REGULAR
PENSION BOARD
Shelton, Connecticut
MEETING MINUTES
WEDNESDAY, AUGUST 17, 2016

Call to Order / Pledge of Allegiance

Acting Chairman Gallo called the Regular Meeting of the Pension Board to order at approximately 5:40 p.m. All those present stood and pledged allegiance to the flag.

Roll Call

Mark A. Lauretti, Mayor – present (arrived approximately @ 5:45 PM)
Paul Hiller, Finance Director - present
Christopher A. Gallo - present

Also in Attendance:

John DiMatteo, Pension Advisor
Da'Rel Eastling, Prudential
Kathreen Sibol, VFIS
**Public Portion** – No one from the public wished to be heard.

**Agenda Items**

**APPROVAL OF MEETING MINUTES**

**7/26/16 Special Meeting**

Chris Gallo MOVED to approve the 7/26/16 Special Pension Board Meeting Minutes.

SECONDED by Mayor Lauretti. A voice vote was taken and the motion passed unanimously.

**REPORTS FROM:**

**PRUDENTIAL**

Da’Rel Eastling: (Looking through the Prudential Executive Summary); starting with Page 4: Money Purchase Pension Plan – Plan Highlights

For the last quarter, we pretty much ended at the same place that we started; the assets were around $32 million. We did have a negative cash flow; what was distributed from the plan over the course of the last quarter exceeded the amount that was contributed.

From a participation perspective, the average account balance in the plan was just over $81,242. This number is higher than the Prudential book of business because the average account balance that is listed here is around $59,000, however it is not an indication that we do not have work to do in terms of getting those balances up, as well as getting the participants to contribute a little more. As it relates to asset allocation, there is virtually no change. The average of funds here is 2; it is lower than the Prudential book of business. For the majority for what we see here, as it was in the past, the funds are in the Stable Value but there has been some slight movement.

Paul Hiller: I have one question: That number of 1.9; at this point we are nine months in the plan and the new money that is going in, if people do nothing over this nine-month period, is going into a default Target Date Fund, based on their age. I curious as to how many people have done nothing, because they have not looked at it during this nine-month period. You are building money in the Target Date funds, so that was our objective.
Da'Rel Eastling: You are right. I think what you are going to find is that the majority of people have done nothing; they have stayed in those Target Date funds which is not bad. We want to see more movement, and we have seen some as to where individuals transfer or move some of the assets out of Stable Value into other options. We are seeing that slowly, and that is going to be a function of the education that we are pushing out to the financial wellness seminars. The message is to increase savings, but more importantly here is diversification and asset allocation. It is going to be slow, but it is moving in the right direction.

Mayor Lauretti arrived at the meeting at approximately 5:45 PM.

Da'Rel Eastling: There were 16 distributions that were made last quarter, totaling $541,947.

Christopher Gallo: Were those retirees?

Da'Rel Eastling: It was a combination. Also, the retirement income calculator, which is a tool on the website so in order to utilize this tool, you would need to be using the Prudential website too. We did not have any movement here, but historically we use that tool to make positive decisions, by either increasing contributions or making adjustments to their allocations.

If you turn to page 7, what we have here is a comparison our plan to the Prudential book of business, as well as the industry average of other municipalities. In addition, there is plan survey respondents from last year and this year. I will draw your attention to the average account balance. You will see from Prudential, it is significantly higher compared to other municipalities, but in line from what we see in plan sponsor survey responses from last year and this year. From the next item, the average number of funds, I think that we should discount that because we are utilizing Target Date Funds. If you are using those funds correctly, you are going to be in one, so I think that is less of a cause for concern as we compare that to anyone of the categories. However, I do know that we have an issue with the Stable Value utilization.

I will bring your attention to the number of investment options; that may look high as compared to some of the others but keep in mind that we have a series of Target Date Funds here, which inflates that number so in my opinion there is no cause for concern. This information is here for your reference.

In terms of some of the details that we have presented, please turn to page 9: Asset Allocation and activity that is broken down by age groups. As you might expect, the majority of assets are held by those individuals that are on the tail end of the age spectrum. What I will bring your attention to, is the average account balances for each of the age groups. There are few individuals in the plan who are under age 25 so that is not really a cause for concern. As to where we look where the population increases, you can note how the average account balance for those populations compare to the Prudential average account balance for our book. For those younger
employees in line, where you start to see more variances as we get to age 45 and above for that matter. For ages 45-55 and ages 55-65, those participants have average account balances that are fairly lower than the Prudential book of business. So the overall average, which is skewed by the individuals that are 65 and better is higher than the national average and the Prudential book of business. As I have mentioned before, we do have some work to do.

On page 10, in the asset allocation trends, at the top of the chart the Stable Value assets are just over $25 million, which represents 80.8% of the plan. I will have you note that number is down from roughly 82% last quarter. As I have also mentioned before, slow movement but movement in the right direction in terms of utilization of the Stable Value Fund. I think that we will continue to see that number creep down.

Paul Hiller: The people who have done nothing are being defaulted into the Target Date Funds, based on their age.

Da'Rel Eastling: The old money is remaining in Stable Value, but all of the new money is going into the Target Date Funds.

The Fund Utilization by age: when we look at the average number of fund participants, the individuals are staying in the Target Date Funds, but also leaving their old money where it was, which is the Guaranteed Income Fund, the Stable Value Fund. What is encouraging is when you look at Page 11, the utilization by fund. Though the majority of the assets are in Stable Value, only 77 individuals are using the Stable Value Fund as their sole investment, which is good. When we take a look at the fact that only 88 individuals are solely using one fund, and looking at the age distribution it shows that the majority of those folks are not on the younger age spectrum. That indicates that they have their own reasons for deciding for putting all of their money in the Stable Value Fund.

