SPECIAL
PENSION BOARD MEETING
Shelton, Connecticut
THURSDAY, JANUARY 21, 2016

Call to Order / Pledge of Allegiance

Vice-Chairman Gallo called the Meeting of the Pension Board to order at approximately 5:00 PM. All those present stood and pledged allegiance to the flag.

Roll Call –

Mark A. Lauretti, Mayor – not present
Paul Hiller, Finance Director- present
Christopher A. Gallo- present
J. Allen Kosowsky- not present
Anthony Minopoli- present

Also in Attendance:

John DiMatteo, Pension Advisor
Kathreen Sibol, Glatfelter Specialty Benefits
Michael Maglione, Board of Fire Commissioners, Chairman

Agenda Items

PUBLIC PORTION- None.

APPROVAL OF MEETING MINUTES

A. 12/23/15 Regular Meeting

Paul Hiller MOVED to approve the 12/23/15 Special Pension Board Meeting Minutes.

SECONDED by **Anthony Minopoli.** A voice vote was taken and motion passed.

REPORTS FROM:

- **PENSION BOARD CHAIRMAN – NONE (Chairman Kosowsky was not present at the 1/21/16 Special Pension Board Meeting).**

- **PENSION ADVISOR**

John DiMatteo: As far as the operations of the plan go, there is a continuation of the semi-weekly conference calls with Prudential; I have sat on a couple of calls. There are mainly logistical issues that we are dealing with.

Paul Hiller: There are always a few minor glitches there but there is nothing that seems extraordinarily unusual. Both the Board of Education and the City of Shelton are still trying to coordinate payrolls with them. It seems each payroll period brings us closer to that, so we could direct more than waiting for stuff to come back.

John DiMatteo: Since the last meeting we did get the service agreements signed by both parties and they have been put to bed. Did the addendum also get signed as well?

Paul Hiller: Yes I believe so.

John DiMatteo: The Mayor signed off on the 457 plan document so that was put to bed. So the next step would be to re-state on Prudential's plan documents for both plans. The board talked about in the past making changes/adjustments to these plans to modernize or improve them. I am not quite sure whether the goal is to restate onto the Prudential documents now, and work on the changes later?

Anthony Minopoli: John, would it be more efficient to open the hood once and do it all at the same time?

John DiMatteo: There may be fees associated to amending the plan, I am sure but I do not think that they are going to be significant fees. In that respect it is more efficient but I know talked to the Mayor offline about it with Paul. Paul, would you agree now to restate, get onto their document and we would have time to address the other things?

Paul Hiller: I think the question is whether there are other items that need to go before the Board of Aldermen?

John DiMatteo: We talked about that and there seems to be a lack of clarity on who has the authority to do what.

Chris Gallo: Well it sounds like something to do with spending money. If there is a revision in the plan that is going to increase the cost to the City-

Anthony Minopoli: We do not have the authority to do that.

Paul Hiller: I do not see that there is anything that I could envision.

John DiMatteo: For example, adding the Roth option to the 457 Plan; adding loans to the 401a Plan?

Anthony Minopoli: Those options are modernizing the provisions to make this plan look like a traditional 401 or a 457 today. I appreciate the Mayor's position, except to the extent on by waiting and doing this in a two-step process. If it is a huge amount of money, I would rather do this once and be done with it. If it will be a minimal amount of money, then I do not see a problem with doing it in a two-step process.

John DiMatteo: I do not see any significant costs or legal fees. I did not get a response from Prudential because they asked about the VCP, and I said that was filed. I asked them, do we wait until it is filed because it is already done? Or until it is responded to, which is going to take months. They are kicking it around on their end; they did not get back to me, so that would affect on whether or not we could do it. We could restate for the 457 Plan any time on that; outside of that there is no legal review. Also looking back on either the September or the October meeting, my responsibilities in this interim period was to get the plans restated onto Prudential's documents, to get these changes moving along but we are not making any progress on that, as far as what the board could approve or disapprove. If we want to restate on the Prudential documents this board needs to vote on it. Then I will go ahead and they will start the process.

Paul Hiller: I think that we should probably proceed on that, frankly as soon as the February meeting. We have known that it was coming.

John DiMatteo: My opinion is just to do it because of the amount of time that it is going to take to make the adjustments that are going to make sense for the participants. It could be a while before we can get it in to the system.

Anthony Minopoli MOVED to take the first phase in restating the 401(a) and 457(b) Plans to be in compliance, and onto the Prudential documents.

SECONDED by Paul Hiller.

Discussion

John DiMatteo: Maybe in between meetings, something needs to occur to get some clarity on how the review of updating the plan provisions could take place. Is the board able to review and approve?

Anthony Minopoli: Is that something that we need to go to Tom Welch for?

