

Town of Old Saybrook Pension and Benefits Board
Regular Meeting, February 25, 2016
Meeting Minutes
Conference Room Town Hall

Members Present: Suzanne Taylor, Ray Muratori, Carl Fortuna, Lynn Dallas, Paul Tracey (via conference call), Absent: Eileen Torrenti, Carol Voigt. Others attending: Accounting Liaison Sharon Migliaccio, Secretary Timothy Kellogg, Financial Consultants: Tom Forma, Kevin Nichols (Morgan Stanley) and Chris Quinsen (Invesco), and Interim Finance Director Lee Ann Palladino.

Welcome

Chairperson Taylor welcomed everyone to the meeting. The meeting was called to order at 7 PM. Paul Tracey joined the meeting via conference call. Former Finance Director, Lisa Carver was remembered for her dedicated service and a minute of silence was observed for her passing. .

Motion to add the January 7, 2016 Special Meeting minutes to the agenda by Selectman Fortuna and seconded by Lynn Dallas. All in favor. Motion carried. **Motion** to approve the January 7, 2016 minutes by Selectman Fortuna and seconded by Lynn Dallas. All in favor. Motion carried.

Chair's Report

Chairperson Taylor highlighted her attendance at the Annual Banquet of Old Saybrook Fire Company Number 1, also attended by First Selectman Fortuna and the other two selectpeople. Chairperson Taylor noted that she assured the department members of the solvency of their pensions. She also noted that she and Sharon are working to improve the accuracy of the summary plan description by correcting several inaccuracies, which is necessary as a base for the pension reform study.

Interim Finance Director Report

Lee Ann Palladino reported on the budget. Through the Board of Selectman process the budget was increased by \$3,100.00. The changes include, adjustments to Milliman due to increased costs for various GASB required valuations. Money from the pension reform study was removed from the 15-16 budget and added to next year's. . Lee Ann shared a request from Milliman to put together a census for the GASB 45, which Sharon has been working on. Chairperson Taylor noted the January 8 bill of \$21,000. Lee Ann indicated that the bill is budgeted for, provided there are no unforeseen expenses for this budget line. On a related note, Chairperson Taylor noted that the OSFD evaluations don't occur annually. Also Lee Ann Palladino has advised the Chair that an estimate for Actuarial Expenses for next year were given to her by Actuary Lemanski and amounted to \$50,000.00.

Motion by Selectman Fortuna and seconded by Lynn Dallas to approve the payment of the two pending actuarial bill in the sum of approximately \$21,000. . Motion carried.

Financial Reports and Discussions

Chris Quinsen reported on Invesco investments. He distributed an updated report for the board noting that. 2015 was a challenging year for the market. Cash positions were kept high from a historical perspective. Dividend stocks did well, but some were avoided. We're currently in the midst of a market correction. Headed into 2016 they are confident the market will focus on fundamentals. Last year we had positive attribution from Asian based companies, semiconductor companies, and healthcare companies. Detractors were in consumer discretionary and excess cash. YTD we're doing better than the market benchmark by 2%.

Tom Forma highlighted a report on page 12 of the distributed report. Chris continued, there have been a lot of downsides as we know. Earnings revisions going down due to global outlook. But we have an opportunity to buy stocks when prices are right. Short term downside risks are in buying energy companies because they take longer to show results. There's positive growth in Europe. Europe and Japan have the least downgrades in earnings revisions. Additional remarks were made about investments in Europe. Investors look at defensive companies but they may not be the best right now because of the high price of those stocks. The rest of Asia, excluding Japan has been hit the hardest. Positives indicate, India trading at 12 times the price of earnings. Asia is trading at a 25% discount to relative value. Balance sheets in developed companies are fairly sound. They are cautious in emerging markets, but they can be up to 20%. Selectman Fortuna asked about exposure in Russia and Brazil. Chris continued the report in response to the Selectman's question. Those areas of the world are struggling. Things are off to a tough start in the beginning of the year. In struggling areas they're able to take cash profits and help build on opportunities. Historically, international ports were chosen for their consistency. It was highlighted that over five years we've never under performed our benchmark.

