



BOARD OF ALDERMEN
SHELTON, CONNECTICUT
FINANCE COMMITTEE
SPECIAL MEETING MINUTES
THURSDAY, MARCH 6, 2014

CALL TO ORDER/PLEDGE OF ALLEGIANCE

Alderman Kudej called the Special Finance Committee Meeting of the Board of Aldermen to order at 5:00 p.m. All those present rose and pledged allegiance to the Flag of the United States of America.

ROLL CALL

Alderman Stanley Kudej, Chairman – present
Alderman John F. Anglace, Jr., President – present
Alderman Anthony Simonetti – present

ALSO IN ATTENDANCE

Mayor Mark A. Lauretti, City of Shelton
Paul Hiller, Finance Director
Atty. Thomas Welch, Corporation Counsel
Alderman John “Jack” Finn

AGENDA ITEM

1. PENSION BOARD ORDINANCE

Discussion:

Alderman Anglace: This was referred to the Finance Committee by the Full Board; there were a number of questions that were asked at the last Full Board meeting. The first question that was asked: Whom is the Pension Board going to report to? We said that question get be discussed at this meeting. In my view, the Pension Board reports to the Mayor; it is an administrative function. We should put a guiding principle in the

ordinance that says it will report to the Mayor. Perhaps the Pension Board needs to submit an annual report to the Aldermen.

Mayor Mark Lauretti: The Pension Board does not really need to report to anybody. The mayor, or who ever the mayor is, on the Pension Board.

Alderman Anglace: So it is an administrative, not a legislative function.

Mayor Mark Lauretti: It is an administrative function. They really report to the state and federal statutes because they have certain obligations to follow. They would also report to the people that they serve.

Alderman Anglace: It is a standalone body, with the Mayor heading it up. What we would like once we create it legislatively, and then you do what you want to do. We would like to know once a year if everything was in order.

Mayor Mark Lauretti: I think it can happen one of two ways: you can do it through the City audit, because the pensions are referenced in the audit. Or, just ask annually through the report of the status of the pensions.

Alderman Simonetti: Then do they directly report to the Full Board?

Mayor Mark Lauretti: They do not need to report to anybody, but if you want a report you would just ask them for the report because it is public information.

Alderman Anglace: It would be acceptable if the auditor wanted to take a look at the report and include a statement with the audit, to the fact that he reviewed it and everything looks good.

Mayor Mark Lauretti: In which they are fulfilling their fiduciary responsibility.

Alderman Anglace: What we are saying is that the Pension Board does not report to anyone.

Paul Hiller: I think one of the intents is that they provide a layer of oversight to all of the pensions. There has been a lot of scrutiny over the past dozen of years on government pensions. I think our attempt is to get a level of expertise that is available in the City, to bring in people that will advise, counsel, and keep everyone updated on changes and regulations and changes in the statutes because there is a lot of scrutiny that these things are under, but alone the audit. This is to also guarantee that the monies that the city invested, that employees have invested is properly cared for.

Mayor Mark Lauretti: When you say annual reports, you do not do annual reports on pensions. It is not like the City budget where there is a start and an end date. These pensions are subject to the fluctuation of the market every single day, so they just keep on moving.

Alderman Kudej: There should still be a status report done periodically. I do not know if it is once a year?

Paul Hiller: The reporting would probably be on a quarterly basis.

Alderman Kudej: You are always playing with money when you are investing.

Mayor Mark Lauretti: Right, however, they are subject to change to additions that the market dictates.

Alderman Kudej: So you cannot let the board look at it by themselves.

Paul Hiller: The board will not only look at it by themselves because there are union and labor contracts that are also involved.

Mayor Mark Lauretti: Not here, Paul. The labor contracts are silent on the pensions. The City, by an ordinance, created the pensions years ago. The pension has just been evolving over time. Part of what we are trying to accomplish is some oversight to put in place that monitors the activities of the investments, and the trends of the pension depending on what the market is doing. We are in the process of hiring a broker of record as we speak because we need some guidance and some expertise in making sure that the funds are invested in the best places.

Paul Hiller: As the Mayor indicated, we are going through a process interviewing, and John has another document that one of firms has left for us. We had asked them to review the ordinances that were presented to the Board of Aldermen as a whole, with their comments. I have a compilation of some of the comments that we received back, and one of the buzzwords of today is "best practices". What are the "best practices" that we can do? There is some valuable advice on how you want to expand or modify. This board should have some continuity, particularly the outside members. We do not want to appoint three new people and then have their terms end at the same time; we want them on a rolling basis. We have three people to build up some expertise and longevity on the board. You do not want them all leaving on the same day.

Alderman Finn: Are you looking to give the members a 1, 2 or 3-year term?

Paul Hiller: An attorney would tell you how to set up the wording so it is not stagnant, and on a rolling basis. There is also the question if there is going to be employee representation?

Mayor Mark Lauretti: I oppose to that. I am representation by virtue of my position, alone.

Alderman Anglace: Here are some of the things that I picked up in the minutes from the last Full Board meeting: essentially we agree that it is an oversight body that

monitors investments, or does due diligence on the investment options. That is something that your Pension Board would develop a part of your practice.

The composition of this group will be 5 people: the Mayor, Finance Director as permanent members, and then there will be 3 other members that will be appointed by the Mayor.

