

**Lower Saucon Township
Pension Advisory Committee Meeting
March 9, 2011
Minutes**

Roll Call:

Present: Chris Leidy, Uniformed Plan Representative; Molly Bender, Michele Hirner, Non-Uniformed Plan Representatives; Mary Curtin, Priscilla deLeon, Council Liaison; Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; and Chris Cap from PSAB. The time was 11:04 AM.

1. **MRT Report – Chris Cap** – Chris said the first chart is the Police Pension Plan. Going back to 2005, that's when Lower Saucon Township joined our trust. These numbers are through 12/31/2010, the last trading day of each year. You have \$4,137,880 and up to about 3.4% from that point based upon the year-to-date figures. The only hiccup you've had was 2008.

Chris said the Non-Uniformed Pension Plan net assets are more of the same as the Police Pension Plan. In 2010, your net assets are \$1,275,731.

Chris said page 3, Asset Management and Rates of Return History, how did we do on that last year? We did 11.48% last year. It's double digit growth for two consecutive years trying to recover from 2008. The main change in the portfolio this year was duration bonds. The bonds are just taking a real beating this year.

Chris said the net asset statements are through January 31, 2011. He does not have the February 28, 2011 figures, but has the investment figures. The assets are a little bit higher, \$4,159,892.28 for the Police Pension Plan and \$1,286,968.62 for the Non-Uniform Pension. These numbers will be about 2.28% to 2.3% higher than the February figures. The indexes are performing very well as compared to the actively managed accounts. The only red number now is the Wedge Short Term, down -0.07%. They stuck to their guns in the bottom markets as they are not sure where these geo-political turmoils are going to go. If crude oil goes up to \$150.00 a barrel, which people say is quite possible, what damage will that have on the overall U.S. economy and the world economy as well? Right now, that is a big concern. We have 28 clients right now in fixed bonds. In the short to medium term, a lot of economists are not projecting very good returns, especially for U.S. Treasuries. U.S. Treasuries were the best performing asset in the 2008 downturn. We are still sticking to a modest allocation in bonds. We are about 31.5% and are going to stick around 30% to 35% against the major downturn. Even though stocks are performing quite well, we don't want to get over aggressive. It was a big mistake back in 2002 and 2008 where it went 20/80 split. We've always lingered on the 30% to 50% range in bonds to protect against the downside. 3.4% is what the total balanced accounts look like right now. There really won't any major changes aside from a major shift in assets. If you look in short term, we have \$39,434,205 in short term duration. It used to be the other way around where significant amount of money was in the longer range with Wedge Balance. Even though Wedge Balance is up, we still see Short Term outperforming it this year, so they weren't going to try to guess and put that in there. If the bonds were performing anywhere near what they've been performing last year, this portfolio would be up 5.5%. There are pluses and minuses to all economical cycles.

Chris said the next page which is the Asset Allocation Rebalance is where everything is allocated. The Large Value is about 12%. Large Core we're lingering around the 10% mark. Large Cap Growth, which is where we will see a significant movement this year. Large companies still have an excess of capital on hand that they are going to try to deploy as the economy improves. The unemployment rate improved just a tad below 9%. Small/Mid Cap is 11.6%, a little bit higher than our recommended weight. The Small Caps performed very well last year, especially the Mid Caps. We're a little bit overweight in the Small/Mid Cap range. International, they are around 10%. About six months ago he told you they were considering going up 20% in International, they haven't made any decisions. The Trustees meet next month in Hershey at their annual conference and he thinks they will probably remain