Paul Hiller: Possibly so. The only thing that I could foresee potentially involving the Board of Aldermen is that we are the real outlier on the tax status of the 401(a) plan; to me it is insane. Uncle Sam would give few breaks and we are not taking the big ones out there, and we are the only ones that we could find that is not taking that break.

Chris Gallo: It saves the employees money and does not cost the City anything.

Anthony Minopoli: What I do not want to do to go forward to make a decision, say do do this and find out that we lack the standing to do it and then it becomes a problem.

Chris Gallo: To me it seems as though we could do only what we could do, from what remember of 2 years of going through this process. We could do what we think is necessary, but for the means of spending some money, in terms of incurring funds it is going to cost more because we are paying employees more, etc.

Anthony Minopoli: I think these are compliance and conformance issues.

Chris Gallo: Why don't we move it forward, subject to the possibility or just knowing that someone tells us a month or two down the road that we are in the wrong ballpark.

John DiMatteo: I agree. Maybe at the next meeting we could have a discussion on the provisions that are on the table and updating them, perhaps voting on the updating of the plan provisions and to see if the board would like to move that forward. Then they would be able to figure out where it goes from there.

Anthony Minopoli: Who do we need to engage for that? Would we need Pullman & Comley here for that?

John DiMatteo: The only issue that I see that has hair on it is the issue of trying to change the 401(a) plan so that participant money goes in pre-tax. The only way we could do that is adopting a pick up provision to the plan, which is what everyone uses. What that really means is that when an employee is hired and they are eligible; right now they are offered the plan and they could choose to enroll or not enroll. If the eligible employees do not enroll they will not receive the 6% City match, and if they do enroll they will get it. As well, if they get out later they could get in later. If you choose this pick-up provision, if the employee is hired and is offered the plan and chooses not to enroll at the time, they cannot enroll. That is the difference. They are eligible when they work for 1 year, and if Paul says they are eligible do you want to sign up? The employee says no, I do not want to sign up, the employee can never sign up again. If you change the plan to have that pick-up provision, that changes the process of the employer and the employee money going in on a pre-tax basis. I would like to have a conversation about that item for the next meeting, assuming there is nothing else major on the agenda.

Anthony Minopoli: Maybe talk to Allen before hand to see what he wants on the agenda.

Paul Hiller: The only other thing that I could think of was "Plans at a Glance" discussions back in the summer time, is rather than having a semi annual sign up period, is to have a monthly sign up period. Let's say that someone gets hired February 15, 2016: they have a one-year period to wait to enroll in the 401(a) plan, but they could not sign up until September 1, 2017; so that is 18 months after the hire date. What I am saying is that if you were hired February 1, 2016 and you have met the one year vesting requirement, that you would be able to join the plan March 1st of the following year after start date.

Chris Gallo: I am sure that could be done.

Paul Hiller: I think that type of language is in the Prudential document.

John DiMatteo: I think Pullman & Comley have already reviewed these provisions and was fine with all of them.

Paul Hiller: What it does is that it gets the City off the hook long term because the onus is on Prudential for updating this and any changes that come from the IRS/Congress, or restating it and we would not have to do a VCP twenty years from now.

A voice vote was taken and the motion passed unanimously.

John DiMatteo: Outside of that I sent you all reports.

Anthony Minopoli: We should make sure at the next meeting that Pullman & Comley will be here for that for the discussion so that item could get clarified.

John DiMatteo: I will communicate with the Mayor and Allen.

Anthony Minopoli: Then Allen will decide as Chairman, whether he could invite Nanc and/or Sharon. I would think Sharon would be more appropriate than Nancy.

John DiMatteo: The reports that I sent to you earlier, there is not a lot of pertinent information on them. Surprisingly Prudential could not produce anything yet, and they thought that at the January meeting there would be enough time to have some meaningful information to report. What they are saying to us now is that six to eight weeks after the quarter ends, which even the February meeting may not have the types of reports that will show what is going on behind the scenes. I noticed that very little money is getting moved out of the Guaranteed Income Fund. There has been some activity, but not much.

Paul Hiller: I moved unfortunately.

John DiMatteo: Last thing is the expenses paid from the plan, and the fact that the Forfeiture Account is going to be used for awhile until we draw it down. There is no expense being built into the 457 plan for it to pay its fair share, so if that is an issue the only way Prudential will move on it is for the board to vote on what they want to see happen. I do not know if you are prepared to do that, or you have to do that today?

Anthony Minopoli: I would rather have Allen here to have that discussion.

Paul Hiller: As well as the Mayor being here as well.

Anthony Minopoli: Each plan should pay its own pro rata share of the fees.

John DiMatteo: It is an open item so I am just reporting it. I would rather have the Mayor and Allen here, however, my preference is that the plans pay for themselves.

