

**Lower Saucon Township
Pension Advisory Committee Meeting
December 16, 2009
Minutes**

Roll Call:

Present: Molly Bender, Michele Hirner, Priscilla deLeon, Council Liaison; Mary Curtin, Jack Cahalan, Township Manager; Cathy Gorman, Director of Finance; Chris Cap from PSAB Municipal Retirement Trust; and Chuck Friedlander from Municipal Finance Partners. The time was 11:05 AM.

1. **Fran Labuda** - Jack said the first item is the passing of Fran LaBuda. He was a long-time member of the Pension Advisory Committee and also was on the Township Planning Commission. He was a valued member of this body and will be missed. They will advertise for a replacement.
2. **MRT Report – Chris Cap** - Chris had a handout for the committee. He was upset by Fran's passing and said Fran always asked good questions. He said this is the best report coming since you hired them. You are up 18.4% right now, which is just tremendous. The market rebounded soundly this year. They made a couple changes at their trustee meeting last week. They interviewed some new investment managers. The net asset statement is pretty clear cut. The state aid has been positive. Your total receipts are \$249,440.45. This is through November 30, 2009. Your net assets for Non-Uniformed is \$1,049,711.89. The police plan, more the same. The state aid has been positive. Your employer contributions have been positive. Total receipts are \$741,523.44. The assets at the end of the period are \$3,708,533.46. Overall, that's some significant growth and a rebound from 2008. It's a lot more pleasurable for him to go out and do these presentations when you are up. Mary said what are we paying the retired police officer? Chris said \$124,850.57 through November 30, 2009. He thinks there are three officers on your pension payroll right now, monthly.

Chris said with Chase, the trustees elected to terminate them. They had them almost seven years. Chase was one of the better managers they had. They are down behind their index. They are just concerned about the management. Overall, they performed well over the years. 2007 was not a good year for them. They elected to move on and initiated a search. They interviewed two firms last week. They made a decision last week to hire Atalanta Sosnoff. They elected to deposit \$10 million with them, so all the Chase holdings would go in there and that would be the new Large Cap growth manager. They are impressed with their style. They are based in Manhattan. They should have a full transition with them next week. That's the only major change. Aletheia has really been one of the darlings for this year. It has a significant index. Neuberger Select, for a large cap core, it's been a give and take during the course of the year. NWQ, Large Cap Value, more of the same, a little behind in their index, but giving back a lot of the earnings they had in the beginning of the year. CS McKee out of Pittsburgh has always been a stellar performer for us. Wedge Capital, our Mid Cap Value is right there neck and neck with its index. The NWQ Mid/Small Cap Value was up significantly about 27 points above its index. The international sector has been a solid one. Last year you didn't want to be international and we terminated one international manager because the index was down about 45.2%, but a lot of those losses are really coming back this year and if you look at international, that's really where it is. NWQ is really carrying a significant load for us. Another switch we made last month, we added the Wedge Short Term for securities. The duration on those bonds are usually up to 24 months. There's a lot of concern about inflation, so they elected to make some changes and add another sector. Wedge has been our manager for so many years. We thought in the future if interest rates begin to go up, perhaps we could shift the greater portion of our Core Bond fund, which is about \$50 million in there now, we could divert some of that money to the short term if the economy changes significantly. With that total balanced is 18.86%. The Endowment fund of the Alternative Investments continues to buy commodities and there are precious metals in there. There is a one month lag in the way they report the Endowment Fund. That's why they are closer to your index right now. The Money Market Distribution maintains some cash. Total year-to-date is 18.40%. Our fixed account is up 8.74%. There are about 30 of the 214 municipal plans that have no disclosure stocks whatsoever. If you went 100% bonds this