I will bring your attention to page 15. We will take a look at the contributions by fund, which should be in line with your earlier comments. You will see the majority is in the Target Date Funds; American Century Funds. The 2020 fund is the most popular; which makes sense when we take a look at the demographics into perspective. You see that once we start getting into the other investments, none of them are even half of the smallest Target Date Fund; it indicates that those individuals have decided to contribute towards the other investment options; they are contributing significantly less than what is going into the Target Date Funds.

On page 16, Inter-Fund Transfers: What is encouraging here is when you take a look at what was transferred out of the Guaranteed Income Fund, $73,706, though a small percentage of the total assets in the Stable Value Fund, it is still positive movement that individuals are on their own deciding to move money out of the Guaranteed Income Fund into some of these other investments. The majority of the assets transferred out into the Vanguard Equity Income Fund, followed by the Vanguard 500 Index.
In terms of what the participants are doing, we have a list of transaction statistics on page 17. Over the past three quarters, we have seen that individuals are calling and that is indicated by a number of unique callers, as well as the call volume. Individuals do appear to be comfortable with Prudential and how things are working.

Participant website utilization: We would like to see this going in the opposite direction, but that has decreased over the last three quarters, as well. Seventy individuals have logged in during the past quarter, compared to ninety-five participants who have logged in during the prior quarter; there were 103-104 before that. We would like to see that number go up, and we will continue to drive activity to the website.

In terms of the reasons why the individuals are calling, the majority is for disbursements, followed by account explanations. There are some other scattered reasons, too. From a distribution perspective, (page 18) over the course of last quarter, just under $542,000 that was distributed. The majority of that was for deaths, followed by terminations. There were two death distributions totaling just under $300,000. There is very little that we can do about that but the termination distributions outside of that makeup the majority of the distributions for the quarter. That concludes what we have for the large plan.

I would like to see how thing are doing with the Deferred Compensation Plan, which begins on page 22. There are much fewer individuals in this plan; 54 individuals. There is very little change from last quarter.

From a total asset perspective in terms of balances, there is a very slight change of $2.8 million at the end of this quarter, compared to roughly $2.75 million last quarter.

The allocation by age is on page 23. Like the other plan, the majority of those assets are held by individuals over age 45. When we look at the average account balance, even take into the consideration of the small number of participants in each age category. You can see how it compares to the Prudential book of business. For those younger folks, they seem to be doing very well but as we move further in the opposite direction, and specifically when we hit the age 45 to 54 category we start to see a greater variance between the Prudential average account balance, and the account balance for the City. There is very few participants in this plan, so there is no need for concern.

On the following page, Stable Value Utilization is no where, where we have seen in the other plan. Also in my opinion, when we see Stable Value utilization creep up and above 30%, that is when we start to pay closer attention and investigate whether this is cause from one of our 21.3%; I do not think there is an issue with this plan.

We do have Target Date Funds in this plan. There are 30 individuals who are only using one fund, and the majority of those people are in Target Date Funds. That
indicates to me that the individuals are using the Target Date Funds correctly, as well as paying attention to asset allocation. There was one individual who used the retirement income calculator on the website, for this plan. This person did not take any action, but one out of fifty-four is okay.

The other things that I will draw your attention to is page 31: there is very low utilization of the call center and the website. There was not much change quarter to quarter. A total of four individuals called a total of seven times; out of 54, 17 of those individuals logged into the website. There was good utilization of the website for those 17 folks; they logged in a total of 138 times. We still would like to see that increase.

In terms of distributions, there was one termination distribution. Last quarter there were a total of 55 individuals, and this quarter there is a total of 54 individuals. That one individual decided to take their money in cash; it was basically a $35,000 distribution. So there is not much change with this plan, and in my opinion no real cause for concern.

In the back of the booklet, I do have an example of what is happening in terms of the participant engagement perspective. I have samples of the types of communications that went out to the individuals over the course of July, now August and soon in September. Just so you can get an idea for what participants can expect from a communication perspective, the topics, the focus will be diversification, asset allocation, retirement readiness, driving activity to the website as well as encouraging any individuals who have outside assets to consolidate in one form or another. We do send out communication on individual birthdays, as well as their plan anniversaries. The main goal of the communication is to increase savings in the plans.

John DiMatteo: Da'Rel, for example, with the birthday campaign, is it happening monthly?

Da'Rel Eastling: Yes.

John DiMatteo: Is it a certain message that the participant gets?

Da'Rel Eastling: So it is a message like, “Happy Birthday”. The goal is to address what we call longevity bias, when you think people are not necessarily depicted how long they are going to be in retirement and the focus is to increase their savings now. So that goes out monthly; it does not go out to every individual monthly but it goes out to any individual who has a birthday in that particular month. The same goes true for the plan anniversaries; that goes out on their plan anniversary.

John DiMatteo: It does not show any rates of opening, etc.

Chris Gallo: It is on the back page.
Da’Rel Eastling: Yes it is on the second to last page in this booklet. You can see the results; for the birthday and the anniversary 42.6% of individuals who received this have opened it; the click break. That means those who open the email, do they actually start to click on some of the options and that is 5.22%, take any action for this particular campaign would be increasing what they are contributing; the average increase is 4%. It is not very different for the anniversary, and you can see some of the communications that had been sent out in January and February.

Chris Gallo: What percentage of participants registered online?

Da’Rel Eastling: A very small percentage. I do not have that off the tip of my tongue, but I could follow up with you in writing.

Chris Gallo: It seems to me if they are not registering on the website, then they are not going to receive emails, they are not going to get anything. The odds of them doing anything to diversify or to increase their savings is not going to happen.