Paul Tracey asked (via phone) about the domestic stocks, namely the energy stocks. Chris responded that energy materials industrials are seeing a reset and valuations are being lowered. That sector is not attractive unless you have a longer window for growth 3-5 years. Paul asked about the link to energy prices and the market. Chris responded, some it helps and some it doesn't. The point can be argued on either side. Consumers spending less tend to prefer that and spend the difference instead of saving. Kevin added. in agreement with Chris's comments, the concern of where the growth is coming from. Kevin addressed energy stocks and prices in relation to the global economy. Tom also agreed and added that lower oil prices have a negative effect in the stock market and a positive effect for the consumer. Tom's guess about why energy stocks are down is that the consumer bulge came from baby boomers who are now being more cautious. Paul asked about Great Britain withdrawing from the union. Chris addressed the question optimistically. Invesco hopes they'll stay. Invesco holds off on judgments until decisions have been made. They're prepared to analyze the outcome either way. The UK has the largest country weighting.

Chairperson Taylor had a question about earning money with cash. Chris said you can't earn money with cash today. It's there for safety and principle, but it helps on the downside. It's not used to make money as much as the stocks. Kevin highlighted page 9 of the report and the cash position being deployed a lot over the last month and a half. Chairperson Taylor asked if there were other questions regarding the international investments. Tom commented that the international investments are ahead of their index. Whereas some of the domestics are down. Chris highlighted this as a benefit of asset allocation. Chairperson Taylor commented on the consideration of diversifying the investment policy. She would appreciate suggestions on that for next month's meeting when we will review our investment policy in detail. Chris left the meeting at 7:38 PM.

Tom discussed the fiscal year number which is down 7.03%. YTD last year was all over the place. He indicated that the ups and downs have been tough on people psychologically. It's hard for people to see these trends as common and much better than they were years ago. The whole plan is down 5.13%. The index is down less. We're supposed to be a little more protective and it hasn't worked out that way.

Kevin commented further on stocks that are not performing like they did last year, but they still feel pretty positive about it. The challenges are likely due to global growth concerns. Tom continued, they broke things into YTD and calendar year for the actuarial evaluations. Ray asked about the stocks that have gone down. Kevin responded that they are still staying with higher quality larger companies. Tom said they look for deviations and they see things in hindsight that can look like mistakes, but these things are debatable. The stocks that did really well last year held up the index last year and have caught up to the downside of the market this year. Tom provided additional comments on portfolio management.

Tom continued addressing the challenges. "This is what makes the board's job so difficult." It's hard to give a good manager the chance to do well. Chair Taylor asked about our previous fund manager, Alliance Bernstein and how the company had been doing since our departure.. Tom addressed the question pointing out we've gone to something less volatile. Chairperson Taylor asked for Lee Ann's input. Lee Ann agreed with Tom and added that what's most important is our asset allocation. She's looking at what's happened over the last 5-7 yrs and how do we prepare for the next 5-7 yrs. She reiterated that Tom is right to advocate patience with our managers.

Chairperson Taylor asked Tom if he wanted to comment on the Health Care funds. Tom said it's been a big help to be 50% in bonds. Tom Highlighted page 4 of the healthcare report. We've only had one equity manager. A discussion ensued regarding dividing up the 50% of the portfolio in stocks to 3 different managers Kevin reviewed strategies outlined in the report provided last month, which discussed this. Kevin emphasized that all three companies would diversify things. Group discussion was had on the subject. Tom said they can all be combined. Lee Ann agreed with the recommendation.

Motion to approve Epoch Global Equity Yield, JPMorgan Equity Income and AB Concentrated US Growth by Selectman Fortuna and seconded by Ray Muratori. Paul indicated he didn't have the info to react. Tom and Kevin indicated the overall strategy is two equity managers oriented toward high quality companies and a third manager that's more volatile but oriented toward growth. Additional clarifications were made. Chairperson Taylor noted the motion on the floor and asked if we wish to take action. **Motion** to move the vote by Lynn Dallas seconded by Selectman Fortuna, approved to move motion. The vote for the new hires was 4 for and one abstention by Paul Tracy. Motion carried.

