

From: Susan Mazurski August 2, 2012 2:48:57 PM  
Subject: Pension Committee Minutes 07/11/2012 Special Meeting  
Approved  
To: SimsburyCT\_PensionMin  
Cc:

TOWN OF SIMSBURY  
PENSION SUBCOMMITTEE

Minutes of Special Meeting  
Wednesday, July 11, 2012  
7:30 a.m. in the Board of Education Conference Room

I. Call to Order

In attendance were: Administrative Chair Thomas Cooke, Director of Administrative Services; Mary Ann Harris, Finance Director; Burke LaClair, Business Manager; Nick Mason and Paul Henault from the Board of Finance; Robert Michael Goman from the Board of Education; Moira Wertheimer and Lisa Heavner from the Board of Selectmen, and Paul McAllenney and Phil Schulz, members-at-large. Becky Sielman, consulting actuary from Milliman, and Christopher Kachmar from Fiduciary Investment Advisors (FIA) were also present. Ms. Sielman is the actuary, and Mr. Kachmar is the financial advisor for the Town of Simsbury's pension plans.

Mr. Cooke opened the meeting at 7:30 a.m.

All subcommittee members were given an information packet that included:

- The agenda for this meeting.
- A June 8, 2012 draft copy of the Pension Subcommittee meeting minutes.
- The Town of Simsbury Pension Plans Investment Policy Statement dated November 2009.
- A draft copy of the Town of Simsbury Defined Benefit Pension Plans Investment Policy Statement dated July 2012.

II. Acceptance of Minutes

Ms. Heavner made a motion to approve the draft minutes of the June 8, 2012 Pension Subcommittee meeting. Mr. Mason seconded the motion. During the discussion period, Mr. Cooke made corrections to the draft. Ms. Heavner made a motion to approve the corrected minutes and Mr. Mason seconded the motion. All were in favor, and the motion was passed unanimously.

III. Milliman Presentation

Ms. Sielman presented a 21-page report, dated June 6, 2012, and titled Why Your Actuary is Telling You to Reduce the Interest Rate Assumption and

Update the Mortality Assumption.

She spoke about the history of interest rate assumptions over the past 10 years. Currently, the Town of Simsbury is using an interest rate assumption of 7.75%. Ms. Sielman recommended a reduction in the interest rate to 7.25% noting that an interest rate as low as 6.75% should be considered.

Ms. Sielman recommended that the town do a simultaneous formal experience study on Simsbury's three pension plans for general government, the Board of Education, and the police and the Other Post Employment Benefit (OPEB) fund. A single report, that would review the fundamental assumptions used by all four plans, would cost about \$30,000. The cost of the study could be covered by funds in the plans. Many assumptions will be studied, but the top three include the rates of pay increases, turnover, and retirement. Ms. Sielman noted that many municipalities are currently doing formal experience studies and that it is a GASB-recommended best practice to do such a study every five years. If Simsbury decided to do one, it would be completed by November 2012.

Members of the pension subcommittee discussed the following points:

- Possibly increasing the rate of return in smaller amounts over several years, to get to 7.25%;
- How having a formal experience study would help the subcommittee make a more informed decision about how to proceed with increasing the rate of return;
- Obtaining a better estimate of the amount of money that will need to be paid into the plans. Currently, the funded ratio for each of the plans is at 80% or below;
- How having a detailed study done by Nov. 2012 would benefit the budgeting process as the Town prepares the Town budget for FY2014; and
- How a formal experience study would have to be approved by the Board of Selectmen.

Ms. Heavner made a motion to recommend to the Board of Selectmen that a formal experience study to be done as recommended by the Town's actuary.

Mr. Henault seconded the motion. Subcommittee members Henault, Mason, Wertheimer, Heavner, McAlenney and Schultz voted in favor and Subcommittee member Goman voted against the motion. The motion carried.

#### IV. FIA Presentation on Investment Policy

In the interest of time, Mr. Cooke asked Mr. Kachmar to move directly to a review of FIA's Diagnostic Report and its open architecture recommendation.

#### V. FIA Presentation on Open Architecture Recommendation

Mr. Kachmar presented FIA's Diagnostic Report to the subcommittee using individual iPads. He explained how Simsbury's three pension plans share a common asset allocation strategy under the current Frank Russell manager-of-managers framework and noted that the Frank Russell model utilizes 40 plus managers and therefore obtains index-like returns.

Mr. Kachmar offered a slightly different Open Architecture Proposed

Portfolio for Simsbury which is statistically similar in outcome to the Frank Russell plan and uses some of the same investments. In contrast, however, it recommends oversight of only 12 managers and nominally higher return rates. A discussion ensued concerning FIA's recommended asset allocation strategy and the associated risk. Mr. Kachmar discussed comparative performance results between the Frank Russell approach and the approach recommended by FIA. Finally, Mr. Kachmar reviewed the cost differential between the two approaches, noting that FIA's approach would cost several basis points less.

Mr. Kachmar felt that the town Simsbury would benefit from FIA's open architecture recommendation because it would have: 1. A simpler, more accountable design, 2. A nominal fee advantage for modest savings, 3. Better returns over the long term, 4. Greater investment flexibility, 5. More control over the selection of managers, and 6. A higher rate of manager accountability due to fewer managers making critical decisions. Mr. Henault made a motion to move forward with the open architecture approach based on FIA's proposed investment portfolio on page 17 of the digital presentation. Mr. Mason seconded the motion. Mr. Kachmar and Ms. Sielman were excused from the meeting permitting the subcommittee to speak frankly about their concerns.

The subcommittee discussed the potential risks and benefits associated with changing to the open architecture approach recommended by FIA.

Subcommittee members questioned the fee structure with FIA and asked for additional information about the RFP used for the selection of FIA, FIA's compensation agreement and the additional benefit, if any, to FIA resulting from the proposed change. Mr. Cooke responded that FIA's compensation was limited to a flat fee and that there would be no additional financial benefit to FIA in making the change – in fact, it would entail a wider range of responsibility for the same fee. Based on the concerns raised by the subcommittee, the motion was tabled. Mr. Cooke agreed to follow up by providing subcommittee members with the details of FIA's fee structure, including copies of the actual RFP, FIA's contract and additional information as necessary from FIA itself with respect to their compensation under the open architecture proposal.

#### VI. Identification of Agenda Items for the Next Pension Subcommittee Meeting

- To take action on the possible adoption of the open architecture recommendation by FIA.
- To report on the Board of Selectman's decision about performing a formal experience study.

#### VII. Adjourn

Ms. Heavner made a motion to adjourn the meeting. Mr. Mason seconded the motion. All were in favor, and the motion was passed unanimously. The meeting was adjourned at 9:40 a.m.