Da’Rel Eastling: For that reason, multiple times per year we push out hard copy communications to try to drive activity to the website.

Chris Gallo: So you have everyone’s email, so everyone is receiving an email?

Da’Rel Eastling: Everyone gets an email, but they still need to go in and register on the website, in order to start receiving web communications because we cannot push. You can push anything to your participants, but Prudential cannot push items without their permission. They need to go in and log into the website, and agree to start receiving some of these things in order for us to do so. One alternative that we have done with other clients is all of the communication that we push out electronically, we send out to the client and they could distribute it via mass emails. It works for some clients, and it doesn’t work for others but short of that, there is no way “to force participants” to receive some of the electronic communication.

Chris Gallo: I guess the whole other big issue is the education plan.

Mayor Lauretti: Yes, they are scheduling dates.

Paul Hiller: We have some dates.

Chris Gallo: Do we know the content, and all of that? I am hoping to getting everybody registered on the website.

Da’Rel Eastling: We can reiterate that message and drive it home, but it is the challenge of getting agreement in a meeting, and perhaps actually taking action which is not easy.

Chris Gallo: Why don’t we have a bunch of computers available that are secure, but I do not know if people would trust it? To have the computers available at the
meetings and log on, but nobody is going to trust that; not the way things are these days.

Da'Rel Eastling: We have tried that with some clients and it comes down to the individual participant’s comfort level of logging in.
Paul Hiller: We did get dates this afternoon for early November; two consecutive dates. The Mayor, Robin and I met this morning on that matter.

Chris Gallo: Do we have anything else?

John DiMatteo: Da'Rel, those stats were for the Money Purchase Pension Plan? Did you do the same for the 457?

Da'Rel Eastling: No, those stats at the very end were for the overall campaign. I do not have the specific stats for the Money Purchase Plan. On page 36, you see that the only results that we have is the web registration that went out, and that goes out three times per year: January, May and August. We sent out hard copy communications to 208 individuals, for the purpose of driving them to the web and 11% of them took action. There is no hard number but I will follow up with you in writing of what that number is. Virtually 22 participants out of 208 actually registered on the website.

John DiMatteo: The only thing specific to this plan is that one line.

Da'Rel Eastling: Exactly. We have to get this number higher in order to start seeing any results, so the main focus here is to start driving more activity to the web. In the Deferred Comp plan, we do see folks using that site, around 10-20% of the participants are using the web. For the Money Purchase Pension Plan, that is where we want to see more activity.

John DiMatteo: At the next meeting, we are going to be reviewing the investment monitoring report, and you were involved with some of the emails about the struggles that I am having on trying to get the data with my analytics tools. Can we connect on that? So we could make some progress before the meeting.

Da'Rel Eastling: Absolutely. We can definitely show you investment data. I think the challenges that we have seen between the firm and Prudential is more difficult for you and I to solve. I think getting the information that you need is not a challenge at all.

John DiMatteo: From the start, it seemed like the other existing share classes were available, but the new institutional share classes weren’t in there. I thought that was maybe a one-time fix, and it would start flowing but I will reach out to you.

Da'Rel Eastling: At a minimum, we will make sure that you have the detail that you need outside of that process.
Chris Gallo: Does anyone else have any other comments or questions?

Da'Rel Eastling finished his presentation around 6:30 PM.

**FIRE DEPARTMENT LENGTH OF SERVICE AWARDS PRESENTATION**

Chris Gallo: What I would like to focus on here tonight is to go over the responses to most questions that we had back in January, exactly what they were. I have a copy of the minutes from January.

Kathreen Sibol: I can either take you through the valuation, which will touch on a lot of aspects of the plan but I think you are focused more on tonight than having an overview of the plan.

John DiMatteo: I was asked to reach out to them, and try to gather their recommendation. They did provide a full blown response and recommendation to Mike Maglione and Merle Chase. I do not think that filtered back to anyone.

Mayor Lauretti: I have not seen anything.

John DiMatteo: I talked with Kathreen and Lisa, which was the Plan Administrator so we had a long conversation with all kinds of information that was already produced and really informative. It really helped me understand what we are looking at, and I think the recommendation of changing to an outside group term policy to cut costs will improve the benefits, improve the funding. My opinion based on the conversations, the recommendation is a good one. The only other thing that we could consider, there was talk by previous board members about self-funding this. I do not know much about that; we did not talk about that. If you would like to get into that today, then that is another item.

Mayor Lauretti: No I think that is discussion for another day.

Paul Hiller: I am just concerned about the administration on that plan.

Mayor Lauretti: That is discussion for another day. I think we need to understand what is in front of us, and what has been on the table for the last twenty years.

Chris Gallo: This report is dated September 2015; you (Kathreen) had provided this report to us back in January. Some where in here shows us what we have, the recommended contribution for the current plan year.

Kathreen Sibol: What this report is an actuarial valuation, and some of the things that are contracted to do is prepare you this report. It is a defined benefit arrangement in order to arrive at a recommended deposit, what needs to go into a plan valuation is performed. It looks at roster, specifications, a certain set of actuarial assumptions on date of valuation to produce a recommended deposit.

