Lower Saucon Township
Pension Advisory Committee Meeting
September 14, 2011
Minutes

Roll Call:

Present: Chris Leidy, Uniformed Plan Representative; Molly Bender, Michele Hirner, Non-Uniformed Plan Representatives; Mary Curtin and Lou Mahlman, Members; Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; Chuck Friedlander. The time was 11:08 AM. Priscilla deLeon, Council Liaison arrived at 11:11 AM.

1. **MRT Report** – Jack said Chris Cap is not here today. They will call Bill Bender on the speaker phone. Bill said he sent out an email this morning, which includes the August 31, 2011 report on the MRT. It shows the plan is down 1.9% year-to-date through August 31, 2011. There are two research reports that just came out Monday and Tuesday that will be good reading and back-up to what he's going to cover today. Today's timing of what's going on in the world is very interesting and very challenging. He's going to try to give everyone the best background he can for trying to understand the markets and what's going on in the world, what the concerns are, and also where we see things going. He'll give everybody an idea of the position they are in right now with the MRT, our current positions and strategies of what they've done within the plan to try to weather the storm as they have done in the past, many times. We are down 1.9%. The equity markets in July and August have been very volatile. We have seen a lot of 400 and 500 play moves. We've seen some of that volatility lesson more recently, but the Dow, for example, today is at 11,072 so it's near the low of its trading range. As we look at our position in the MRT, the plan currently is 59% in equities, 35% fixed income, 5% alternative investments, and a minimal amount in cash since the contributions will be coming in this month. That's normal for us to have a low cash balance in September. The plan stood at $143,623,000 as of the end of August. We're slightly on target here. Our biggest concern has been the bond portfolio. We've been positioning in short-term, expecting interest rates to go up as they are at historic lows. We had focused our equities toward the large cap, blue chip equities, and have been a little bit more under international. Over the last year, we added $7 million to REIT (Real Estate Investment Trust) due to their valuations as well as being at a low. The last two years the real estate market declined. We've gone through a very turbulent time. The cash flow on REIT and valuations, the committee searched and looked for an international REIT manager, not limited to just the U.S. and that offers a little bit of diversification away from equities, away from bonds, and also offers cash flows and stability at the places where we added the REIT. We currently have 5% waiting in the portfolio and we think the other was relative to the long-term history of real estate, but most importantly, getting a little bit more cautious on the overall picture. We did it to add diversification. We have the international, we have the small cap, we have the large cap, each with a complement to our portfolio. Since we spoke last year that was an addition to the portfolio. The bond, fixed income side of the portfolio, the way to weather risk, and the big risk is interest rates. We know that our government was downgraded recently in August, and everybody would think in the normal environment, that in the situation we are in, that interest rates would go up and if our bonds would ever be downgraded, we think interest rates would go up because people would sell them and they'd no longer be AAA, they are AA plus. The opposite has occurred. Interest rates have gone lower, so what we gave up was that tiny little bit of upside so that interest rates were really low, 2-1/2 to 3% on a ten year treasury, and now they are below 2%. Interest rates in the short run have gone slightly lower. The big risk is in bonds and interest rates going up 1, 2, 3%, so our strategy right now on the fixed income was to go much shorter term. The plan has moved about $40 million of the fixed income right now into short high quality bonds. We still have about $10 million in our core bond strategy which did very well compared to our benchmarks; he can say we were slightly conservative on the bond side. We're protecting and positioning for the worst, and here over the two months that just occurred, the opposite occurred and was lower. Short-term in the MRT, we kind of missed the mark on the interest rate forecast, but he'll explain why that happened. That's the position of where we are. We're in high quality equities, we're in short-term bonds, and we added the REIT. In the thirteen years they've been part of this plan, and you have all been part of the plan, maybe even longer, it's rare for us

to experience, but our successes have always been that we will always err on the side of caution. We're always looking the best we can to protect. 2001 was a very turbulent market. The plan was down 7%. 2000 and 2002 they were positive. In 2008, where it was a horrific years, the markets were down 38%, they were down 16%. They had two negative years since 1997. The fact that it's August and they are down 1.9%, he's going to give you hope when he's done with the market forecast. That's their position, and the things they added. They are going to make a manager change in the large cap growth category. They have a manager in there that they are not happy with. They've had some outside issues, so next week, they are meeting in Harrisburg to interview a new manager. Within the portfolio itself, that's where they sit today. Those are the changes that are current. He asked if there were any questions? No one raised their hand.