The other question that came up was if the Board of Education, that has similar type of investment plans, covered under the Pension Board? Is this citywide? Does it exclude the Board of Education?

Paul Hiller: You cannot exclude the Board of Education because the 401a plan, which is the largest plan, has a number of Board of Education employees in the plan. There are no people in the 401a that are covered under the State plan, but those such as secretaries, maintenance/ custodial workers and other non-certified personnel are included.

Alderman Anglace: Are they already setup and have the oversight?

Paul Hiller: They are already in our plan. They also have their own plan: the teachers for example, participate in the Teacher's State Retirement Board because they are paying into it and the state is paying into it. They also have a 403b plan; they have an advisor and Metlife is basically handling the money. Those monies are essentially put in on a voluntary basis.

Mayor Mark Lauretti: This may be more of a legal question than anything else: the Board of Education is a separate employer, but they are City plans that have been co-mingled over the years; that was part of its inception when it was set up. When was the ordinance set up? Do you recall?

Atty. Welch: I believe it was set up in the 70s.

Mayor Mark Lauretti: Time has certainly changed, but this document has not. The other legal question that I have: who becomes the fiduciary once you set up a Pension Board? As it sits right now, the Mayor is the fiduciary and that is something that should have been changed a long time ago.

Atty. Welch: I would think that the trustees of the plan would be the Pension Board.

Mayor Mark Lauretti: The fiduciary of our plans?

Atty. Welch: Correct. They would be the trustees.

Paul Hiller: Quite frankly, something else that came up in our discussions is particularly the private ones; we may have to buy a policy from them.

Atty. Welch: I know there was some concern over the lack of "meat" in the ordinance, so to speak, but in reviewing ten ordinances from other towns. You provided that the Pension Board shall serve without compensation and shall have charge of the general direction and management of the pension and retirement funds managed by the City. General direction and management- you cannot get any better than that. It also says they have the right to hire whomever they think is necessary from advisors, brokers, clerical, legal, or actuarial that they may need. The ordinance is saying that you are in charge; you are the fiduciary and the trustee of it. To define what you are going to do, or trying to define it in an ordinance, your jobs are duties shall be this. General direction and management is under the Pension Board. Personally, trying to detail any of their direction, I think will almost be limited.

Mayor Mark Lauretti: I agree with you. They need the freedom to be able to exercise their options, and to manage the pensions. As it sits right now, it is currently the Mayor's responsibility and I think that is wrong. It was wrong twenty-three years ago and it is wrong today. You cannot expect a mayor to have expertise in this area because sometimes mayors come and go within short periods of time.

Alderman Finn: Financial advisors cannot make a change without the party's approval.

Mayor Mark Lauretti: Yes they can; they are managing the pension.

Alderman Finn: My financial advisor cannot make any changes, unless he contacts me.

Mayor Mark Lauretti: That is you, your plan. You are the fiduciary of your plan.

Atty. Welch: These are pension funds that are not individual accounts; they are not segregated funds per employee. They are overall pension liability, pension funds.

Paul Hiller: The bulk of the money is invested in one fund. In order for the City to match 6%, the employees are contributing 3% of their salaries.

Atty. Welch: Alderman Finn and I are talking about the same thing: a financial advisor on a segregated account, for a specific employee could be donor-designated.

Paul Hiller: The employee does hold the right to direct percentages of the funds.

Atty. Welch: I see, I was not aware of that.

Paul Hiller: We basically have eight mutual funds that do hold about 15% of the money.

Atty. Welch: You can tolerate your risk differently.

Mayor Mark Lauretti: However, the employees do not have the authority over the plan that is being offered.

Paul Hiller: We are not reviewing those funds; we are not looking at the funds to say that this fund is good, this fund is performing at or above market or to put funds on a watch list. Another recent item in this arena are "target date funds", when you take the person's age and estimate when they retire in 2025, per say. The manager invests with a certain degree of risk, which would be a lesser risk if someone were to retire in 2040.

Alderman Finn: If the manager invests the money, will they provide the employee with a report of how everything is going?

Mayor Mark Lauretti: The companies, under law, are required to do that. The companies send direct statements to you.

Paul Hiller: The people do get a prospectus in advance; this is what our goals are. You cannot say to go buy this bond, or that stock because they are not going to listen to that.

Atty. Welch: There is going to be some heavy lifting for this board.

Mayor Mark Lauretti: There will be heavy lifting only in the beginning, until they evaluate the plan that is in place and if they decide to make changes to it.

Alderman Anglace: Here is a book that Robin has picked up.

Paul Hiller: One of the firms gave us this copy. That is why I mentioned "best practices".

Alderman Anglace MOVED to recommend to the Full Board of Aldermen, the adoption of Pension Board Ordinance that was mentioned at the January 28, 2014 meeting for approval. SECONDED by Alderman Kudej. A voice vote was taken and motion passed 3-0.

ADJOURNMENT

Alderman Anglace moved to adjourn at approximately 5:20 pm; seconded by Alderman Simonetti. A voice vote was taken and the motion passed 3-0.

Respectfully Submitted,

Brittany Gannon, Clerk
Board of Aldermen

DATE APPROVED: _____

BY: _____

Mark A. Laretti
Mayor, City of Shelton