MINUTES OF THE CHERISH TOWN COUNCIL SPECIAL MEETING WITH THE RETIREMENT BOARD, HELD ON OCTOBER 26, 2010, AT 7:30 P.M. IN TOWN HALL, ROOM 207, 84 SOUTH MAIN STREET, CHERISH CT 06410

Present
Council Members: Timothy Slocum, David Schrumm, Justin Adinolfi, Michael Ecke, Andrew Falvey, Anne Giddings.
Staff: Michael A. Milone, Town Manager; Patti Lynn Ryan, Finance Director, James Jaskot, Deputy Finance Director; BOE Vincent Masciana.

1. ROLL CALL
The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE
The group Pledged Allegiance to the Flag.

3. REVIEW OF PENSION VALUATION
Ms. Ryan informed the group that the last pension valuation was finalized on July 1, 2008 (just before the market crashed), and it is done every two years. The 2010 valuation is being worked on now. As a result of the market conditions, the annual contribution has almost tripled for the three plans. The two larger plans were over funded on July 1, 2008.

Mr. Woollacott reviewed the Town of Cheshire Plan.

The valuation in July 2008 was $1,321,561; $283,000 was the employee contribution amount; the Town normal cost was $1,038,275; salary increase assumption was 4%-6.5%; interest was 8.50%; amortization was 15 years; and the load/admin expenses were at 5%. The unfunded accrued liability was $4,219,495, and this means the assets are more than the accrued liability, with the difference amortized. At the end of the year the Town is getting an amortization credit – ARC of $618,415. 8.2% is the normal cost of the plan; projected payroll 2010/2011 is $13,770,499. Funded percentage was 113%.

Ms. Ryan noted that this plan is just the Town and BOE employees, and does not include the police or firefighters plan. With all three plans the Town contributes about $1 million per year.

July 2010 Valuation – 6 different scenarios were reviewed by Mr. Woollacott. A copy of the scenarios was distributed to those present at the meeting, and is attached to these minutes.
Scenario #1 – Total normal cost stays the same, $1,384,255; employee contribution is $293,785; liability is about $40 million; assets went down to $35 million; ARC (contribution) goes to $1,757,000; projected payroll is $15,148,429; normal cost percentage would be 7.8%. Town normal cost would be $1,090,470. In the past there was an amortization credit, and now the Town has to pay amortization. Funded percentage is 88%.

Scenario #2 – Total normal cost stays the same, $1,384,255; employee contribution is $293,785; amortization is increased to 30 years which lowers the contribution; Town normal cost would be $1,090,470; ARC would be $1,626,000; funded percentage would be 88%.

Scenario #3 (Assets with no cap) – Total normal cost stays the same $1,384,255; employee contribution is $293,785; ARC would be $1,617,000 ($9,000 less than scenario #2); amortization period 15 years. Town normal cost would be $1,090,470. Mr. Woollacott advised that this scenario is not worth looking at.

Scenario #4 – New assumptions, current asset method. Total normal cost is $1,278,216; employee contribution is $277,421; interest rate is 8.25%; amortization period is 15 years; load/admin expenses are $70,000; $1,593,000 is the minimum ARC; salary increase assumption is lowered to 3% to 5.5%. Town normal cost would be $1,070,795.

Scenario #5 – same assumptions; total normal cost is $1,278,216; admin expenses of $70,000; employee contribution is $277,421; Town normal cost would be $1,070,795; interest rate is 8.25%; amortization period is 30 years; load/admin expenses are $70,000; $1,492,000 is the minimum ARC; salary increase assumption is lowered to 3% to 5.5%.

Scenario #6 – New assumptions, no cap on assets. Total normal cost is $1,278,216; employee contribution of $277,421; administrative expenses of $70,000; Town normal cost of $1,070,795; interest rate of 8.25%; amortization period of 30 years; salary adjustment percentage of 3%-5.5%.