in the 10% range. Real Estate Investments Trust (REITs), they are staying in the 3.5% range. ING manages it for us and they are doing a lot of international, commercial properties and performing fairly well for us. The Total Equity is 60%. He doesn't know where we are going to be in a month, but 31.5% remains in Fixed Income and he's done a few presentations and people are calling and asking why not be a little bit more aggressive in the stocks. They don't want to be over aggressive and protect on that downside. In an environment where interest rates are rising, bonds don't perform well. Alternative Investments was performing quite well. It's only up 2%, but that's the arm that does significantly more in the commodities and precious metals market. That's where you get some value. Small Allocation is up to 5%, 4.5% in this snapshot. Cash is 3.5%. Most of the Managers they talked to are very low on the Cash type reserve approach. A year ago today, they gave permission to two of their Managers to hold up 15% in cash as they weren't confident in the market and the market went back too quickly. Now everyone is vested and relatively cheap in the stock end. There's 100% for the overall trust. They have a new record. They are about \$168 million right now and have grown significantly, especially since the downturn of 2008.

Chris said the indexes are on the next page.

Chris said the next page is Bob Doll, our Chief Equity Strategies Manager. He provides the primary financial information. He has been remarkably right on most cases. Peter loves him, so he incorporated his items in the presentation. He comes up with a number of predictions and we usually put this on our website. No. 3 he thought was really a pretty interesting prediction. U.S. stocks experience a third year of double-digit percentage returns for the first time in over a decade as corporate earnings reach a new all-time high. For him to go that far out on a limb, tells you a lot, the level of confidence. Stocks outperform bonds and cash. A lot of municipalities right now are looking to transition their funds and they are sitting in CDs right now. Four or five years ago you could get 4.5% in a community bank. Those days are over and done with. As far as the new Managers they are interviewing, he doesn't see that happening anytime soon. That really is a little too risky for our blood. The bonds we might downgrade and take a 5% allocation. They are potentially doing that and going into stocks, the alternative to get more of a spark into the portfolio. He thinks the numbers are going to improve as a lot of places are increasing contributions and/or the investment returns have improved. The objective is, as always, outperform your assumption rate.

Priscilla said she thanked Chris for coming and sharing this information. The Pension Advisory Committee, the structure has changed over several years. When Jack came, we kind of needed to change the way we were doing things. We came up with a plan and the members of the committee were being asked to make decisions, except for the experts. Chris said we are managing 210 plans right now. We work with the Chief Administrative Officer of every municipality. That is the person that is the primary connection between us and the committee, whether it be Jack or Cathy that speaks for the board and the Pension Committee. They act as the Administrator. Every municipal pension plan in the state has three legs to it. Someone administers the plan in cooperation with whoever is appointed at each municipality. Someone invests the money. Merrill Lynch serves with our Board of Directors and Trustees and meets three times a year and make decisions to rebalance the funds as the economy changes. The third leg is the actuary. The actuary is like a GPS. It tells you how to get where you need to get, your destination. That's someone that the board hires. They know all the numbers and try to come up with a plan and make sure you comply with the law and make sure you put into the plan, what needs to be contributed, how many investments are we going to need to make, how do we stay within the laws or parameters to keep it funded, and to insure you get the proper amount of state aid from the state, which is always very important. Priscilla said her position as Council Liaison she wants to make sure she hears from both unions and Jack, Cathy, Mary and Lou. It's a good balance of oversight and advisory comments. Most everything goes back to Council, but we want to make sure the recommendation is generally supported. Chris Leidy said how often do you hear from Chuck? Cathy said if there's something specific the union has issue with, we see him. Chris Leidy said does he provide reports? Cathy said his primary reporting is the certification you get in the beginning of the

year. He will probably be here next month. Based on the paperwork, we determine what the MMO will be and then they have the September meeting with Chuck and it has to go to Council as they have to adopt it towards the end of September. Jack said they will meet in June also so Chuck can go over everything. Chris Cap said he would say that out of all the committees he goes to, he puts this one in an elite rank. The way you have it structured. A lot of municipalities don't have specialized pension committees to talk about pensions. They might call in a Finance Committee once every three years, but not regularly. You are doing it three to four times a year, which is pretty impressive. He wishes more of our members had these regular meetings. Priscilla said as an elected official, they feel this is very important because she wants everyone to understand it. Chris said it's very important the way pensions are this day in age. Priscilla said she represents the taxpayers and makes sure everything is fair. Jack said we have Mary and Lou, the citizen representatives here, and we also do the minutes and those are posted on the website for anyone in the Township who wants to look at those. We have these meetings and people can come to these meetings also. He's sure everyone is aware of what's going on. Cathy said our general auditors also audit our pension fund and that's on the website. Mary said if you want to see something, all you have to do is ask.