Chris Gallo: There are assumptions that have been provided to you.
Kathreen Sibol: By your independent actuarial service that contracts with us to do these programs; they do it across the country. So, they not only lay out the funding method but the principles, guidelines, assumptions themselves, that we would use to recommended deposits. As you look through this, there is a cover letter, the final calculation for this valuation of recommended deposit that includes three types of costs: life insurance, administrative actuarial and then recommended deposit to investment. The investment deposit is entirely yours; that $123,044 as you see on the second page is entirely yours. It goes into your group annuity contract, which is a fixed investment vehicle with Mass Mutual; the full net of expenses is 3%. That is where you are right now, but it does have floor permanent lifetime contract of 3%. It is a liquid account; it is effectively a checkbook with 3% for you. If you were choosy, you would like to diversify, we do have product that I have mentioned to you back in January that is relatively new through us. All of our plans since back in the 1980s have always used this fixed arrangement, through a group annuity contract. There is a vehicle through us, called HeroPlus, if you wanted to diversify into a stable value-equities mix of a certain portion of your assets. Whereas, the group annuity contract would remain as the anchor vehicle, is liquid and is currently you are not using individual annuities as a means to distribute a person's entitlement age and are due to receive those monthly benefits. Previously your program was purchasing, using plan assets, individual single premium annuities so you rid of the liability for the plan. It is now locked down with an individual annuity. Due to annuity rates, funded status of the plan you have chosen more recently to use that group annuity contract for your investment vehicle, which is liquid to cut those monthly checks. It features the contract with no fees involved for doing that, so the tax reporting, the check rating etc can and is being done by your group annuity contract as your investment vehicle.

Service fee VFIS and the actuarial fee is cut out of that $2,738 that you see there. There is the cover letter that people have been added to the plan noninsured because the life insurance applications were not completed. So you have different benefits going on in your plan simply because for one reason or another people have not completed their life insurance applications. Therefore, under the plan, whereas the insured death benefit is the greater of $20,000 in an amount equal to the face amount equal to the universal life policy, or the present value of their accrued benefit. Those persons simply have present value.

Chris Gallo: So if any one of these individuals passed it would come out of the fund?

Kathreen Sibol: That is correct.

Chris Gallo: That would affect the self-funding, but because we do not have an insurance contract because they did not fill out the paperwork. So that would be an extra cost to the City?

Kathreen Sibol: No not necessarily. This is different from all of the other arrangements that you were talking about. There are no separate accounts here, so
it is a group funded situation. You are projecting that certain benefits will be earned from these persons. So at date of death, if the present value of accrued benefit is the amount paid, it is the actual equivalent of years of service that are already performed; you have been funding for those benefits. It is just that it is going to be cashed out at the present value as a death benefit.

Chris Gallo: It would come out of the fund, as opposed to an insurance policy. So it would reduce the fund, and alternately we would need to put more money into the fund?

Kathleen Sibol: No, so what would happen is the liability that was projected for that person would go away and the cash would go away. I do not want to tell you that it is a wash, but there is a certain anticipation that –

Chris Gallo: So there is not an issue with the City because-

Mayor Lauretti: That is because there is a netting effect that takes place.

Kathleen Sibol: Yes. So there is a cover letter, so if there is anything specific to your plan of issue that will be noted in your cover letter. Then it moves into the valuation in itself. The plan specification page gives you an outline of any plan specifications that you have. Formal plan documents would go into greater detail.

For the past several years, we have been moving you to a more conservative grouping of assumptions that is recommended by the actuary; this has cost. Some of the effect that you have seen on the funded status, as well as recommended deposit. The funded status being suppressed every time we modify these assumptions, all things are unequal and the recommended deposit going up. Actually, the way that the pre-valuation that was done for 2016, at the grouping of the assumptions that the actuary would like to see for plans not utilizing individual annuities; currently you are not and I do not think you intend to for the next several years. The actuary is recommending that you be at least 70% funded before you go out and purchase annuities; you use plan assets to purchase annuities. You are not there so likely you are going to tell us, we are where we need to be in 2016, therefore under current guidelines, you do not need to adjust those actuarial assumptions anymore. You should start to see more level, year to year deposit. As a result, if you were to leave your roster the same, do not change your plan specifications, that should be the result of a projected plan benefit funding method without adjustment to actuarial assumptions.

Chris Gallo: Do we need to update our actuarial assumptions?

Kathleen Sibol: You are where you need to be in 2016, under current guidelines. You did see a little bump in it this year from last year, but you have arrived under the current guidelines. The quotes that we did which I am going to end up with here, that the quote that starts off assumes those improved assumptions. When we get to actuarial values, that is where you are seeing the 54% funded status and that is an
accrued funded benefit status before the GASB reporting. The funding status of the plan is a result of the dynamics that have gone on with your plan: roster changes. You had some significant roster changes some years ago. You have also reduced your entitlement age from 65 to 62, and that had a real effect on the recommended deposit. You have increased the dollar award per year of service under this plan, and that had an effect on the funded status.

Mayor Lauretti: Say that again.

Kathreen Sibol: As you have changed your benefit formula some years ago; you went from $10 per year of service award to a $15 per year of service award, so that has an effect on the funded status.

Chris Gallo: You need to give them more money?

Mayor Lauretti: No this has increased over the years, this fund. It started out as “x”, and it is now at “y”.

Kathreen Sibol: Some of the primary drivers are the specification changes that I had mentioned before, but just as well what I have mentioned prior to that was that we had to make more conservative, some of the actuarial assumptions that have been in the plan to recommend deposit. So, people are living longer, the mortality tables had to be approved, to be pushed to what is more current mortality tables. In the plan at entitlement age, the benefit will be paid on a monthly benefit for as long as the person lives. So if people are living longer, you need to put more money in the plan. The investment result has moved down 2%-3%; it has reduced. As a result, the long term anticipated result had to be adjusted as well. I would have to look back at old reports for you, but not more than a handful of years ago you were up over 5% as an assumed return; we have you at 4.75% now. That has a real effect on the recommended deposit.

Chris Gallo: That means you need to put more money in the plan.

Mayor Lauretti: No it doesn’t; not now.

Chris Gallo: That is what typically happens.

Mayor Lauretti: These are assumptions; they may or may not come true.

