Lower Saucon Township
Pension Advisory Committee Meeting

Meeting Minutes June 12, 2013

**Roll Call:**
**Present –** Molly Bender, Mary Curtin, Priscilla DeLeon, Council Liaison, Cathy Gorman, Director of Finance, Christopher Leidy, Charles Friedlander, MFP, Inc, Joe Scott and Peter Butera, PSAB. **Absent** – Jack Cahalan, Township Manager and Lou Mahlman, Controller

**1. MRT Report-Joe Scott**

Joe Scott said I reviewed the pension statement and nothing stood out as extraordinary; everything is business as usual.

Peter Butera said the top sheet is a bottom line dating back to 1997; this year is highlighted in blue. We started the year with a balance of $161,595,127. New money coming in and pension payments going out is pretty flat at a positive $55,052.00. Interest and dividends are $1,687,071.00 and stocks appreciated by $9,574,591.00. This year we added $11.2 million in growth, taking the closing balance to $172,911,841.00, or up 6.97%. June has slowed down, with the stock market being down a little bit, but we do foresee the rest of the year being positive. We have added $95.9 million cumulatively to the portfolio since 1997.

Peter said the next page is the monthly report. You are in the balanced fund. You are in the middle at 6.97% or $172,911,840.00. I just showed you how much growth that is in five months. Above that is the bond. We have talked about the fact that most indexes and bond managers have turned negative. Interest rates went .50% higher at the end of May and bonds have turned negative almost 1%. We foresee it will continue over the next 12-18 months. You are not in the fixed account, but it is slightly positive at .26%. There is no return coming from bonds at all. They are a negative drag on the portfolio. The stock managers and stocks are double digit positive and that is good.

Peter said the pie chart shows the managers and asset allocation. I want to point out on the rebalance page that the large cap value is 11.9% of the portfolio. The target is 13%. Last week, we took about half of the cash, highlighted in yellow, which is $7,281,473.00, and invested $4 million. We added $1 million to large cap and added $3 million to international, which is 7.5%. We like it to be 9-10%. The cheapest stocks are international. Our international managers are blue chip and not a lot of risk, like Nestle, Sony, Novartis, all the big names you would be familiar with, and in all the big countries, like London, France, and Japan. We are getting higher dividends on international stocks and that is why we committed more money there. The total equity is 62%. We are below our maximum of 70%. Bonds are 31% and almost near the minimum. We don't want to add to bonds, but if it does get below the 30%, we will. We will keep bonds where they are at and any future additions will be in stocks. We feel stocks will continue do well over the next 2-4 years.

Peter said PSAB did land a couple new plans. We do anticipate quite a few million dollars coming into the portfolio, which is why we invested half the cash now. Joe Scott said about $11 million and we have three large plans coming in.

Peter said the last sheet is indexes. In the middle, where it is red, is a bond index. That is all bonds and a negative 1%. The medium term bonds are negative .54% and short term bonds are, call it zero, at a positive .08%. I highlighted the HFF index, the hedge fund index, which are guys from Harvard and Columbia with MBA's, the smartest investors out there, and can invest money anyway they want. You will see they are dramatically underperforming, only up 4.99%, when the stock market is up 15%. The same thing happened last year. These managers are sitting on cash and gold and not doing anything. It gives us a positive feeling that the opposite is going to happen. The markets are going to continue to do well because many people are afraid to act.

Peter said the last page is a two sided update on the markets. In the last 2-3 weeks, interest rates have gone up and spooked some investors, making the stock market go down a little bit, about 5% to date from its all time high to all time low this year. The market is still up about 12% for the year. This all happened because the Federal Reserve talked about not increasing interest rates. They are buying up government bonds. They talked about they may not have to do that in the future because the economy is improving and growing and unemployment is coming down slowly. The slow growth is going to enable them to stop trying to stimulate the economy, which is a positive, long term, for stocks. As the economy grows, more people have jobs and disposable income. They are going to invest and spend more and companies' profits will continue to do well. The article talks about that. It reads "a return to a healthier economic climate that allows a normalization of monetary policy should provide signs of a bull market for risk assets, rather than a bear market." Peter said the Federal Reserve can get back to normal. They do not have to keep stimulating our economy buying bonds. It will not help the bond market, which is why we don't want to commit more money there. It means the economy is recovering and companies are doing better; stocks will do well in that environment. The article reads "any setback for stocks would be temporary given that overall expectations about the economy and earnings would be improving." Peter said the environment is getting better. It may not feel like it, but slowly things are getting better. We do not anticipate any changes in the portfolio. As new plans come in, we will try to position the new money with the rebalance sheet and keep it balanced the way it is.

2. **Financial Reports**

Cathy said the Township is making payments of the administrative fees charged by PSAB and putting that back into the plan. As of May, we paid the April fees and put in $4,519.97 for the non uniformed plan and $15,506.47 for the uniform plan. There is always a little disparity because the last month of the last year is deposited with the first month of the following year. Priscilla said non financial people have to keep remembering that.

3. **Act 205 Filing-Preliminary MMO's**

Cathy said Chuck Friedlander will present the draft actuarial reports for 2013 for the non uniform and uniform plans that I emailed you. Cathy said there do not seem to be many changes in the report.

