

RIDGEFIELD PENSION COMMISSION

Special Meeting of Thursday, May 14, 2009

MEMBERS PRESENT: Campbell, Seibert, Stoveken, Whelan

MEMBERS ABSENT: Aaronson, Christiansen, Hagan

GUESTS: First Selectman Marconi, Director of Finance Redmond, Asst. Director of Finance Mannuzza

PRESENTERS: Bob McDonald and Eric Klein (phone) from The Vanguard Group

The meeting commenced at 12:45 p.m.

VANGUARD GROUP INVESTMENT PRESENTATION.

Vanguard presented its booklet reviewing the overview of the economy, current investment performance of equity and bond markets, investment performance of funds in which the Ridgefield Pension Trust is invested, and historical equity and fixed income investment returns, including those generated coming out of bear markets. Subject to all the standard caveats, Vanguard's models indicate 10 year expected annual returns of about 10% from domestic and international equity markets (with a standard deviation of +/- 20%), and 4.5-5.0% from domestic fixed income markets (with a standard deviation of +/- 6-7%). In reviewing the Trust's asset allocation as of 5/6/09, a slightly higher weighting in the fixed income sector (from short term cash accounts) was recommended.

VANGUARD GROUP INVESTMENT ADVISORY CONTRACT.

Bob McDonald brought a draft of the investment advisory contract for the Commissioners review. The vote on its acceptance is scheduled for the June Commission meeting.

BRIEF DISCUSSION OF PENSION UNDER-FUNDING.

The Town's actuary, Dave Leonard of T.R. Paul, has been asked to evaluate the impact of the market's decline on the Town's pension funds, including the additional funding that may be required in future Town budgets. These estimates are expected to be available in time for the next Board of Finance Meeting on May 19, 2009. However, Commissioners know that this market decline is not a 'standard correction,' but instead, the worst bear market since the Great Depression, and further, that a fast recovery from this serious economic condition may not be forthcoming. They also can surmise that the Town's pension funds are in an under-funded condition, and that the increases in yearly pension contribution will be substantial. In fact, the contribution might be large enough to either seriously impact the Town and Board of Education operating budgets, or, more likely (if political history is any guide) to NOT be properly funded.

Commissioners have been giving some thought to possible alternatives, including evaluating amortization timeframes and plan assumptions. In addition, the concept of issuing a municipal bond to fund the shortfall has surfaced. Commissioners have been told that State law permits the practice, but the law was originally designed to assist seriously under-funded plans. The process is complex and, in terms of administrative costs, is very expensive.

The First Selectman attempted to put together an ‘all hands’ meeting to allow all interested parties to explore this interesting idea, but a combination of headwinds and limited participation has deferred this meeting to some later date. Hartford legislators were also invited, for their input and perhaps influence to legally simplify the process, in the knowledge that a less expensive solution could be applicable to many Connecticut towns that are facing similar pension under-funding.

Conceptually, subject all the necessary approvals, the Town could float a TAXABLE municipal bond (law does not allowing borrowing at tax-exempt rates and investing at taxable rates), which for a AAA-rated town might, at today’s rates, carry a 4.5-5.0% coupon for a ten-year maturity. The proceeds would be invested in the town’s pension fund on a dollar-cost averaging basis in its 70-30% equity/fixed income allocation, or laddered in high quality bonds, or a combination of both strategies.

Most conservative financiers normally do not believe that borrowing money to invest in the stock market is a particularly good idea (similar to an individual investor ‘going on margin’). However, extreme problems often require creative solutions. The Town wisely purchased some of its future oil needs, while the Fed has created all sorts of new programs to address the severity of this recession. ‘Going on margin’ in a highly or even moderately valued stock market brings in all sorts of probabilities for downside risk. On the other hand, a market still significantly down (S&P currently still –43% from its 2007 high) decreases those downside risk probabilities. Vanguard’s models, based on historical returns and an expected price/earnings multiple of 13, indicate 10 year annual returns for stocks of between 8 and 19%. Models are only models, but the idea appears to worth investigating.

As noted before, Commissioners will be briefing the Board of Finance on the current pension situation on May 19 and expect to have estimates from the Town’s actuary. Board of Finance members will also have the opportunity to develop their own ideas for financing an under-funded situation.

The next Commission meeting is scheduled for Monday at 8:00 p.m. on June 22, 2009 in the Small Conference Room in Town Hall.

Respectfully submitted,

Dave Campbell, Chairman