Bill said he'll talk about the markets now. He'll back up to July. Up until July, the markets were pretty normal. They weren't great, but they were coming off of a pretty decent year. The MRT at the end of April was up 5%. At the end of May, they were still up 4%. It was kind of a normal year. The year before an election year, a lot of statistics say things are looking good, and then for the first time, they had to battle the rise of the debt limit. The debt limit was raised and it became very political. The longer they waited, the worse it was. The S&P, who rates their bonds AAA, and have for the entire history, kind of gave the government the direction they were looking at and were hoping for $4 trillion over the next ten years. At the end of the day, they rolled out a plan that was $3 trillion, far below what many feel was necessary. That's the plan that passed. It is very difficult what's going on in Washington right now. They thought the fact that they didn't default and they actually agreed on raising the limit was good, and the following week, a few things started to change. They lowered the debt limit and the biggest thing for us to understand in the United States, is what's going on in Europe. The last six weeks from the beginning of August until today, there's been an awful lot of fear uncertainty circling around Washington about what's going on in Europe, the fault of many countries government bonds, that's a fear many people are definitely worried about. The worry is that it may lead to what they call a double dip or we may go back into a recession. Not so much what's going on in the United States, but if you think in 2008, when the recession occurred here and our bank failed to perform and we needed the bailout, we actually affected the world. The opposite – the United States caused a global recession. A big part of what's happening in Europe today is the ramifications if they go into some failures and recession, we're so close right now with 1% GDP, slowly recovering and unemployment at 9.1%, what happens in Europe can affect the United States because of a global slowdown. That fear is what the Europe fear is causing. It's not that our banks are invested over there; it's the fear of the ramifications from the rest of the world. We have to keep an eye on everything. The fear is creating uncertainty. The government we've never really had to worry about and we sit here in a worry phase and wonder what do we do. If we were managing money for the week or the month, he thinks we might be inclined to think about getting back out and getting back in. You're seeing a lot of volatility in the market, the uncertainty and the people who are daily trading. In the pension area, we focus on quality; we focus on dividends. We focus on companies and that's where it gets to be a better story for all of us because when you look at what's going right in the world right now, corporate America is in great shape financially. They hold an awful lot of money, more than we've ever had in history. Their balance sheets are the best they've ever been despite the very gloomy economy with high unemployment, they have been able to show record earnings. There are increased dividends and merger activities. Corporate America is doing everything it can to be prudent on their balance sheets. That is what is creating the situation of what to do or where's the comfort. Statistically, if you look back in time, at the end of '09 where the markets were down 8700 at the end of '08, they came back up to about 10,000. The price earnings ratio (PE) back then, the S&P 500 was 15 times earnings with a 1.93% yield. The S&P was yielding 1.9% and the 10-year treasury was yielding 3.84%. One year later, the DOW and the S&P were now up to 11,500. They went from 10,400 to 11,500, but the PE multiple dropped from 15 to 13. What that meant to us investing in equities, was the DOW and the S&P did not rise as fast as the earnings have risen. Where we climbed back 15%, earnings grew 20%. The market wasn't keeping up with the pace of the earnings improvement in Corporate America. As we fast forwarded from January until now, where the Dow began the year at 11,500, and now its 11,000, the market has declined 500 points. The earnings have gone up, so as we sit here today, we look at an S&P 500 trading at 11 times earnings. We see a dividend yield of 2.62% and the 10 year treasury at 1.95%. He's been doing this 26 years and he can't recall, if ever, it's an odd occurrence for the S&P 500 to yield more than the 10 year treasury. The market trading at 11 times earnings is the same multiple it hit when we were at the rock bottom of March '09. When the S&P was half of what it is, it was trading 11 times earnings. Corporate America is anticipating record earnings in 2012, which means if the market stays the same and/or goes lower, we're going to be in historic valuations of companies relative to the history. Back in 2000, the market was trading at 25 times earnings. Eleven time earnings on the market with a yield, meaning people could get income off of equities much higher than a 10-year treasury bond. There's more risk in the bond and treasury market which is where money is going