<u>FIREMAN'S PENSION PLAN PRESENTATION</u>

Kathreen Sibol: Normally when I do plan review sessions as I have done with you in the past, I review all of the plan specifications, rosters, plan provisions, actuarial status.

Anthony Minopoli: We want to make sure that we have a well funded benefit; the question that we were talking about going forward basis, does it make sense to keep this plan in an annuity, the expenses associated with it, and what would be the alternative be? We are trying to figure out what the most cost effective way, and whether it should be wrapped in an annuity/ not in an annuity?

Kathreen Sibol: There are two different types of annuities in your program: one is the investment part which is a fixed investment with a guaranteed principal of a minimum of 3% over the term of the lifetime of the contract. That investment vehicle could be used to issue benefits; it is a feature of the contract. So where you are earning currently 3%, your group annuity contract will issue monthly benefits to your members if that is the method that you should choose.

Anthony Minopoli: It is not being used now?

Kathreen Sibol: On certain people it is; you have chosen the last year or two. You direct; the City will tell the sponsor. There is an election form that is given to you and we are directed how to initiate the benefit distribution to the members. If you want an individual annuity to be used then we could use the plan assets from the investment account to purchase a different insurance product, called an individual annuity. The transfer of risk in insurance, like the mortality risk, investment risk by purchasing an annuity or an individual group annuity, in this case the transfer of risk to lock in the investment to an insurance carrier so you have these alternatives directly at the control of the sponsor.

Anthony Minopoli: Are we better off funding and paying the benefits out of a group annuity contract, as opposed to them purchasing these individuals? Right now with the interest rates at the way they are, these annuities can be painfully expensive and we are probably not going to get the 3% minimum guarantee.

Kathreen Sibol: Currently the interest rates on the annuities are certainly more expensive as we have ever since them, since we have initiated back in the 1980s. That does not make them a bad product but certainly some will consider that when using your money that way to purchase annuities. The personal transfer value of that eases the administration of the program does not gain expenses; there would be expenses either way. Certainly there are insurance product commissions, policy expenses that are built into the premium. If you do pay for the group annuity contract, your investment vehicle, you will maintain a responsibility as a sponsor of the expense of tracking those to make sure there is sufficient amount of money to pay the members for as long as they live because these benefits will be paid on a monthly basis; at least for ten years for these two members but as long as they live. By not purchasing an annuity, your plan retains the responsibility of directing the payments for the life of the individual. That is the tradeoff; there would be an additional value with a larger expense.

Anthony Minopoli: So you buy the annuity, you not only shift the assets and the liabilities and the recordkeeping to someone else. The other option is to hire a third party administrator.

Kathreen Sibol: The beauty of the contract is that it is going to do it for you, saying that it was built into the contract. Certainly that net 3% of the expenses that you are earning on that contract includes that feature.

Anthony Minopoli: Let's say that we have an "x" number of retired firemen that are now in annuitant mode; we stay with the group contract solely. Is their expense back to the City associated with saying out of that group contract we want to pay the monthly annuity checks?

Chris Gallo: It is built into the initial cost of buying the annuity.

Kathreen Sibol: I think you are talking about not buying the annuity, right? Leaving money in the group annuity contract to a lesser vehicle, and paying directly out of the group annuity.

Anthony Minopoli: Correct.

Kathreen Sibol: There is no cost from the group annuity, per se. If you maintain the records there are bookkeepers so there is an expense incurred for us to maintain records for you to make sure the claims are made, so it is not expense-free. Mass Mutual, your group annuity carrier, is not charging you an expense. You are being charged by us for an administrative fee.

Anthony Minopoli: So you are acting as Mass Mutual with the recordkeeping but you are the one that is charging the administrative fee?

Kathreen Sibol: Yes.

Anthony Minopoli: Do we have the ability under this structure to say interest rates are not where we would like them to be, in respect of buying individual annuities. Basically we are going to exercise judgment that if interest rates back up to a point where purchasing an annuity becomes an economically advantageous option, that we decide to strip the assets out of the group annuity contract, buy individual annuities that are a price advantage for the City. That is what we could do.

Kathreen Sibol: So not only at that point you could say this member is going to meet his minimum age and I want to buy his annuity now. You could do that when it is in a better position to purchase the individual annuity when they are less expensive than they are now. Not only you could buy his annuity at the point but all of the others that you have stepped away from you could pick them up at any length of time when they are in a better position.

Anthony Minopoli: That would give us some flexibility in doing that. Is there a number of times per year that you can do that?

Kathreen Sibol: No that is totally up to you.

Anthony Minopoli: One of the things that we were kicking around is that obviously this is a liability of the City.

Kathreen Sibol: The City is named as the sponsor for the Length of Service Awards Program.

