RIDGEFIELD PENSION COMMISSION

Special Meeting of Monday, October 20, 2008
(Replaces regular meeting of October 27,2008)

MEMBERS PRESENT:
Aaronson, Campbell, Christiansen, Hagan, Seibert, Stoveken, Whelan
GUESTS: Dave Leonard of T.R. Paul, Actuary to the Plans
First Selectman Marconi; Human Resources Director Scholl;
Director of Finance Redmond, Asst. Director of Finance Mannuzza
The meeting commenced at 8:00 p.m.

ANNUAL PLAN REPORT. As the actuary to the Plans, Dave Leonard presented the Annual Valuation and Consulting Report for the fiscal year ending June 30, 2008. Highlights of his review, discussion by Commissioners and guests, and subsequent analysis follow:

1) RECOMMENDED CONTRIBUTION. During FY 2007-08 the actuary recommended an estimated contribution of $1,332,00 for the **Town** and $1,307,000 was funded. The actual valuation calculation resulted in a minimum contribution level of $1,331,000 and a 'midpoint' contribution of 1,434,279, the difference attributable to a thirty year amortization of past service liabilities versus a seventeen year calculation. For the 2008-09 budget, the 'midpoint' contribution recommended is $1,600,000 (minimum is about $100,000 less), reflecting the total of estimated minimum contributions from the Plans plus an anticipated 4% salary increase (a practice consistent with previous years) and an estimated 5% loss in investment returns (perhaps optimistic in view of the fact that the estimated market loss experienced by the Trust assets through mid-October is about 20%). The majority of the increase ($190,000) is attributable to a change to the 2008 mortality tables (which is mandated in private plans and recommended for public plans),, with salary increases and investment losses representing 37% of the increase.

During the FY 2007-08 the actuary recommended an estimated contribution of $758,000 for the **Board of Education**, and $758,000 was funded. The actual valuation calculation resulted in a minimum contribution level of $808,000 and a 'midpoint' contribution of $859,870. For the 2008-09 budget, the 'midpoint' contribution recommended is $930,000 (minimum is about $50,000 less). The drivers of the increase were similar to those affecting the Town, but the impact of the mortality tables was slightly greater due to the relatively higher proportion of older females in the BOE population.

2) PAYROLL. Total applicable compensation rose from $17.23 million to $17.96 million, a 4.3% increase. The average compensation per active employee rose from $39,075 to $39,224, or up .4%.

3) INVESTMENTS. The Trust assets declined 7.0% on a market basis and this return was applied to the accounts of the participants in the Money Purchase Plan. The return this year was impacted by an approximate loss of 3% in funds which contained some sub

prime obligations. Comparable index benchmarks for the year ending June 30, 2008 were –13.1% for the S&P500, -8.2%for the Russell 2000, -10.4% for the EAFE International, 7.3% for the Lehman Govt/Corp, 11.5% for the Citigroup World Govt., and 3.3% for Treasury Bills.

On an actuarially five-year smoothed book market basis, the investment return was 6.1%. Mr. Leonard presented a chart graphically showing the historical effect of this smoothing five-year effect. The negative return this year has depleted the historical reserve (from positive $5.5 million to an approximate deficit of $1.7 million), and this could deteriorate even more should the markets not reverse during the fiscal year.

As of June 30, 2008, the asset allocation within the trust assets was 47% domestic equities, 13% international equities, 4% fixed income, 11% international fixed income and 25% in cash equivalents. The bulk of the assets are invested in no-load mutual funds at Vanguard Group and commingled funds at State Street Global Advisors.

4) <u>PLAN HEALTH.</u> Mr. Leonard presented two common measures of the Plans' health. One assumes a conservative 7% interest rate in calculating the present value of accrued benefits ($47.7 million) versus market assets of approximately $53 million or 111.5% coverage (versus 128.3% last year). The new methodology prescribed in the Pension Protection Act uses a 6.23% interest rate, indicating a target liability of $55.4 million and a two-year valuation asset number of $54.2 million or 97.8% coverage (versus 103.1% last year). Under both approaches, the Plans are healthy, but less so than last year, and in all likelihood less so next year unless financial markets reverse themselves.