every day. People are buying it out of fear. The market, which is fluctuating on a day-to-day basis, certainly looks as the most attractive asset class out there relative to emerging markets – the international market, the bond market, and especially looking at what's happened in the commodity markets with oil and gold and the prices of all the goods, commodities have had such a run up in price, as a manager of assets and asset allocation, how you look at risk and the reward is valuations in history. Today everything indicates that the market is fairly priced and is in fact pricing in all the risks that we mentioned - about Washington, Europe and risk of recession. The equity market themselves are still priced today as if or that it was real and going to happen. The upside is that government does pass some type of bill to improve the economy, to spur new jobs, to get their own balance sheet in order. The fact is he was more fearful they weren't addressing it because we were aware there were challenges in Social Security, Medicare and our own debt ceiling. The fact that Washington is even talking about it and addressing it, for him, is a positive. It's something that had to happen. We can't ignore it any longer. Kicking the can down the road is not an option. There's more challenges being faced every day. Municipal pensions across America, they need the markets to go up and every time we have a bump like this, the actuarial assumptions put us further back. The ability to give people raises, their education, we're in a period of uncertainty and challenges. His comfort comes from dividends, diversification, and risk management that over the long term, the next five years, and the market in the earnings and in Corporate America will be better in five years from now than it is today. He doesn't think interest rates have a lot of room to go lower. They are already at unbelievable valuation. He doesn't think rates are going up any time soon because it would hurt the economy, so as Ben Bernanke said, we are going to keep rates low for the next two years as far as they can control them. Economic numbers don't indicate yet that we need it. It's just sentiment. People's feeling, how they feel. They feel worse than they did in '08. People are still shopping and still spending. More people are employed now than back then. They are just afraid of what can happen and it's that fear that is keeping them on edge, keeping them in cash. There's more cash on the sideline waiting to invest in something than in the history of the market. We're not adding to our equity at this time. We're comfortable with our quality. We are comfortable with the management. We're certainly to adding any additional dollars into the international until we see that calm down. We're doing our calls. We're in touch with the committee on a regular basis. What he sent out to you today, said to reduce exposure to small caps, internationals and buy into equities. They are looking for entry points to add to equities across the board. At PSAB they are not adding, but the recommendation is to add equities on any pullbacks. View that as an opportunity to add for the long term. Merrill Lynch's target is they feel in twelve months the S&P will be back above 1400. That's a prediction. He thinks it's optimistic for sure. The reason is earnings and the valuations he spoke of, the fact is if earnings continue to improve, expect the market at some point to realize opportunity and the yield and the valuation to move the market higher. We definitely have to see some action out of Washington. That will be a positive and if these quarterly numbers don't see recessionary numbers and see improvement; they can see 2012 being a very strong year for the equity markets. They are sticking to their guns, long term, understanding what's going on short term, but the outcome for this plan and for many others will be higher equity markets than they are. Not so much as multiple which goes to 15 times earnings, but just on the strength of earnings even at 11 or 12 times earnings should bring this market back to 12,000 to 14,000 on the Dow. In a nutshell, that is the comfort. If you thought the market was overvalued and expensive right now, we all would be getting out just because of fear. The valuation is what's holding it here. 10,800 is the lowest the Dow got in the past two months. It's in a trading range between 11,000 and 11,800, so as it goes up higher, you can expect some down days. When it gets to 12,000, the buyers are coming in and buying what they feel is a cheap, inexpensive equity. For the summer and into the 4Q until earning season comes out, expect to see this volatility. The press is a real challenge for all of us. We watch TV, we get instant information and everyone is nervous. The technology world today also adds a level of volatility and because of technology, there's a lot of day trading, big money movement that causes this volatility that we see. We cannot control any of these things. That's their feeling right now. That's how the market looks to everybody, but there is some comfort in valuation. There has to be. That's what they are doing and how they are managing the MRT at this point.

