Lower Saucon Township
Pension Advisory Committee Meeting
June 13, 2012
Minutes

Roll Call:

Present: Chris Leidy, Uniformed Plan Representative; Molly Bender, Non-Uniformed Plan Representative; Priscilla deLeon, Council Liaison; Lou Mahlman, Members; Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; Joe Scott and Peter Butera from PSAB. The time was 11:00 AM.

The Committee did not meet in 1Q2012.

1. **MRT Report** – Joe said Chris is Executive VP at PSAB. Himself and Linda Costa are taking portions of his administrative responsibilities that he had before. He is focusing on certain things and Linda is focusing on certain things. Linda does most of the internal administrative things that Chris used to handle and he handles a lot more of the outside customer service like we are doing today. His main focus has been in new municipalities joining the trust and helping them get through everything. In a good year, we are looking at three to four members a year. This year we've had four already join since January and we probably have six or seven more municipalities joining the trust. They are very excited about this in the Township's and Borough's. It seems like the number one overwhelming issue is customer service and the lack thereof. They ask questions and don't get answered. He uses Lower Saucon as a model when he talks to his current clients, as well as new clients as you take an extremely active role in monitoring your funds. The meetings you have, the things you do are very detailed. He wished he could talk the majority of the clients to be doing this more proactively; it just makes sense to do these kinds of reviews. It gives them an opportunity to meet with you and discuss things that may be an issue and get them ironed out beforehand. When he goes to municipalities in the trust, he's trying to approach them to do the same things you are doing in terms of forming committees, those kinds of things, and at least do it from an annual or semi-annual basis so they have some kind of idea what they are going through. One of the things he's been focusing on is cost relationships. Everybody is concerned about cost. It's a big issue and they have a window in the trust that they like to see municipalities say within. Another plus for Lower Saucon for the size of your plan, and he's looked at your beginning and end balance, what that average is, take the cost and divide that, and come up with a ratio. You are right around the 1% mark, which is good. We try to make sure that if it falls below 0.7%, we say there is something missing here. If it gets above 1.25% or 1.33%, that raises some red flags and we start looking at that. You are well within that window, so he just wanted to let you know that as well. You ended well last year and this year it looks like it's going well. You did have a Actuarial Evaluation report this year as well. Your actuary will be forwarding a bill to you for that. Is that correct, do they bill you directly for that? Then you pass it along? Ms. Gorman said we receive the bill from the actuary and we pay him directly. Joe said you don't bill that to the trust. Compliance issues, that seems to be an ongoing issue, but doesn't seem to be the case here whatsoever. You have that up and running. He knows annually you do your disclosure forms. He has a new and improved one. There are a couple of dates that are changed on it. They passed the two mark year finally, so he shrunk it down to three or four pages. If you have issues or questions, please call him or Linda. He took a look at your statements and didn't find anything unusual. It looks like everything is going well. He looked at the month ending December to the quarterly, and didn't see anything odd or unusual there. Jack said what's the number of members in the trust now? Joe said he believes it's 217 as far as total number. Jack said why are the new municipalities or authorities coming to the PSAB? Joe said there are certain things that raise the red flag. They just feel they are not getting the customer service they are paying for. Then the scary thing is, they asked him to do a cost study, and when he does, they find out while they thought they were paying $6,000.00 a year, they were really paying $22,000.00 a year, and that sets the wheels in motion. The other thing he sees, and he and Chris tackled this year twelve years ago, was the simplified report where they have everything that happened that month in the center column and year-to-date in the right column. He can't tell you how many times he has gone to municipalities and looked at a report and it might as well have been in Chinese as it's 22 pages long and things are all over the place; and even some of the summaries aren't even clear. It's confusing, so one of the things that is a great help is the municipal manager's, especially when you are saddled with the Chief Administrator responsibilities, you pick up that report once a month or so, and then it gets filed, do you really know what's going on in your plan. When he visits municipalities, he tells them to take a look at his report and tell him what they think. He does this everyday and it confuses him. The other thing is just keeping abreast what's going on by meeting every quarter, every six months really takes a lot off of the plate. He thinks that's what's drawing a lot of them to PSAB. Some municipalities call them from a referral standpoint. Mrs. deLeon said she ran into Linda Costas at the PSATS conference. Someone in the minutes we should reflect we did not meet last quarter, just in case five years from now we are looking for the minutes.

