

**TOWN OF SOUTH WINDSOR
PENSION COMMITTEE
MINUTES
January 28, 2020**

1. Call Meeting to Order

The meeting was called to order at 8:31 a.m.

Members Present: Chris Chemerka, Board of Education; Scott Custer, Chief of Police; MJ Hockenberry, Town Council; Patricia Lewis, Assistant Director of Finance; Michael Maniscalco, Town Manager; Andrew Paterna, Mayor; Patricia Perry, Director of Finance

Members Absent: Audrey Delnicki, Town Council; James O'Brien, Board of Education

Also Present: Anthony Tranghese, Fiduciary Investment Advisors, LLC; Michelle Boyles, Milliman; Dr. Kate Carter, Superintendent, Board of Education

2. Approval of Minutes

Ms. Chris Chemerka moved to approve the minutes of October 28, 2019. Chief Scott Custer seconded the motion, and it was approved unanimously.

3. Discussion Items

At the suggestion of Mr. Anthony Tranghese, the Committee agreed to switch the order of discussion items, as it was more expedient to hear the report from Milliman first.

B. Pension Valuations – Milliman

Ms. Michelle Boyles of Milliman reported on the pension valuations for the Board of Education (BOE) and the Town as of July 1st, 2019. She referred to **Attachment A-1 and A-2** (BOE Actuarial Valuation and Town Actuarial Valuation, respectively). Both the BOE and Town pension populations remain relatively stable. Funding is on track, at about 80% funded for the BOE and nearly 70% funded for the Town.

Ms. Boyles informed the Committee that some assumption changes may have to be made. There is a new mortality study put out by the Society of Actuaries. It was the first study made of only public plan members. Three tables were put out: general employees, public safety employees, and teachers. The study found that, in general, public plan members live longer than previous mortality tables predicted. With new technological and medical advancements coming each year, life expectancy is increasing. Milliman recommends moving to the new mortality table, as it is in use by most other actuaries and it would be hard to defend not using it. It will not have a significant impact on the plan other than slightly increasing contributions.

Ms. Chris Chemerka made the motion to move the Town and Board of Education's actuarial review to include the new mortality tables, as well as change the discount rate to 6.5, to take effect for the July 1, 2020 valuation. Chief Scott Custer seconded, and the motion was approved unanimously.

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A. Update – Fiduciary Investment Advisors, LLC (FIA)

Mr. Anthony Tranghese of Fiduciary Investment Advisors, LLC (FIA) informed the Committee that FIA is merging with DiMeo Schneider, a firm based in the Midwest (**Attachment B, FIA Business Update**). The two firms have worked closely together in the past and have similar business models. They are merging in order to provide better support to their clients. This merger should not affect the service that FIA provides. Mr. Tranghese would continue to be the representative to the Town and BOE. The only change would be to move the contracts to the new association.

Mayor Andrew Paterna made the motion to move the BOE and Town contracts to the merger of Fiduciary Investment Advisors, LLC and DiMeo Scheider. Ms. Patricia Perry seconded the motion, and it was approved unanimously.

Mr. Tranghese summarized the Quarterly Investment Review for Fourth Quarter 2019 (**Attachment C**). The custodian change from Wells-Fargo to Principal is in process. There are no changes to the Town and BOE contracts other than the firm that is in custody of them. There have been some fluctuations in the market, but the portfolio continues to work favorably. There are two managers on watch status, Glenmede (small/mid cap manager) and Vanguard International (international small-cap manager). Both are on watch for a combination of underperformance and changes in the portfolio management team. Fixed-income collection was up 8.6%. In domestic equities, the portfolio was up 29.3%, slightly behind the index of 31%. Non-US managers had a very strong performance, up 26% with index at 21%. There are no recommendations for manager or allocation changes at this time. (**Attachment D, Asset Allocation 1/24/20**)

Next the Committee reviewed the Target Asset Allocation Table for October 2019 and January 2020 (**Attachment E**). The first page shows the current (as of this meeting) investment policy. This is the standard asset allocation table. The middle column, “target weight” shows the allocations that were agreed on at the previous meeting. It was agreed that the Committee would review the ranges around it at the current meeting. If the weight strays too far from the target, the portfolio must be adjusted. The proposed changes on the second page would equalize the difference between minimum weight and maximum weight to minimize transactions.

Chief Scott Custer made the motion to adopt the Target Asset Allocation Table with proposed changes for January 2020. Ms. Patricia Perry seconded, and the motion was approved unanimously.

4. Miscellaneous

None.

5. Schedule the Next Meeting

The next meeting of the Pension Committee was scheduled for Wednesday, April 29, 2020 at 8:30 am in the Madden Room.

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6. Adjournment

Mayor Andrew Paterna made the motion to adjourn. Chief Custer seconded, and the motion was approved unanimously. The meeting adjourned at 9:28 am.

Respectfully submitted,

Samara Haddock
Recording Secretary

Attachments:

- A) 1. Board of Education Actuarial Valuation 7/1/2019
2. Town of South Windsor Actuarial Valuation 7/1/2019
- B) Fiduciary Investment Advisors Business Update. May be reviewed upon request in the Town Clerk's Office.
- C) Quarterly Investment Review – Fourth Quarter 2019, prepared by Fiduciary Investment Advisors, LLC. May be reviewed upon request in the Town Clerk's Office.
- D) Asset Allocation 1/24/2020
- E) Target Asset Allocation Tables