Bill said it's true he understands the fiduciary responsibility all of you have in understanding these markets. He's sure your employees are asking questions. To think we're down 1.9%, it feels worse. It's not down 30% like it was. Can we go down 30% like we did in 2008, then he'd say Corporate America is in trouble. The natural instinct is the market is going to go lower and get out. The strange thing is the market for the first time in any crisis he's seen, the one place that looks attractive, and therefore, and he's not the only ones with those feelings, as he reads a lot of research, and he thinks across the board most economists have estimates in the S&P of 1200 and above. There are not a lot of people thinking right now there's going to be some form of serious meltdown in the equity markets. It is possible, but they don't see any signs of it.

Mary said she wonders what it would take for Corporate America to begin to spend some of those funds if they have them in reserve and expand their business. Bill said everyone wonders what it would take. If you ask Corporate America themselves, and Washington polls the CEO's, they want two things. There's a lot of talk about lowering the corporate tax rate. America, believe it or not, has the largest corporate tax rate and a lot of these companies are holding their money and paying taxes in other countries. They set up company taxation. Take Google, for example, they are based in Ireland and have all their taxes paid to Ireland where it's 15%, even though they are a U.S. company, they get around it. These companies are smart, they manage earnings, they manage balance sheets. The US has to find a way to lower the corporate rate to be competitive with the world and that's a major item that they want. One of the other things is uncertainty out of Washington. No one knows what's going to happen. If you are a CEO of a corporation, and are therefore hiring, is a luxury they don't have as they aren't sure what's going to happen with the cost of their health care, of their taxes. If they knew there was some certainty in a tax bill in any hiring tax credit, some of the things you heard the President talk about, what they want more than anything, is some certainty and they don't have it. They have too much uncertainty. Those are the two main issues from preventing Corporate America from hiring. Mary said we want that certainty too. Bill said he does too. These are very unusual to do any planning with what's in place for this year. You don't typically manage your businesses, your life, with what the tax bill is for us this year. Everybody says what it is going to be like next year. We keep saying we are going to spend the current tax bill the next year. It's a big argument. We actually need reform more than one way. The other thing that's really hurting companies are all of the regulations that have come out. There's many new regs on every industry that is making it very difficult to do every day business. It seems we got out and put up all these road blocks to stop growing and stop doing business, when promoting it and encouraging it and giving motivation to grow and hire. That's what is needed. Are we going to get it next month? Are we going to get it year end? There comes the sad truth we all know. It's not going to happen that fast. Washington is not in a good way right now. It's very political. There's no agreement. He thinks sometimes they fight just to fight. The overall agreement is not on the same page. We'll change in a year. We'll change in an election. People will vote it to be different. No matter what happens, it has to occur. We have to change. How it changes is going to have an impact on how we perform, whether it's positive, whether it's slow. In this case, he thinks change will be good. It will be better; and therefore, once we get that certainty, there will be a period like we saw in the 90's. We had that ten year growth period. The longer we sit here with the lower valuations, in the long term, it will look better. Patience is definitely needed. It's easier in a pension to write it up because timing the market is impossible. We feel the nervousness, we feel the uncertainty. At certain levels, we're okay and comfortable.

2. **Valuation Assumption Changes** – Cathy said No. 2 and 3 go together.

3. **2012 MMO's/Act 205** – Cathy said these are the MMOs which will be presented to Council at their next meeting; is based on the most recent draft evaluation that's going to be filed next year. It requires $238,363.00 to the uniform pension plan and $97,704.00 in the non-uniform. These are the most recent accurate numbers in accordance to what our assumptions are. Last meeting, we discussed changing some of those actuarial assumptions. What we decide to do here will modify what is presented to Council. On the other sheets, Chuck reviewed and has itemized where we are now with the assumptions, and what the changes would be.