Kathreen Sibol: The next page is some GASB reporting; it is important with things that you want to do with the plan.

Paul Hiller: Back to the GASB reporting, you are saying that we only paid around $17,000 from last year; I do not know if there is a lag on that?
Kathreen Sibol: This was at the time that the valuation was done. What this tells me is that your deposit this year, as July 1, 2016 was your anniversary, and nothing was deposited yet.

Mayor Lauretti: It was $110,000.

Kathreen Sibol: As I am trying to get across, at the time that this valuation was done a deposit had not yet been made. The $17,000 was probably the life insurance premium. At the time this valuation was performed, which was performed on September 2015.

Paul Hiller: That probably was the life insurance premium.

Kathreen Sibol: As far as we know, you did pay the full deposit the last time I was here in January. You did have some balance due at that time; I believe now that balance was paid in full.

So now it is just giving you a head’s up of who is emerging from the plan, so that you will look for paperwork that will be provided to initiate the benefit distribution. Again, that paperwork will give you an election whether or not you direct us to purchase an annuity for the individual, or issue the monthly benefit from the investment account. We will then send you an email of the paperwork, and then the paperwork will be posted on the website portal.

So then, the report goes into the roster of your persons; you have about 181 persons that are covered by this plan, both active and inactive. That is people terminated and vested and do a benefit at entitlement age. I think a couple of entitled persons as well, do not have annuities in place and they are still being paid from the investment account, still liabilities of the plan. So for 181 persons, you are spending about $800 per person, per year for this plan.

Mayor Lauretti: Can you send us a copy of that roster?

Kathreen Sibol: It is in the report. The roster is provided and it shows the stats of each of the persons that are in your plan as of the valuation date. Filing them, we provide in this report, a plan asset report. So, you send the check to us and we allocate funds needed to pay life insurance premiums, to pay the actuary, to deposit into the investment account, etc, so this shows you where the money went and it is supplemented by a Mass Mutual financial statement.

When I was here in January, you had asked currently in your plan where it provides entitlement benefits at $10 or $15 per year, there is also a death and a disability benefit in the plan. The death benefit is an insured death benefit, where it uses a universal life insurance product that is a cash sensitive value account built into those universal policies. If you were to consider eliminating the universal life insurance policies, we have some cost illustrations on what would happen to the recommended deposit. Additionally, some group term insurance quote if you wanted to maintain
the $20,000 distribution in the event of death. If we remove the universal life, then
the death benefit in the plan would go a present value of the accrued benefit only;
lump sum distribution instead the greater of that or $20,000 amount. Separately,
group term policy, $20,000 face amount with the beneficiary of the participant in the
plan would not feel the difference. Actually, they would receive both, the present
value of the accrued benefit from the LOSAP plan and the coverage under the group
term policy, if you chose to take out a group term policy.

John, did you happen to forward the email that I had sent you with the figures on it?

These numbers were provided back in early February, within two weeks of my visit.
Your estimated recommended deposit for 2016 is $152,000. This estimate includes
investment deposit, life insurance premium (universal life insurance premium), and
actuarial administrative fees, so it is $152,000. The plan currently maintains life
insurance, using universal life insurance with a face amount of $20,000. The life
insurance makes possible a minimum of $20,000 distribution in the event of death.
In the event of death, the proceeds of $20,000 is tax free is issued to the plan and
deposited into the investment account. Then the plan issues a death benefit, which
becomes taxable, which is the greater value of $20,000 or the present value of the
group benefit to the participant’s beneficiary. The bottom line is that it becomes a
taxable event for the beneficiary using the universal life issued as a death benefit
from the LOSAP; that is federal law.

The estimated annual cost for 2016 without the life insurance; so stripping out the
universal life insurance portion. The death benefit goes to purely the present value
of the accrued benefit in the event of death. Without life insurance the
recommended contribution based on the actuary’s method and assumptions is
$128,000; so from $152,000 to $128,000. The estimate includes investment
deposit, actuarial administrative fees; this estimate assumes at approximately
$80,000 net surrender values of those life insurance policies is deposited into your
plan. By eliminating the universal life insurance, you are stripping out the cash that
was in the life insurance policies, and you put it in the plan to help fund the plan.

The estimate assumes LOSAP death benefit, the present value of the participant’s
accrued benefit only and there is no minimum $20,000 death benefit. The death
benefit, the present value of the accrued benefit is taxable as paid to the beneficiary,
under federal law.

One quote with the plan as is, is $152,000, the second quote is without any life
insurance; just a non-insured death benefit in LOSAP is $128,000. The third quote is
for 2016, the estimated premium to secure a $20,000 face amount of group term
coverage as we have quoted it for you, separate from the LOSAP is about $10,000.
Currently, I think you are spending about $17,000 if we look back at the valuation.
You are spending around $17,000 on the universal life insurance, so that is a savings
on life insurance. The same face amount of $20,000 upside is that the proceed will
be paid under the group term policy, directly paid to the beneficiary so that becomes
a tax free event.
Additionally, that group term product that we quoted has double indemnity in the event of an accidental death, so it will be double face and that is any cause to the accident. If it is line of duty, the way that had quoted it to you it would pay 100% over and above the face amount of the policy. So line of duty, accidental death is going to pay $60,000. The universal life in the LOSAP plan is only going to pay you $20,000, period and it is taxable. I am seeing that you have a fair of noninsured persons because the life insurance applications were not completed under the LOSAP plan. With the group term insurance, you do not have to forward life insurance applications because there are none. You would just have to give us a name, you pay the premium and there is coverage. That is the upside of it. The downside of it is that the group term premium will increase, separated in about every 5 years. Ages 20-24 you are going to see a certain premium, 25-29 etc. It would be small, incremental changes if your roster stays static. Universal life insurance premium, alternatively, is level premium as the way it is filed here in Connecticut, and as used in our program. It is based on the age of the individual for the premium, but then once stated it stays level until entitlement age, when the policy is dropped and the cash is pulled out and put into the investment account from that life insurance policy. Your primary tradeoffs to consider, if you want to maintain as is with universal life at $152,000, as actuarially projected? Do you want to drop the universal life insurance and go to non-insured LOSAP death benefit, for about $128,000 per year? Or, do you want to go to about $138,000 per year, which is the LOSAP without the life insurance and a group term policy on the side of about $10,000, so it would come to a total of $138,000 per year. Those are the three options that we have quoted for you.

