A
f. Recognized gain (loss)	N/A
g. Required adjustment due to corridor	N/A
h. Reversal of prior year required adjustment	N/A
i. Investment-related expenses	(41,481)
j. Total	934,262
5. Ending value 7/1/2013	
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	9,443,723
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	9,443,723
6. Approximate rate of return 2012-2013	11.6%

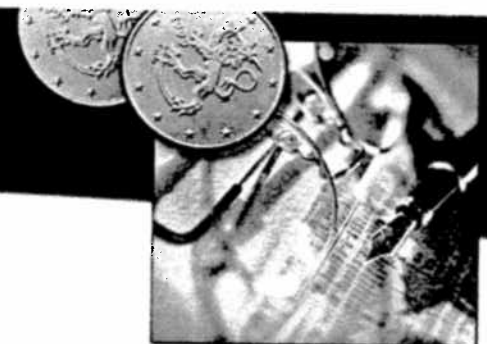
Summary of Fund Activity	
	Market Value
1. Beginning value 7/1/2013	
a. Trust assets	\$ 9,443,723
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Adjustment to accruals	(630,245)
f. Net: (a)+(b)-(c)-(d)+(e)	8,813,478
2. Contributions	
a. Contributions during year	1,067,885
b. Change in accrued contribution	0
c. Total for plan year	1,067,885
3. Disbursements	
a. Benefit payments during year	630,245
b. Administrative expenses during year	0
c. Change in benefits payable	(630,245)
d. Change in administrative expenses payable	0
e. Total for plan year	0
4. Net investment return	
a. Interest and dividends	194,111
b. Change in accrued income	0
c. Realized gain (loss)	1,535,327
d. Unrealized gain (loss)	(385,610)
e. Expected return	N/A
f. Recognized gain (loss)	N/A
g. Required adjustment due to corridor	N/A
h. Reversal of prior year required adjustment	N/A
i. Investment-related expenses	(47,880)
j. Total	1,295,948
5. Ending value 7/1/2014	
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	11,177,311
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	11,177,311
6. Approximate rate of return 2013-2014	13.7%

Municipal Employees' Retirement Plan



	July 1, 2014	July 1, 2012
Number of participants		
Active	80	95
Terminated vested	34	32
Retired and beneficiaries	<u>63</u>	<u>55</u>
Total	177	182
Covered payroll	\$3,949,740	\$4,228,749
Average plan salary	49,372	44,513
Actuarial present value of future benefits	17,617,405	16,231,335
Actuarial Accrued Liability (EAN Basis)	14,910,312	13,085,274
Actuarial present value of accumulated benefits	12,771,032	10,949,798
Asset Value		
Market Value	11,177,311	8,192,297
Actuarial Value	11,177,311	8,192,297
Unfunded Actuarial Accrued Liability	3,733,001	4,892,976
Normal cost	310,181	380,998
Actuarial Determined Contribution (ADC)		
Valuation Year +1	669,415	827,885
Valuation Year +2	682,320	843,734
Funding Percent		
Market/Actuarial	75.0%	62.6%

Municipal Employees' Retirement Plan



Development of the Actuarially Determined Contribution (ADC)

	Board of				
	Education	Highway	Sewer	Town	Total
1. Total Normal Cost	\$ 120,306	\$ 66,809	\$ 9,881	\$ 113,184	\$ 310,180
2. Amortization of UAL	\$ 106,865	\$ 128,482	\$ 19,635	\$ 91,847	\$ 346,829
3. Total Contribution as of July 1, 2014 <i>(1 + 2)</i>	\$ 227,171	\$ 195,291	\$ 29,516	\$ 205,031	\$ 657,009
4. Covered Payroll for Valuation Year	\$1,411,991	\$1,123,275	\$ 131,031	\$1,283,444	\$3,949,741
5. Normal Cost as a % of Payroll <i>(1 ÷ 4)</i>	8.52%	5.95%	7.54%	8.82%	7.85%
6. Contribution Cost as a % of Payroll <i>(3 ÷ 4)</i>	16.09%	17.39%	22.53%	15.98%	16.63%
7. ADC for 2015-2016 <i>(1 x 1.04 + 2)</i>	<u>\$ 231,983</u>	<u>\$ 197,963</u>	<u>\$ 29,911</u>	<u>\$ 209,558</u>	<u>\$ 669,415</u>
8. ADC for 2016-2017 <i>(1 x 1.04 x 1.04 + 2)</i>	<u>\$ 236,988</u>	<u>\$ 200,743</u>	<u>\$ 30,322</u>	<u>\$ 214,267</u>	<u>\$ 682,320</u>

