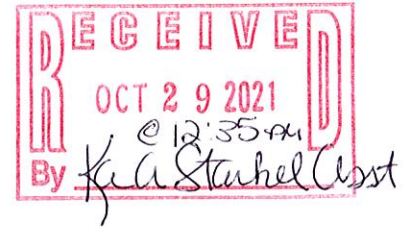


**TOWN OF SOUTH WINDSOR
PENSION COMMITTEE
MINUTES
October 26, 2021**



1. Call Meeting to Order

The meeting was called to order at 8:33 a.m.

Members Present: Chris Chemerka, Board of Education; Kristian Lindstrom, Chief of Police; Michael Maniscalco, Town Manager; Andrew Paterna, Mayor; Liz Pendleton, Deputy Mayor; Patricia Perry, Director of Finance; Jessica Malone, Assistant Director of Finance

Members Absent: Janice Snyder, Town Council; James O'Brien, Board of Education

Also Present: Anthony Tranghese, Fiducient Advisors formerly DiMeo Schneider & Associates, LLC;
Michelle Boyles, Milliman

1. Approval of Minutes

Mayor Paterna moved to approve the minutes of August 3, 2021. Chief Lindstrom seconded, and the motion was approved unanimously.

2. Discussion Items

A. Update – Fiducient Advisors

Mr. Tranghese started off reviewing the Quarter 3 Governance Calendar which deals with practice and policy. The funded ratio for the Town plan at the last valuation was 69% with a 6.5% return assumption. The Board of Education was 83% with the same assumption. Mr. Tranghese pointed out the Milliman does a study of the results of the largest hundred pension plans in the country. As of June 30, 2020 the average plan return was 19.95%. The Towns plan for that year was a little over 30%. The Towns plan was above average for plans in the state.

Mr. Anthony Tranghese gave the second quarter investment review (**Attachment A, Q3 Review**) for the BOE and Town portfolios. The document may be viewed upon request in the Town Clerk's Office.

Mr. Tranghese said the markets pulled back overall. Plan performance is modestly negative. In October all of the losses were wiped out and the markets are back at all-time highs. Growth out performed value.

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The interest rates are very low but have been rising a little. The expectation in the market today is that they will ease some of the bond buying which was part of the stimulus package during COVID and then they will begin to raise rates in 2022 or 2023.

Consumer debt in the country has dropped and as a result, the consumer net worth has increased. Our economy is driven by the consumer so if that is strong, the opportunity for things to continue to propel in a favorable direction exists. Inflation has jumped up since pre-financial crisis in 08-09. To date inflation has been hovering below 2% which is much lower than average. This is in part because we are much more efficient with technology so lower inflation expectations can be supported. The bounce back of inflation is pent up demand and supply issues that started with COVID which was thought to be transitory back in Quarter 1 but because we are still talking about transitory after many quarterly reviews, means that inflation is probably not transitory as once thought. There are signs that inflation will be at elevated levels going forward. The biggest impact will be against fixed income. Rates tend to jump up so traditional bonds lose value quickly.

Mr. Tranghese gave an overview on returns. For the quarter, fixed income was basically flat and rates moved a bit. Core bonds were up .1% or down 1.5% so far this year and therefore rates moved up and prices come down. Equities in the U.S. and internationally have done well with the exception of China which was down 8% in the quarter. Since China is one third of the index, it impacts the index sharply.

Mr. Tranghese gave an update on the portfolios. Looking at the asset allocation for the Town portfolio, Mr. Tranghese said that it ended in September at 41.2 million dollars and the asset allocation is relatively close to targets. The portfolio is in line with targets. When the markets drive the portfolio out of range, the portfolio will be rebalanced.

The Diversified Real Asset Portfolio does well in an inflation environment. At the next meeting there will be full review of the asset allocation. The goal of that discussion is the sizing of that piece of it and increasing it from the 3.5% target.

The Board of Education plan looks very similar at a target perspective and is close from an actual perspective at approximately 18.5 million dollars at the end of the quarter. The OPEB has the same target asset allocation and was at about 4.7 million dollars at the end of the quarter. From a return perspective, the portfolio was off a little in the quarter. All three plans were down about 1%.

The status of all of the manager's in the portfolio are on a maintaining status meaning that they are in good standing except for one. Metropolitan West is marked as discuss. That is due to a retirement by the leader of portfolio managers and founder of the firm. Mr. Traghese said that he has confidence in the broader team and will spend extra time following through and understanding who is taking on his

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responsibilities and making sure that it is what we have been told it will be and what we expect it to be.

Ms. Pendleton asked if there becomes a problem with Metropolitan West would you look for something/someone else and are you prepared to make a move if necessary. Mr. Traghese said yes. They have a dedicated due diligence team that evaluates managers. For each asset class, there is a role to fill and for each of those roles, that team's job is to have a number of managers that they know well. There is also an index that is used permanently or as a placeholder. If anything were to go wrong with Met West, we could go to the index fund until there is a chance to meet and present the Town with the manager that will fit the bill.

B. Update – Annual Milliman Presentation

Ms. Boyles presented the actuarial valuation (**Attachment B, Milliman Actuarial Valuation**) As of July 2021, the Town has gone from 80 active members down to 58 active members. In the last year the population one active terminated employment and 9 actives retired. One retiree passed away and their benefit was continued through a beneficiary. Overall the total population stayed the same just shifted categories.

