

**Lower Saucon Township
Pension Advisory Committee Meeting Minutes
June 9, 2010**

Roll Call:

Present: Michele Hirner, Molly Bender, Lou Mahlman, Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; Linda Costa, PSAB and; Peter Butera, Merrill Lynch. The time was 11:02 AM.

1. **MRT Report – Peter Butera** – Peter said he knows he emailed the report ahead of time but would like to go over the copy he brought because there are items where he highlighted some of the numbers. The right hand side has the yearly update through May 31st. There is five months of data. The total balanced account is a -.34; a loss .3 tenths of 1 % so far this year. Most of the stock markets are -2 to -3%. Bond markets are pretty positive, about 2-3%. Most balanced accounts are break even or slightly positive. If we were perfectly indexed, based on our investment policy, we should be positive .65. We are below our benchmark; underperforming for the first five months of the year. This is not easy to explain. This has been going on since January. Usually we outperform slightly to a decent amount. This is one of the first years his partner and himself have been underperforming with PSAB. Not sure why but they believe they know and he will try to explain. He also highlighted our endowment fund toward the bottom, our alternative investments. To remind us again these are our hedge funds, our private equity, timber, minerals; they are positive, up 4.5%, so that addition a couple of years ago has been positive for the fund. It has not gone down as much in the Dow market years. It has helped. Please stop if you have any questions. On the next page is our asset allocation; the left hand side pie chart shows you how much is allocated to each manager. The next page is our rebalancing page and he did highlight a few items. He would like to point out that our stock managers and our stock allocations, our small-mid cap managers have 11% right now and their target amount is 14% in small and mid. They have kept it low because we are still in a weak and volatile environment. These tend to fluctuate the most during this time. We are trying not to have as much there. We only have 9.4% in International stocks, our target is 10%. A light weighting in international because of everything going on with the euro and in Europe, we are trying to keep a lower allocation to keep the portfolio steadier until we see clearer signs. The allocation is 56% in stock with a target of 55%, right where we want to be. Bonds are at 36% instead of 40% and 2% in Cash. Alternative investments are slightly over 5% which is where we want to be. If anything we are a little light on stocks right now. We would like to be at a 60% - 40%. We are not quite at 60% but we do not feel the environment is clear enough to add the stock right now. The last page shows the indexes to date. If we were perfectly indexed we would be at a positive .6 but we are at a -.3. This is like a full percentage point. It does not sound like a lot but with a large amount of money it is a decent amount. It is almost a full percentage. The explanation is the S&P 500 (500 largest publicly traded companies) is down 1.5% and the Dow Jones Average, which is what most people follow, is down dramatically more, a full percentage point. The Dow represents the 30 largest industrial companies. People in his industry look more at the S&P and not the Dow. The larger companies tend to be the more conservative, Microsoft, Exxon, JP Morgan, Chase. The larger companies are doing worse than the next tier level of companies. The managers we tend to lean on are our conservative stock managers. These managers are doing worse than their index, because the bigger names are lagging. Normally that will change when we go into a better environment. When the economy improves the bigger names like Disney and Coke will do better. We are positioned for that to happen. The other item to point out on that page is the MSCI EAFE (International Stock Market). That is Europe, Japan, China, India, and that is at -12 in 5 months. You can see the major corrections in the international markets already. This shows the fear of the euro, and what is going on with the smaller international countries. That should be contained and managed. The US banking system and the international banking system are sufficiently solidified. We should not have another banking crisis and market turmoil like the one in 2008. That is the hope and the feeling we are at right now. How can you tell? You hear a lot of talk about loans at Prime interest rate; a lot of loans are based of LIBOR (London Interbank Offered Rates) which is the interest rates that banks use to borrow from one another. During the banking crisis the rate went from .5% to 5%. Banks did not trust each other. There was a lot of confusion and fear. That is what a banking crisis looks like. When a bank charges another bank a high interest rate to borrow money for a week or a couple of days. During this European crisis, the