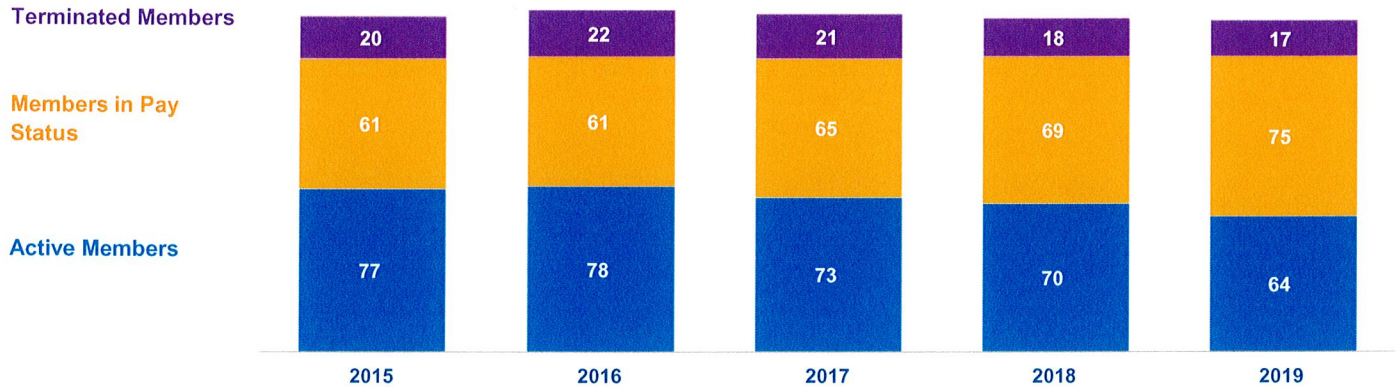
Retirement Plan for Employees of the Town of South Windsor - Board of Education

Highlights of the July 1, 2019 Valuation

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Membership

Member Count



Active Members on July 1, 2019

Count	64
Average Age	54.7
Average Service	15.6
Total Payroll	\$3,779,805
Average Payroll	59,059

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
< 25								0
25-29								0
30-34								0
35-39			1					1
40-44	2		2	1				5
45-49	1	2	2					5
50-54	1	5	6	2	3	1		18
55-59	5	4	6	5	1			21
60-64	1	2	3	2	3			11
65+				1			2	3
Total	10	13	20	11	7	1	2	64

Members in Pay Status on July 1, 2019

	Service Retirees	Disabled Retirees	Beneficiaries
Count	70	0	5
Average Age	72.0	0	72.8
Total Annual Benefit	\$894,985	\$0	\$41,122
Average Annual Benefit	12,786	0	8,224

Retirement Plan for Employees of the Town of South Windsor - Board of Education

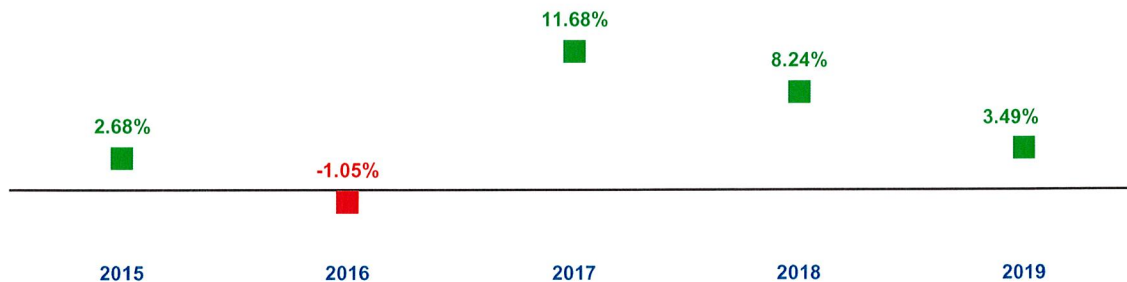
Highlights of the July 1, 2019 Valuation

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Assets

2018-19 saw a year of moderate market performance following the last two years' strong performance, with a rate of return of 3.49% on a Market Value basis. The chart below illustrates the fluctuations in the plan's investment returns.

Returns

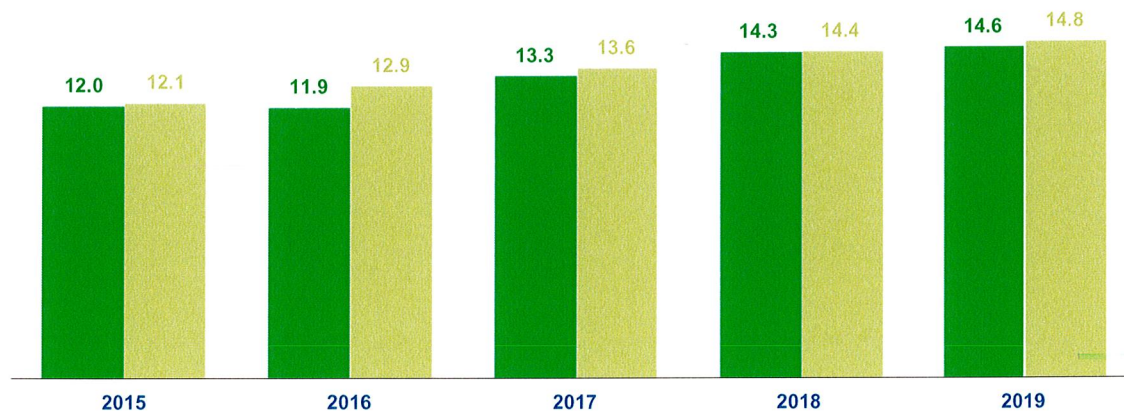


In order to dampen the volatility of the market and prevent large swings in the Town's contribution, we smooth investment gains or losses over five years. The resulting Actuarial Value of Assets is shown alongside the Market Value of Assets in the chart below.

