Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes September 11, 2019

Roll Call: Present – John Jolls, Morgan Stanley, Joe Scott, PSAB, Chris Leidy, Molly Bender, Brian Courtney, Priscilla deLeon, Council Liaison (via Phone), Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance 11:05

Absent: Mary Curtin

Priscilla noted that she had an appointment and requested to move the MMO to this

1) MMO discussion –
Cathy presented the 2020 MMO's. This is presented to the Committee before presenting to Council at the September Council meeting for ratification. The Police MMO for 2020 is $454,698.00 based on the most current 2019 valuation. The Non Uniform MMO is $131,201.00 based on the 2019 valuation. Both plans combined, it is $22,502.00 more than the required this year. Priscilla asked if that is how much both of the plans went up. Cathy said the total of the two. The Non uniform went down, primarily because we had to employees with long vestments leave before retirement. The Police went up due to the anticipated increase costs of their contract. John noted that the investment performance was a big reason, unfortunately. Cathy said Mr. Werley is here and provided some information that he can go over. Mr. Werley said Cathy is correct in pointing out that the Non Uniform Plan had an actuarial gain, not a super significant one; again gains and losses are amortized over a certain time period. The gains are are amortized over 14 years and the Police losses are as well. Police plan had losses but you have done a good job in keeping your officers, no turnover. When you have a good stable police department which is the goal, one of the down sides is that when there is no turn over there are no gains. Unfortunately, as everyone is aware, the fourth quarter of last year everyone would like to forget. If this fourth quarter hadn't manifested itself, your MMO aggregate would have been lower. Doug presented his two page estimate spreadsheet. It shows what the Township should be looking for in State Aid versus how much remains after the application. We do not know what the unit value is. Last year was $4,684. I am anticipating at least $4,800 this year. We were unofficially alerted that the unit value will be increasing this year, by 6%. The aggregate MMO's for 2019 were $563,397 and the State Aid allocation is $230,400 leaving a net estimated MMO of 332,997. Next year the amount is projected at 352,000. Next year's State Aid I estimated at $4,900. I am being slightly optimistic. State Aid has a history of increasing, there is certainly no guarantee, each year stands on its own. State Aid funding is from insurance companies based outside Pennsylvania; there is a 2% tax on those premiums. We hate to miseries in other areas but we continue to see disasters. Whenever you have these cataclysmic events insurance companies raise rates, whether we like it or not, just like healthcare, they spread risk over the spectrum. It may not offset the amount going up $20,000.00 year to year but it will help. It is significant if the unit value goes up $100 it is still significant when you have 48 units; with each office getting 2 units per employee and each non-uniform getting 1. Looking at the actuarial analysis, looking at the amortizable values for planning purposes, there is no significant recalculating for either plan. On the police side, $50,000 or so of this amortization, $207,000, will be going away in the next two valuations. You will see a little relief there. As Mr. Jolls will talk about soon, on the investment side there are certainly no guarentees, that there can't be an actuarial loss going forward. Fortunately your plan is very conservative with the interest assumption. That is a good thing, by doing that you are helping the plan perform better than expected you get a better gain and a lesser loss if it doesn't. What we are doing here all municipalities should be doing across the board. What we are doing is good for the plan and the employees. Cathy noted that we changed our assumption in 2017. Our unfunded liabilities was lessening and we were paying for normal costs. If we were going to change assumptions, it was the time to do so. Doug said that hitting 7.5 – 8% is just not happening anymore. By going to 6.5% you are making a more realistic assumption,

and your normal cost is higher. Pushing things down the road just doesn't work. It creates a bigger hole. We are not going to run out of money soon based on what we are doing. Priscilla said she agrees and it was a good thing and she appreciates everyone's help. Priscilla left the meeting.