Priscilla said the assumptions we talked about, could Chuck go over them again to refresh their memory? Chuck said turn to the page in the uniformed one, the left column is the 2011 actual MMO. The 2012, if we don't change the assumptions aren't materially different. The first column is the actual 2011 MMO. Then we redid that MMO based on the actuarial valuation. The actual 2011 MMO was based on 2009 valuation. They are permitted to use that valuation. The second column is using the new valuation. They have a small increase in cost. What that's from is continued investment loss. While the market did very well, our market value in 2009 and 2010, we used smoothing methods and basically didn't get crushed by the 2008 market drop. We recognize these gains and losses over a five year period. We are still picking up some of the 2008 losses. That's why the uniformed cost goes up. Then at the request of the committee, he looked a number of different assumptions. Going from the 2nd to the 3rd column, the only change there is in the mortality table. The mortality table is to see how long people will live and collect benefits when they are retire hasn't been updated in a number of years. The RP-2000 table is what corporate plans have been required to use for a number of years. He updated the mortality rates. As you can see from the line, which is the purple, the municipal obligation, the valuation itself caused the MMO to increase by about $54,000.00. They increased the mortality rate and that's another $14,000.00. The blue and green pieces are the member and state contributions and they stay level so any increases here need to be funded by the Township. The next step was to say that a pay increase of 5.5% seems pretty high considering that there's a lot of pay freezes going around. When we talk about salary scale, we talk about total pay. If you have 3% built in to your contract, between promotions and longevity, it might be 4.5%. They took the 5.5%, which seemed in this economy to be a little bit high. We knocked it down a full percent to 4.5%. That takes the contributions down by a good $30,000.00, actually below where we would be if we hadn't changed anything. The next step was to look at the interest rate. The investment advisors recommended 7% to 8% and it seemed to be a reasonable range two, three, four years ago. Then maybe 6.5% or 7.5% is a more reasonable long term rate. He took the interest rate down to 7%. Why that costs you money is the less you make on the fund, the more you have to contribute. It has a great compounding period over a long period of time. The municipal obligation goes way up to over $180,000.00. That's almost a $50,000.00 a year increase. The next step was to say if we knock down the salary scale another ½%, what would that do to the cost. You can see the salary scale has an impact, but it's not as big as the interest rate. Now we're at a spot where we're 1.5% lower on the salary scale, from 5.5% to 4%, and we go from 7.50% on the interest rate and that's actually a net gain and you are down to $165,000.00 compared to the third column which is $161,000.00. We brought the salary scale down 1.5% and offset the ½% interest rate drop. Then they took another ½% interest drop and that's going to be another $50,000.00 a year in contribution, and then they took one last look and said what if they brought the interest rate down and the salary scale down both by a percent. They end up with a net municipal obligation of about $232,000.00. Where we are sitting at the end of this line, we are basically going from $147,000.00 to $232,000.00. It puts us on a more conservative side. That means if the market doesn't perform as well, our losses won't be as big. If you turn to the same page for the non-uniform, you are basically looking at the same numbers on a smaller scale. The MMO's stayed about the same. If we go to the end where we're updating the mortality, and dropping the salary scale, that takes you from about $30,000.00 to $58,000.00. The impact isn't as great on the non-uniform plan simply because it's a small plan, small assets, smaller benefits, and smaller payroll. He didn't do the 2012 MMO's as there wasn't that big of a difference. Priscilla said it would have been nice to see it. Chuck said the MMO's are based on payroll. This is based on 2010 payroll. 2012 was based on estimated 2011. Priscilla said these are the kind of things we need to have on paper so we remember. We need a summary. She's asking Chuck to do that so we understand what's going on. Chuck said the reason he didn't do it as it doesn't make that much of a difference. In the scheme of things, the last column, those are going to be our actual assumptions and what we're going to base the MMO's on. Jack said the first assumption is the mortality table, do we all agree it should be updated? Chuck said the GA mortality table has been in effect since the 80's. On the Federal side, the government is more stringent in the assumptions you use. They also dictate interest rates. Those are temporary rates and are going to come up. The GA-2000 table has been mandatory for five or six years. They update the table every year. People are living longer now-a-days. Jack said you are recommending the new mortality rate. Then go into the other assumptions. Chuck said you have to look at the mortality table and interest rates together. The 7.5% and 5.5% current assumptions seem somewhat high in today's world. We're looking 40-50 years down the road. We're not looking at the next five years. Right now if you are lucky, you are making 4% off of bonds. Let's say you can make 4% off of bonds, which gives you 2%. That means if the equities make 10%, they are only getting 5% out of that, now you're at 7%. The 7.5% does seem a little high in today's circumstances. This is one of the things that we updated the mortality several years ago. He's going to review these things every couple of years. This is a very long term process. You have officers who are in their 20's. They are going to be collecting benefits 50 to 60 years from now. Priscilla said she hasn't looked at the position classification chart in awhile, but you say that you are using this higher 4.50%, in order for an employee to be promoted, you go into another spot. It's not like you are expanding that position. You are jumping into another spot, so that spot already existed. There were two positions. The one the person was in and then the one that got promoted to. When you say realistically, 4% is a lot of money for an increase in today's world, it's not happening. To increase it by a ½% or a percent, to her is still not realistically because that position isn't being increased. It's too high. We only hire so many people. Chuck said let's say the Chief were to retire. A lieutenant might get promoted to be the Chief. We'd assume his pay would go up 4%. If you look back, he probably got a 5% or 5-1/2%. Then there's the regular officer who may move into the lieutenant's position. When somebody retires and somebody gets promoted to his position, that person's projected liabilities are a lot higher than we thought they'd be before the promotion. Priscilla said whoever replaces the Chief isn't going to make the exact amount of money the Chief made. Chuck said he's going to make a lot more than he was making over his entire career. If we were doing an open group projection, where we say here's our force of x number of officers and we are going to keep that force and grow it by 5% per year. We did a projection when everybody comes out, somebody is replaced, he would see your point. These are closed group projections. We can't value people who aren't hired for these evaluations. Chris Leidy said since the Chief is retiring, he's collecting from the pension and we are putting an additional employee, regardless of his position, into the police department, so we have additional liability. Is that what you are trying to say? Chuck said let's use this example. The Chief is making $90,000.00; the lieutenant is making $70,000.00, officers make $50,000.00. We funded the pension for someone making $90,000.00 a year. He's left and he got that pension. Now we are still going to have a guy making $50,000.00, a guy making $70,000.00 and a guy making $90,000.00. The guy making $50,000.00 wasn't there before. We have to fund his pension. Priscilla said that's where she disagrees with you. We had only so many people we can hire. He can't keep hiring people. Jack said if an officer moves out of the uniform rank into the command, and becomes a sergeant, he gets replaced, that's what he's talking about. Cathy said he's taking a whole list of people who are retired and still working. Chuck said we're paying a pension based on $90,000.00 a year, now we have to fund a second pension for somebody making $90,000.00. Now we have two of them. We didn't get rid of the $70,000.00 pension, we didn't get rid of the $50,000.00 person. Molly said if every person is in an account, you are adding another account into the pension, it's never being closed.