Merit Service Retirement Plan



- Similar to Municipal plan, assumptions seem to be reasonable. Could perform full experience study with 2016 valuation
- Plan experienced asset gains relative to the 7% assumed return for the prior 2-yr period (12-13 return was 10.6% and 13-14 return was 14.0%).
- Normal cost dropped approximately 10% due to several active participants reaching the service limit
- Since normal cost decreased and gains on assets, the ADC dropped by about \$43,000.

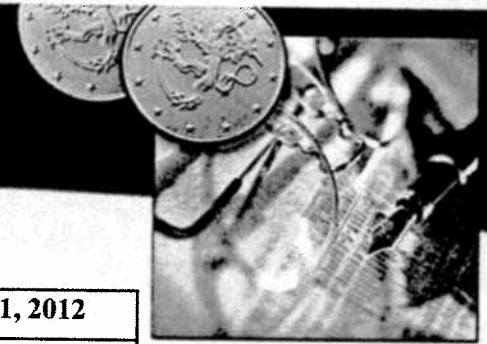
Merit Service Retirement Plan



Summary of Fund Activity	
	Market Value
1. Beginning value 7/1/2012	
a. Trust assets	\$ 2,546,572
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	2,546,572
2. Contributions	
a. Contributions during year	187,729
b. Change in accrued contribution	0
c. Total for plan year	187,729
3. Disbursements	
a. Benefit payments during year	125,788
b. Administrative expenses during year	0
c. Change in benefits payable	0
d. Change in administrative expenses payable	0
e. Total for plan year	125,788
4. Net investment return	
a. Interest and dividends	55,413
b. Change in accrued income	0
c. Realized gain (loss)	6,893
d. Unrealized gain (loss)	216,840
e. Expected return	N/A
f. Recognized gain (loss)	N/A
g. Required adjustment due to corridor	N/A
h. Reversal of prior year required adjustment	N/A
i. Investment-related expenses	(12,876)
j. Total	266,270
5. Ending value 7/1/2013	
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	2,874,783
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	2,874,783
6. Approximate rate of return 2012-2013	10.6%

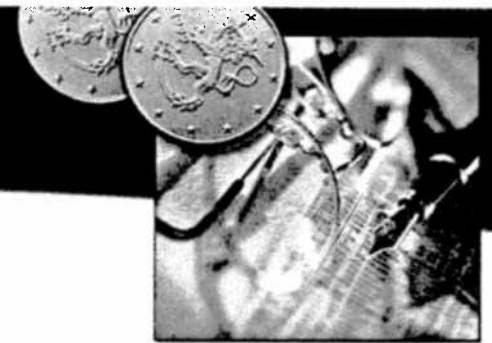
Summary of Fund Activity	
	Market Value
1. Beginning value 7/1/2013	
a. Trust assets	\$ 2,874,783
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	2,874,783
2. Contributions	
a. Contributions during year	150,102
b. Change in accrued contribution	0
c. Total for plan year	150,102
3. Disbursements	
a. Benefit payments during year	138,757
b. Administrative expenses during year	0
c. Change in benefits payable	0
d. Change in administrative expenses payable	0
e. Total for plan year	138,757
4. Net investment return	
a. Interest and dividends	57,036
b. Change in accrued income	0
c. Realized gain (loss)	497,126
d. Unrealized gain (loss)	(143,810)
e. Expected return	N/A
f. Recognized gain (loss)	N/A
g. Required adjustment due to corridor	N/A
h. Reversal of prior year required adjustment	N/A
i. Investment-related expenses	(14,411)
j. Total	395,941
5. Ending value 7/1/2014	
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	3,282,069
b. Accrued contribution	0
c. Benefits payable	0
d. Administrative expenses payable	0
e. Net: (a)+(b)-(c)-(d)	3,282,069
6. Approximate rate of return 2013-2014	14.0%