Actuarial Matters

Chairperson Taylor reported that Mr. Constantine's paperwork is filed and he will be able to retire on April 1. Sharon reported that Mary Morgan, from the Board of Education, will be retiring at the end of the school year. Chairperson Taylor reported that Lisa Carver's pension contributions will be refunded to her estate.

The ICMA Report was delivered by Paul Tracy who reported on the market value. He noted that the funds started the year with 35 participants and ended with 41 participants. Another was added in January. On Jan 1, 2015 the market value was \$1,287,000 and ended the year with \$1,351,000 (an increase of roughly \$64,000). Market impact had a loss of \$2,300. That's not much due to conservative positioning. Things are roughly 50/50 in cash or bonds and stock, $\frac{1}{3}$ is in stable value. Performance has been hard to judge, but it's been more defensive than the stock market in general. The DOW is down over 4% for the year. Paul will have an update in early April. Chairperson Taylor presented a question for Paul, is it possible to add non-town funds to a 457 account? Sharon said she didn't think that was possible. Discussion was had on the question. Paul said a possible solution is liquidation of the fund, if it's allowable. Lee Ann indicated that it depends on what the plan documents allow. Sharon will follow up by contacting Laura Hancock of ICMA.

Status of Pension Reform Study

Chairperson Taylor shared with the board about a meeting that she, Selectman Fortuna and Interim Finance Director Pallidino had, to review possible pension options as suggested by our actuary. As a result Director Pallidino compiled the ideas developed during the conference and forwarded them to Steve Lemanski for cost evaluations and comments. Steve Lemanski indicated this morning to Suzanne he could have some results by end of March and would come to the April meeting to present the information to the full Board. In her conversation with Steve, he shared with her an example of a hybrid pension plan that the town of Glastonbury had adopted. The goal was to stabilize the cost. The study indicates things took about five years to get implemented. No changes were made to the Glastonbury police plan and the hybrid plan only affected non-union employees. Further comments were made. Chairperson Taylor invited Lee Ann to comment. Lee Ann commented on the hybrid plan (a combined DC and DB plan). She indicated that they see the balance between the two and have asked to run it at a very low discount rate. Her findings suggest a likelihood that returns earned are going to be low and

another model will be more costly to the individual. The goal is to develop a more predictable cost that is also affordable and provides a reasonable pension.

Old Business

Discussion of the status of retiree life insurance benefits was brought up and attention directed to a Harbor News article that seemed to describe exactly what has transpired as to how the life insurance benefits are being changed and enforced. When Dr. Taylor suggested that the article be entered into the minutes First Selectman Carl Fortuna indicated that there was an error in the article but he did not remember it explicitly. Other alternatives of inclusion of the end result of the benefit were discussed. It was agreed that a formal notice of just what benefit each retiree is entitled to should be made available to them and kept as a formal matter of record. Discussion was had about whether to amend the article into the minutes or provide details of the settlement for retiree life insurance in some other format so that each retiree will know exactly what amount of insurance will be payable upon death. Chairperson Taylor advocated for an official filing of something on behalf of the people. Selectman Fortuna indicated communication would happen with employees. Retirees will be informed of their entitlements clarifying questions.

Lynn Dallas inquired about our investment policy. She was assured that it will be on next month's agenda..

Discussion was initiated by Selectman Fortuna concerning the possibility of putting out to bid actuarial services. It was agreed that could be considered at budget time in the next fiscal year after 2016-17. .

New Business

No new business.

Motion to adjourn. by Ray Muratori and seconded by Lynn Dallas. Meeting adjourned at 8:35 PM

Respectfully submitted,



Timothy Kellogg,
Pension and Benefits Board Secretary

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