Molly said is the State still working on combining all the pension plans, is that being still discussed? Joe said once in a while he hears something, but to date he has not heard anything. The only new news regarding pension plans are the State's employees pension plan there is a bill in the Senate that they want to eliminate the defined benefit plan and transition to the fine contribution plan. That's not unusual. The whole reason is they can no longer afford to maintain the benefit plan as they've run that in the ground for the last ten years. There are no rumblings, the guys on the hill are big time watch dogs. That's one of the major concerns, are they going to do this to us. The reality of what they perceive will happen is they'll cross level it then, which means you will pay for people who didn't manage their funds correctly. Even after 2008, they had less than 10% of all of their plans fell into that distress code where they had to make major radical changes. They are alarmed that once that happens, they dictate to them every single thing that occurs within the pension plans and what they do or not do. They are keeping a sharp eye on it. Right now it's all quiet on the eastern front.

Priscilla said they have a quarterly meeting with the COG's and yesterday she went to the meeting and it wasn't very well attended, but Mike Kaiser from LVPC, was there with another gentleman and had his computer and was all into the info and numbers. She didn't bring it with her but she is supposed to be getting it in a pdf. It was demographics and Allentown has surpassed the population. They have so many people living in Allentown.

Peter said his handouts are the last three. He has the May year-to-date; rate of return on the history of the plan; and then a sheet on research on the markets. Looking at the May year-to-date, yu are in the balanced fund which is the whole top of the first page of numbers. If you go to the bottom where it says Total Balanced Account, he circled the 1.32%. You can see the Balanced Account is at $149,257,473. We are up 1.32% so we've added about $1.9 million so far this year in growth. The number above that is cash, where we have about $3,634,636. That's kind of a defensive play. The markets have been still and a little volatile this year since last year. We get some position returns January through April, so it's very hard to get a handle on where to go, so we're trying to be a little defensive. If you go up a couple of columns, he highlighted from the core bonds to the short term bonds. Those are all Wedges, who is the bond manager. The core portfolio is basically like ten years maturity time bonds and the short term portfolio is three years or less bonds. Early last year we did shift both of our bond money to short term. Interest rates are at a historical low, and they've never been this low. We do have a feeling eventually they are going to go up higher; it's just a question of when. What you see going on in the world, especially Europe, Greece, Portugal, Spain and now Italy, they are paying higher interest rate. There is question about the amount of debt they have and now you have to pay more debt on the bonds. Our country is not that much different. The odd thing happening now as those countries are in trouble, investors all over the world are shifting money out of those weak government bonds and into stronger government bonds, which is us, United States, Great Britain and Germany. Our government bond rates are low. Our ten year treasury rates are like 1.6%. Our government is able to borrow money for ten years at 1.6%. Germany is very similar, while Spain right now is borrowing at 6% plus. Hat's not going to go on forever. The 17 countries in the Euro zone will figure out what they are doing and it will take them another two or three years, but they are going work it out. Our economy is growing slowly.