Mayor Lauretti: I haven't seen anything; I have not seen the plan document.

Kathleen Sibol: I have all of the documents here; they can be found on the web portal that can be accessed at any time.

Mayor Lauretti: As far as changes to the plan document, I know there has been another group that just changed things as time has gone on but they cannot do that anymore.

Kathleen Sibol: There is a form that is completed by Shelton, to direct us who are the authorized parties for your program. It sounds to me that we need to get a new plan contact designation form filled out right now, as directed by the City of Shelton. Right now, Mike Maglione is the Plan Administrator; he acts as the city. That is the definition of Plan Administrator on the form. That is the signature that we look for; that is the person that directs the plan.

Mayor Lauretti: I do not know if there was any authorization for that? This probably goes back 24 years; we are all at a loss with respect to understand where we have started, what we have evolved to, and then going forward.

Chris Gallo: Do we know if the Board of Aldermen did that back then?
Bruce Kosowsky: Yes.

Mayor Lauretti: (Bruce), was it done back in 1991?

Bruce Kosowsky: Yes, and you signed it.

Mayor Lauretti: No I signed it back in 1992; I did not sign it in 1991.

Bruce Kosowsky: It went into effect in 1989 with a two-year deal.


Bruce Kosowsky: Yes, the document was all signed.

Mayor Lauretti: If the plan began in 1991, I did not not sign it in 1991 or at least I do not think I did?

Kathleen Sibol: I have the original document which was signed in 1992.

Bruce Kosowsky: It was in June 1992. We signed it off at the Board of Fire Commissioners in the beginning of the program when it started in the late 80s. The only thing that has changed in all of the years that I was Commissioner up until 2010, was the $10 to $15 benefit per year, and the entitlement age from age 65 to age 62. The original plan was 100 points and we had 75 points. The dollar amount per year was not retroactive. I was in the Fire Department for over 40 years, and I did not receive $15 for the 25 years. I received $10 benefit per year, and there was only 1 year that I have received the $15 benefit. We did not go back.

Kathleen Sibol: You started out with the face value of $10,000 on your life insurance 1991, when the plan became effective but the document was signed in 1992. It was set up and established in 1991; you had a $10,000 life insurance policy at that time. An amendment went to your plan that tells us the form of benefit, that this has to do with paying lump sums. That has sort of a negligible effect on anything. As of July 1, 1995, the face value of the life insurance was changed to $20,000, and the plan had started in 1991. In 2000, the entitlement age was dropped from age 65 to age 62.

Chris Gallo: So there were three things that were changed: $10 to $15 benefit per year, $10,000 to $20,000 death benefit and they dropped the entitlement age from 65 to 62. Who approved these changes?

Paul Hiller: The Fire Commissioners.

Bruce Kosowsky: The Fire Commissioners met, and then everything went to the budget for any increases that had to be approved; without an increase we could not approve them. We had to give the Board of Aldermen that information.
Mayor Lauretti: Like the City pensions, this is a City entity so the Board of Aldermen is the prevailing authority. Just like when we do a plan change to our City pensions, the Board of Aldermen approves the plan changes; we recommend. So, the Board of Fire Commissioners can no longer make changes to this document according to the new ordinance.

Chris Gallo: You do not have an option to change the death benefit unless we want to recommend something. We do not have the power to change, but to make a recommendation through the Board of Aldermen.

Mayor Lauretti: That is right because it is a City policy and it is a City document.

Chris Gallo: I thought part of the discussion that we had in January was if there was a more cost effective way of funding this plan than what we are doing? Could we use some other vehicle to fund this? Is there a better way to keep the benefit the way it is, but doing it in a way that is going to be saving us money today and going forward? I am looking for something that is going to be saving the City money every year. We can keep the same age, monthly benefit and the death benefit all the same. Is there something that we could be doing differently to drop the cost to the City?

Mayor Lauretti: Or have the fund generate more revenue.

Kathleen Sibol: Exactly, and that would be a way to lower the cost so reducing expenses or improving investment results would make the costs drop for this plan. No one knows what it costs unless someone passes away, but the actual cost of the plan will be relative to what you earned on your investment account and what were the expenses that you had paid. Right now you know that you are earning a net of 3% result on your investment account, net of expenses so you look at the admin actuarial fees, they are really your expenses over and above the net 3% that you are getting. If you want it better than a 3% result, which is your current result, would be to diversify but that takes on the risk. The account that you are in right now is risk free; it is a fixed investment account.

Mayor Lauretti: We just went through that discussion for year and a half.

Chris Gallo: That would mean that we would diversify how the funds are invested?

Kathleen Sibol: Then we would use a higher assumption. Let's assume if you left 50% of your assets in the group annuity contract, you know it is secure, liquid and is able to pay your benefits and you do not have to buy annuities; you can use it as your checkbook earning 3%. Let’s say that you put 50% of your assets in the Hero Plus investment that we have, then once over there you can determine what blends you want of equities to stable value. Doing that, the actuary would approve anywhere between 5% and 5.5% return assumed greater return to calculate that recommended deposit.