Merit Service Retirement Plan



	July 1, 2014	July 1, 2012
Number of participants		
Active	170	172
Terminated vested	50	44
Retired and beneficiaries	53	46
Total	273	262
Actuarial present value of future benefits	4,212,857	3,841,989
Actuarial Accrued Liability (EAN Basis)	3,749,977	3,367,567
Actuarial present value of accumulated benefits	3,523,433	3,128,671
Asset Value		
Market Value	3,282,069	2,546,572
Actuarial Value	3,282,069	2,546,572
Unfunded Actuarial Accrued Liability	467,908	820,993
Normal cost	59,412	65,858
Actuarial Determined Contribution (ADC)		
Valuation Year +1	107,425	150,102
Valuation Year +2	107,425	150,102
Funding Percent		
Market/Actuarial	87.5%	75.6%

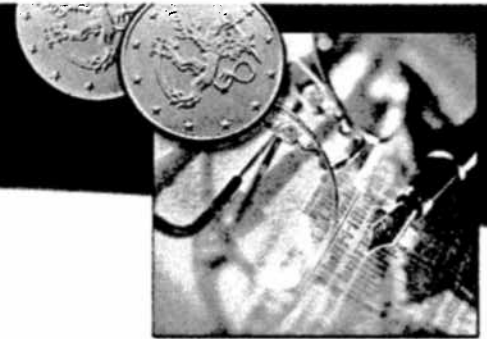
Merit Service Retirement Plan



Development of the Actuarially Determined Contribution (ADC)

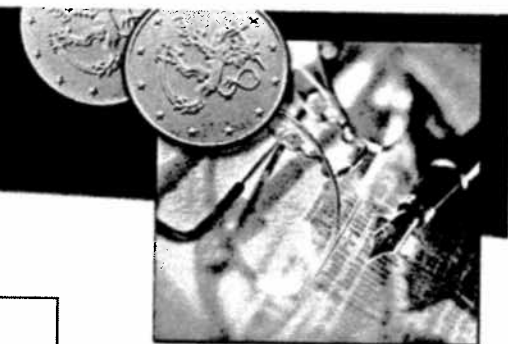
1. Total Normal Cost	\$	59,412
2. Amortization of UAL	\$	<u>48,013</u>
3. ADC for 2015-2016 <i>(1 + 2)</i>	\$	<u><u>107,425</u></u>
4. ADC for 2016 - 2017 <i>(level \$ method so no adjustment)</i>	\$	107,425

OPEB (GASB 45) Plan



- Estimated liability dropped from \$3.1 million to \$2.6 million.
- Biggest driver of decrease was lower than expected increase in premiums
- ARC will drop from \$294K for fiscal year 2014/2015 to \$207K for fiscal year 2015/2016 (uses 20-year amortization).
- ARC was nearly 100% funded for FYE 2014
- Significant variability due to year to year changes in medical claims.

OPEB (GASB 45) Plan



GASB 45 Annual Required Contribution (ARC)

Annual Required Contribution (ARC)

2015 / 2016 Fiscal Year

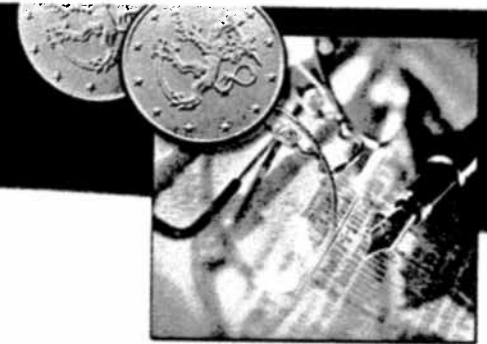
Normal Cost	\$44,759
20 Year Amortization of UAAL	148,625
Interest - End of Year Payments	<u>13,537</u>
Total ARC 2015 / 2016	\$206,921

Annual Required Contribution (ARC)

2016 / 2017 Fiscal Year

Normal Cost	\$47,892
20 Year Amortization of UAAL	148,625
Interest - End of Year Payments	<u>13,756</u>
Total ARC 2016 / 2017	\$210,274

OPEB (GASB 45) Plan



GASB 45 Unfunded Actuarial Accrued Liability (UAAL)

Actuarial Accrued Liability 7/1/2014

Actives	\$828,937
Retirees	<u>1,741,986</u>
Total	\$2,570,923

Assets 7/1/2014	<u>886,171</u>
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Unfunded Actuarial Accrued Liability (UAAL) 7/1/2014	\$1,684,752
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Questions

and answers.