Jack asked Chuck and Cathy to make a recommendation to the committee on what they feel the assumptions should be changed to? Cathy said whatever we assume interest rate wise should be consistent and the lesser impact financially for the Township, would be to change the mortality table and go 7% and 4% from what it is now, 7.50% and 5.50%. It would be $264,926.00 for the uniform and

$91,444.00 for the non-uniform, which would increase our MMO's. Priscilla said she'd rather have them increased now than have them way increased later. Jack said they will revise the sheets Cathy mentioned. If you had recommended changing the assumptions to 7% and 4%, they will revise the MMO of which Council will have next week. Priscilla said the column that Cathy has recommended, Total Financial Requirement with the new valuation, would that change the number? Chuck said if they use the 4% and 7%, for the police, the MMO would be about $277,000.00. We're in the same ballpark. Priscilla said next year at this time, we should do the same. Cathy said you can't change valuations every year. It's not recommended. This is long term planning. Changing your assumptions you should never do every year. Chuck said you don't know what's going to change in the economy in two years. Cathy said changing the mortality table to the 2000 rate, using the 7% interest rate and 4% payroll increases assumed, and using the 2011 valuation numbers, we're looking at an MMO for 2012 for the uniformed plan of $256,470.00 and the non-uniform would be $86,983.00. State aid is $150,000.00. We're looking at for both plans next year, the municipality would have to kick in about $190,000.00.