Anthony Minopoli: The City of Shelton wants to continue to do this, but I am trying to see what is the most cost effective way of doing this, and given a lot of expense that can be associated with annuities if they have decided to self-fund this, higher TPA, higher third party administrator to continue to handle it and go that route. Is there anything legally precluding the City from electing that option?

Kathreen Sibol: Not to my knowledge, no. What do you mean by self-funding?

Anthony Minopoli: Scraping the annuity saying that it is going to cost us hundreds of thousands of dollars of the year; we are going to make that payment and we are going to pay as we go.

Kathreen Sibol: Are you familiar with the downfall pitfall historically of that approach? That would not be an approach that would be typically used through the VFIS; our actuary would not certify an approach like that but that does not mean that you cannot do something like that as the City, and that does not mean that we would not serve as an administrator if you chose that route.

Anthony Minopoli: Essentially you max out the number of years of service. $375 is the maximum benefit after a certain number of years?

Merle Chase: Yes that is correct.

Anthony Minopoli: I think that what we ultimately want to do is say what is the expense maintaining the group annuity? It looks like the City needs $120,000 to fully fund this plan as of September.

Kathreen Sibol: I do not want to correct you but that is the annual recommended amount.

Anthony Minopoli: So this is not a required payment but a recommended payment by the actuary?

Kathreen Sibol: Yes they call it a minimum recommended deposit.

Anthony Minopoli: So we could go the group route, pay the number and the administration fee, pay the benefits. If the rates get to a point that we like, the money would transfer out of the group policy to an individual annuity. If a guy enters it is a 10 year certainty.

Kathreen Sibol: That is for as long as he lives. That is whether it is paid from the investment account or from the City.

Anthony Minopoli: However if we self-insure we would have to do that as well; that is our plan provision. What we ultimately need to get at is what the options are and what the cost will be.

Chris Gallo: This sounds to me that this is a defined benefit plan. The participants get a fixed amount of money; a minimum amount and it depends on how long they will live once they start collecting.

Anthony Minopoli: The difference between this and a defined benefit is the period certainty that acts as an annuity function. If he retires and the next day he goes, for the next 9 years and 11 months his estate/widow as the beneficiary would collect.

Chris Gallo: If you started collecting 15 years ago you are going to keep getting it. There is an actuarial calculation that can be made.

Anthony Minopoli: I like the ability to say the annuity prices are too high right now, we are going to stay in the group plan.

Kathreen Sibol: There are individual annuities that are inconsequential to whether you may or may not want to keep this here. They are not required to be used in the plan; you can use your investment vehicle in the group annuity contract to issue those monthly benefits. The crooks of this is the funding of the plan on how you want to fund it now.

Anthony Minopoli: Well funding and fees.

Kathreen Sibol: So funding, let's talk about that for a moment; you have mentioned self-funding. The funding method that you are using under your VFIS plan is first of all, this is a defined benefit arrangement as opposed to a defined contribution to your members after a certain number of years of service, and a certain dollar amount would get distributed to your members. To that work, actuarial work needs to be done to project costs, etc. So that is the funding arrangement setup or design that you have in order to accommodate these distributions that you are also going to make to your members. If going to the self-funded route, you would likely be using the actuarial approach. You would simply recognize when they reach entitlement age, and whatever the amount is per month would have to get paid. You are a taxing entity so you may be thinking that there would be tax dollars available to do that. We have one client in the United States that does do that. The actuary does not certify or recommends it for that, or does not certify that it is sound and that there are available funds to ensure that each of those individuals are funded. We do provide administration for that plan; they do use the group annuity contract as the investment vehicle.

Anthony Minopoli: So we had an EBO of $1.1 million, and only plan assets of $600,000. As projected benefit obligation, do you increase the number of firefighters? Within that projected benefit what assumptions are you using?

Kathreen Sibol: Tony is looking at the page of the actuarial evaluation report, that is called the actuarial values. The first figure is what is the City is asking the present value of the projected benefits. The funding method that is being used in this plan is called a projected benefit funding method; there are a variety of actuarially acceptable methods that could be used alternative to many improved methods such as a pay as you go method. In this case it is called the projected benefit funding method. This method has been used since the inception of this plan, and what it does is looks at each member that is active on your roster. It projects out to their entitlement age of collecting the benefit, the accrued years of service and what they might earn to entitlement age. The method targets to ensure by recommended deposit is that each and every one of these persons, if they do stay until entitlement age, there will be sufficient money to the point when they reach their entitlement age.

Anthony Minopoli: It is starting from static population, in terms of the population that existed within the plan. There is no assumption for headcount. I do not know how many volunteer firemen there are in the City of Shelton, but let's say that the number is 300. If we start today, are we saying that we are carrying the projected value of those 300 firemen assuming they stay?

