

**Lower Saucon Township  
Pension Advisory Committee Meeting  
September 9, 2009  
Minutes**

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**Roll Call:**

Present: Molly Bender, Michele Hirner, Jack Cahalan, Cathy Gorman, Chris Cap from PSAB. The time was 11:05 AM. Priscilla deLeon arrived at 11:09 AM.

**1. MRT Report – Chris Cap**

Chris said the net asset statements are only through July. The August statements are going to look significantly better. You will be getting those on September 17<sup>th</sup> or 18<sup>th</sup>. You will be about 2-1/4 points further. The fund right now is at 12.7%. The net asset statements right now only show 10.4%, so it will look better when you get those next statements. For the non-uniformed pension plan, it's a positive \$87,066.11. There's some dividend income mixed in there. You go down to disbursements, unless there is a disagreement, you have one person on the payroll, which is \$110.82 a month. You carry that over, and you have the total disbursements for the month; and net assets through July are \$890,873.33. For the police pension plan, state aid pretty much held steady, which was a pleasant surprise. They thought state aid would pull back quite a bit. It's pretty encouraging. Pension payments have been pretty consistent.

Chris said as far as investments, it's easy to remember last year. He had explained to you why the market was moving south. The fundamentals still aren't there, but nonetheless, the market was so depressed from last year, and nowhere to go but up, plus a lot of negative news. They are still concerned about that as there are about 451 banks on the watch list. You have a lot of private equity firms that are trying to purchase banks that are in dire straits. There's a lot of concern with the new administration coming in what should the capital requirements be. They are really trying to set up standards to make sure no one hurts the investors. Oil is up to \$71 a barrel as of yesterday. They are monitoring things very closely. The Trustees are meeting on October 15<sup>th</sup> and 16<sup>th</sup> up in Erie, which will be their next conference. The market was beaten down so badly last year in September and October. They'd like to forget about it. There's still a lot of uncertainty out there. The international markets are performing pretty well. They are in the process right now of interviewing bond managers as they would like to add another component to it. They'd like to take some different risk strategies with the bond portfolio. Wedge Capital has done extremely well for them this year as they are beating their index by three points. Some people question why would you want to replace your bond manager? We're not looking to replace him, we're looking to take some money away and go into another discipline just to spread our risk exposure. Starting with Chase, the spread between their index and how they performed up to this point is really wide. They are still up 2.35% YTD and their index is up 19.85%. Large Cap Growth has really been the place to be this year. They have really increased our stake by going into it late last year. Chase is a very conservative investor. We've had them about 6-1/2 years. We are going to be talking to them about why the spread was so significant. They are a pretty well managed firm. They are out of Virginia. They are still one of the elite 20% top performers in their class. In the down markets, they've always been one of our top two or three performers. Aletheia is a firm we added about 1-1/2 years ago. They are outperforming their index. They take significant risk. Neuberger Select is a little bit behind the indices, but a couple of months ago, they were ahead. We don't have a whole lot of money invested with them. They are pretty much trading water. NWQ is consistently beating their index by significant margins. By here, they are beating it by about 9 points and large cap value really hasn't been the place to be. Last year, Peter was in here and explained that we gave them a little bit more discretion to what they could purchase in terms of securities, and that's why they are up five points above their index at 16.59% to our overall average. CS McKee has rebounded pretty well. They didn't have a significant hot year in 2008. In 2007 they were on fire, and 2006 was an excellent year. We added them to our portfolio late 2007. Here they are up about 5-1/2 points above their index which is the S&P. Wedge Capital, mid cap value, they are always difficult to pick. They appreciate so quickly,