LIBOR interest rate is low; .25% since the economy is low. It jumped to .5%, so yes it has doubled, but LIBOR is very much contained. Banks are borrowing from each other. If it goes up 1%-2%-3% it would signal another crisis. They are monitoring that. So far it is not happening. There have been no investment policy changes. The way they choose asset allocation or managers has not changed. If there were changes, he would update us. They are looking into real estate managers. In July they are going to start interviewing Real Estate Managers in the form of stocks. They will only be able to buy publicly traded real estate companies. So therefore we have liquidity. Jack asked what is the thinking on that? Is it projected to be a market on the increase?" Not necessarily, but the worst is over. We are not getting any returns on normal stock, we did well last year but this year we are flat. Like alternative investments, they are going to recommend a 5% allocation, about 7 million, to the Board of Trustees. They may say no. Because companies charge rent they pay a dividend of 5% - 7% so we are looking to collect on the dividends if the stock does not go down. Even if it goes down, they will still have to pay rent. Jack asked if this is mostly commercial real estate? Peter said it is a blend. It will be apartments and retail, malls. These are publically traded companies that charge rent. It is a blend and we will be diversified. We will have liquidity. We are not buying property; we are buying publicly traded companies. This will be the first time they looked at real estate companies as a separate asset class. The money is coming from the existing stock managers. We are shifting money from the existing stock managers; if they decide to do it. Maybe you have heard of Cohen-Steers, they are reportedly one of the better companies, and they are based out of Manhattan. We will be interviewing them along with another one. Linda added that we are trying to be proactive and we rely heavily on Merrill Lynch to look at what is happening and what is the trend, and where should we be going. How can we be ahead of the curve and not get caught. That is a good thing. Peter said on the left hand side of the packet is the market update. First is the commentary from Bob Doll from Blackrock, where I highlighted a couple of things. "The markets remain caught in a tug of war between reasonably strong economic fundamentals and escalating threats of external shocks." So basically our economy is growing again. GDP is growing about 3% a year annualized. This is a pretty decent growth. Unemployment is getting slightly better. Not as much as we expected but it is improving slightly. Corporate profits have improved dramatically. That has been the best economic news. The banks are in much better shape. But we have all these external things that could have a major impact. We have the issue with the weakness of the euro and budget deficits in all the small European countries, the oil spill on the Gulf, North and South Korea tensions, China trying to slow down their economy, which is a big part of the world economy. They are experiencing some inflation pressures right now. Iran potentially getting nuclear devices. Doll continues by saying, "Despite the negative tenor of these events, we believe the financial stress in the system should be better controlled than it was in 2008, (that is what he was talking about – the LIBOR) and we are not expecting a return to the conditions that plagued the global economy and financial markets two years ago." So we do not expect a replay of that. It continues by saying, "From our perspective as long as the global economy does not slide back into a recession (an event we consider unlikely), equity markets should be able to weather the current period of uncertainty." Peter said when people talk about a double dip recession; we went through a recession in 08 and started to come out of it at the end of 09 with positive growth. We had positive growth at the beginning of this year. Some people think we could go back to negative growth or shrink; most economists do not believe this is going to happen. It will be a slow growth, the worst part being unemployment. Employment is going to be a slow growth. Molly asked if we were feeling any effects from BP spill? Peter said no, it is actually an offset. The negative impact on the economy is being offset by the money being spent on the clean-up efforts. By freezing drilling it has cost some jobs in the Gulf, but BP is hiring people to clean up which is offsetting that unemployment. So far it is a wash, which is hard to believe. The unknown is if it is going to stay in the Gulf. It looks like it is going to be contained there. It should be a contained economic event. But, I do not want to lessen the impact of what is going on there. Molly asked if we have any money in BP? Peter responded no. We should get through this period and get better returns in the future. The next piece that just came out is from Michael O'Keefe (Merrill Lynch Analyst). It talks about when went on in 2008 and 2009 and today. If it feels worse than usual; it is. "From 2000-2006, the equity market (S&P 500) fell by 3% or more on 16 days, or 1% of all trading days. However, from 2007 through May 31, 2010 the market fell by 3% or more on 39 days or almost 5% of all trading days; this is a marked increase." We have gone from big swings on 1% of the

