

TOWN OF STONINGTON
RETIREMENT BOARD MINUTES
MAY 5, 2009

The Stonington Retirement Board held a regular meeting on this date at 9:00 a.m., at the Stonington Public Schools Administration Building. Board members present were: George Sylvestre, Judy Samokar, April Smith, Russel Burgess. Present was John O'Brien by telephone. Also present were Cheryl Morgan, Gregory Miller and Brian Waldner, representing Columbia Management, a division of Bank of America; Han Yik, Senior Portfolio Strategist, Bank of America Institutional Advisory Solutions – Investments; Evan Woollacott, Jr., Hooker & Holcombe, Inc.; and Maryanna Stevens, Town of Stonington Finance Director.

Mr. Sylvestre called the meeting to order at 9:00 a.m.

Review of Fund Performance:

Messrs. Miller and Waldner met with the Retirement Board to review investment results of the Town of Stonington Pension Plan for period ending March 31, 2009. Mr. Miller recapped the index results for March 2009 and prior periods. He discussed the economic conditions and outlook, market trends, asset allocation strategies, and key trends to monitor. A synopsis of this discussion is contained in the report ending March 31, 2009. The Small Cap Core and Real Estate equities have been increased slightly since the report, but are not yet in the target range established in the Town's Pension Investment Guidelines. International equities have not been increased and also remain below the target range in the Guidelines. Mr. Waldner reviewed the Fixed Income portion of the portfolio and presented a macroeconomic overview of the 1st quarter 2009.

The total fund performance as of March 31, 2009 is as follows: down first quarter 2009, Fiscal year to date, 1 year, 3 years and 5 years, and up 10 years and since inception (351 months). The total fund performance and breakdown is attached.

New Business:

- A. Assumption Discussion: Mr. Sylvestre stated that an annual actuarial valuation is done rather than a biennial valuation to avoid spikes in the Town's contributions. The last valuation was of 6/30/08. The market downturn after this date will be reflected in the 6/30/09 valuation and will have an impact on the Town's pension funding level for FY10-11. Mr. Woollacott discussed the long term asset return expectation, based on the asset classes in the portfolio. He calculated a 7.85% rate of return and is comfortable with the 7.5% rate of return currently used in the valuation. Mr. Woollacott stated that the Town funds future service and past service liability. The latter has had the largest increase and will affect the Town's level of funding in the future. Mr. Woollacott reviewed the asset smoothing method of a five year period at 20% per year. Mr. Sylvestre and Ms. Stevens did not recommend extending the smoothing period. Mr. Woollacott also suggested that the 20 year amortization period of the Actuarial Accrued Liability can be extended to 30 years. Mr. Sylvestre suggested that the wage increase assumption of 4.5% needs to be reviewed in light of the economic conditions. Mr. Woollacott questioned the Board's risk tolerance and targets, to see if the current assumptions are on target based on the current investment policies. Mr. Sylvestre asked the Board if they are comfortable with the current investment policies. Mr. Yik stated that he would review the asset allocation, with the goal to minimize loss, and how a change would impact the assumptions. Mr. Sylvestre stated that the goal is to provide stable level of contributions, avoiding spikes in contributions, but ensuring

adequate level of funding. Mr. Miller stated that the Town could weigh alternatives to avoid spikes and use lower expected return, however, the Town would have to contribute more. Mr. Burgess suggested that Bank of America could move to sell bonds and increase stocks. After some discussion, it was suggested that Mr. Woollacott produce some scenarios with different assumptions and investment strategies with a rate of return of 6.50%, 6 % and 5.50%. Mr. Woollacott will work with Mr. Yik to produce some scenarios to present to the Retirement Board prior to June 30, 2009.

- B. GASB OPEB Trust: Mr. Sylvestre gave the Board an overview of the Governmental Accounting Standards Board (GASB) 43/45 reporting requirement, for Benefits Other than Pension (OPEB), to account for the cost of retiree health benefits in the Town's financial reporting. Although the Town generally does not offer retiree health care benefits, it allows retirees to stay on the health plan, at their full cost, until Medicare eligible, therefore, creating an implied rate subsidy. Retirees would pay significantly more than the group rate if they purchased individual private insurance; therefore their rates are "subsidized" by the active younger employees. The OPEB liability is calculated by an actuarial valuation done biennially. Although the Town is only required to account for the OPEB liability in financial reporting, the Town's bond rating would be affected if the liability were not funded. The Town, therefore, must set up a trust fund, with trustees to oversee the trust. Mr. Sylvestre asked the Retirement Board to consider becoming trustees of the GASB/OPEB trust fund. He stated that International City/County Management Association (ICMA) has the vehicle to invest the funds and would be the investment advisor. Ms. Stevens informed the Board that ICMA would meet with the trustees to establish the Town's guidelines or the Town can use one of 5 models ICMA has created. The Town has already begun to fund the OPEB. The annual required contribution (ARC) has been reduced from \$200,000 to \$90,000 per year, due to health insurance plan design changes. The funds could initially be invested in a money market account with ICMA, until the Board can meet with them to consider other options. ICMA has already created a standard trust agreement and ASO agreement. Various towns are using ICMA. Mr. Sylvestre stated that the fees are deducted from the fund. The Town does not have to pay fees out of pocket. After some discussion, it was the consensus of the Retirement Board to be trustees of the GASB/OPEB trust.

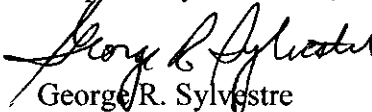
Old Business: None conducted.

Approval of Minutes from 11/12/2008 Meeting:

Mr. Burgess made a motion to accept the Minutes of the meeting. Ms. Samokar seconded and it was so voted.

There being no further business to come before the Retirement Board, the meeting was adjourned at 10:55 a.m.

Respectfully submitted,


George R. Sylvestre
Secretary