

Date: March 15, 2013

To: Mr. Timothy Herbst, First Selectman
Town Council

Re: **Pension Board Update**

Below is a brief update of our performance, activities and initiatives since our last update in March of 2011.

Executive Summary

- **The long term improvement plans put together in 2009 are starting to have a positive impact.**
 - Net Cash Flows were positive in 2012 and, thanks to great work by the Council and Town, we expect this trend to continue.
 - The recently completed actuarial study shows an increase in the funded ratio, to 28.1% from 26.7% in 2010.
- **The pension investments are performing well and we are satisfied with our advisor, Fiduciary Investment Advisors.**
- **The town finance team continues to make improvements in the plan administration.**

Pension Investments

Our investments continued to perform at our targeted benchmarks. 2011 was a very tough year but 2012 recovered very nicely. This is our 4th full year with Fiduciary Investment Advisors and we are very satisfied with their service and performance. Over this term we earned on average 11.9% per year significantly beating our targeted return of 7.5%.

| Calendar Year | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---|-------------|-------------|-------------|-------------|
| Investment Performance | 21.9% | 14.0% | -0.9% | 12.5% |
| Plan Assets (millions) | \$ 16.8 | \$ 18.3 | \$ 17.8 | \$ 20.5 |
| Net Cash Flows (thousands) (Excluding Investment Income) | \$ (571) | \$ (781) | \$ (292) | \$ 264 |

Our Assets are growing again and for the first time in recent history our Net Cash Flows are POSITIVE. Due to the towns continued commitment to increase contributions, our net cash flows have turned positive and we are starting to solve the longer term funding problem. We applaud these efforts, which occurred in a very difficult economic and budget environment.

Feb 19th, 2013 Actuarial Study

The town, with the Board's support, hired a new actuarial firm to get a fresh perspective in 2012. This was done on a competitive basis and BPS&M (a Wells Fargo Company) was selected.

Valuation Results

| | <u>July 1, 2012</u> | <u>July 1, 2010</u> | <u>July 1, 2008</u> |
|----------------------------------|------------------------|------------------------|------------------------|
| Participants | | | |
| Active | 436 | 453 | 433 |
| Deferred Vested | 74 | 69 | 79 |
| Receiving Benefits | <u>325</u> | <u>320</u> | <u>288</u> |
| Total | 835 | 842 | 800 |
| Total Liabilities | \$ 67,905,000 | \$ 62,863,043 | \$ 57,704,539 |
| Actuarial Value of Assets | \$ 19,096,003 | \$ 16,807,159 | \$ 19,572,031 |
| Funded Status (unfunded) | \$ (48,808,997) | \$ (46,055,884) | \$ (38,132,508) |
| Funded Ratio | 28.1% | 26.7% | 33.9% |

These results were in line with the Board's expectations based on the funding levels and the increased number of participants receiving benefits. As explained above, the Net Cash Flows in the fund were positive in 2012 and this trend is consistent with our long term plan to improve these results.

Recommended Contributions

| <u>Year</u> | <u>Recommended Contribution</u> | <u>% Increase</u> | <u>Increase Amount</u> | Estimated |
|-------------------------|---------------------------------|-------------------|------------------------|---------------------|
| | | | | <u>Funded Ratio</u> |
| 2012 | \$ 4,576,000 | | | 28.1% |
| 2013 | \$ 4,581,000 | 0.1% | \$ 5,000 | 31.1% |
| 2014 | \$ 4,662,000 | 1.8% | \$ 81,000 | 32.8% |
| 2015 | \$ 4,706,000 | 0.9% | \$ 44,000 | 35.0% |
| 2016 | \$ 4,753,000 | 1.0% | \$ 47,000 | 37.1% |
| 2017 | \$ 4,803,000 | 1.1% | \$ 50,000 | 39.1% |
| 2018 | \$ 4,859,000 | 1.2% | \$ 56,000 | 40.9% |
| 2019 | \$ 4,920,000 | 1.3% | \$ 61,000 | 42.6% |
| 2020 | \$ 4,984,000 | 1.3% | \$ 64,000 | 44.3% |
| 2021 | \$ 5,054,000 | 1.4% | \$ 70,000 | 46.0% |
| 2022 | \$ 5,126,000 | 1.4% | \$ 72,000 | 47.6% |
| 2022 Economic Scenarios | | | Worst Case | 33.4% |
| | | | Best Case | 61.7% |

Recommended contributions are only minimum requirements and will not result in meeting our goal of 80% funded in the next 10 years.

Please take away from the above exhibit two very important observations.

1. The above recommended contributions are very reasonable and less than a 2% increase every year.
2. In the worst case scenario, the funded % will rise to 33.4% from 28.1% today.

This gives us the opportunity to significantly beat these results with a modest 3% to 4% increase to our annual contributions ... Lets beat the Best Case and get to our 80% goal by 2022!

Process Improvements / Operations

The conversion to a new trustee (Wells Fargo), which was started in 2010, is fully completed and all recommendations from the RSM McGladrey audit have been fully implemented by the town Finance Department. The collections of overpayments, discovered in the audit, are still in process and as of this letter the town has a plan in place for every one of these accounts. The collection process, in some cases, will be carried out over the next few years.

The town completed a review of all terminated employees in the plan that were not vested and is in the process of returning their contributions with the required 5% per annum interest. A new process has been implemented to complete this promptly after termination. This will save the town the 5% interest payment and reduce the administrative burden of having non-vested, terminated employees in the plan.

With the hiring of a new actuarial firm (BPS&M), we have completed our plan started in 2009 to put out to bid our three partners (Trustee, Administrator and Actuary) who assist us in the management of this pension plan. We are satisfied that we have hired the right partners to help us continue to improve the long term results and administration of this pension plan.

Long Term Improvement Plan

The Board fully supported the initiative to move to a 401a plan and believes this is an excellent long term solution. We remain committed to encourage and help the town convert as many employees as possible during future union negotiations.

We also recommend that the Town consider the following changes in the current plan, as negotiations continue:

- Increase participant contributions, currently at 3% to 5%, which is very low compared to similar plans around the state.
- The interest rate used for the non-vesting period of employee contributions is 5% per annum. We feel this is too high in this recent environment and should be changed to a benchmark that will change with the times. Such a benchmark could be the 10 year Treasury rate (1.6%) or similar benchmark.
- Limit eligibility to only full-time workers (1,200 to 1,400 annual hours), especially on the Board of Education side.
- Continue to fund the pension plan at the actuarial recommended rate, or slightly higher, at a 3% to 4% increase annually.

Your Board has a talented, diverse and engaged team that is very satisfied with the progress we have been able to make, with you and our town staff, in putting in place a long term solution to our unfunded liability. We believe that we are heading in the right direction and look forward to supporting you on our continued progress. We would welcome the opportunity to meet with you and explain this report and our recommendations in more detail, at your convenience.

Respectfully the Pension Board,

Michael Charland
Chairman

John Ponzio

Maria Pires

Donna Pellitteri

James Lavin
Secretary

Michael Knight