Balances (\$ millions)

Market value

Actuarial value



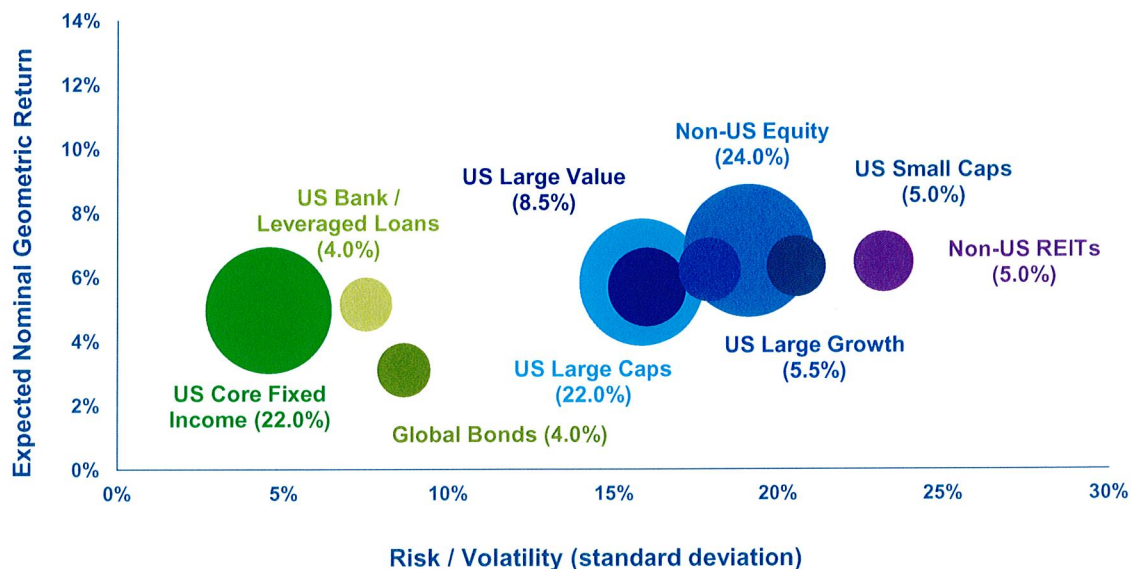
Retirement Plan for Employees of the Town of South Windsor - Board of Education Highlights of the July 1, 2019 Valuation

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Interest Rate Assumption

The interest rate assumption is based on the expected long-term return of the plan's investments. Using Milliman's June 30, 2018 Capital Market Assumptions, the target asset allocation has the following risk / return dimensions:

Asset Allocation



In any given year, the plan's investment return can range from very high to very low. As we look at longer and longer periods, the high and low years balance out and the annualized return should converge to the 50th percentile, or median. Using Milliman's June 30, 2018 Capital Market Assumptions, the expected long-term annualized median return of the portfolio, without reflecting a margin for manager alpha, is 6.3%.

Distribution of Expected Nominal Returns Over Time Without Margin for Manager Alpha

Time Horizon	5 years	10 years	20 years	30 years	40 years	50 years	75 years
95th percentile	14.74%	12.32%	10.60%	9.83%	9.38%	9.06%	8.57%
75th percentile	9.24%	8.50%	7.93%	7.67%	7.50%	7.39%	7.21%
50th percentile	5.58%	5.92%	6.11%	6.19%	6.22%	6.25%	6.28%
25th percentile	2.04%	3.40%	4.33%	4.73%	4.96%	5.11%	5.35%
5th percentile	-2.85%	-0.11%	1.81%	2.66%	3.16%	3.50%	4.03%

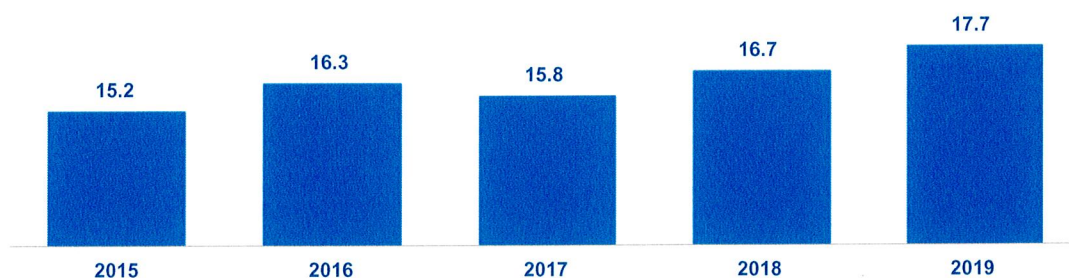
Retirement Plan for Employees of the Town of South Windsor - Board of Education Highlights of the July 1, 2019 Valuation

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Funded Status

The Accrued Liability grows over time as active members earn additional benefits, and goes down over time as retired members receive benefits. The Unfunded Accrued Liability is the dollar difference between the Accrued Liability and the Actuarial Value of Assets; the Funded Ratio is the ratio of the two.

Accrued Liability (\$ millions)