they become large caps with a very small window, and that's something we've always seen a lot of value in the mid cap sector, and held our stake there. We've actually considered adding some money to the mid cap section as we have a lot of confidence there. The turnover is pretty high in those kinds of funds because those companies are generally in a growth mode and they quickly get out of that asset class. A lot of times they can get weighed down. NWQ, mid small cap value, is probably one of top performers over the last four years. They are just killing their index. They are up over 41.70%. Unfortunately, there's \$5.3 million in there, but nonetheless they are beating their index by 24%, which is a positive sign. The theory behind it is it picks up the other performers of Chase. NWQ International is lagging a little bit. International has been on fire. They were not the place to be last year. The index lost 43% last year, but we pretty much stuck to our guns. We terminated one international manager last year as we weren't sure where the international market was going to be. We kind of consolidated some of those holdings back into NWQ Wentworth. Wentworth, we give them a longer leash when we hired them. They have a lot more discretion on what they can buy. They can allocate 30% of their portfolio to one security. That's significantly riskier, but in this case, the risk is paying off. They are beating their index by 6 – 7%. Wentworth is based out of San Francisco. We were very impressed by their CEO when he was interviewed. He takes a hands on approach. He gets very involved in the operations. Last year Peter was in here telling you we weren't sure exactly where our treasuries were going to go. We are up 7% right now YTD, which is an exception. We've kind of stuck to the duration with our bonds not going with any long term bond exposures. We're looking at 24 to 36 month exposure. We're looking for another bond manager in that 12 to 18 month window just to give us a little bit more stability. No one knows where the country is going to head with the treasuries. Are foreign governments going to continue to purchase our securities when the auctions come up? That's the zillion dollar question. If the health reform plan comes through, what impact will that have on the market? If it is passed, regardless of what side of the fence you are on, there's some question, if it is enacted, what kind of effect would it have on the health insurance securities we have in our portfolio and what kind of message would it send to other equity markets if our government continues to take away business opportunities and investments from private sectors. It's anyone's guess what will occur. They are getting closer with their plan and things can happen on a dime. This public option, he doesn't know where it's going to go, but if it does take hold, he knows it's a popular measure. They've predicted in September there might be a slight pullback. September is never a good month in the markets. If you look back in history over the years, September is a bad performer, and March and April are also down. Up to this point, the market has held pretty steady. We're up 12.7%. Last year we couldn't boast that. This time last year we were probably negative and down 10%.

Chris said the next page puts it all in perspective. Large cap value, we'll probably be doing some rebalancing at the next meeting in Erie. Per the standards, every sixty days, we have to make sure we're in compliance with the plan and the investment policy statement. Large cap value index is only about 6 or 7%. The manager is outperforming. Large cap core is more the same, within the standards of our investment policy statement. Large cap growth is .1%, within that; small/mid, more of the same. The international has appreciated so much we're up 1% out of policy, but again, we'll alter that when we meet next as a board. Total equity – if you remember about this time last year, we were about 41% - 42% equities. The equities have performed so well, it's at about 52% right now. We'd like to stick to the 50-45-5 with the alternatives. Fixed income about 43% right now and we'll keep a minimum reserve in cash. The alternative investments are about 5%. That's been the standard. A lot of other managers in the balanced universe are looking at the expanded 60% stocks. The old formula, 60/40 and sleep well at night. We're kind of clinging to that 50%. We don't want to get overexposed. This market might be overbought right now. The market as a whole is up over 44% right now as compared to its down period last year. Buy low, sell high. Up 12.7% right now and we feel pretty comfortable right now. He thinks it will be a good discussion when they meet with Merrill Lynch on the 15<sup>th</sup> in Erie.

Chris said the next page; this tells you where the assets are. The bottom portion is the only piece that we may look very closely at. He read in the Wall Street Journal this morning, swaps, which is another big piece. We don't have any swaps right now in the portfolio as it is forbidden. Our alternative

investment manager doesn't get involved in that. Wall Street is cleaning up its act a little bit to the point where there's going to be a clearinghouse for swaps. AIG was writing insurance plans for a lot of different securities that they didn't have capital to pay those claims if those claims came forward. Now he thinks there's going to be a clearinghouse with the Obama administration, and they are requesting that, and a third party buyer that can monitor that and it's going to be a lot more transparent. As far as bond managers, they will be interviewing them very soon. We are sticking to our guns as to what types of securities we will admit in our portfolio. Priscilla said isn't swaps what the Bethlehem School District got involved in? Jack said yes, but if you are in swaps, they recommend you only put in 25%. The Bethlehem Area School District had 75% of their funds in swaps. Chris said commodities now are kind of the darling of the market. If you look on TV, there's a lot of advertising for it. It's a lot more predictable, especially with food products. Obama was just talking about how the agricultural farmers are really suffering. There's a shortage in credit for farmers if they can't fund their operations, there's going to be a food shortage. It's a lot easier for the individual investor to make profits from that. He had a Councilman confront him when that was down and oil was pushing to significant levels, and he said we are part of the problem. Our responsibility is to pass on earnings to the governing bodies and pensioners. It's just like the lottery says, if you don't play, you can't win and that's where we find ourselves in that situation.