Kathreen Sibol: No, this valuation is performed annually. So each year we receive updates on who was terminated from the plan and who has joined the plan. All values in this report is data as of current data as the valuation date, so in this case it was 7/1/15. The projected benefit value not only includes your active members as of 7/1/15, but your also your inactive members, former participants who were vested who will eventually receive a benefit later, and ones who do not have an annuity in place and who are no longer a liability in the plan. If you have purchased an individual annuity for them, took assets and paid the carrier, then the insurance company is not held responsible to find them, pay them their benefits. So this report is all persons that you are reliable for, as of 7/1/15.

It is important to look at your roster, your data as a valuation date, what are the specifications as of the valuation date and the most important piece are the actuarial assumptions. If you look at the bottom of the page you look at the assumptions that were used on this valuation. We know who your roster is, we know what we are promising them of the specifications. Now what we have to do is wait to see what happen out into the future by asking how long do you think these people will live; that is how long the benefits will get paid once they commence. What interest assumption do we think that you will earn on your investment? These assumptions are used in an aggregate; not individually necessarily and your aggregate is not in the long term. One of the things that we have been working on with you for the past several years is to increment you to a more conservative mortality rate; people are living longer and these payments are going to be made on a longer duration, than years ago when the plan first started. You are not quite at the grouping that the actuary would like to see if you would like to get back to the one that was purchased.

So when talking about funded status, it is about assets as compared to present value of accrued benefits at a point in time. That present value of accrued benefit is as good as the underlying assumptions. We want reasonable assumptions and to that end, we have a little further to go. If you want to use assumptions that are approximate to the current cost of the individual annuities; if you do not intend to purchase the individual annuities, you are at the grouping as of 2015. If you were to take the money out of the group annuity contract and you were to put it into some sort of diversification, something that could seek a higher return, you could perceive and place different assumptions on this.

Chris Gallo: You could invest it into some equity exposure. You are taking a higher investment risk, but hopefully that results in a higher investment return. So where we are 54% funded now, we might find it where we are much more significantly funded especially with the idea that the cost of buying of annuities are very expensive right now.

Kathreen Sibol: The group annuity is working beautifully for you; you got a 3% on the checkbook and you never lost a penny in that account.

Anthony Minopoli: Do we have a normal cost? Let's say we are at the 3%, if we were fully funded today so if we had the $1.127 million to match the $1.127 million of the accrued benefit. What is going to be our cost going to be above that because above the 3% will not fill in the donut hole; we will probably have to put other monies in it every year.

Kathreen Sibol: When we talked about the assumptions, we had looked at the interest assumption, or what you think you would get a long term. We also looked at the mortality tables; you are about on mark and you are not going to use individual annuities. What we do not use are the turnover tables and we assume that everyone is going to stay in the plan. As people step away they are out of the plan and that creates actuarial gains; it is an offset.

Chris Gallo: Right now it is probably not affecting the numbers so much. Hopefully when someone is leaving, we are getting someone to replace them?

Kathreen Sibol: However they do not have any accrued benefits. So if that person is leaving and that is when it offsets. If you have persons that step away who are not vested, any type of money that was put away stays in the plan and the liability goes away. However, when you have someone new coming in that is a zero liability.

Chris Gallo: Then that is an actuarial gain. That will get a higher funding rate.

Kathreen Sibol: That would help you. Even though we had to modify your assumptions, we have had modest improvement. Even though you underpaid the minimum regular deposit it looks very significant. Turnover is one of those gains that keep you apart from year to year recently. Since the plan design and plan assumptions came in the 1980s, you have been with us for a very long time. Since its inception the only product that you had used for investment was the group annuity contract. We have had nothing invested in equities, just basically a guaranteed investment option for this plan. Very recently in the past four months we have finally released a product that the FIS clients can use if they want to diversify. It would be entirely up to the plan sponsor if they want to use this product. If you were interested, we would have a financial representative from the company.

Anthony Minopoli: Is it an equity index?

Kathreen Sibol: It is actually a diversification, so it would be into a product called T. Rowe Plus and it would be designed exclusively for VFIS plans. If you had chosen as a sponsor, a portion of your group annuity assets would go to T. Rowe Plus. There would be sleeves that you could select from; these sleeves are a blend of equity and stable value funds. So you would diversify into a blend of equity 50/50, to a blend of stable value or more or less at your discretion. If you were interested in doing that you can simply let us know; I could leave literature with you tonight. If you were interested, we could have the financial representative come out to speak.