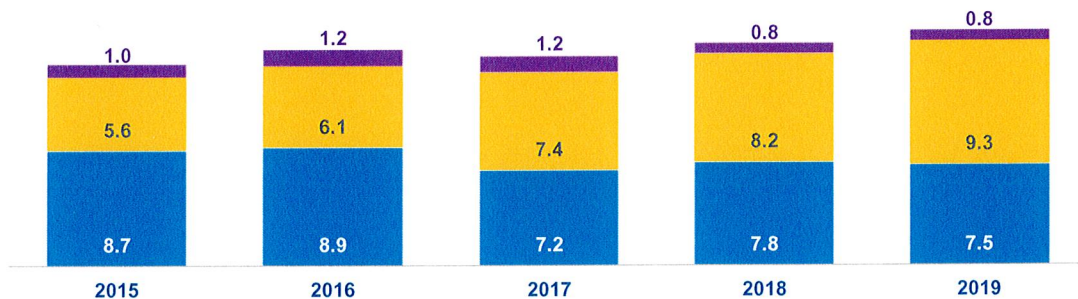


Accrued Liability By Member Group

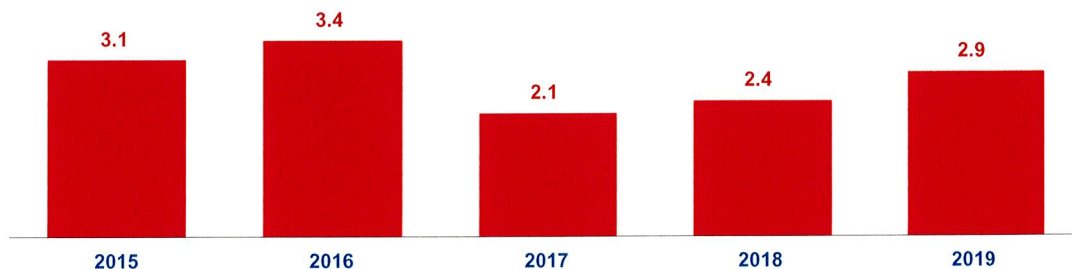
Terminated Members

Members in Pay Status

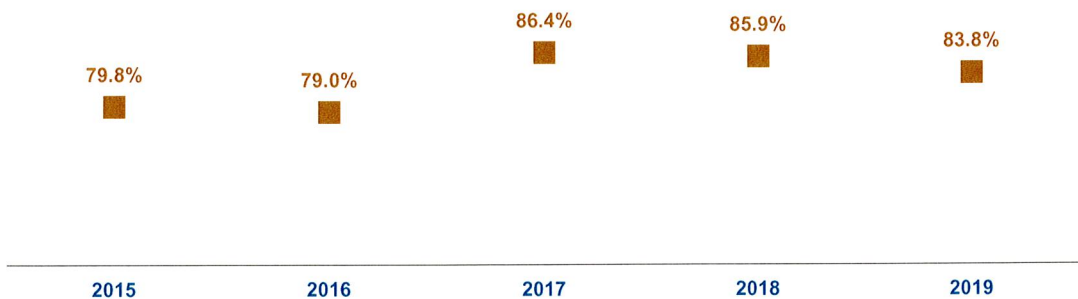
Active Members



Unfunded Accrued Liability (\$ millions)



Funded Ratio



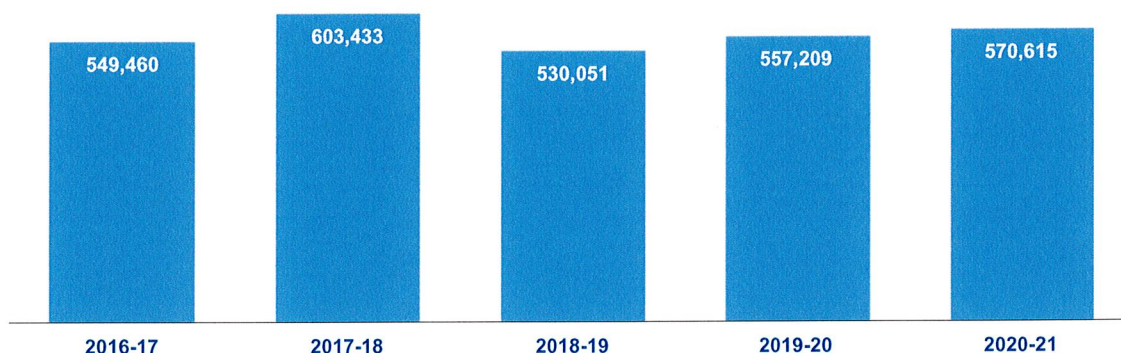
Retirement Plan for Employees of the Town of South Windsor - Board of Education Highlights of the July 1, 2019 Valuation

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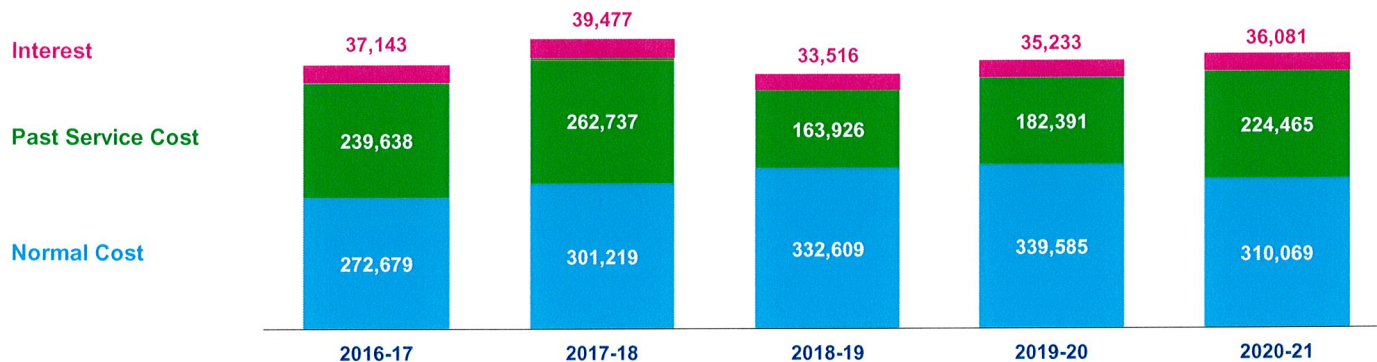
Actuarially Determined Contribution

Each valuation determines the Actuarially Determined Contribution for the fiscal year starting one year later; that is, the July 1, 2019 valuation determines the Actuarially Determined Contribution for FY 2020-21. The Actuarially Determined Contribution consists of three pieces: Normal Cost plus a Past Service Cost payment to gradually eliminate the Unfunded Accrued Liability plus Interest to reflect the timing of the contribution relative to the valuation date.

Actuarially Determined Contribution



Note that the Normal Cost is relatively consistent from year to year, whereas the Past Service Cost tends to be more volatile since it reflects the impact of asset performance.