days to 5% of the days. Yes it is worse and it is uncertain. It is bad and it is for real. Bottom line is to stick with the strategy of a diversified portfolio and be aligned with your risk tolerance and your goals. The goal of getting an 8% return to meet our actuarial assumptions and the only way to get those returns is to be in stock in a balanced way, in a 50/50 or 60/40 blend. The past years are in the packet. No change. Just wanted to remind clients of how bad 2008 was and how good 2009 was. Long term we have about \$60 to \$61 million in growth in the portfolio. Jack asked Linda is she has anything to add. Linda said that the last numbers are for April, May's numbers are coming out shortly. Linda asked if it was working our sending them monthly via email. We have the opportunity to review and ask questions. Jack advised that Cathy sends them to the members via email and it has been working well. Peter said be prepared for May. April was better than May. Always remember it is set up for the long term.

2. **Non-Uniform Death Benefit** – Cathy stated that a couple of meetings ago there was a question by the Non-Uniformed representatives as to what the death benefit was. We reviewed the ordinance and it does state that the benefit seems to be only the \$5,000.00 if one was to die while employed. It does not say anything about getting the money (contributions) back. Michele asked how do we get that changed? Cathy responded that there are two things we need to look into. First we need to check with Mike Carr to see if there are any Federal or State laws that says that this money is to go back, if it is mandatory. Molly thought it would go back because it has already been taxed. Their contributions had already been taxed so that's why, in the past, she thought, they got it back. Michele asked what did you want to ask Mike Carr. Cathy responded that we want to make sure that there are no Federal or State laws that would supersede our ordinance in saying that we are mandated to give that money back to the employee. If this is the case, we may be able to use that as a policy or amendment until we have to redraft the ordinance that would clarify it. If there is not, then that is something that needs to be negotiated. Molly said there was an employee, she cannot remember if they were from the police or non-uniform, that left employment, retired and, his money was still with the Township. It was discovered that he had contributions in there and we had to send him a letter telling him that he is entitled to it with interest. The auditor's discovered it. That he was entitled to it or he could leave it in there until his full retirement. Jack asked if she was saying it was his entitlement. Molly and Michele responded yes. Jack asked if it was that Jim McCann? Molly answered no, it was another employee. Cathy stated that this would be correct as it states in the ordinance. This is if someone dies while employed. Molly said she did not understand what the difference is whether you are dead or alive, the entitlement of that money to the person or their beneficiary. If I am alive it is my money and if I die it is now your money? Michele added that the children should get it. Cathy answered that it specifically states in the ordinance that payment was \$5,000. Molly said that is why we are bringing this up so you know what happened in the past. Jack said we are going to need a legal opinion so it will be at the brought up at the September 8th meeting. Molly added just so we have clarification. Cathy said that it really has not come up, since no one has died in service. Michele said that we did have a death some time ago, David Brodhead. Cathy said she will check into it and bring it back at the next meeting. Michele said he died about 10 – 15 years ago. He was a member of Public Works. Molly said she knows it has something to do with the fact that it was wages that were contributed on an after-tax basis. Cathy added that there have been a lot of changes in the ordinance since then so we will need to check. Molly stated that from what she could remember it was an either/or thing. You would get \$5,000 or the money vested/contributed if it was over \$5,000. Michele said maybe it is if you are not vested. Cathy responded that we will double check. Molly said that there was an employee before Brodhead that was notified of money owed and he received it with interest and it had something to due with the contributed amount after-tax. Employees were free and clear to take the money since it was contributed after-tax. Cathy said Chuck does itemize that information on the annual reports. She will double check with Mike and bring it up at the next meeting. We can go over it at the next meeting and discuss if there are changes needed in the ordinance.

3. **Killed in Service** – Jack said we do not have a response from the Police. The Association was to get back to us. We provided draft language on the changes to the ordinance. I guess they are checking it out with the FOP. It is a State-wide thing because it impacts all pension plans. We will need to follow up with a response. We cannot change the ordinance unless we get their approval. Michele asked who

represents the police on this board. Jack answered that they have not recommended anyone yet. We are submitting all documents to Scott Snyder, Union President. They have not recommended anyone for appointment. They are aware of what we are discussing.

