



**Cheshire Retirement Board  
May 4, 2016  
Cheshire Town Hall  
84 South Main Street  
Cheshire, Connecticut 06410  
Room 210; 6:00 p.m.**

In attendance were Chairman Michael Evans, members Michael Caron, and Dennis Flagg, Mark Izzo (arrived at 6:30 p.m.). Police Department representative Kevin Costa; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio; Ross Charkatz of Graystone Consulting, Tom Ruocco, Council Liaison (arrived at 6:15 p.m.).

Absent: Paul Shay

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1. Call to Order

Chairman Michael Evans called the meeting to order at 6:05 p.m.

2. Roll Call and Determination of a Quorum.

Chairman Michael Evans called the roll and a quorum was determined.

3. Pledge of Allegiance.

All present recited the Pledge of Allegiance.

## CHESHIRE RETIREMENT BOARD Meeting Minutes

4. Approval of Minutes for February 3, 2016 meeting.

**MOTION:** Mr. Evans made a motion to approve the minutes from the meeting on February 3, 2016. Motion was seconded by Mr. Caron. The motion was unanimously accepted by members present.

5. Old Business:

None

6. New Business:

- a. Election of Officers

**MOTION:** Michael Caron made a motion to elect Michael Evans as Chairman of the Retirement Board. Motion seconded by Dennis Flagg.

**VOTE:** Mr. Evans was unanimously elected Chairman of the Board.

**MOTION:** Michael Evans made a motion to elect Paul Shay as Vice Chairman of the Retirement Board. Motion seconded by Michael Caron.

**VOTE:** Mr. Shay was unanimously elected as Vice Chairman of the Board.

**MOTION:** Michael Evans made a motion to elect Michael Caron as Secretary of the Retirement Board. Motion seconded by Dennis Flagg.

**VOTE:** Mr. Caron was unanimously elected Secretary of the Board.

- b. Investment Update and Market Comments - Mr. Ross Charkatz of Graystone Consulting.

### Market Comments

Mr. Charkatz said that prior to May 2015, markets enjoyed an unusually placid period. There had not been a decline of 10% or more over a several year period. This normally happens at least 3 times per year. Consistent with the removal of quantitative easing there have been 2 periods where U.S. markets have fallen by at least 10% and have rebounded strongly in the past year. The U.S. dollar was strong through December. Those outside of the U.S. holding non-U.S. investments may have earned positive returns, however, being U.S. based, the international environment was poor until recently. Year to date, reversals have been seen in currency, commodities, etc. Bonds, being the primary source of diversification, have not helped. They provided no protection over the past summer.

## CHESHIRE RETIREMENT BOARD Meeting Minutes

This lack of cover is not an unfamiliar concept to this Board because the Board has discussed the implication of low interest rates. There is less liquidity in the new structure of the market which creates risk for credit oriented mutual fund investors. However, it also creates opportunity which has populated the illiquids portfolio and has been invested over the last few years.

### Investment Update

Since the meeting last quarter, Mr. Charkatz reiterated that momentum drove returns last year. It did not pay to be a value investor until recently. Stocks that had weight in the S&P such as Facebook, Google, Amazon, etc., made it seem that the markets were positive. However, stocks on average were down. Major declines at the beginning of this year were everywhere. Illiquids have been a contributor over the past year. The total portfolio through March was up slightly resulting in recovery at the end of February. Illiquids have picked up quickly and were up 6-1/2% having done well in the short term. Illiquid commitments are \$8,000,000 with \$4,054,091 in capital contributed. The capital returned and market value combined are over \$4.7M. Illiquids are 6.5% of the portfolio. Initial investments for Oaktree will begin to be paid out now. Entrust and Oaktree, presently illiquids, will become liquid over the next several years.

Mr. Charkatz said that the portfolio manager who has been with the Vontebol Fund since inception in 1994, has left the company. The team will remain intact under a 10 year contract. Mr. Charkatz advises that investment made should remain for the time being until a comparable fund is found. A question was raised regarding what should be done if there is a run on the bank. Mr. Charkatz will contact the Board with any concerns going forward which will allow a remote vote by email because the next meeting will not be held until August. The Board members are in agreement with this action. A motion was not considered necessary.