The big thing we do have, and Ben Bernanke, head of the Federal Reserve said there's a fiscal cliff coming. We need to get a ten year plan in place to start paying down our deficit. It's too large and it will probably come after the presidential election in November. It may take until January or February for Congress to do it, but that is the next big thing we see happening. He only gave you two pages of the 30 page report, but if you look at what he underlined, they are talking about stocks. The whole global economy needs to grow. The world is growing at about a 4% rate. United States is growing at about a sub 2%. We are growing. That pace needs to pick up and then we'll see interest rates going higher. If we don't come up with a meaningful ten year plan, we are probably going to see interest rates go higher on our debt. People aren't going to be willing to buy our bonds if our government isn't willing to address our debt problems. We're not going to end up like Spain and paying 6%, but instead of 1.6%, it could go to 2.6% or 3%, which makes a big difference on your bond portfolio. It's an opposite relationship. When interest rates go higher, the value of the bonds you already own drop in value. The ten year portfolio bonds, if interest rates just go up 1%, the ten year portfolio bonds would lose close to 10% of their value. The short term bonds will only lose about 1-1/2% of their value. That's why they are trying to be defensive and try to keep their bond portfolio sure as possible. They are not reducing any money they have in bonds as they don't want to take more risk in stock, but they do want to protect the bond money, which is 40% of the portfolio, a big chunk. The bonds are performing well in the core portfolio. It's positive and 2.6% this year and even the short term bonds are up 1.39%. This is only five months, if you annualize that, these are very strong returns. Going up a little further, he highlighted two managers, one which is Mid Small Cap Manager, NWQ. On Tuesday, they are meeting to interview a new manager to remove them. They've dropped 10% this year and their index is a positive 3%. The portfolio manager, Richard Dunn, you don't have the history of this, they've been with us for quite a few years, he thinks 1997. The amount of money we've given them, they've grown dramatically. This year their performance has gone down. We probably would have been removing them anyway because their portfolio manager left. That's who they hired originally years ago. There have really been no changes in their investment policy. We're still running things the way we have been. There are no asset changes. You have a pie graph showing you the asset and manager allocations. Behind that sheet, it shows the Asset Allocation Rebalance. This is where we stand today, current assets, current weighting. At the top, Large Value, there's $16,000,000.0, a current eight of 10.9% of the portfolio. He highlighted the International. We are at 8% in those stocks. They don't like what's going on over there, so they haven't added to it. If you look at our investment policy statement, we could be as high as 20%. We're at 8% now. The other thing is the REIT, real estate companies, the big office buildings; they have about 5% of the portfolio there. If we increase our stock, we may increase REIT. The reason being real estate is strong with a 5% cash flow and dividends we're collecting on that. Even if we don't' get any growth from the stock portfolio, we still have that cash flow coming in to make money. There's no growth to be made from the stock market itself. Our total stocks are 15%; 35% of bonds and 5% alternative investment managers, which is a mixture of commodities, bond managers, hedge funds. Most of that are bond type investments, and then we have about 2% in cash. It's a very defensive portfolio right now with only 58% in stock. Usually we would target 60% or plus. We are being very defensive in this environment. The last page is the various indexes that are out there. If you look at the top, United States stock market, S&P 500 Index is up 5% through May. The small midsized companies are already up about 3%. If you look at the international, the MSCI EAFE is a negative 3%. International markets are doing dramatically under-performing our market. Bonds are returning 1% or less. Real Estate at the bottom has returned 8% this year so you can see the good part of that are the dividends. That's been a real positive thing for real estate. Above real estate the CSFB is the hedge fund index, which are supposed to be the best investors in the country, are only making a 2% return. They can't make any money either. The one single sheet will give yu a history and he highlighted at the very bottom, since 1997, we have the data and collected data and interest of $46 million for the balanced account and then the stocks and bonds have appreciated by $26 million. We've added about $72million in growth to the portfolio since 1997, which cumalattievely is 22% growth of the portfolio. Back in the inception, the opening balance was around $60 million and now we're at about $149 million. We've had some good growth. Long-term this portfolio has been great. He still thinks 2008 was a great year with the plan being down 16% while the stock market was down 35%. Most plans that are converted to their plan, they need service and attention and also they don't want to go through 2008 again.

Peter said we do feel stocks are going to get better than bonds in the next two to four years. That's not gong to start happening until we see our government come up with a ten year debt plan. When that happens, you are going to start seeing interest rates going up and won't be making any money on bonds, but making good money on our stocks. That's what we look to see happening next year. If you have any questions, just give him a call.

2. **Financial Reports** – Cathy said every quarter shows that they've been reimbursing the administrative fees of what the plan has been taken out and reimbursing it back into the plan on a monthly basis. So far in 2012, we reimbursed $5,764.74. for the uniformed plan, $16,274.98. On these statements, contractually we are to reimbursed.

3. **COLA Increase – G. Williams, G. Young, V. Koszi – 1099R** – Cathy said we have three COLA increases in the last quarter that we would have reported in March, however we had no meeting in March. The retired individuals were Glenn Williams, who received 4%, which brought his COLA to 13.1%; Ron Jones was at 4.2%, which increased his to date to 5.7%; retired Officer Gerry Young was 4.2% as well and increased is to 4.3%; and Vick Koszi was 3.4% up to 8.2%. Based on our last PA State Auditor General plan, they recommended we should be receiving copies of their 1099Rs to keep in our files. PSAB has been kind enough to forward them to Molly and will keep them with the employee's paperwork. Mrs. deLeon said does that mean the employee never got a 1099? Ms. Gorman said they did, but they were not required to submit that information to us. PSAB's administrative office sent them out and retained them on file. But because the Auditor General when we do an audit, they want to see it and make sure we get copied on it.