**Retirement Plan for Employees of the
Town of South Windsor - Board of Education
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Summary of Key Results

	Final	Final	New Mortality	New Mortality and Lower Interest Rate
Valuation Date	July 1, 2018	July 1, 2019	July 1, 2019	July 1, 2019
Interest Rate	6.75%	6.75%	6.75%	6.50%
Mortality	RP-2000	RP-2000	Pub-2010	Pub-2010
Scale	Scale BB	Scale BB	MP Ultimate	MP Ultimate
Accrued Liability	\$16,720,038	\$17,663,897	\$18,040,327	\$18,515,935
Actuarial Value of Assets	14,363,393	14,807,472	14,807,472	14,807,472
Unfunded Accrued Liability	2,356,645	2,856,425	3,232,855	3,708,463
Funded Ratio	85.9%	83.8%	82.1%	80.0%
Amortization Period	26	25	25	25
Amortization Growth Rate	0.00%	0.00%	0.00%	0.00%
Past Service Cost	182,391	224,465	254,046	285,470
Total Normal Cost	466,647	437,107	447,575	470,913
Expected Employee Contributions	178,462	168,638	168,638	168,836
Expected Expenses	51,400	41,600	41,600	41,600
Net Normal Cost	339,585	310,069	320,537	343,677
Interest	35,233	36,081	38,784	40,895
Actuarially Determined Contribution	557,209	570,615	613,367	670,042
For Fiscal Year	2019-20	2020-21	2020-21	2020-21

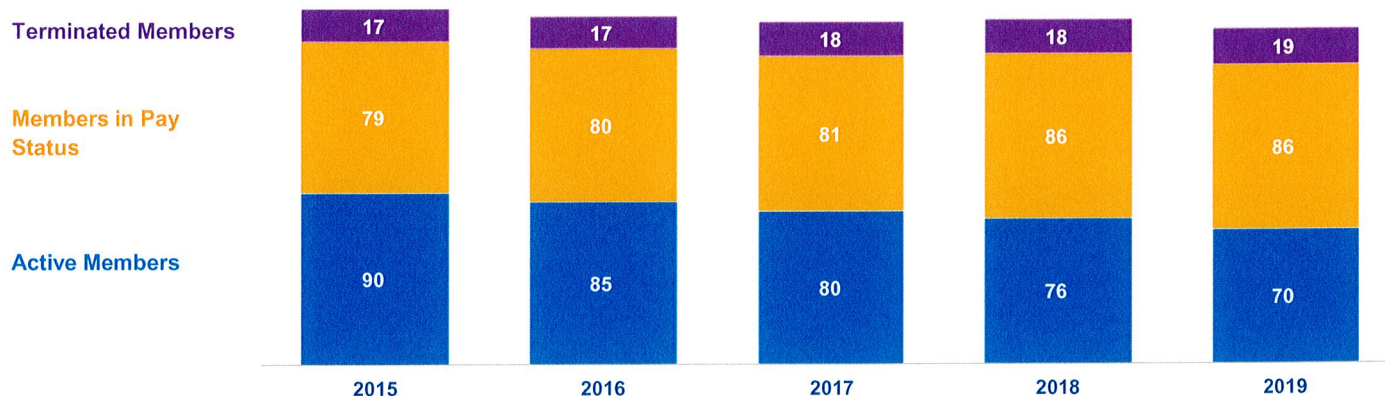
Retirement Plan for Employees of the Town of South Windsor

Highlights of the July 1, 2019 Valuation

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Membership

Member Count



Active Members on July 1, 2019

Count	70
Average Age	53.1
Average Service	19.8
Total Payroll	\$5,078,360
Average Payroll	72,548

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
< 25								0
25-29								0
30-34								0
35-39		1	2					3
40-44	1		4	5	1			11
45-49	1		6	4	2	1		14
50-54			1	5	3	1		10
55-59		1	4	3		3		11
60-64		2	3	4	3		1	14
65+	1		2	2			1	7
Total	3	4	22	23	9	5	2	70

Members in Pay Status on July 1, 2019

	Service Retirees	Disabled Retirees	Beneficiaries
Count	75	-	11
Average Age	69.4	-	78.6
Total Annual Benefit	\$2,054,532	\$0	\$145,557
Average Annual Benefit	27,394	0	13,232

Retirement Plan for Employees of the Town of South Windsor

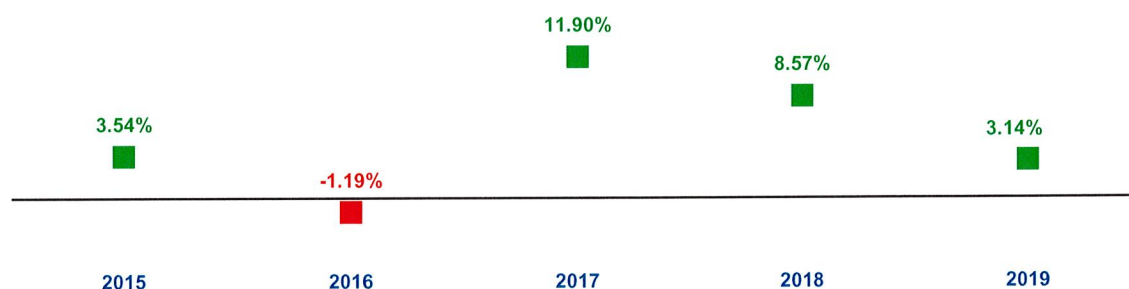
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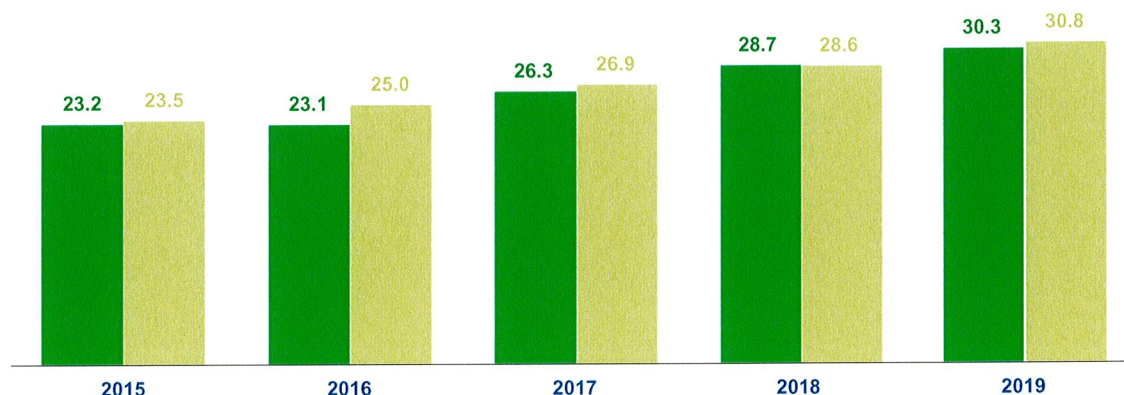