year, you are still up 8.74%, so that gives an idea we're not sure how sustainable that's going to be next year. It is a pleasant surprise on how well the bond markets did. Mary asked about the Money Market Distribution. Chris said it's pretty impressive at 1.91%. He saw yesterday, at Charles Schwab, their reported earnings; they lost \$112 billion on essentially leaving the money market fee off their plan. If they put that fee in, a lot of those money markets will show negative. That's how tight those money market savings accounts are. The margins are so low. At our recommended weight, we are looking, going into next year to rebound and are going to be closer to about a 55% - 57% in total equity. This picture here reflects a total equity of about 50%, current weight 50.9%. Fixed income is 40.1%, cash is significant as we are moving money around; alternative investments at 4.6% for a total of 100%. They could have very easily in the middle of the year converted to 60% to 65% holding stocks. They are still very cautious. Our first meeting next year, he'd like to bring in Peter or Bill Bender to give you more economic data and to review the final results. They are looking at about a 55% allocation at the start of next year. They don't want to be overly aggressive because we've heard so much about this housing bubble. That's a major concern for them. Right now, they are closer to 20%. They'd like to hit that threshold for 2009.

Chris said the next page is the pie charts. That really pretty much tells the story. Around this time last year, it wasn't a pleasure to come out to the municipalities. They are still cautious. They've got a lot of economic analysis from Merrill Lynch. The Board of Directors and Trustees have a conference call every month. They've been doing their due diligence. Their next formal meeting will be April 26, 2010 in Pittsburgh. Other than that, there are no changes in personnel. They are about \$150 million right now. Atlanta Sosnoff, they just reached an agreement with them. It just goes to show you how times have changed. You look at Chase, who they just terminated, a lot of people lost confidence in that firm. It's just a different environment compared to two or three years ago.

Chuck said in the beginning of 2009, it was a bad picture. Now they are at the point where the next valuation isn't until 2011. Chuck asked Chris what are they are looking for next year in terms of the market? Chris said there are just too many questions. They've always said you win and lose the game based upon how you allocate your funds. It depends on whether you hire a top notch manager or an average manager and how they allocate the funds. They could have easily been up 33% this year if they had been a little more reckless and went towards stocks. Next year, barring anything catastrophic, he doesn't see why they couldn't meet the assumption rate. Chuck said they deferred some of the losses, but we'll pick up some of the losses. If you are bumping up the equity, there must be some optimism. Chris said they are anticipating they are not going to get 8.75% out of their bond portfolio next year, that's why they switched to the shorter duration. In previous years, they have five to seven years on the bond maturity, now they are going to shorter maturity periods so they can be more reactive to the environment. Chuck said they are bumping up the equity. Chris said yes. It's difficult for him when he goes out to a municipality as they have some who are jumping for joy as they were 100% bonds and that was the only sector of the investments that were positive. Looking at that, they have 32 municipalities that are in the fixed account. A lot of people think that just because you are in bonds, you are going to have a positive return regularly. Granted, since the start of that bond back in 1972, they never lost anything in a twelve month period in their bond portfolio. However, it is conceivable now that bonds and treasuries could have a negative yield. Chuck said if interest rates kick up, bond values drop.

Chris said the handout on the General Ledger, he will not go through. It just gives you the exact accounting to reconcile your account.

Mary said the people who Chris meets with, are they in favor of the Federal Reserve Chief keeping his job? Chris said everyone likes the status quo. No one likes change. They very seldom express their opinion on that. Generally, they liked the status quo. Mary said this looks good for right now.

3. **G. Sfreda – No COLA Increase** - Cathy said based on information from Chuck, there was no increase in the Social Security CPI-W index between 2008 and 2009. Based on this, Gregory Sfreda, who is the

next retiree due for an increase on January 1st, has been notified that there will be COLA increase in his pension. Chuck said he recommended that we make all the COLA increases effective on January 1st as it's more efficient as he has to do this several times a year. Jack said that this Committee rejected that and will stay with the COLAs being effective on the retiree's retirement dates.

