From: Rick Bazzano February 3, 2009 1:44:44 PM
Subject: Pension Committee Minutes 11/19/2008
To: SimsburyCT_PensionMin
Cc:

TOWN OF SIMSBURY
PENSION COMMITTEE
REGULAR MEETING
November 19, 2008

1. CALL TO ORDER

The meeting of the Pension Committee was called to order at 7:34 a.m. in the Main Meeting Room of the Simsbury Town Offices. The following members were present: Donna Parker, Paul McAlenney, Nick Mason, Susan Royles, Phil Schulz and Kevin Schultz. Also present were First Selectman, Mary Glassman, Carl Heidt, Assistant Business Manager, Burke LaClair and Finance Director, Kevin Kane.

2. REVIEW AND DISCUSS WITH MILLIMAN, TOWN'S ACTUARY ON THEIR MODELING FINDINGS REGARDING THE PENSION PLANS ASSUMPTION ON ITS ACTUARIAL INVESTMENT RETURN

Becky Sielman from Milliman the Town's Actuary was present. Becky presented to the Committee an actuary model showing estimated funding for fiscal year 2008-09 using the June 30, 2008 assets and the census data as of July 1, 2007. For the actual annual valuation report prepared by Milliman will use the July 1, 2008, census data which will be in receipt shortly. As part of this model it also projects an estimate increase in funding for fiscal year 2010-11 if the markets do not rebound by June 30, 2009.

As part of the model the current assumptions being used are:
- Interest Rate Assumption = 8%
- Margin for Mortality Improvement = 0%
- Amortization Period for FY 2008-09 = 11 (years)
- Amortization Growth Rate = 0%

As the Town's Actuary, Becky recommended the following valuation assumption changes:
- Interest Rate Assumption = 7.75%
- Margin for Mortality Improvement = 3%
- Amortization Period for FY 2008-09 = 25 (years)

- Amortization Growth Rate = 4%

Much of the discussion centered on what the interest rate assumption should be for the Town's Pension Plans. Becky did state that the 8% interest rate assumption was still in the acceptable range but was now at the high end. She stated that if one looked at a bell curve at 75% it would be 8% and at 50% it would be 7.75% and at 25% it would be 7.50%.

Becky provided explanation for the recommended changes in the valuation assumptions as outlined below:
Interest Rate Assumption of 7.75% represents Milliman's long-term expectation of the earnings potential of the plans' assets, based on the current investment allocation. The 30-year expected arithmetic mean return based on the June 30, 2008 balance was 7.82%. Obviously, investment returns from year to year may be very different from 7.75%, but in the long run returns should average out to 7.75%.
Margin for Mortality Improvement: The current mortality assumption (the 1994 GAM Table) has been in use since the July 1999 valuation. The Society of Actuaries periodically issues a new mortality table to reflect improvements in longevity. Milliman recommends using the update to the RP-2000 Table, which will not only bring us up to date with the most recent mortality table, along with building in a 3% anticipated mortality improvements in the future.
Amortization Period: The amortization period for the 2007 valuation was 11 years. Lengthening the amortization period to 25 years is important in giving the Town more time to fund the catastrophic investment losses that are occurring this year.
Amortization Growth Rate: The amortization method used in the past generated level amortization payments, like a mortgage. Using a 4% payroll growth rate means that amortization payments will increase each year with payroll growth. The result is that over time the Town's contribution should remain a level percentage of payroll. As with lengthening the amortization period, this helps mitigate the impact of the investment losses on the Town's budget.
Motion was made to approve all recommended valuation changes. The motion was unanimously passed.

3. OTHER BUSINESS
The committee discussed and decided to hold a special meeting on Wednesday, December 10, 2008 to discuss and take action if the Town should or should not rebalance its real estate holdings.

Meeting Adjourned at 9:05 A.M.