2. **Master Plan Documents** – this was approved by Council on January 19, 2011. Linda is working out some of the tweaks and retyping it and we'll be getting them back shortly. Jack said that's the joinder agreement. It was mentioned before. Cathy said that encompasses just our ordinances into their format so that we can be IRS compliant. We saved ourselves a considerable amount of money. Jack said we would have had to create a whole new document which would have been expensive.
3. **COLA Notices** – Officers Young, Williams and Koszi – Cathy said it's part of our pension. The COLA part is required, but we didn't have a formal process. Jack said she means how it gets administered. What is the formula and how do you apply it? Cathy said since we really didn't have any retirees that were actually at this point at the time, it was never addressed. We had to figure out how we were going to do it. Jack said the CPI is the universal index that is used by everyone. Cathy said the most recent pension plan is based off of that CPI index.
4. **Donation received for Police Pension Plan** – Cathy said for the record, she wanted to report that Mr. and Mrs. Neubauer had donated \$500.00 to the Police Pension Plan. It's listed on the statement as a miscellaneous amount. Priscilla said did anyone ever do that before? Cathy said she's sure someone might have in the past, but she doesn't have record of it. Mary said what is the reason for the donation? Cathy said she understands they wanted to do something for the officers, but they wanted to make sure it was something that was going to be beneficial to all of the officers. Mary said she thinks we had donations before. Priscilla said who would send a thank you note? Chris Leidy said the police should. Priscilla said please have someone check on that. Cathy said Chief Lesser has been in contact with them and she's sure a formal letter will go out. They donated some money for general use purposes also.
5. **Financial Reports** – Cathy said this is printed out every quarter just so everyone has a record. The donation is recorded on there as well. If we receive any settlement payments from any claims, that will be noted here as well. There's not ever that much, but on occasion, we get one.
6. **Settlement Filings**
 - A) **Ryan Ashley Brant (Take-Two Interactive Software)** – Cathy said we received this last quarter. This was back in 2002. If someone files a lawsuit, we'll get notice of it and the actual administrator at the time the transactions were taken place, will file all the necessary paperwork.
7. **Approval December 8, 2010 meeting minutes** – Priscilla said how long do the minutes go back on the internet? Jack said either 2009 or 2010. If there are no changes to these, then they will be placed on the website.

Jack said the PATCH did an article about PA PERC report which was about the health of the municipal pension funds in Pennsylvania. The article appeared to be saying that all municipal pensions are in trouble. It was unfortunate as that's not the case here in Northampton County and it's definitely not the case with Lower Saucon Township and Hellertown Borough, which is 100% funded. When you read the report it really focuses more on Pittsburgh, Philadelphia and some of the bigger cities. They are in trouble and distressed. We are not distressed. Out of 35 pension plans in Northampton County, only two (2) of them were listed as "moderately distressed". He just wanted to make it clear for the record that if anyone wants to read the report you can go to: www.perc.state.pa.us. Chris said he talked to people outside of the state and they said they hear we have a major pension crisis here. He said small town Pennsylvania is doing very well. A lot of the national publications like Washington Post, Wall Street Journal, want to talk about Harrisburg. You have Reading who is struggling, and no one talks about that. Pittsburgh is just completely under water. Philadelphia they are on their own.

8. **Set date for next meeting – June 8th at 11:00 am**
9. **Adjournment** – The time was 11:44 AM.