Jack said would you then take these MMO's and revise the numbers at the bottom. For the police, what is the new number at the bottom? Cathy said $256,470.00. Jack said what's the number at the bottom for the non-uniform? Cathy said $86,983.00. Jack said that's what they would be giving to Council next week. Cathy said we would need Council to approve the assumption changes and then approve the MMO. Priscilla said the mortality was RP-2000 and the 7% and the 4%. Molly said she thinks the 6.5% an 4% more realistically? That one seems like the better one as it's in the middle and it's more realistic. They aren't going to hit 7% interest rates in the near future. Chuck said this isn't for the near future. Molly said if interest rates go up and they are still here, then they are better off. Cathy said the assumptions are for long term. Chris said he's all about being conservative, but we don't need to be to the extreme. If you are talking about a $200,000.00 difference that you are going to have to fund, it's either we're paying for it or the taxpayers are paying for it. He's a taxpayer in the Township, so he'll be paying for it also. Jack said the adjustment they are recommending is good and it is needed, but we don't have to go that far, that fast. Chuck said if we went with 6.5% and 4%, we're looking at $107,955.00 for the non-uniform and $307,813.00 for the police, which is over $400,000.00. Priscilla said that scares her and if we don't use that number, then in future years we have to pay more and where are we going to get the money? Chris said he agrees with that, but where do you balance that. Priscilla said that's always been her dilemma. You do the budget and Cathy always has to pull that money out from the general fund. Then other places we can't spend it. Jack said the 7.5% we've been using the past 5 to 7 years. Chuck said he's not uncomfortable with using 6.50% and getting there in a couple of stages. Jack said they are recommending going to 7%, so you go down ½%. What Chuck is saying is that we can look at it again next year and the next year, and at some point, we may want to go down to the 6.5%. He's recommending we do it right now. Chuck said he'd be a little more comfortable with 4.5% rather than 4%. There is 3.5% in the contract. He's not seeing a lot of contracts that are as high as 3.5%. If that number comes out to 2.5% or 3%, then the 4% will feel a little better. This is a different political environment than when you negotiated your last contract. Two, three contracts ago after 9-1-1, policemen were getting higher benefits from the State, you had a better political case. Now it's a lot different.

Jack said the Committee's recommendation is to go with 7% and the 4%, and change the mortality table to the RP-2000. He said they will put that recommendation together and bring it up at the Council meeting. Priscilla said she will ask Cathy and Jack to put together a little synopsis to explain this.

4. **<u>Financial Reports</u>** – Cathy said the financial reports are presented each quarter to show that the funds are getting reimbursed the administrative fees charged by PSAB.

5. **<u>COLA Increases – R. Jacoby – November 2011</u>** – Cathy said they are just updating everyone on a COLA increase for R. Jacoby. His cost of living increase as of November 1, 2011 is 4.1% and will be at 6% at that point. We go by their anniversary date and the consumer price index table.

6. **Non-Uniform Retirement Notice – M. Hirner** – Cathy said Michele Hirner will be retiring on Tuesday, September 21, 2011. She's been employed 21 years at the Township. Jack said she's been a member of this committee for a long time. He thanked her for her participation and contributions at these meetings. She's been very helpful. There is an alternative, Molly Bender, who will keep coming to the meetings. Everyone wished Michele well in her retirement.

7. **Act 44 Disclosure Notices** – Cathy said she sent out the Act 44 disclosure notices to all professional service people who work for the plans and they need to disclose any financial information. They send it to any of our solicitor's who may have an impact on our pension plan and our PASB as our administrator and Municipal Finance partners for the actuary.

8. **Settlement Filings -** None

9. **Approval of June 8, 2011 Meeting Minutes** – The Committee approved the June 8, 2011 meeting minutes. Jack said they will be posted on the Township website.

10. **Set Date for Next Meeting – December 14th at 11:00 AM**

Mary asked if Michele will be recognized by Council. Jack said he prepared a resolution and they will present it at the September 22, 2011 Council meeting.

11. **Adjournment** – The time was 12:46 PM.