2) John Jolls, Morgan Stanley – Report shows year to date to the end of July. We have had a strong performance. The broader domestic market was up 20.24% and the international market was up 12.58%. This has been driven by declining interest rates, economic growth good but that is slowing, corporate earnings that have been good but slowing. Trade and tariff concerns continue to weigh on the market. Growth is outperforming value. Interest rates have declined throughout the year, on slowing economic data with the expectations that the Fed will continue to lower interest rates, possibly two more times. Lower inflation expectations and continuing trade and tariff issues. The overall US broad market is up 6.35%, intermediate bonds up 4.93%, short term up 2.32% and cash was up 1.42%. Despite this we are concerned with the rise of risk of a recession. Global PMI's are below 50 indicating decelerating. Economic surprises are predominantly negative throughout the year. New orders and business conditions are weakening, global trade is slowing, and uncertainty is high. Corporate confidence peaked in 2018 with the tax cuts and is now rolling over. It is the same with small business confidence as well. The Feds probability of recession is elevated but not predicting a recession. The economy is definitely slowing. The bottom line is that we have been cautious. We have been in an unprecedented environment where large growth outperforming value. We have taken profits from large cap growth and adding them to large cap value to take advantage of the recovery in large cap value. From a US perspective, international stocks are cheaper than US stocks. You can see that with the negative values in the cape ratio presented. International stocks performance versus the US goes in cycles. In the last 10 years, US has outperformed international. As for the performance for the MRT, YTD we are up 11.41%. The goal of the MRT is to have predictable returns and decreased volatility. We have harvested gains from growth and brought it into value, increased the core real estate exposure; the goal there is provide income and stability of principal, potential for capital appreciation and to hedge against inflation. Our high quality fixed income is defensive in nature. Going over the asset allocation a little bit more, 12.92% over target allocation of 12% in large cap value over the target allocation. Our international exposure is 17.75% versus the 15% and our real estate is 6.88% over our target of 5%. That is playing off the themes of the portions of the market that are being undervalued right now. Joe asked if we dropped the growth from the target. John confirmed. Joe said they are moving the portfolio in a more defensive posture as we can. We may lose a little in the front end now; but hopefully we will get it in the backend. Brian asked what the new target is then. John said they are moving within the ranges provided. They have a minimum and maximum in each allocation. Targets are the same. We are moving within those ranges. Joe said this is based on the investment policy. Brian asked so you are in the minimum in growth. Joe said yes for the time being. John said growth has been frothy. Value cannot continue to underperform the way it is. Of the stocks in the market, the growth stocks are priced for correction whereas the growth stocks are undervalued right now. Brian said so you are sticking with this until the tariff issue is resolved. Joe said yes.
Brian asked about other municipalities. Joe said that he has several municipalities that are at 7.5-8% and they have nowhere to go or hide. The time has gone. They won't be able to change, they will be stuck at the 8% for a while. Joe said it was a long drawn out decision. He remembers us agonizing over it. Brian said if you are at the top, where are you forced to buy at the top. Doug said we dropped to 6.5% so we are at 10.5% - 11% so far year to date, cross your fingers that it holds, but it is better to have a good year on year one because the money is compounding, of course. Cathy said next year I think we are going to make payments on a monthly basis. Doug said dollar costing, getting the average. Doug said if you can do that that would be great. Cathy said it seems whatever happens in the market it seems to happen in the 4th quarter of the second year. Joe said this past December was pretty ugly.

3) Actuarial Valuations -
Cathy said provided is the required actuarial valuation and we are basing our 2020 MMO's on this valuation. Cathy said for both plans the unfunded valuation is about 1.4 million. She will be approaching Council with a couple of ideas regarding addressing this shortfall. Doug said we will be nowhere near losing state aid for a long time. Cathy said there are plenty of other expenses like administrative fees, which we are paying close to $80,000.00 a year that can be discussed amount incorporating that into the MMO when it comes time.

4) Financial reports
Cathy said as of today the Township paid $14,640.64 in administrative fees for the Non Uniform Plan and $35,988.25 towards the Police Plan. We have paid $200,000.00 of the MMO to the Police plan and $100,000.00 to the Non Uniform plan's MMO

5) COLA – David Roxberry is entitled to a 1.7% increase as of October making his total 6.4% and his monthly payment will be $3,419.25. Guy Lesser's cola increase is 1.7% as of October making his total 4.6% and will be paid $4,519.80 per month. And Ronald Jacoby is entitled to a 1.6% increase as of November which would bring him up to 18.3% of the 30% allowed. He is being paid $2,133.90 per month. Joe asked what is our cap. Cathy said 30%. Doug said based on Act 600. Joe asked what the CPI looks like. Cathy said most plans factor the cola at the beginning of the year. Doug said we base it on their retirement date and do a 3 month average. It does smooth it. He said that we usually don't see this but he sees a very wide range of CPI's this year from .8% to as high as 2.7%. Which does not make sense, but we don't do the Dept of Labor info. Between the CPI U or the CPI W, it has been very unusual.

6) Minutes –
Minutes approved – Molly said Leslie was omitted from roll call and John's last name was spelt two different ways. John said Jolls. Cathy said she will change before posting.

Next meeting December 11th at 11:00 AM

Adjournment – 11:36 AM