Mr. Leonard has prepared the GAS25 and GAS 27 reports for the auditors for inclusion in the Town's financial report. Unlike the actuary's numbers, these reports may paint a less rosy situation.

5) <u>EXPENSES.</u> Plan actuarial, administrative and investment expenses totaled $118,700 or approximately 22 basis points of the Trust's ending market value.

6) <u>BENEFITS.</u> Total annual monthly retirement benefits in the amount of $1,574,864 were distributed to 171 retirees and beneficiaries, as well as supplemental benefits of $57 to one retiree. Combined employer and employee contributions approximate $2.44 million while benefit payments are currently running at a $1.66 million rate. Thirty-four employees are still working beyond normal retirement age and represent a yearly liability of $946,000; 50 employees who will be able to retire in the next five years approximate an additional liability of $1.1 million. These continue to be metrics of a maturing plan.

7) <u>PLAN ASSUMPTIONS.</u> 2008 Mortality tables. No other changes.

8) <u>FUTURE DEVELOPMENTS.</u> The impact of the possibility of another negative year of return will assuredly drive up yearly contributions. However, should the Town decide to utilize any excess reserves, the odds favor that at some time during the coming year, the stock market will look very attractive and should provide better than average investment returns.

9) THE COMMISSIONERS' 'TAKE.' As of July 1, 2008, the Plans are healthy, but less so than last year. In view of current economic and market conditions, they may come under some stress during this fiscal year, but the smoothing effect and a long term investment outlook as well as adequate funding should bring positive future results.

10) MONEY PURCHASE PLAN. At the April 28, 2008 Pension Commission meeting, Commissioners voted unanimously to recommend to the Board of Selectmen an increase in the contribution rate for the Money Purchase Plan from 6% to 9%, effective July 1, 2008. The overriding reasons for this recommendation consistency and equity. Since 1990 the Town has contributed an average of 9.7% for all employees in the Town plans, and out of fairness, it would appear the elected officials should receive a similar amount. The Commission is awaiting an invitation for its presentation of the recommendation.

****Mr. Hagan made the motion, seconded by Mr. Christiansen, of accepting the Annual Pension Report, which passed unanimously.

OTHER BUSINESS

DISTRIBUTION OF ANNUAL REPORTS. The Chairman will forward copies of the Annual Report to the various agencies concerned.

INVESTMENTS. As of September 30, 2008, the market value of the Trust assets approximates $50.4 million, down approximately 10% for the fiscal year beginning July 1. 50% is in domestic equity, 12% in international equity, 6% in domestic bonds, 11% in international bonds, and 21% in cash equivalents. Discussion of alternative investments was tabled.

**Mr. Seibert made the motion, seconded by Mr. Stoveken and unanimously passed, to

1) Transfer $7million from SSGA STIF Fund to the Trust's Short Term Bond account at Vanguard.
2) Purchase $1.5 million in an intermediate Treasury Bond ETF at Vanguard.
3) After the $7 million has been successfully transferred, to liquidate the investments in the Large Cap Growth ($1.3 million) and Large Cap Value ($1.7 million) commingled funds at SSGA, and purchase, simultaneously, similar amounts in similar funds at Vanguard.

INVESTMENT POLICY. Messrs. Campbell and Seibert will review the current investment policy statement and report back at the next meeting.

VANGUARD CONSULTING AGREEMENT. The Chairman will attempt to arrange a meeting in Connecticut with representatives of Vanguard to proceed with their proposal to provide asset allocation advice.

The next Commission meeting will be held at 8:00 p.m. on November 24, 2008 in the Small Conference Room in Town Hall.

Respectfully,
Dave Campbell, Chairman