Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes June 13, 2018

<u>Roll Call</u>: Present –Jeff Herb, Morgan Stanley, Joe Scott, PSAB Lou Mahlman, Chris Leidy, Molly Bender Mary Curtin, Priscilla deLeon, Council Liaison (via Phone), Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance 11:03

1) Jeff Herb – Morgan Stanley

Referring to the packet provided; looking at the asset classes for the return as of the end of May. Market has been grappling with concerns over the interest rates rising. Inflation and inflation expectations have also been rising. More recently concerns over a potential trade war and the issues in North Korea, and Italy's debt issues have led to both positive and negative effects in the market. However there has been significant good news. First quarter corporate earnings were strong. We have a very strong labor market, generational lows. Into 2019, the unemployment rate is projected to be below 3%. GDP growth for the 2nd quarter is projected to exceed 4% . With the tax cut, corporate America is spending more. These are all positives. Over the last several months, markets have been trading on a sideways basis. We had a strong January, February corrected, but since then it has been even. Growth oriented investments have been the dominate asset class as they have been in 2017. Large Cap Value stocks have been at a negative, down 2%. International stocks are down 1 ½%. Despite the economic good news the market has not increased. Feds raised interest rates in March and they are set to raise them again today. I would expect them to raise rates again in September. We are looking at three rate hikes in 2018, possibly four. The markets are definitely discounting through rate hikes. For bonds, when interest rates increase the bond prices decline in value so they are down. Intermediate bonds are down 91 basis points. The overall bond market is down 1 ½ %. The best place to be in is cash for the first time in a long time. Money Markets and CDs while the government is increasing interest rates we are finally starting to see positive returns in cash investments.

This is a growth oriented environment. Consumer discretionary is up 12%, Technology is up 14%, and with the rebound in oil prices the energy markets are a good place to be. A worse place to be is any sector that are interest rate sensitive; telecom, utilities. Stocks that pay higher than average dividends have underperformed. As of Monday, more positive news in June with jobs data we continue to see an increase in equity markets up 4.85% year to date. Growth companies continue to outperform. Value oriented companies and international companies remain flat on a year to date basis. Bonds are going to be negative this year. We are starting to see improvement in the equity market.

Investors have forgotten there is volatility in the equities market. We went through an environment in 2000 and 2017 that was historical in nature. The market in 2017, not including dividends, was up 19% last year. Peak to trough we were down 3%. In the last four year it has only happened four times. This year is much more of a normal year. Market was down in 2018 10%, the median correction was 10%. The volatile is there and we go through that in the long term. This has been one of the longest bull markets since World War II, one of the largest economic expansions, but very slow growth. We are not seeing any sign of a recession in the near future. Risks will be seen in mid 2019 or 2020 for a possible recession as things slow down. Fed is tightening bring in interest rates. Inflation is increasing, labor market and corporate credit is strong. Manufacturing is pointing to expansion and earnings and the housing market remains strong. Good news over the next year. PSAB MRT had a strong year last year at 14.18%. Goal is to outperform the benchmark. The only management change was the addition of CS McKee for fixed income allocation. They needed to diversify the fix income allocation. The balanced account was up 61 basis points at the end of May.

MRT is up 2%. The only changes will be increases in the real estate allocations in the near future from 4% to 7%. Review was done on managers and categories within the report dates May 31st. Investment in real estate will be done to hedge against fixed income challenges. Fixed income will be negative for the year. No changes over the process for the MRT. The investment policy statement was reviewed by the trustees annually. No changes in strategy. No questions asked.

2) Preliminary MMO 2019

Figures are based on the actuarial changes made and a snapshot of what is occurring in 2018. There is a $27,687.00 difference that is less than what is required in 2018. $14,937 for the uniformed plan requiring $382,618 and the Non-Uniform is $153,268. With the potential State Aid offset the Township is required to pay $225,073.33 for the uniformed plan $61,400.00 for the non-uniform plan; assuming we are receiving the same amount in state aid. This will be updated with more accurate figures for the September meeting. It is our hope that when we get our actuarial review in 2019 our obligations for 2020 and 2021 will drop. These will be reviewed again and brought back at the September meeting for Council to approve in September.

3) 2016 and 2017 State Audit

This was earlier than expected. The auditors usually review every 2 years. It was discussed when the last audit occurred that there was a need to change our pension ordinance in the uniform plan. After speaking with our solicitor we were hoping that something else would require changing in the ordinance so we could update it all at one time and save some money advertising. Unfortunately that did not happen which resulted in a finding on the report. In the ordinance it references a benefit that does not exist. It was reviewed with the Uniformed Association and they agreed to the change. There was no finding in the Non Uniform plan.

4) Ordinance 2018-01

The ordinance was reviewed that Council already approved to address the auditors issue. Language was left unintentionally which is now removed. The auditors were advised of the passage of the ordinance but it did not change their report.

5) Retirement – K. Luybli

We received notice in early May of Ken's intention to retire. Since then Ken has since passed away. He opted for a life time and survivor benefit at 100%. His wife will be receiving his retirement benefit of $923.67 a month until she passes. His wife did receive a life insurance benefit and unfortunately since he retired early he did get a significant cut in his pension benefit.

6) Settlement Filing -

None

7) Minutes –

Approved the March minutes for posting on website.

Next meeting September 12th at 11:00
Adjournment – 11:35 AM