Looking at the chart of members and years of service, in general most of the population will be at normal retirement at age 60 or 62, with police at age 50 or 25 years of service, dispatchers are age 50 and 10 or 25 years of service or age 60. This shows that there are 26 people at least age 55. Therefore, they could retire and start receiving benefits in the next year. There are 80 retirees with an average age of 70. The total annual benefit is 2.4 million dollars. There are 13 beneficiaries with an average age of 78.7. Their total annual benefit is \$150,000.00.

Reviewing assets, Ms. Boyles said that the previous year there was a 30% asset return. This is exceptional market performance and is not often seen. It is not expected that this will continue.

The Market value is at 42.0 and is higher than the actuarial value at 36.8 which is a significant improvement from the previous year. Last year there was 3 million dollars in employer contributions, \$309,000.00 in employee contributions. 2.6 million dollars was paid out by the Town in benefit payments and \$77,000.00 in administrative expenses. The investment income was 9.7 million. It was expected to be 2.1 million. This leaves 7.5 million dollars in excess returns.

Discussing asset allocation, Ms. Boyles gave a summary of how the assets are distributed. With the expected distribution of returns, the target is in the 50th percentile of the 6.4%. When there are good returns and good performance, there could be a slight decrease and be more conservative at 6.25%. It should be considered and there is potential to sustain it within the budget.

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Summarizing liabilities, it was expected to see a liability at 48.4 million but the actual is 49.9 million which is partly coming from a retiree that passed away and was preceded by a beneficiary. There wasn't significant debts to reduce the Town's liability. Salaries were a little higher than expected so if that continues, we may want to increase the salary scale assumption. Generally liability is expected to grow over time in active employment and decrease over time with the retirees as they are paid out. The unfunded accrued liability is lower than expected. The funded ratio is significantly higher than expected at 73.7. It was expected to stay relatively stable at 69.7. Overall the determined contribution has stayed stable.

Ms. Boyles gave a summary of key results and discussed lowering the interest rate to 6.25% and said that there are consideration to lowering the rate. While it is conservative, it is also locking the Town into a lower discount rate without knowing what the future will be. Looking at the current asset return, moving to a lower rate may not be justified at this time.

Ms. Pendleton feels that it could be difficult to make a decision due to the complexity of the last year. Mr. Maniscalco said that the consideration is for people that left the Town but aren't at the age to collect the pension. The bigger problem is that there are less people paying into the pensions of those that are already collecting so the slack has to be picked up somewhere and that affects those currently working.

Ms. Boyles said that if you move to a slightly more conservative assumption it means that you might [put more money in today and maybe the assets will outperform and you don't have to put in as much money in the future.

Ms. Perry recommended to the Town Manager that if the Town were to go with the lower interest rate, to stay at last year's actuarial determined contribution so there would be a zero increase or decrease in that budget line item.

Ms. Boyles gave an overview on the Board of Education. The population movements were a little different from the Town with two actives terminated, three actives retired, one terminated employee retired, three retirees passed away with no beneficiary. Your retirement dates are a little more condensed. Custodians and maintainers are age 60, everyone else is age 62.

Assets for the Board of Education were expected 16.5 million for an actuarial value and are at 17.2 million.

For liabilities, it was expected at 19.6 million and the actual is 19.8. The small loss is just due to salaries being more than expected. Unfunded accrued liability was expected to be at 3.1 million and it is at 2.6 million. Funded ratio was expected to be at 84% and is actually at 86.9% assuming no changes. Actuarial determined

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contribution with no changes are at \$574,000.00. It was expected to be \$622,000.00 so it was expected to be stable but went down much more than expected.

Ms. Boyles discussed potentially lowering the discount rate. Unlike on the town side, if the rate is lowered to 6.25%, the actuarially determined contribution would be at 637,000.00 versus this year at 624,000.00. The baseline would be more than a \$50,000.00 decrease.

Ms. Chemerka recommended moving to the 6.25% interest rate and still pay \$637,460.00 since the baseline is decreasing.

Ms. Chemerka made a motion to change the discount rate for the Town, Board of Education, and OPEB from 6.50% to 6.25%. Ms. Pendleton seconded the motion and it passed unanimously.

There was a discussion about the appointment of Ms. Pendleton and whether she could second a motion. Ms. Pendleton clarified that she called to confirm with Katherine Senerth in the Town Manager's office that she has had her second reading as she was not listed on the agenda as a member. It was confirmed that she did in fact have her second reading and the correction would be addressed in the minutes. Mr. Maniscalco also confirmed that Ms. Pendleton was appointed and is a member of the committee.

3. Miscellaneous

None.

4. Schedule the Next Meeting

The next meeting of the Pension Committee is scheduled for Wednesday, January 26, 2022.

5. Adjournment

The meeting was adjourned at approximately 9:21 am.

Respectfully submitted,

Katherine Senerth
Recording Secretary

Attachments:

Quarterly Investment Review – Third Quarter 2021, prepared by Fiducient Advisors.
Actuarial Valuation prepared by Milliman
Attachments may be reviewed upon request in the Town Clerk's Office.