So we have talked about the difference between group annuities and individual annuities, we have talked about investment and there are options for some diversification if you would like. Another product that you have used in your plan is Universal Life Insurance. There are three benefits that are provided by the ERISA plan: the entitlement benefit, as well there are also death and disability benefits in the plan. The death benefit is an insured benefit, so because you have life insurance and in this case, Universal Life Insurance, no member has completed a life insurance application. In the event of a death, the beneficiary would receive less than the face value of that life insurance policy. The plan provision is actually greater of an amount equal to the face value of that life insurance, or of the actuarial value so it is the greater of situation that the beneficiary will receive but no one will receive less than $10,000 in the event of the death because that is the face value of the life insurance policy.

Anthony Minopoli: That is an additional cost above and beyond what we are currently doing?

Kathreen Sibol: It is in the life insurance premium, so right now you are spending about $16,000 for life insurance to ensure that you are giving an insured death benefit to your members. That is no an absolute; you can choose to ensure death benefits or not. If you choose to take benefits away from your members, that could be a demotivation or a negative, however as part of a VFIS plan it is not mandated that you have the life insurance.

Anthony Minopoli: But it is there right now?

Kathreen Sibol: Yes, so right now that is on the table if you did want to reduce costs; that life insurance is around $16,000. Universal life insurance affords certain things to your plan aside from ensuring the death benefit. It is a sensitive type of life insurance, whereas the premium is paid and deposited into a cash value account for each of the insured persons; each policy has a cash value account. That cash value account, there is an asset of the sponsor so the owner and the beneficiary of that life insurance policy is the sponsor; the City of Shelton. In the event of someone terminating the plan, that life insurance policy is surrendered, the cash is pulled back and put in the investment account to help fund the plan. The reason why I am telling you this because you can have a fair amount of cash in those life insurance policies at this point.

For consideration, if you didn't want to take an insured death benefit away from your members but wanted a different type of insurance, that is okay too. You can take out a group term life insurance policy. It depends on the age of the individuals but probably for half of the administration you could look into that. That is definitely less expensive than what you are looking at here. In addition to that, what you would most likely do in that event is surrender the Universal Life Insurance policies. The cash that has accumulated in there could be used to help fund the plan. At a minimum you might want to find out how much cash that you have in those policies.

Anthony Minopoli: We probably would like to know what the cash value is of those policies.

Kathreen Sibol: This would happen if you were to chose the group term life insurance: the premiums would happen to be significantly less expensive.

Chris Gallo: Some of these discussion points might need to go to the Board of Aldermen?

Anthony Minopoli: I think what is going to happen is we would make a recommendation, and then they will make the decision.

Chris Gallo: There are certain things that we have the authority to do.

Kathreen Sibol: After these meetings, this is what I will do since there is a lot of information that is presented, I will make a brief summary of the products and the different options that are available to you.

John DiMatteo: Do you have any specific recommendations for this plan, in terms of changes that could be made to help the funding side?

Kathreen Sibol: VFIS does not provide legal, financial, tax advice, etc. If you chose to stay with VFIS, the group annuity contract has performed very well for you. It is tax dollars; it is in a guaranteed account so it is risk free. You may want to consider diversification; VFIS is not promoting that you do but we are simply making that available to you and it is very personal to each and every plan that we have. I do not have an opinion, but just know that it is available to you if you choose. At this point in time per the actuary's recommendation, it is not the right time for you to purchase individual annuities. We would prefer if you to be at least 70% funded, that there is a described set of actuarial assumptions that you are not using. If you did use them, your funding ratio would not be as it is right now.

Anthony Minopoli: We would want to wait until the rates are higher to purchase the annuities. Until the individual annuity rate was at least equal to the group contract rate, we would be stupid to buy individual annuities.

Chris Gallo: You made a statement earlier that we have not paid the recommended amount but looking at the population, but it looks like in 2011, 2012 and in 2013 we had funded at 100%. In 2014, the plan was underfunded and in 2015 it looked pretty close and in 2016 we way underfunded.

Kathreen Sibol: That has a significant effect on the plan, in addition to not paying the full recommended deposit. Remember this recommended deposit is entirely your money; the VFIS does not keep a penny of that money. The full payment, the minimum recommended deposit and the timing of that payment, not only has it been underpaid but it has been received almost mid-year. We assume the valuation under the assumptions is the first day of the plan year deposit. The further off you are from the first day plan deposit, the further off you are from us giving you a good calculation. So, we want your deposit as close to July 1st as possible, and I think it is the amount that is recommended.

So it is of the actuary's recommendation to not purchase individual annuities at this point. You might want to consider diversification; probably not the best time to purchase individual annuities. The group annuity contract looks good right now for the checkbook and for the tax reporting. The third piece is how to address the life insurance. You can insure or not insure, but if you do insure you can continue the Universal Life product, or you could opt for a group term life product. The group term life product could be less expensive than the Universal Life product, initially. Universal like insurance premiums are stated at a policy issue for each the members and stays level until they reach termination. Group term insurance would be different; it would be cheaper initially.