Mayor Lauretti: Bruce, Laura Fey, will she receive a death benefit?
Bruce Kosowsky: I do not know if she is still a member or not?

Mayor Lauretti: She is in the document. She got killed and her funeral is tonight. She was a volunteer fireman; I saw her name on the list and it peaked my interest.

Kathleen Sibol: If she was a participant in the LOSAP, she is going to get no less than $20,000 from LOSAP.

Mayor Lauretti: She was a young girl; she was 35.
Kathleen Sibol: Was it an accident?

Mayor Lauretti: Yes.

Kathleen Sibol: So she was not in the plan currently (looking at the roster). “T” indicates that she is an inactive member but she was vested in her benefit. So you have a graded vesting schedule so as of last year’s valuation date, the present value of her accrued benefit was $1,233. There was no life insurance involved because she was she was not currently a participant in the plan. She is a former participant of the plan but there is still an actuarial value that is tied to the years of service that she had performed. It looked like in the plan she did provide 5 years, so she is 50% vested in her accrued benefit value of $1,233. That was last year’s present value.

Chris Gallo: Plus the death benefit?

Kathleen Sibol: That is the death benefit for someone who is not currently a member in the plan.

Paul Hiller: She is going to receive $616?

Kathleen Sibol: We will update the valuation of the 7/1/16 valuation date, and it will be slightly more than this. If she was a current participant in the plan, then yes, she would have received the $20,000.

Mayor Lauretti: The other thing that got my attention was when you were saying there were some people that did not fill out paperwork for their insurance, the plan document should disqualify someone if they do not complete their paperwork.

Kathleen Sibol: What the document provides an insured and a non-insured benefit. It covers people regardless of whether people complete their life applications are completed.

Mayor Lauretti: My point is that once people know that they are not eligible, that will force them to do what they need to do.

Kathleen Sibol: This is your document and if want to write it that way, then we can certainly make that happen for you.
Chris Gallo: That is something that the City needs to figure out what they want to do. I do not know who has a purview over if we want to take some of the funds and invest some of the funds in a diversified pool? That would then allow the actuary to change the plan assumption, which would reduce the annual contribution.

Mayor Lauretti: That is a discussion for another day. This was helpful tonight because I have been refreshed of the foundation of what is involved.

Chris Gallo: I would like to know if we were to take 50% of the assets, diversify that money, what would the recommended rate of return be on the fund? What would the impact be on the contribution?

Kathleen Sibol: Very likely he will allow us to use a 5.5% long term assumption. These actuaries are tied to ages, and I am not sure what the ages are; you would probably see a noticeable difference in the amount of the recommended deposit.

Chris Gallo: They are probably working on a report right now for the current year.

Mayor Lauretti: I think that is part of what our responsibility is, is to know the answer to that and to use the best vehicle. It doesn’t affect any of the participants; participants will be made whole regardless so there should not be a discussion of what mechanism we use to generate value.

Chris Gallo: I would like to know the answer to that.

Kathleen Sibol: Lisa could have the answer to that tomorrow for you, if you want it. It is just a matter of plugging in the different long term investment results. That is a very easy quote for us to do.

John DiMatteo: Two questions that you may want to hear the answer to at some point: you are going to leave half as the checking account to pay benefits, then you are only going to have half, which is $300,000. You are probably going to have to look at 100% equity.

Kathleen Sibol: I think that would exceed the most aggressive portfolio that we have but that is not to say that could happen for you. What would happen if you were to look at this deeper, we would have the financial advisor come out and talk with you. HeroPlus is a product that is developed through Lincoln Financial. There is a portfolio manager that selects from MassMutual’s funds. I think the most aggressive blend is 70% equity and 30% stable value.

John DiMatteo: You would probably go with half fixed getting 3%, then you would want to go to the most aggressive if you are going to do anything. The other question is being you able to project out based on past historical data?
Kathreen Sibol: You do not know what your roster is going to be in 5 or 10 years. If you were to resume a static roster-

John DiMatteo: That would be the worst case.

Kathreen Sibol: Maybe or maybe not.

Chris Gallo: If you have young people coming in then it would go one way. If you have young people that come in for a short period and then you replace them with older folks, it would drive the cost the other way.

Mayor Lauretti: We need to formulate a set of questions is what we need to do. We need to put some thought into this, formulate the questions off to her and let her respond. That is what I think the approach is.

Chris Gallo: If we were to do this, it would only increase the risk by diversifying the portfolio and we are only going to save $10,000 per year, to me it probably does not make sense. We can save significantly more, and that is what we need to figure out.

Mayor Lauretti: Isn’t that the approach that we used with the pensions?

Chris Gallo: Well that is what we are trying to do with the people; for their piece of it. That is a defined contribution plan and this is a defined benefit plan; it took two different things.

Mayor Lauretti: There are two different mechanisms but the result you are trying to get is somewhat the same.

Chris Gallo: We are trying to get more money to the people.

Mayor Lauretti: The benefits are defined.

Chris Gallo: So all we can do is figure out on how much it is going to cost us to fund that.

Mayor Lauretti: I understand but at the end of the day you are still trying to generate more revenue to accomplish.

Chris Gallo: We are trying to generate more earnings to try to keep our costs down. Unless you want to decide to give the Volunteer Fire Department more benefits? I do not know; it is two different things.

Mayor Lauretti: I do not really have a problem with the changes that they have already made to the plan. The only thing that I might have opposed was going from age 65 to age 62. Other that I do not have a problem with anything else. When you take the textbook mentality of actuaries, I am not one that believes that we need to stockpile money when we have full faith, in credit have guaranteed to do something and we do it for 25 years consistently. I do not need an actuarial to hold my hand.
Chris Gallo: The document shows that the worst case scenario, the most that you would need to come up with is $225,000 if everyone came in right now.