Mr. Charkatz recommended, for asset allocation reasons, to take money from the Templeton Global Bond Fund and put it into two existing managers, in MetWest Low Duration and DoubleLine Total Return. In addition, the Berens Capital Fund, which provided a positive outcome in the long run, more recently has not provided the risk benefits that should be expected. Broader exposure is needed. Mr. Charkatz recommended settling activity now. The \$3.8M will not be seen right away.

The issue with Templeton is that globally, interest rates have been negative and low. The risk has increased and diversity should come from equity risk

## CHESHIRE RETIREMENT BOARD Meeting Minutes

with bonds. When interest rates are at 0 and investments are made outside of the U.S., you now own the currency not the bond fund. 9-1/2% is recommended to be moved combining the percentages of the Berens and Templeton Funds which will create global and broader exposure.

**MOTION:** Mr. Evans made a motion to redeem 100% of the Templeton Global Bond Fund portfolio, which is approximately 3.7% of the portfolio, and reinvest proceeds proportionately in MetWest Low Duration and DoubleLine Total Return to equalize the two investment balances. Motion was seconded by Mr. Caron and approved unanimously by the members present.

**MOTION:** Mr. Evans made a motion to put Berens Capital on notice that the Town of Cheshire will exit the fund on December 31, 2016. The motion was seconded by Mr. Caron and approved unanimously by the members present.

### c. Update on Actuarial Valuations

#### Town and BOE Personnel Pension Fund:

Mr. Jaskot said that the Town and BOE Personnel Pension Fund comprise over half of the town's assets. July 1, 2015 valuations are interim valuations and will continue for the short term to get caught up with paying the full actuarial contributions. Interim valuations are not required where biennial valuations are required. There was a small and positive gain from an actuarial perspective in 2015 having a beneficial impact on the required contribution. The July 2015 reports are used for the upcoming 2016-2017 fiscal year contributions. The Town relied on this information which was more favorable than the previous valuations, to budget for the contributions.

Market value of assets will be seen on the financial statements. There are also actuarial value assets. In July 1, 2015 there were \$42M in actuarial value of assets. The difference between market value of assets and actuarial value of assets is that there are smoothing techniques applied to the gains and losses over a 5 year period for the actuarial value of assets to minimize fluctuations in required contributions. The losses from 2008 were being absorbed for 5 years thereafter. As of July 1, 2015 the funded ratio for this plan is 82.8%. 100% of the contribution is being made at this point. The discount rate was 7-1/2%. It is required by the Town, on its financial statements, to disclose an increase in the discount by one point either way. Mr. Jaskot expects that the funded ratio will increase over time because 100% of the contributions are being made and the plan has been closed out.

## CHESHIRE RETIREMENT BOARD Meeting Minutes

In recent years the contracts were negotiated to bump up the employee contributions but there are still some Board of Education groups that have not.

There was a \$2.5M market gain for plan year ending June 30, 2015. The 2008 losses are no longer noted. Every year gain or loss is amortized over 5 years. The long range forecast is significant because it shows the projected Town's contributions over the next 20 years. \$1,773,905 was contributed by the Town in 2015. \$1,806,000 is being budgeted for 2016. The Town is paying 100%. Going forward, after 2017, there will be a drop - a small drop at first and over time there will be a significant drop due to the plan being closed. The new hires will be part of a defined contribution plan where matching contributions from the town will increase.

The assumptions for the plans have been thoroughly reviewed in the last few years with some changes being made.

Information in the valuation reports also shows how many people are active in the plan and how many are being paid from full valuation to full valuation. There are 188 people including retirees, disabled employees and beneficiaries who are receiving benefits from the plan as of July 1, 2014.

The plan, as of January 1, 2013, is closed to new entrants in all groups. Employee contributions are now 4% for Plan A and 2% for Plan B for most groups other than Board of Education. Previously the percentages were 3.5% and 1.5%.

