

**TOWN OF STONINGTON
RETIREMENT BOARD
FEBRUARY 14, 2012**

The Stonington Retirement Board held a special meeting on this date at 9:00 a.m., at the Stonington Public Schools Administration Building. Board members present were: Maryanna Stevens, Chairman; John O'Brien, Judy Samokar, June Strunk, and Frank Todisco. Also in attendance were Bill King, BOE Operations Manager; Vincent A. Pacileo III, Town of Stonington Dir. of Administrative Services; Evan Wollacott, Jr. from Hooker & Holcombe, Inc. Christopher Rowllins, Christopher Coleman, and Devon Francis, representing Fiduciary Investment Advisors (FIA), attended later in the meeting.

Ms. Stevens called the meeting to order at 9:05 a.m.

The purpose of the meeting was to review Mr. Woollacott's comparison of the Town's defined benefit plan versus a defined contribution plan and to review Fiduciary Investment Advisor's Due Diligence report.

Review Analysis of Alternative Plans:

Mr. Woollacott reviewed an Income Replacement Ratio comparison, dated February 1, 2012, that showed calculated income replacement ratios at age 65 for both the current defined benefit (DB) pension program and a proposed defined contribution (DC) pension program. The ratios included projected Social Security. He showed two scenarios that included the following factors:

- Assumptions: Rate of Return 6.50%; Salary Increase 3.50%; Retirement Age 65; Annuity 6.5% Interest;
- Plan Provisions: Town Contribution 6% of pay (scenario one), 5% of pay (scenario two); Employee contribution 3% of pay.
- Social Security: National Average Wage Base 2.50%; CPI for Bendpoints 2.50%

It was noted that the administrative fees are initially high when implementing a DC plan because there are no plan assets to offset the fees. Mr. Woollacott suggested that a new plan could be wrapped into the existing DB plan until the assets of the new plan are large enough to break out. It was also noted that the long term cost savings of plan conversion would not be fully realized for 30 or 40 years until all of the participants in the DB plan have been paid out. The Board briefly discussed options for implementing a DC plan, such as grandfathering the current employees and freezing the DB plan, or offering the DC plan to new hires only. Ms. Samokar asked if Mr. Woollacott could do a scenario of all participant employees' projected income replacement ratio for the DB plan and a DC plan. Mr. Wollacott indicated that he will do a scenario for each employee using the Town's contribution of 6% of pay. This would be relatively simple for him to prepare since the employee pension benefit statements as of 06/30/2011 have already been issued.

Since there was time available prior to FIA's presentation, it was the consensus of the Board to act on Agenda Items #4 & #5.

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Discuss Investment Portfolio Review for 4th Quarter 2011:

Several of the Board members receive lengthy quarterly reports from Bank of America, rather than the summaries that they distribute to the members when they meet with the Board bi-annually. Ms. Stevens stated that she will contact Cheryl Morgan to request that Board members receive the summaries only and that she, as Retirement Board Chairman, receive the full report. The Board did not see a necessity to discuss the Fourth Quarter 2011 Investment Review.

Approve December 6, 2011 Minutes:

Mr. O'Brien made a motion to approve the Minutes of the December 6, 2011 meeting. Ms. Strunk seconded the motion. It was unanimously voted.

Review Due Diligence Report:

Financial Investment Advisors distributed the Town of Stonington Plan Diagnostic report that they prepared at the Retirement Board's request. The purpose of the report was to perform a due diligence review of Bank of America's performance as trustee, financial advisor and custodian (bundled services) of the Town's pension plan. The study included a review of the current portfolio; an asset allocation study; new portfolio proposal; fee analysis for both the current portfolio and proposed new portfolio; fees from four potential custodians for custody services; and a draft Investment Policy Statement.

Mr. Coleman gave a brief overview of FIA's services. They are an independent registered investment advisory firm that does not sell investment or insurance products; do not have a broker/dealer affiliation; and 100% of their revenue is derived from fees the clients pay for advice. They take on the role of co-fiduciary. Many of their clients have unbundled their pension services; however, they also have clients that prefer bundled services, but want assistance with oversight of the trustee. Mr. Coleman stated that FIA services approximately 30 Connecticut municipalities, 7 in Massachusetts, and a few in Rhode Island.

Mr. Rowlins reviewed the report, which recommended non-bundled services so that the Town would get the "best of the best" of fund managers selected from FIA's due diligence. With unbundled services if one fund manager is underperforming, others may be performing well, as opposed to the bundled services where an incorrect institutional bias could have a trickledown effect on the performance of the portfolio. Mr. Rowlins indicated that the latter creates an "entity risk". He stated that the Town's current portfolio is heavily weighted in large cap equities, which comprise about 90% of the portfolio's domestic equities. Mr. Rowlins also indicated that the portfolio should have more in international equities, with about half of equities in US and half in international. The portfolio should also have inflation protection. Ms. Strunk indicated that Bank of America has repeatedly recommended increasing mid and small cap funds, more diversification, and commodities. The Retirement Board has taken a conservative approach and only added mutual funds several years ago. The Board has been taking small steps in moving toward more diversification and achieving the goals of the Investment Policy Statement. Ms. Strunk asked if FIA looked at the portfolio's fixed income holdings. The portfolio is not over weighted in Treasuries. Ms. Francis indicated that the fixed income holdings look okay. Mr.

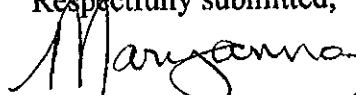
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Rowlins summed up by stating that Bank of America's fees are competitive; the Board is making headway in diversification; and FIA can partner with the Town to oversee Bank of America.

After FIA's presentation, the Board discussed continuing Bank of America's bundled services, since the Board has had a good relationship with Bank of America over the years and the fees are competitive. The Board also discussed retaining FIA as a consultant and co-fiduciary to oversee Bank of America. Ms. Stevens will contact one of the municipalities that use FIA in this manner. She will also contact FIA for a fee proposal for this service for the next meeting. No decision was made pending receipt of the fee proposal and the Board's review and consideration of FIA's report.

There being no further business to come before the Board, Mr. O'Brien made a motion to adjourn the meeting. The motion was seconded by Ms. Samokar and so voted. The meeting adjourned at 11:20 a.m.

Respectfully submitted,



Maryanna Stevens
Chairman