Chuck said looking at the MMO History-Police, as the market value of 2008 started to get digested by the actuarial value, the cost increased. Now, we are looking at a leveling out of costs for a number of reasons. We recognized the downturn over a five year period and now we are at the end of that five year period and expect costs to begin to plateau. The other reason is salaries have not increased as much as expected because there were a couple of terminations in the police plan. We are funding those people, they terminated, and we over funded because we assume a chance of termination, but nobody terminates beyond a loss. We are looking at a slight reduction in liabilities. In the police plan, we still have about a $250,000.00 investment loss over a two year period. The heart of that is recognized in the last pieces of the downturn. 2011 was a flat year on the market and in 2012 you made a little above the actuarial assumption.

Chuck said in terms of funding, we assume state aid stays the same and the Township will increase slightly as salaries increase. On the Fund History-Police graph, look at 2008. There is a big gap between the red line and blue line; this is because we smoothed up. As the market started to recover, look at the blue line. You will see the numbers get closer and were about at the same spot in 2010. You did not lose the gain at the end of 2008. You shared the losses over the next several years.

Chuck said it is a similar situation and improvement for the non-uniformed. This plan had investment losses, but they were all set by the death of an active member. The death benefit under the plan is only a $5000.00 lump sum payment. When a person dies, we have been funding for a retirement benefit they are not going to get. Cathy said that was Neil Henn and he was with the township over 10 years. Chuck said we have been funding for a benefit over 10 years and only had to pay out $5000.00. Chuck said salaries were fairly flat over the two year period as well.

Chuck said we will have a nice downturn for the 2014 MMO. The normal cost is fairly constant over the last 10 years. It is the amortizing piece that changes and is based on if the plan does well or if investments do poorly. You can see in the amortization payment, again because of the death, that we had the same investment loss as on the uniform side. We had a lot of gains to offset this. The costs have gone down a bit. As shown on the MMO funding Non-Uniformed report, if state aid stays about the same, we are looking at a fairly small Township contribution. The Assets show the same gap in 2008 and have closed the gap over the last couple of years.

Chuck said we need to discuss one more thing. Within in the next couple of years GASB statement 67 and 68 are going to go into effect and change how you show the pension plan on your financial statement. The pension assets and liabilities rule footnotes right now. The only reason you would have a pension asset or liability on your balance sheet is by not making the MMO. You make the MMO every year. It is called your Annual Required Contributions, or ARC, in accounting terms. In 2015 that is going to change. We are going to have to calculate the actuarial liabilities less the assets and show that shortfall as a liability on the balance sheet. You are in fairly good shape for the non-uniformed plan, but the police plan is still in liabilities. That is going to wreak havoc on the balance sheets of a lot of municipalities and most of them are a lot worse than here. The reason I put that out there is we are going to have to be doing additional calculations and disclosures. You need to justify your actuarial assumptions by experience studies. There is something in the GASB statement that wants you to tell them when you did your last experience study and for most of my clients that is never. We will have to do an experience study in 2014-2015.

Mary said are the required changes for the pensions that are to be placed on the balance sheet going to impact the Township monetarily, actual dollars. Cathy said our financial position is fine in a reporting of a balance sheet and that would absorb this. Cathy said he is referring to municipalities that are 46% distressed and they are going to have show a $3-4million liability when their assets are $1-1.2million, like the City of Bethlehem situation. Mary said not the situation here. Cathy said we have $11million dollars in assets. Cathy said from reviewing the reports, the liability for non-uniformed is $40,000.00 and the uniform is $700,000.00; that is what is going to be reported. That is not the normal cost of the plan. That is what is due the plan historically.

Chuck said in a perfect world, when you look at your MMO, which is the second line, 2013 payroll costs, which is your normal costs, the amortization payment of your liabilities should be zero and you are funding actuarial costs. You fund the actuarial costs over a participants career to the extent the prior costs are greater than the assets. When we do an evaluation, we take a snapshot of the plan and its liabilities. In an ideal world, the question is how much asset we should have to stay the course where we have normal costs; what would be in the fund if you knew then what you know now. That is called the Actuarial Accrued Liability. If there is any shortfall, we have to amortize that over future years and add that to the MMO, like a mortgage. Cathy said correct me if I am wrong, on our balance sheet reporting with the liabilities for our pensions, would those liabilities be listed in the actuarial report. Chuck said right, but there will be some accounting differences. One is that you cannot smooth. The other is, if at some point, based on your contribution and funding policy, your plan were to be predicted years out in the future and become insolvent, any liabilities past that date are discounted at T-bill rates, which is preposterous because they are really low. Plans that are not funding properly, their liabilities are going to look higher. You contribute to your MMO every year; it should not be a problem for you. I have to project out 50 years because you are government employees and, with your current funding, do evaluation projection out every 20, 30, 40 years to make sure you are ok. It is adding to me.

Joe Scott said are their mortality tables that you want us to use. Chuck said yes, we made that change 2 or 4 years ago.

**4. <u>Settlement Filings</u> –** None

**5. <u>Approval of March 13,2013, meeting minutes</u>**
March 13, 2013 minutes were approved.

**6. <u>Adjournment</u>**
The meeting adjourned at 12:00 p.m.

**7. <u>Next Meetin</u>g –** September 11, 2013 @ 11:00 a.m.