### Police Plan:

For 2016 -2017, \$1,302,765 was budgeted for this plan by the Town. The recommended projected actuarial contribution is \$1,456,934. The plan is not funded at 100% of actuarial recommended contributions yet. Contribution increases were being phased in for the Town Plan and for the Police Plan starting when the interest rate assumptions were ratcheted down from 8.5% to 7.5%. Police Plan contributions have been stepped up by \$150,000 a year. However, the actuarial recommended contributions are increasing at the same pace and so 100% funding will not be achieved at this rate. Mr. Jaskot hopes that with the July 1, 2016 biennial valuation coming up that there will be favorable variances in demographics and experience assumptions used by the actuaries. Hopefully this will mitigate increases in the actuarial recommended contribution. The plan is 63.3% funded ratio as of July 1, 2015. The dynamics of the plans are very different than the Town Plan with police officers retiring at younger ages, higher multipliers, and 8% employee

## CHESHIRE RETIREMENT BOARD Meeting Minutes

contributions. Progress is being made, however, toward the 100% contributions.

All unions are now in contract negotiations for the next three years and hopefully some accommodations can be made to help with the funding situation.

A total of 43 retirees, disabled employees and beneficiaries are being paid out of the plan. This plan was closed out on January 1, 2013 and new officers participate in a 401(a) defined contribution plan.

### Fire Plan:

Mr. Jaskot said that this plan is 41.9% funded as of July 1, 2015. It is a newer plan than the others. It is growing and will continue to grow. The Town is contributing 100% so this plan is on track.

The only plan struggling is the Police Plan. Hopefully going forward the contribution gap will be closed.

### OPEB Plan

Mr. Jaskot said that a July 1, 2015 Other Post Employment Benefit (OPEB) valuation was done. The OPEB benefits are not well funded. There is over \$.5M in the OPEB trust. There is about \$300,000 in the Police VEBA Trust fund. The discount rate for the Police VEBA is 5.4% and 4.0% for other OPEB. The ARC for 2017 for the Police VEBA is \$711,806 to fund the long term liability. The Town is currently contributing over half of this. In 2016, most of the Police OPEB liabilities are being paid out of the General Fund on a pay-as-you-go basis. (The cash flow is between \$400,000 - \$450,000 per year.) OPEB may have the most liability in the Police Plan where participating officers and spouses, who retire, receive health insurance until age 65. OPEB benefits for other groups in town are on average of \$2,000 - \$2,500 for a five year maximum. Due to most employees, other than police officers, retiring when Medicare eligible, few people avail themselves of this benefit. The certified teachers reimburse for premiums at group rates. There are not many towns funding these types of OPEB plans other than on a pay-as-you-go basis.

- d. Pension Disbursements - For Information Only.  
Document was distributed showing the disbursements.

## CHESHIRE RETIREMENT BOARD Meeting Minutes

Also, Mr. Jaskot updated the Board on the pension overpayment matter discussed at the previous meeting where a retired Police officer was overpaid due to an error in the pension calculation by the former Town actuary. Initial attempts to collect restitution for the plan were taken, but continued action was not deemed cost beneficial due to the circumstances, including an error in reporting the pensioner's taxable benefit. Since the IRS requires that the overpayment be returned to the plan, plus interest, a request for funds was included in the budget requests for fiscal year 2017. The Council was apprised of the matter during the budget season and Town Attorney Al Smith was present for comment. It was decided to fund the request out of the fiscal year 2016 budget instead and the overpayment and applicable interest would be restored to the Police pension this fiscal year. An agreement would be prepared by the Town attorney for the pensioner to release the Town from any future claims regarding this matter.

- e. Summary of Bills - For Information Only.  
Document was distributed showing the current expenses.

- 7. Public Comment  
There was no public comment.

- 8. Adjournment

Mr. Evans made a motion to adjourn the meeting at 8:00 p.m. Motion was seconded by Mr. Shay. All members present were in favor of the motion.

Respectfully submitted,



Dawn Guite, Recording Secretary