4. **2011 Valuations and AG 385 Filings** – Cathy said these were done this year on time with the State. The valuation was sent to the State in January and the AG385 is historically due at the end of March. Jack asked Cathy to describe briefly what the two of them are. Cathy said the valuation is the actuary's review which is a two year snapshot of what our plan is, where we're at, and modifications that determine our MMO's for the next two years. This is reviewed by the Auditor General's office and also we are required to maintain everything on file. The AG 385 is basically reporting who was employed by us last year, and we receive a certain percentage determined by the State Aid on an annual basis. What we received this year will be based on last year's data. We usually get the State aid in September then we turn around and pay our MMO's to PSAB for the plans in September.

1. **Preliminary MMO Review** - Cathy said our actuary requested that she bring this up, and it all needs to go to the committee, but based on the valuations he did, a slight modification was made to the uniform pension plan. Nothing was changed for non-uniform. The non-uniform was $86,983.00. It's what is expected and should be paid this year. The MMO for the uniform plan was originally presented as $256,470.00. Based on the new actuarial evaluation, it is now$255,434.00. For Auditor General purposes, they need to make sure whatever we have here is in accordance what was filed with the State. We still will pay the MMO amount that we had budgeted for, the $256,470.00, which was approved by Council originally, which is okay but they wanted to make noted somewhere in our minutes, this change based on the valuation report. It's more just for documentation purposes for the Auditor General. It's more just for documentation purposes for the Auditor General. You can always pay more to a plan, but you can't pay less. Typically we try to review a little bit early to give this Committee what to expect. She does revise it closer to that date to make sure the payroll amounts are correct. Jack said we will be meeting in September before the last Council meeting in September. Cathy said we are looking at a uniform plan of $247,617.00 which is down from the $256,470.00. The non-uniform is $82,187, down from the $86,983.00. Those numbers typically are taking in to the normal percentage costs of the plan. This is subject to change. Priscilla said this doesn't reflect what the employees pay into it. Cathy said yes it does. It's on No. 7 Member Contributions Anticipated. She takes what the base salary would be,

project out any other income such as longevity, education payments, holiday payments over time and multiply that base number by 2% and that's basically what the plan will proceed from the employees in that given year. Peter asked if there are any projected retirees in the next six months? Cathy said they are scheduled, but no one came forward. Peter said when you get a word on that, please let them know. Priscilla said for the 2013 non uniform, $33,585, that's administration. Cathy said yes. Priscilla said she gets concerned when she sees the taxpayers paying a lot for it. Cathy said last year's additional amount of State Aid is not anticipated this year that covered both of the MMO obligations, so we'll probably be back to the $150,000 to $156,000.

2. **Settlement Filings:**

   A. AIG – October 28, 1999 – April 1, 2005 –Cathy said we received one settlement for AIG from October 28, 1999 through April 1, 2005. Those bonds do get submitted to the administrator who was handling the plans at that time.

3. **Approval December 14, 2011 meeting minutes** – Minutes were approved by the Committee. All in favor.

4. **Set Date for Next Meeting – September 12th at 11:00 AM**

   Priscilla said a couple of year ago, Hellertown and Lower Saucon went into a study with DCED into looking into regionalizing the police departments. That had to be stopped as Hellertown didn't want to continue. It was resurfaced and now they wanted to do it again. They did the study and presented the report at a public meeting. Hellertown's plan seems to be fully funded and we are not. At some point this will come up, what does that mean to LST? We need to look into that and have a response. The Council would want the whole picture. _____________ said based upon his discussions with the actuary, you can adjust your formulas for determining the soundness of your plan in a conservative nature such as we do here or a more liberal nature. What does that affect how Hellertown's plan really is in relation to ours? Cathy said what would be need to happen if it moved forward would be for both actuaries to sit down. Jack said Cathy was on the phone with the actuary after that meeting talking about this issue and she does have some preliminary reviews. Cathy said he said he's been involved in this, and has worked on them, which basically the actuaries would review this plan and their assumptions and their returns and funded and unfunded balance and what the other actuary is doing. They would come together. There's a lot in place like contracts, and all that will have to be hammered to to get real number and then be in consensus what your assumptions are. They could have things that are pending with the plan. All that needs to come into play at some time. Jack said the big concern is when you put your arm out with the other municipality. What happens within three years down the road, you say, let's dissolve the regional police department. They got preliminary answer on that, from a legal standpoint if you write it whatever you bring, you take with you. They have to look into it further. Hellertown has been fully funded for a number of years. Jack said they are looking into it and are gathering information.

5. **Adjournment** – The time was 11:55 AM.