Mr. Woollacott advised that there is no State of Connecticut minimum funding requirement. If a town does not fund a plan there is no pension obligation and this affects the rating of the town by the agencies. His recommendation is to fund the ARC and fund the plans the right way.

Mr. Sima commented on the fact that the Town would have to fund $1 million more next year than was funded this year.

According to Ms. Ryan these assumptions are out there for consideration, and these reports are not finalized.
In response to a question about accrued liability with 8.5% and 8.25% interest rate, Mr. Woollacott said that the corporate rule is doing 8% for the long return. Towns and cities use the same rate for asset growth and liability growth. He spoke with the asset administrator and the long term rate of return is 8.41%.

Mr. Milone questioned using the same 8.25% for determining the liability growth. There is a basis for the 8.25% interest rate assumption on earnings, and asked how this determination is made on the liability growth.

In response, Mr. Woollacott said that throughout the State the same percentage rate is used for liabilities and growth. Dropping the interest rate results in the ARC increasing. It is an ERISA standard used in corporate pension valuations, and to discount the liabilities.

Using 8.25% or 8.50% increase, Mr. Falvey asked where the salary increase fits into this equation.

The salary increase/assumption is usually about 5%, and Mr. Woollacott explained that the Town sends information on each person. His firm projects each person’s benefit at retirement age using the salary scale assumption. It is discounted back to the interest rate today to get their accrued liability. The total normal cost is the value of benefits accruing for one year.

In scenarios 4, 5 and 6, the administrative expense is included at $70,000. With lower salary increase/assumptions, the payroll is lower each year. The Town now has a 15 year amortization, and the GASB standard permits a 10 to 30 year amortization period. In the current economic environment, municipalities are exploring alternatives.

The total ARC is $2.7 million for the Town, BOE and Police Department pensions.

Ms. Ryan stated that the rating agencies will look at the patterns of non-funding. There are issues which the Town Council must consider and decide on. This presentation is a starting point. The interest rate assumption should be 8%, and we can run the amortization out to 30 years.

In scenario #6, Mr. Sima said for the Police, Town/BOE we have a change in the upcoming budget of about $1.15 million.

Ms. Ryan noted that the pension has been over funded, without contributions for many years, and the Town will be at the stated level of contributions for many years.

Mr. Woollacott pointed out that the pension plans market asset is about $29 million. Doing an evaluation on July 1, 2009, it would have been worse.
The difference between the Town plan and Police Department plan is that the police plan has higher multiples. Police officers can retire earlier; they have COLA benefits; and they pay a higher percentage of contribution to the plan.

Whatever the Town pays in contribution for the next fiscal year will also be the same for the following fiscal year, and Ms. Ryan noted that what is being presented tonight is what is out there now. There will be a great impact on the 2012 budget, and staff wanted to provide this important information to the Council.

Firefighters Pension, 7/1/08, was funded at $121,000 for the year, and with a higher contribution (3 times this amount) for next year it will be about $300,000 to $400,000.

Mr. Woollacott advised that the funding being discussed and presented for consideration is for current employees, not future employees. He commented on the State funding of the teachers’ retirement plan at 8.25%, and last year the State funded it at only 50%. This pension plan has $7 billion in assets, and $14 billion in liabilities. The State borrowed for this funding in 2008.

With regard to the scenarios presented for consideration by the Council, Ms. Ryan stated that she prefers #5, with the interest rate dropped to 8% in the long term; amortization period of 30 years; and load/admin expenses at $70,000. The actual market value of the assets is $29 million.

Mr. Woollacott stated that the contribution will be triple for next year, and could to up to 25%. The annual salary increase/assumptions include COLA and step increases. The load/admin. expenses are about 5% of the accrued liability. The liabilities will increase as the interest rate increases.

There is some of the CRRA money in the debt service reserve account, and Ms. Ryan said that there could be re-allocation of this money for a one time expense.

Mr. Sima commented on the fact that the Town is looking at +$1 million in the budget next year, and his concern is that without funding the pension plans, the bond rating may decrease.