Anthony Minopoli: So the way that the life insurance works is when the member hits annuity age, the life insurance falls away?

Kathreen Sibol: The way that your plan provision is written.

Anthony Minopoli: So the member is at the age of receiving an annuity check, your life insurance falls away. If you should die before your hit the annuity age, then your beneficiaries get the check.

Merle Chase: You have the option at the entitlement age of 62 of picking up that insurance.

Anthony Minopoli: So you have the choice of paying for that insurance?

Merle Chase: Yes.

Anthony Minopoli: Okay good to know that.

Merle Chase: The death benefit is $10,000 but once it is fully funded, it is then the value that you are entitled to.

Kathreen Sibol: The insured participants in the plan, the death benefit would be the greater of $10,000 or the present value of the accrued benefit, whichever is greater.

Merle Chase: At this point it has always been the option of the individual to sign up for the insurance.

Kathreen Sibol: So the thing to consider what to do is with the life insurance, I would not recommend either way because there are different coverages, there are different benefits. In the group term insurance, you would have a proceed that is paid directly to the beneficiary, so that is a good feature to have. Whereas, the Universal Life insurance policy comes into the plan, and then when the proceeds get paid out it is taxable as income. The death benefit in this plan, death, disability and entitlement from this plan are taxed as ordinary income. This plan was designed that way because it does not accumulate any cash value. If the plan was not the owner, there could be a tax implication on the generation of that, so group term does not face that situation; there is no cash accumulation and the members can name their own beneficiary therefore the proceeds can be paid directly to the participants. For group term in the case of an accidental death, you can get double indemnity. So for any $10,000 policy, they would get $20,000 in the event of an accidental death. There is an additional line of duty coverages that could be available to you. There is no real recommendation that I would make, just note that you have these options. If you chose to stay with VFIS, we would proceed not only with the group annuity contract, possibly with some diversification and then it would follow a funding method that would be certified by your actuary each year. So the status quo would maybe change up some of the products with them to affect plan costs. The group term policy diversified could possibly seek a higher invested return. These are the ways that you could affect plan costs by reducing plan costs. Get some of that cash value from the Universal Life insurance policies as it would be influx of funds into the plan.

What we could do is get the net surrender value for you for the Universal Life policies, and do a cost illustration showing what would happen to your plan costs if there were some changes made to the plan by simply using the valuation as its basis. If you were interested in using the self-funded approach, I think we would be interested working with you as far as the plan administration.

Anthony Minopoli: The beauty of this is that this is a secured obligation once it is paid.

Chris Gallo: At the same time you are making assumptions that it's guaranteed, but you are making the assumption that if not paid the City would go bankrupt.

Member of the audience: Is there any option that in any timeframe that this would put people out of the pension?

Anthony Minopoli: That would have to be a plan provision. You mean to take a lump sum?

Member of the audience: Yes.

Anthony Minopoli: It would have to be a lump sum provision in the plan and I do not remember seeing one. Your options are to retire early and get the insurance-

Kathreen Sibol: These are volunteer situations as defined by the 457, bona fide volunteers. To that end, we were advised and structured our plans to be consistent with Section 451 of the code. This talks about constructive receipt and the document of the adoption of the economic benefit so that your participants do not face any potential from any tax organization. The sponsor maintains all control and direction of the assets to avoid the constructive receipt situation, so election at the participant level has always been sort of a grey area whether or not you would risk certain IRS tax implication. Earlier on in your plan, it said that if a member's benefit did not exceed a certain amount of money necessary to purchase an annuity, then you could be issued a lump sum of accrued share, if your document had that in. Some of our older documents did not have that in. It was not a participant election under the VFIS plan. Years ago, the carrier did not purchase an annuity for you if it did not cost a certain amount of money; it was a low level around $1,500. There is no direction that we are aware of that we can dictate how a length of service awards program should be shut down. There were a variety number of sponsors that we had worked with that have shut their plans down. Some had issued lump sums, and some have chosen to purchase annuities.

Anthony Minopoli: I just wanted to explore what those options were.

Chris Gallo: I think what we want to do is to figure out what the plan is, in terms of the benefits for the volunteers. This is something that is not in our purview; this is something that the leadership of the City has control over. What we are trying to do is to see if we can provide those benefits in a different way that would save the City money. The City could probably do this on their own, too.

Anthony Minopoli: The Mayor wanted us to hear and be in a position to recommend. You can send us the information so we can discuss this with Allen.

Chris Gallo: I think the real question on this is what kind of recommendation are we going to make on this?

Anthony Minopoli: I want to get the information before making a recommendation.

Paul Hiller: There has been a significant contribution made beyond what you are seeing there, within the last 45 days.

Chris Gallo: We ought to make the recommendation on the date that they suggest, such as first date of the plan year, etc.