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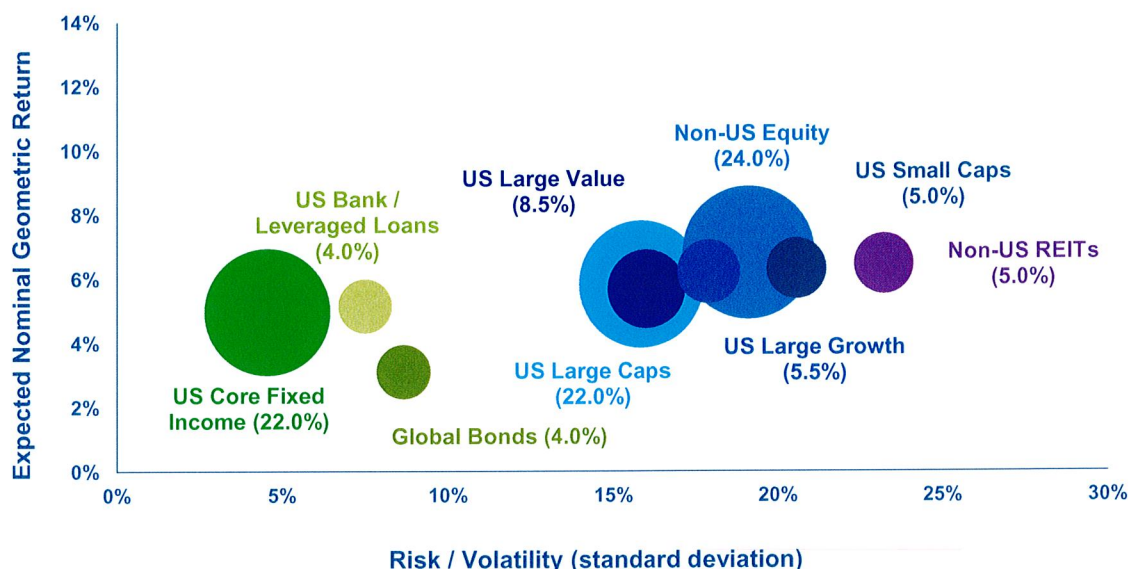
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Asset Allocation



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Distribution of Expected Nominal Returns Over Time Without Margin for Manager Alpha

Time Horizon	5 years	10 years	20 years	30 years	40 years	50 years	75 years
95th percentile	14.74%	12.32%	10.60%	9.83%	9.38%	9.06%	8.57%
75th percentile	9.24%	8.50%	7.93%	7.67%	7.50%	7.39%	7.21%
50th percentile	5.58%	5.92%	6.11%	6.19%	6.22%	6.25%	6.28%
25th percentile	2.04%	3.40%	4.33%	4.73%	4.96%	5.11%	5.35%
5th percentile	-2.85%	-0.11%	1.81%	2.66%	3.16%	3.50%	4.03%

Retirement Plan for Employees of the Town of South Windsor

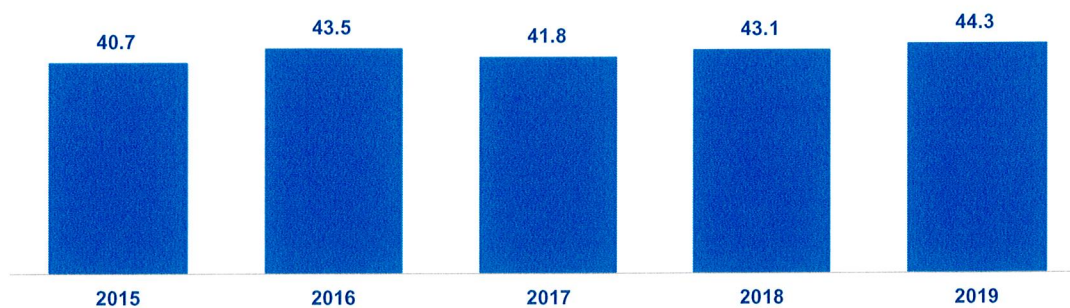
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Accrued Liability (\$ millions)



Accrued Liability By Member Group

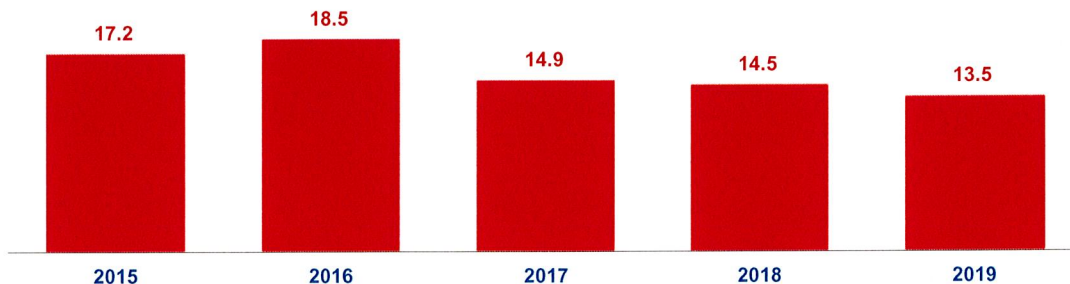
Terminated Members

Members in Pay Status

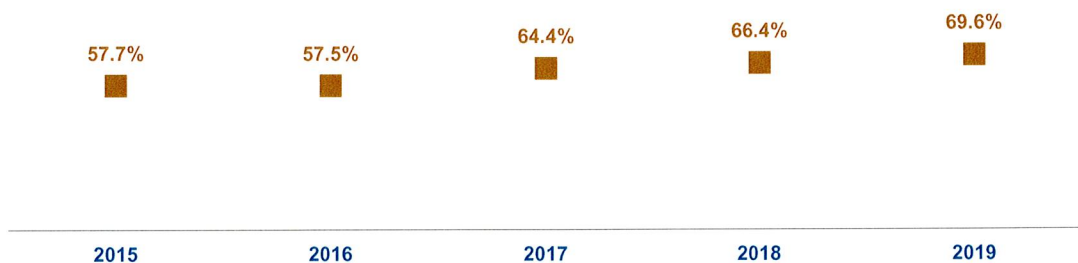
Active Members



Unfunded Accrued Liability (\$ millions)