4. **R. Jones Retirement – 1/2010** – Cathy said Officer Ron Jones will be retiring in January 2010.
5. **Killed in Service – Act 51 of 2009** – Cathy said this is insurance purchased by the Township to fund the uniformed plan in the event of an officer killed in service. Act 51 provides that the State will provide for pension funding payouts if an officer is killed in service. Chuck said the state payment is offset by anything paid by the pension or workers comp. If it were to be paid out of the plan, then the state wouldn't do anything. Before Act 51, they would get 100% paid from the pension plan and another 66% from workers comp. The state benefit is offset by workers comp, so they would only get 100% pay, not 166%. The other difference is the state includes a cost-of-living increase. Jack said they will be providing the Police Association with the proposed language change to the pension ordinance for their review before it is approved by the Council.
6. **Financial Reports** – Cathy said this shows how much the Township has reimbursed or paid in as required by the MMO to date. In the Non-Uniformed Plan - Administrative Fees & MMO/Settlements, the total for 2009 is \$102,653.01. The MMO amount for this plan for the Township is \$32,554.73 and MMO – State Aid is \$62,560.27. For the Uniformed Plan - Administrative Fees & MMO/Settlements, the total for 2009 is \$187,065.10. The MMO for this plan for the Township is \$74,608.62 and for MMO – State Aid is \$87,584.62.
7. **Pension Recovery Legislation** – Cathy said this is the pension recovery legislation. Chuck said the State Legislature passed something called Act 44, which was adopted to kind of relieve some of the burden on the plan contributions due to the market downs. Among the things that were included were potentially longer amortization periods. When they smooth assets the limit is to 20% above the market value. Other provisions, depending on your funding status, would have allowed you to defer 25% of the amortization portion to future years. He ran the calculations to see what sort of relief this would mean to the Township plans in 2011 and later budgets and it was decided that we were not going to use those remedies to push the burden off any more in the future. Act 44 doesn't really affect Counties. Counties are subject to Act 205 funding. They can amortize or do whatever they want. The only thing that binds them are GASB (Government Accounting Standards). What was put in Act 44 was to tell these people to go back to their actuaries and say: start thinking. Most of the counties use one actuary who does this actuarial smoothing based on cost values. What happened in 2008 is market values went down. Cost values - not so much as the market - went down at the end of the year. As 2009 progresses and people and assets turn over, you start recognizing some of the unrecognized losses. You realize the losses by selling the stuff that went down. For example, Montgomery County, they weren't contributing, they got hit with a \$10.5 million contribution for 2009. 2010 would presumably be better because the market is recovering. They are getting hit with \$22 million because they are doing something silly. The smoothing isn't working so they put provisions in this law to basically urge people at the Counties to go back to their actuaries and say shouldn't we be thinking of something better, of something different. You don't need that because you have an actuary who brings you the information ahead of time. The more you smooth, the more you are betting on a smooth market. Priscilla said that's why she likes all the facts in the budget; before they were just line items. Chuck said it's all about getting information to the decision makers.
8. **Act 205 Valuation/2010 – MMO** – Cathy said we budgeted the amount recommended by the Committee and it is scheduled to be approved tonight in the final budget. The MMO amount was based on the most current Act 205 valuation that was provided by our Actuary.
9. **Settlement Filings** - Cathy said we have not received any settlements.

10. **Approval of September 9, 2009 Minutes** - Jack asked if there were any corrections or additions? No one had any corrections or additions.

Michele asked if someone could explain the death benefit for the non-uniformed pension. What would happen to her pension if she would die, would her spouse get it, whether she's employed or retired? She read someone her husband could only get \$5,000. Cathy said he would get \$5,000. She's not sure about the contributions. She will check the language.

Molly asked what is the interest? Chuck said it's generally around 5%. Michele said they need to know about the death penalty before they retire. Jack said they will get that information back to the members.

Jack advised that a page on the Township website was added called Pension Advisory Committee and they have all the minutes of these meetings there. They will get the September 9th minutes on there as they are approved. Chris said your website is just great and is one of the better websites in the State. Your website is so comprehensive. He can just look on the website and doesn't even have to go to a meeting as he can just go and check out the minutes. If you live in this Township, you are fortunate. If you compare your website to other websites around the state; your website is just so far ahead. Priscilla said she only has issues with current events on the website.

11. **Next Meeting Date:** Wednesday, March 10, 2010 at 11:00 AM.

Mary said she was really surprised about the email about Fran LaBuda. She was really, really sad about that. He was a very active man in the community. He really committed himself.

12. **Adjournment** - Meeting adjourned. The time was 12:03 PM