John DiMatteo: From what I was hearing from them is that we are not using what they recommend for actuarial assumptions.

Chris Gallo: We are not doing it in terms of the turnover. The mortality tables are the old mortality tables.

Paul Hiller: They have a 1994 mortality table.

John DiMatteo: What she said is if we were to use what they suggest for assumptions, it would be much less.

Paul Hiller: We are 54% funded right now.

Anthony Minopoli: For some reason that I do not know is that the City decided to not do it.

Paul Hiller: It was a budgetary decision.

Member of the audience: Is there an updated summary of benefits? This one is from 1998.

Paul Hiller: Check with Mike, he may have an updated copy.

Chris Gallo: That was a good presentation. I learned a lot from that discussion.

Anthony Minopoli: I am not advising that we self fund. I wanted to ask the questions to make sure we get the benefits for the least cost.

Paul Hiller: To look at this product more in depth and see if this is a better investment vehicle to go into.

Anthony Minopoli: The only thing that you are going to do is increase the investment risk. If we have good investment performance, it is going to lessen the amount of the contribution. If we have bad investment performance, that is going to increase the amount of the contribution. The question is, does the City want to add that risk? Once you are fully-funded $50,000 per year, you are going to use a 5-7-year plan to build the fund up where it needs to be and then pay a normal cost, but because you have a transient of the population it is really hard to get that number.

Paul Hiller: What is scary to me right now is the actuarial table that they are using.

Anthony Minopoli: The worst part is using the new table and then it gets worse.

<u>RFP FOR PENSION ADVISOR</u>

Chris Gallo: I do not have a problem with the letter, except for I get this issue where I am trying to understand, that I understand that John believes that he may not qualify as a RIA under the RFP, because the RFP says that our advisor must be a RIA (Registered Investment Advisor). He works through another organization, but he is not personally an RIA.

John DiMatteo: I am a IAR (Investment Advisory Representative), under Commonwealth's RIA.

Chris Gallo: The question is that okay?

Anthony Minopoli: It is okay in my mind, because in my mind from the beginning John at a minimum deserved the ability to pitch for the City.

Chris Gallo: I agree.

Anthony Minopoli: I also believe that Allen feels the same way.

Chris Gallo: I just do not want to go down that road when we get all of the RFPs and then John gets his RFP in and someone says, he can't.

Anthony Minopoli: Well we are the ones that have the say, and I am saying that John has a fair shot. The ultimate winner; we do not know.

Paul Hiller MOVED to modify the submitted RFP, that John's structure with his registered investment advisor qualifies under our RFP because it was every intention of this committee to give him the ability to pitch his business to the City.

SECONDED by Anthony Minopoli. A voice vote was taken and the motion passed unanimously.

Paul Hiller MOVED to proceed with the RFP subject to that modification in the language, and to be administered through the Purchasing Department of the City of Shelton on their schedule.

SECONDED by Anthony Minopoli. A voice vote was taken and the motion passed unanimously.

Anthony Minopoli: John, maybe it would be best to email Paul the exact language to and let's get that put in there.

Paul Hiller: I will talk with Tom on that, too.
Chris Gallo: Make sure you run it by whoever you need to run it by so that we have approved the language in the RFP, so next month we will have to look at the revised RFP.

Paul Hiller: You want it to include the inclusive language.

Anthony Minopoli: With the inclusive language so John could participate.

OLD BUSINESS-

Chris Gallo: Pullman and Comley has submitted invoices since July 1, 2015.

Paul Hiller: If you looked at the cover letter from Nancy Lapera, it was dated December 14, 2015. I think it was received immediately before Christmas, certainly after this board has last met. I would like to us give them something right now; I know the Mayor wants to negotiate on this bill. I would like to take the Forfeiture Account money because I know it is going to take some time.

Anthony Minopoli: Is that in our purview to do? I would like to see them get paid because they have done the work and they should be paid. If we could use the Forfeiture Account to pay the legal fee, then we should do it.

Paul Hiller: There is a portion of the Forfeiture Account, around $13,194.25, to pay that bill now pending what the Mayor might negotiate on the other side.

Chris Gallo: I agree with Tony, they are professionals and they rendered a service. They had quoted us a rate, and they probably billed us for less.

Paul Hiller: There was a cap rate on the 401(a) plan, which was around $29,000 or something of that nature.

Anthony Minopoli: Personally, I probably had around 6 or 8 phone calls that are not even on these bills.

Chris Gallo MOVED to approve payment subject to whatever the final number might be.

SECONDED by Paul Hiller. A voice vote was taken and the motion passed unanimously.

NEW BUSINESS- NONE

ADJOURNMENT

Chris Gallo MOVED to adjourn the Special Meeting of the Pension Board.

SECONDED by Anthony Minopoli. 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