Funded Ratio



Retirement Plan for Employees of the Town of South Windsor

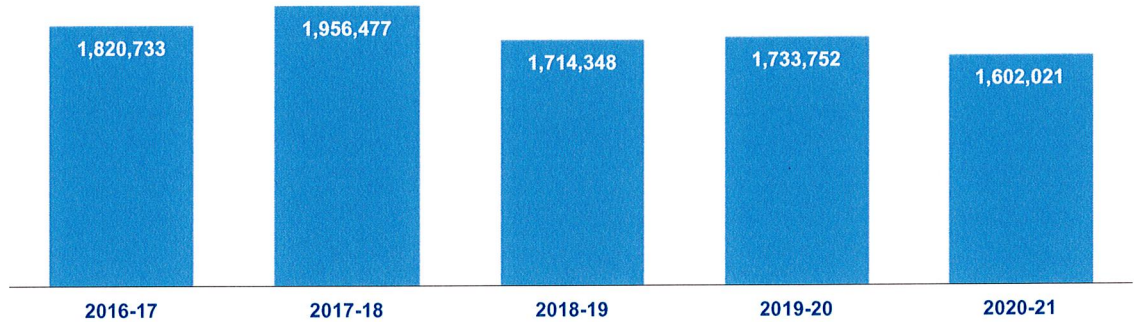
Highlights of the July 1, 2019 Valuation

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Actuarially Determined Contribution

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Actuarially Determined Contribution

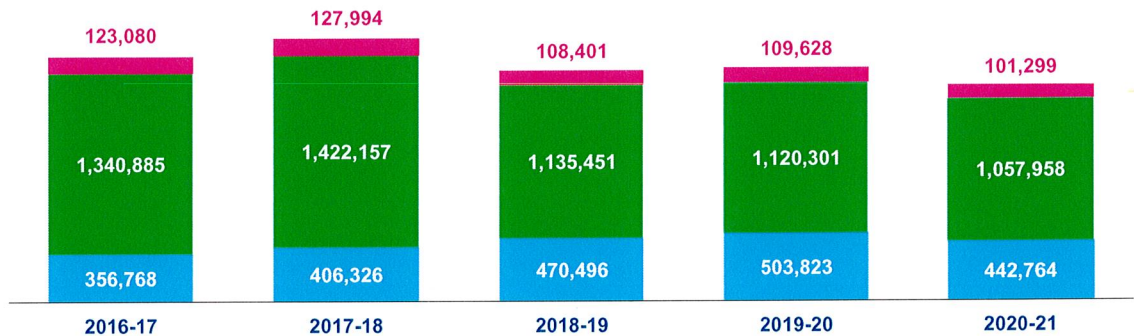


Note that the Normal Cost is relatively consistent from year to year, whereas the Past Service Cost tends to be more volatile since it reflects the impact of asset performance.

Interest

Past Service Cost

Normal Cost



Retirement Plan for Employees of the Town of South Windsor Highlights of the July 1, 2019 Valuation

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Summary of Key Results

	Final	Final	New Mortality	New Mortality and Lower Interest Rate
Valuation Date	July 1, 2018	July 1, 2019	July 1, 2019	July 1, 2019
Interest Rate	6.75%	6.75%	6.75%	6.50%
Mortality	RP-2000	RP-2000	Pub-2010	Pub-2010
Scale	Scale BB	Scale BB	MP Ultimate	MP Ultimate
Accrued Liability	\$43,106,650	\$44,287,242	\$44,897,962	\$46,165,167
Actuarial Value of Assets	28,631,450	30,824,232	30,824,232	30,824,232
Unfunded Accrued Liability	14,475,200	13,463,010	14,073,730	15,340,935
Funded Ratio	66.4%	69.6%	68.7%	66.8%
Amortization Period	26	25	25	25
Amortization Growth Rate	0.00%	0.00%	0.00%	0.00%
Past Service Cost	1,120,301	1,057,958	1,105,950	1,180,913
Total Normal Cost	729,114	674,483	684,426	722,252
Expected Employee Contributions	318,991	289,619	289,619	289,959
Expected Expenses	93,700	57,900	57,900	57,900
Net Normal Cost	503,823	442,764	452,707	490,193
Interest	109,628	101,299	105,209	108,622
Actuarially Determined Contribution	1,733,752	1,602,021	1,663,866	1,779,728
For Fiscal Year	2019-20	2020-21	2020-21	2020-21