Ms. Ryan stated that it is good practice to fund the plan.

In the end, Mr. Sima said we are raising taxes a lot, or removing people from the payroll, or not funding the pension plans.

Ms. Ryan informed the group that you cannot cut into personnel and have the Town operate to cover this $1 million.
With over funding of the pension plan, over time, Mr. Sima noted that it gave the Town $500,000 a year on the funding side, and this is now gone. Without funding in future years, there will be a bond rating change.

Ms. Ryan said she will bring information and creative ideas forward to the Council, but the 2012 budget belongs to the Council.

There is about a $1.5 million difference, and Mrs. Giddings aid that in adding something for the fire department there is a larger difference. This is a cost for the annual budget which the Council must meet. The Council will have to cut out $1.5 million of services or people in the budget, or increase taxes by ½ mill to meet this obligation.

Mr. Milone explained that there is an opportunity to phase in the contribution over a few years, and more and more municipalities are doing this. Doing this is buying into a philosophy and approach, and it means a town must adhere to it regardless of what happens. Cheshire is better off than other towns. The funding would have to be gradual; rating agencies will have to respect what is going on in the market and be flexible and more realistic, knowing municipalities will meet their obligations over time.

Without funding the ARC this year, Mrs. Giddings said this commits future Councils to making up this difference so obligations are eventually met.

Mr. Milone said with the phase in of contributions the Town would have to adhere to the plan.

The cost of benefits accruing during the year is $1,159,000, and Mr. Woollacott said that if nothing else is done, at least this should be paid. The unfunded changes with assets going up and down, and paying just the interest on the unfunded could be looked at.

Mr. Schrumm commented on the fact that the Town was 166% funded, and now is funded at 88%, with liabilities increasing faster than was realized. Most private companies have come to a conclusion that these plans cannot be sustained. We are looking at $1.7 million, and will not be able to catch up.

The difference between this plan and a defined contribution plan is that the Town is taking all the risk. Mr. Woollacott said the goal is to get to 100% funding. With paying less now the ARC will increase in the future. Corporations are moving away from these plans and having employees take all the risk. Most of these benefits are in union contracts, and Mr. Woollacott stated that any changes would be in the future plans.

Based on what is being told to the Council by the advisors, Mr. Falvey asked about a comparison with other communities.
Mr. Evans said that Cheshire is typical, and there is a broad range out there, 75-25 on either side.

Ms. Ryan said the Cheshire plan is on the more liberal side. The financial advisors meet with the Retirement Board on a regular basis, and they are giving managers broader mandates to manage.

Council Chairman Slocum stated that the Retirement Board deals with asset management, and the Council makes the decision on assets.

Mr. Schrumm commented on the Town funding the minimum amount with interest in the event the market has 24% years as it did in the past.

Mr. Sima stated the Council must come up with $1.5 million more that what was in the last budget.

The fiduciary responsibility for the plan lies with the Town Council, and Ms. Ryan said that the Retirement Board makes recommendations to the Council. Out of the ARC of $1.7 million in scenario #1, the BOE has about $200,000 of the $600,000.

Mr. Schrumm stated that the Council must come to a consensus on the number by January 2011, which scenario to choose, and know the hard number amount.

There will be two pre-planning budget meetings in November, and Mr. Milone said he would work with the Council on the dates and time.

Mr. Woollacott explained there is another amortization method (payment of just interest) which may be outlawed by GASB in the future. At this time there are no State funding requirements for pension plans. If the Council decides to go with the unfunded approach, i.e. 50% of the ARC in year #1, Mr. Woollacott would put out a funding policy if the full ARC is not funded. This would be the plan which the Town would have to adhere to for future funding.

Mr. Freitag stated that this is not the responsible way to go for funding the pension plans.

4. ADJOURNMENT

MOTION by Mr. Gombar; seconded by Mr. Freitag.

MOVED to adjourn at 9:00 p.m.

VOTE The motion passed unanimously by those present.
Attest:

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Marilyn W. Milton, Clerk