Chris said the next page, we are hoping the last three months doesn't progress, but the SP 500 is up 14.97% through August 31. The Dow Jones is up 8.2%. The NASDAQ is just on fire. It just reached its all time high two days ago, up 24.75%. Russell 1000 Growth is up 19.45%. Russell Value 1000 Growth is up 5.08%. Russell Mid Cap Value up 13.32% and Russell 2000 up 12.53%. The EAFE index, up almost 25%. It's washing out a lot of losses from last year. EAFE was just destroyed last year. Right now with the mortgage securities, there isn't much of a private market. The fed is buying all of the insurance securities right now. There is no private market that is really functional for spec securities. The fed is trying to maintain the course for the housing market to recover. The surplus in housing stopped and it's at decent levels right now. There's a lot to monitor and a lot on the table right now. A lot could change very quickly. He wants to express that caution to the board. The numbers are good right now, but there's going to have to be a lot of jockeying going on.

Chris said Chuck is not coming today, but the assets portion, you might not proceed with that. That's an enabling provision down the line. If things get really scary, you will have that option if you are really constrained with your local budget, to alter or smooth your assets and the amortization rate that you use for your pension plan to lower the municipal obligation. They are pushing for that as a lot of government bodies are looking for it. The legislation is really being watered down. The pension bill is really getting watered down. The police had a big rally yesterday. They are opposing House Bill 1828. The municipal pension provisions got pasted into the Philadelphia provisions on the Senate side. Mayor Nutter from Philadelphia wants a 1% increase in sales tax and he wants some smoothing provisions for himself for Philadelphia. We never wanted the Act 205 portion to be mixed in to Philadelphia, as it creates a bad witches brew for politics. There's been such debate. Right now there are 3,000 employees in limbo in Philadelphia assuming that the 1% tax increase is going to come to fruition. We're kind of in the way right now and the cops are in the way for that bill to proceed and go back over to the Senate. No one knows where this is going to go. We're trying to address this, but you don't have to worry as you are not affected. Disability benefits, we tried to address that. We've heard word that the tier for underfunded plans ranges from 50% to 25%. Lower Saucon is obviously not in that lower stratosphere. There are some distressed plans in that position where there could be a forceful takeover of those plans. Senate Republicans are wrestling with the House Democrats, so we don't know where it's going to go. In the meantime, you have a state budget and a lot of social services that are really being held hostage right now. It's been a very difficult summer for people involved. The budget, they are still about a billion dollars off. The big question is collective bargaining. For the big plans, they wanted to eliminate collective bargaining altogether for pensions and to come up with just a set tier, no cost of living adjustments. If your funding is between 51% and 69%, you have to come up with a plan on how you are going to recover and get back up to a sufficient funding level. You would be a tier one

right now. Jack asked if these provisions would be voluntary. Chris said if you fall into tier 2, you'd be forced to perform a few things and there's also a push to where you'd have to aggregate your funds. Uniformed and non-uniformed, you'd get one plan. If you sat back and understood what's really happening is the police pension plan, for LST, for example, is a little bit different from the non-uniformed. You used to have the two segregated and a lot of newspaper articles are out saying there are 3,100 plans. That's not true. You should really look at how many municipalities really have plans as opposed to how many there are. We have a Borough that has four pension plans and a paid fire company. One plan is for the Borough Manager and the Treasurer and a separate segregated one for the Assistant Secretary, etc., and some of the road crew. They have four. Apples to apples are where we try to steer things.

**2. Appointment of Representative for the Uniformed Plan**

Cathy said regarding a representative from the uniformed plan, the police union has not recommended anyone, and no one has come up to offer to do it. Priscilla said another meeting has passed without representation and that's now two or three meetings. Cathy said all of the documents are being sent to Scott Snyder, the Police Association rep, so it's not like they aren't being informed. She would assume that Scott would be distributing it to the proper people. She will make sure that Scott is advising people.

**3. Appointment to Replace Fran LaBuda**

Regarding the replacement for Mr. Labuda, they have not gotten any applicants as of yet. Priscilla said what is a quorum? We have police, you guys, the public, and the liaison. She would prefer to have everyone here. She asked if it was on the website? Jack said they have to look at putting a tab on the website for these reports.