Asset Allocation - Town of South Windsor

As of January 24, 2019

Investment	Asset Class	Town Pension Plan		BOE Pension Plan		OPEB Plan		Target (%)	Range
		Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)		
Money Market	Wells Fargo Government Money Market	\$124,905	0.4%	\$306,195	1.9%	\$112,201	0.4%	0.0%	
Fixed Income									
Core Plus	Metropolitan West Total Return Plan	\$5,166,994	16.2%	\$2,545,183	15.9%	\$513,449	16.1%	17.0%	10% - 25%
Flexible Bond	BlackRock Strategic Income Opps K	\$1,503,382	4.7%	\$732,124	4.6%	\$155,223	4.9%	5.0%	0% - 10%
Bank Loan	Eaton Vance Floating Rate Fund I	\$1,205,932	3.8%	\$580,024	3.6%	\$119,319	3.7%	4.0%	0% - 10%
Global Bond	BrandywineGlobal Global Opps Bond IS	\$1,143,852	3.6%	\$581,521	3.6%	\$123,719	3.9%	4.0%	0% - 10%
	Total Fixed Income	\$9,020,160	28.3%	\$4,438,853	27.7%	\$911,710	28.6%	30.0%	27.5% - 45%
Domestic Equity									
Large Blend (Index)	Vanguard Institutional Index	\$7,183,718	22.5%	\$3,573,431	22.3%	\$718,921	22.5%	22.0%	5% - 25%
Large Value	T. Rowe Price Equity Income I	\$2,678,591	8.4%	\$1,335,388	8.3%	\$265,667	8.3%	8.5%	0% - 10%
Large Growth	Harbor Capital Appreciation Ret	\$1,900,042	6.0%	\$961,704	6.0%	\$191,690	6.0%	5.5%	0% - 10%
Small/Mid Blend	Glendmede Small Cap Equity I	\$1,609,628	5.0%	\$806,933	5.0%	\$160,224	5.0%	5.0%	0% - 10%
	Total Domestic Equity	\$13,371,980	41.9%	\$6,677,456	41.6%	\$1,336,502	41.9%	41.0%	30% - 60%
International Equity									
International Value	Dodge & Cox International Stock	\$2,974,485	9.3%	\$1,476,645	9.2%	\$294,787	9.2%	9.5%	5% - 10%
International Growth	Vanguard International Growth Adm	\$3,162,533	9.9%	\$1,552,832	9.7%	\$311,183	9.8%	9.5%	5% - 10%
Small/Mid Blend	Vanguard International Explorer Inv	\$1,646,056	5.2%	\$789,598	4.9%	\$163,231	5.1%	5.0%	0% - 10%
	Total International Equity	\$7,783,074	24.4%	\$3,819,074	23.8%	\$769,201	24.1%	24.0%	15% - 27%
Real Estate									
Global REITs	DFA Global Real Estate Securities I	\$1,629,563	5.1%	\$799,294	5.0%	\$159,247	5.0%	5.0%	0% - 10%
	Total Real Estate	\$1,629,563	5.1%	\$799,294	5.0%	\$159,247	5.0%	5.0%	0% - 10%
Plan Totals - Investments		\$31,929,682	100.0%	\$16,040,872	100.0%	\$3,188,861	100.0%	100.0%	
Aetna Investment Annuity Contract Value*		\$991,273		\$484,680					
Total Plan Assets		\$32,920,955	100.0%	\$16,525,552	100.0%	\$3,188,861	100.0%	100.0%	

Source of Investment Balances: Wells Fargo. *Aetna as of 12/31/19

Disclaimer: The balance information has been compiled solely by Fiduciary Investment Advisors (FIA) and has not been independently verified. In preparing this report, FIA has relied upon information provided by the investment managers and by the custodian.

Appendix A

Asset Allocation

The asset allocation target ranges set forth below represent a long-term view. Short-term market volatility may cause the asset mix to fall outside the targeted range.

Target Asset Allocation Table – October 2019

Asset Class	Min Weight	Target Weight	Max Weight	Benchmark Index
<i>Cash Equivalents</i>	0.00%	0.00%	10.00%	
<i>Fixed Income:</i>	27.50%	30.00%	45.00%	<i>BC Aggregate Bond Index</i>
Core Fixed Income	10.00%	17.00%	25.00%	BC Aggregate Bond Index
Flexible Fixed Income	0.00%	5.00%	10.00%	BC Aggregate Bond Index
Bank Loans	0.00%	4.00%	10.00%	S&P/LTSA Leverage Loan Index
Global Fixed Income	0.00%	4.00%	10.00%	Citi World Government Bond Index
<i>Domestic Equities:</i>	30.00%	41.00%	60.00%	<i>Russell 3000 Index</i>
Large Cap Blend	5.00%	22.00%	25.00%	S&P 500 Index
Large Cap Value	0.00%	8.50%	10.00%	Russell 1000 Value Index
Large Cap Growth	0.00%	5.50%	10.00%	Russell 1000 Growth Index
Small/Mid Cap Blend	0.00%	5.00%	10.00%	Russell 2000 Index
<i>International Equities</i>	15.00%	24.00%	27.00%	<i>MSCI ACWI ex-US Index</i>
<i>Global REIT</i>	0.00%	5.00%	10.00%	<i>FTSE EPRA/NAREIT Developed Index</i>

Appendix A

Asset Allocation

The asset allocation target ranges set forth below represent a long-term view. Short-term market volatility may cause the asset mix to fall outside the targeted range.

Target Asset Allocation Table – January 2020

Asset Class	Min Weight	Target Weight	Max Weight	Benchmark Index
<i>Cash Equivalents</i>	0.00%	0.00%	10.00%	
<i>Fixed Income:</i>	20.0%	30.00%	40.0%	<i>BC Aggregate Bond Index</i>
Core Fixed Income	10.00%	17.00%	25.00%	BC Aggregate Bond Index
Flexible Fixed Income	0.00%	5.00%	10.00%	BC Aggregate Bond Index
Bank Loans	0.00%	4.00%	10.00%	S&P/LTSA Leverage Loan Index
Global Fixed Income	0.00%	4.00%	10.00%	Citi World Government Bond Index
<i>Domestic Equities:</i>	30.00%	41.00%	60.00%	<i>Russell 3000 Index</i>
Large Cap Blend	5.00%	22.00%	30.00%	S&P 500 Index
Large Cap Value	0.00%	8.50%	17.50%	Russell 1000 Value Index
Large Cap Growth	0.00%	5.50%	10.00%	Russell 1000 Growth Index
Small/Mid Cap Blend	0.00%	5.00%	10.00%	Russell 2000 Index
<i>International Equities</i>	15.00%	24.00%	35.00%	<i>MSCI ACWI ex-US Index</i>
<i>Global REIT</i>	0.00%	5.00%	10.00%	<i>S&P Global REIT Index</i>