Mayor Lauretti: We know that is not going to happen.

Chris Gallo: It would cost you $1.5 million.

Bruce Kosowsky: It was an awards program. They came and explained to us in New York that there was an issue on age, and that is how that started from age 65 to age 62 but we keep active after you are out of the plan, and in some states when you reach a certain age you no longer can be active; you cannot participate and still be a volunteer fireman.

Mayor Lauretti: The politicians are working against that.

Kathleen Sibol: What I would like to help with the angst about using an actuarial approach rather than paying as you go; paying as the distributions occur. What I can do so I could give you a feel for what that means for future taxpayers and future City boards is that will become a nightmare. These benefits are promised for life; a minimum of 10 years. You can tax people and you will need to do that, but if you look at this list these are the current persons that are receiving from your plan. Anyone that does not have an annuity in place would still be in your actuarial valuation; you are still funding for them. Certain persons on here still have an annuity; you are going to see that in the marked right hand column. They would not be in the valuation because they are no longer a liability in the plan. Anyone that does not have an annuity, they are going to come due at some point and the City is going to have to pay them a monthly benefit, under the Plan Document, for as long as they live. More and more people are going to fall into that category and it is going to create a huge liability that is just going to be pushed off to future taxpayers and persons. That is the rationale behind actuarially funding this so that situation does not occur, so when each of these persons reach their entitlement age and is able to afford to pay them their benefits. You have almost as many people out of the plan terminated but vested into a benefit, as you have in the plan and that is only grown to magnify as yours continue. As of this valuation, you have 116 persons that are active in the plan and there are 61 that the plan is going to have to pay a benefit once they reach entitlement age that do not have annuities in place for them, so the City is going to have to pay them a benefit. Once that benefit commences it is going to last for life, for a minimum of ten years; more and more persons will continue to fall into that category and you are going to see that liability mushroom.

Chris Gallo: Do you have a projection on it?

Kathleen Sibol: This is just an internal list, but projection of the persons that continue to be a liability to the plan would be seen under present value of the accrued benefit. That is a combination of actives and inactives.
Chris Gallo: I would like to see that accrued benefits number over the last five years.

Kathreen Sibol: Remember it is going to be affected by how many years, but we have adjusted those assumptions.

Your pension administrator did the calculation, including the $80,000 cash value under from the surrender of life insurance policies as one of the quotes. That raises your 54% assumption to a 59% assumption.

Chris Gallo: The forfeited money is the benefits-
Kathreen Sibol: It is $80,000 coming into the account. Do we need to get a new plan contact designation form filled out? We want to be sure that we are taking direction from the right person.

Chris Gallo: I think it is this Pension Board.

Paul Hiller: Send the information to myself or John.

Mayor Lauretti: I think we had this discussion with the attorneys, including our own and everything falls under the authority of the Pension Board with this included.

John DiMatteo: You (Paul) are going to work with her on that? I just want to be clear what my role is. As for the emails that you have sent me, I will forward them to the Pension Board.

**PENSION ADVISOR**

John DiMatteo: The next meeting is in the middle of September and we are supposed to review the investments. Can we confirm that meeting is going to happen? If it is not, we should make a Special Meeting around that date. Is everyone available for that meeting?

Mayor Lauretti: If we cannot that we can have a Special Meeting and we could all meet in the morning.

John DiMatteo: The contract will be ending the week after that I am under. I am not sure if the advisor situation is going to be on the open item list?

Chris Gallo: Yes it is on the open item list.

John DiMatteo: The 457(b) plan restatement, they are supposed to give us the final details on that. We are going to have a call to go over it. Paul and I will go over it to make sure that everything is kosher. I do not know if you would want any attorneys reviewing it? At some point that will come back to the board to approve, so that is in the works.
There is an email clarifying the revenue sharing. Where does that stand?

Paul Hiller: I will take care of that.

Mayor Lauretti: Is that time sensitive?

John DiMatteo: No but it is very important so there is no reason not to put it to bed. I do not think it needs a signature from you; it just needs some acknowledgement from you or Paul or Chris. I cannot do it myself.

Mayor Lauretti: This is the balance of the assets in the Forfeiture Account?

John DiMatteo: There are some revenue funds that are generating some revenue from the investments that are supposed to go back to the participants. Paul and I had a discussion with Prudential and clarified it.

Mayor Lauretti: Is this the 401(a) or the 457?

Paul Hiller: 401(a).

Chris Gallo: The other issue was the Board of Ed having some other board or advisors for their plan.

Paul Hiller: That is for the 403(b).

Chris Gallo: That plan still needs to be under this Pension Board.

Paul Hiller: When John was originally selected, we carved that 403(b) out; it is through Metlife.

Mayor Lauretti: I do not know if it is a City sanctioned plan like the others?

Chris Gallo: All we need is a legal opinion on it, to see whether it is or not.

John DiMatteo: Can I add that to the open items list?

Chris Gallo: Yes.

John DiMatteo: So who is doing what is next on the Firemen’s Plan? I am going to forward the emails that I have received from Kathreen to the group and Brittany, so it is on the record.

Mayor Lauretti: I think we are going to spend some time understanding the plan document, looking at the plan and formulating some questions for the next meeting.

Paul Hiller: I want to meet with Mike to see where he is on this.
ADJOURNMENT

Paul Hiller MOVED to adjourn the Special Meeting of the Pension Board.

SECONDED by Paul Hiller. A voice vote was taken and the meeting adjourned.

The meeting adjourned at approximately 7:00 p.m.

Respectfully submitted,

Brittany Gannon

Brittany Gannon, Clerk of the Pension Board