**4. R. Jacoby – COLA Increase**

Cathy said historically, we always advise the Pension Committee of upcoming COLAs. He retired last October, and based on the ordinance and resolution that Council passed, and the approved contract, Ron is not eligible for a COLA next year. He was advised, so he would have enough notice to make any arrangements he would have to make. Jack said what happens to the COLA for this year? Cathy said if the index goes back up, he would not receive it until next October as we originally recommended that everything would be done in January, but the Police, Tom Barndt, said the union would rather have it on their anniversary date. It's based on the social security index for a three month period prior to the anniversary date, an unfortunately, it's below. That's why he isn't getting a COLA increase this year. Priscilla said it's not something we came up with; it's already been in place. Cathy said correct.

**5. Update on Plan Documents**

Cathy said we did get a quote from our Labor Attorney as to how much it would cost to create them. We kind of told them to put a hold on it for the time period. Plan documents are a consolidation of what our ordinances are so that they are a document that can be provided to employees when they are first hired so they are well aware of what their benefits are. They are also supposed to include all the tax IRS information in there so there are no misunderstandings. It was a very high number. She contacted Linda Costas, and is waiting to speak to her about PSAB doing some of this work. Priscilla said she doesn't understand why we can't do a compilation of ordinances that are in effect and just put a little booklet together. Cathy said it's the IRS issues that require some expert attention. She's compiled the information, but it would definitely need a Labor Attorney to look at it in order for it to comply with the IRS requirements. Priscilla said every time we vote on something that is an ordinance, our Solicitor reads it. Cathy said if you are putting ordinance information in plain language for an employee to understand, a Labor Attorney has to make sure it's in compliance. Jack said it's like writing an insurance policy. Cathy said this is being required by the IRS. Chris said an ordinance is always

subject to interpretation. There are always some dark lines in those ordinances. When you put it in plain English, it further binds the insurance company. The IRS portion, he failed to mention this earlier, they just had a meeting with their Solicitor a week and a half ago, and there are IRS amendments that are going to be made for the master plan. There's nothing really drastic, but it has to be done by the end of the year. If you do want to alter your plan, it's something you want to discuss with your actuary. Cathy said that was a recommendation from Chuck a long time ago. It's almost like what happened to our COLA. The ordinance mentions the COLA, but there was nothing in the ordinance that said when does it apply - the beginning of the year, the middle of the year? We attempted to make it uniform but Council passed a resolution saying it will be done in three month increments prior to. That's one of the things that come up, and we never had to deal with it. Then someone retired at the end of the year, and there was no language to guide us. Priscilla said it's cheaper to do it by resolution than a whole ordinance. There are some parts of the ordinance that should be changed by resolution, but then you have to keep the resolutions with the ordinances. Cathy said having a plan document so these things can be amended and revised so everybody understands is probably the best way to do it. There's a lot of interpretation with the ordinances that are involved.

## 6. Financial Reports

Cathy said she provides them to you on a monthly basis. We get statements from Chris and we reimburse within the month.

### a. Settlement Receipt Non-Uniform Plan

Cathy said we received a \$98 from a settlement that went into our plan. There was actually a \$112 check, but it had to be split between the two times.

## 7. Pension Recovery Legislation

Cathy said Chris covered the pension recovery information.

## 8. Act 205 Valuation/2010 MMO

Cathy said the MMOs were emailed to you and she has copies if you need one. They were based on the 2009 valuation. These will be presented in our budget, in the amounts of \$177,635.00 for the uniformed plan and \$93,110.00 for the non-uniformed plan. Priscilla said it went up from the last time. Cathy said the non-uniformed stayed around the same amount. It may even have been a little less. Priscilla said you are using the numbers like she likes to use. If you check the last years MMOs you'll notice the change in the normal cost percentages. The amortization payment is where it went up. It went down, based on his report, only because of actual payroll information numbers.

Jack said normally, what we do, is this body makes a recommendation to the Council to approve these. Molly said okay but we should let Council know we are down members at this meeting. Priscilla said when Mary was here at the last meeting, we did talk about this.

Priscilla said maybe we could put on the bottom of the agenda when the Pension Committee meets and if there is a vacancy or no. That would be someplace where it would show on the screen when people are sitting here.

## 9. Settlement Filings: Cathy said we haven't received any.

## 10. Approval of June 17, 2009 Minutes - Jack asked if there were any corrections or additions? No one had any corrections or additions.

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**11. Next Meeting Date:** Wednesday, December 16, 2009.

**Adjournment:** Meeting adjourned. The time was 11:55 AM