4. **Master Plan Documents** – This is the large amount of documents. Linda sent everything to everyone. They are amendments to the Master Plan of PSAB. This is the overall plan with PSAB. This covers all municipal members and it dealt with the Killed in Service, Section 2 Defined Benefit Plans and IRS questions. Linda said that Chapter 1 is the definitions. This is the basics. Molly asked if this is the overall plan and not us specifically. Linda answered yes. These are chapters 1, 2, 3 and 4. The memo addresses the Killed in Service, Chapter 2 discusses the Defined Benefit Plan and it also dealt with IRS questions. Jack said this is something that we were attempting to create. Cathy added that we had started drafting documents based on recommendations from Chuck. The language needed to be included in our documents to make us compliant. The IRS is making us do changes to the plan document based on their laws. We do not have a plan document, we have ordinances. So we were trying to put together the ordinances in a plan document and add the IRS information. Molly asked if this gets added to the Non-Uniformed plan, does this have to go back to the union. Jack said he does not think we will add any of this to ours, this is just disclosing on their end (PSAB) and we are seeing it since we are members. When it comes to PSAB's end of it we will be complaint with IRS standards. This is to be on file in case any members what to review or need copies.
5. **Preliminary 2011 MMO** – Cathy said the Non Uniformed plan is a little less and the Uniformed plan is a little more, so it is about a \$4,000.00 increase from the 2010 MMO. This is what you will be seeing in September unless there is some major change in overtime; we would need to recalculate which she does not anticipate. Michele asked who is contributing. Cathy said right now the uniformed employees are contributing 1.5% and the Department Heads are contributing 1%. Jack said the officers are a year ahead of us. We will be looking at that at the end year. Michele asked if anyone ever looked into whether that would affect our State Funding. She believed we were discussing that during negotiations and someone was going to look into that. Cathy answered that at this point there is no way that this is going to impact our state aid. We are underfunded right now so we will be receiving the max in state aid and will need more contributions. Molly said we, at one point, were overfunded so we received an extra benefit, but that was because we were overfunded. Cathy said that contributing to the plan would not impact state funding until we are overfunded which, from all estimations, is not going to occur any time soon. However, this is less than what was estimated in the actuarial evaluation which is somewhat good news. However, when Chuck Friedlander does his next evaluation the amortization payment on line 5 is going to significantly increase. That is our unfunded liability balance, which is amortized out over the 20 year period. If the stock market falls, our liability will increase. Just like everyone else we are going to be looking at significant increases. Jack said that we are not looking at increases like the PERS system will need. Cathy said no not now. For the Police plan for 2011, Chuck had it evaluated as owing \$221,000 and we are at \$183,000. Jack said we are not at the millions like the school district, but it will increase. We did not take any deferments or extend our amortization schedule. Cathy said we did smooth it at one point, and there was a state law last year that permitted us to recalculate our smoothing out period, but we elected not to do it.
6. **Financial Reports** – Cathy said that these are statements just showing repayment of the administrative fees and settlement payments we receive. This is up to date.
7. **Settlement Filings** – Cathy said that any time we receive filings that someone has filed with the SEC regarding investments we were in at a the time period noted, our investment broker at that time, files on our behalf in order for us to secure any funding we are entitled to. Molly asked how that money is deposited. Cathy answered that it depends. Sometimes it applies to one plan, uniform or non-uniform. If it was a settlement for both plans, most of the time they itemize it out. If it is not, she pulls the old documents to see the percentage breakdown of who was invested at the time and deposit it based on that.

8. **Approval of the March Minutes** – Jack said that the minutes have been distributed to everyone. If there are no corrections, we will post on the website. Molly approved.
9. **Set date for next meeting** – Jack said that the next meeting is scheduled for September 8th; we will have the MMO ready and be able to take it to the second Council meeting in September.
10. **Adjournment** – The time was 11:38 AM.