

Ridgefield Pension Commission
Minutes of the Meeting of December 17, 2018 [FINAL]

The meeting convened in the small conference room of Town Hall at 7:00p.m.

MEMBERS PRESENT: Messrs. Chris Christiansen, Tom Hayes, Mike Rettger, Art Aaronson, Chris Sierakowski, Jim Stoveken (by telephone)

MEMBERS ABSENT: Mr. Chris St. Victor de Pinho

OTHERS PRESENT: None

1. Upon motion and second, the minutes of the Commission's November 19, 2018 meeting were approved. Mr. Stoveken abstained, having been absent from that meeting.
2. Mr. Christiansen distributed for review two invoices from TR Paul, one for the work they have been doing to support the transition of benefit payment services to Vanguard, the second for prior quarter processing of benefit payments, for work in support of the Town's financial audit, and for a number of retiree benefit calculations. Mr. Christiansen noted that the second invoice included a credit for the amount of benefit overpayment resulting from a benefit calculation error by TR Paul, that has been identified several months ago and discussed at the previous meeting.

VOTING ACTION: Upon motion and second, the invoices from TR Paul were approved for payment as presented.

3. Mr. Christiansen distributed a report of member meeting participation for 2018 that he is required to submit to the Town Clerk. No errors were identified
4. Mr. Christiansen reported on the transition of benefit payment responsibilities from TR Paul to Vanguard. Several test files have been exchanged and verified. One data error did occur but has since been corrected. There have been small differences in the withholding calculations made by Vanguard compared with the ones done by TR Paul, but these were judged to be minor algorithm differences. Overall the transition is progressing well and is on track to be completed for January 1. Once the handoff is completed, Mr. Christiansen will transfer any remaining funds in the USB account used by TR Paul, and will close the account.
5. Mr. Christiansen reported that the Town's HR director's is aware of the differences in the death benefit provisions among the several pension plan documents, and she and Town counsel are checking to confirm that that the benefit provisions of the several plan documents reflect the negotiated contract terms.
6. Mr. Christiansen reported that he had discussed the question raised at the prior meeting by Mr. Aaronson on the applicability of changes in Medicare withholding regulations concerning pension payments. Vanguard has confirmed that these provisions do not apply to the Town's benefit payments.

7. Mr. Christiansen reported that the change to the Town ordinances that had been recommended by the Commission had been approved by a Town Meeting at the end of November. Work on the changes to the OPEB and Pension Trust documents is in final review with the town attorney, and these should be available for review by the members shortly. Work is also underway on updating the plan documents, with the focus currently being on the firefighters' plan.
8. The working group on asset allocation policy (Mr. Hayes, Mr. Aaronson, Mr. Sierakowski) reported on their analysis and their discussions with Vanguard. They considered three alternatives for the Commission's consideration:
 - a. Moving the asset allocation policy to match the allocation that had been modeled by Vanguard and discussed at the prior meeting. This would have the equity allocations increase by 3 percentage points each for the US and the international equity positions (that is, a total 600 basis point change in the total equity allocation), with the allocation adjustments being taken from the current TIPS allocation (reduced to zero) and from the short term fixed income credit position.
 - b. Increasing the two respective equity positions by 1 percentage point each (that is, 200 basis points total change), offset by a reduction of the short term fixed income credit position by 2 percentage points.
 - c. Taking no action to change the current asset allocation policy at this time.

The working group is recommending the second option. They feel that this move would be consistent with the allocation policy change that the Commission has been discussing over the past year, of moving to a slightly higher equity exposure level in order to bring the expected return of the portfolios more in line with the assumed return of the actuarial analysis, and making the change at a point where equity markets have pulled back from their higher valuation levels of early in the year. The resulting equity exposure is viewed as being still relatively conservative compared with the other pension plan allocation data we have seen. The resulting expected return is not yet at the level of the actuarial assumption, but several factors may still reduce or eliminate this difference: 1) as discussed at the prior meeting, we still need to hear from Vanguard on the expected alpha effect of the actively managed funds in the portfolio; 2) the Commission is considering the effects of lowering the actuarial assumption going forward; 3) the recent market downturn may produce higher expected returns in the Vanguard capital model over the coming period as these estimates get revised. The group also discussed why they preferred the recommendation over the other two alternatives.

The recommended alternative has been discussed with Vanguard and they concur. The proposed change would apply to both the pension trust and the OPEB trust, and if made, would be expected to be a stable allocation policy for the foreseeable future.

The members further discussed the timing of the proposed change, expectations of stability in the policy, and other factors that may cause changes in expected return and the actuarial return assumption. Mr. Stoveken expressed concern about making any change to a higher equity position at this time – the markets have seen significant declines in returns across almost all asset classes, and many are seeing signs of a period of continued market instability and return risk. Other members noted that while the markets have been volatile in the past two months, there are various forecasts including Vanguard's that are predicting that there will not be a

major sustained downturn in the coming year. Members also noted that this change is done in the framework of a long term plan, with the objective of aligning the assumed valuation rate of return with the range of expected asset returns for the portfolio. Because Vanguard rebalances the portfolio on a regular basis, the timing of the change is less relevant when viewed against the long term objective and portfolio management process.

VOTING ACTION: Upon motion and second, it was approved to change the asset allocation policy as recommended by the working group in their option #2. Mr. Stoveken voted against the motion.

Mr. Stoveken left the meeting at 7:50pm.

After discussion, it was agreed that this change would require an update of the IPS documents with Vanguard. Mr. Christiansen will circulate the current policy document to the members to see if there are any other changes required at this time.

Mr. Sierakowski distributed and reviewed reports showing details of the historical performance and holdings composition of the four actively-managed funds included in the portfolios. It was noted that several of the funds have underperformed over the past year, relative to their benchmarks. Members also commented on the holdings of some of the funds relative to their stated investments guidelines. Mr. Christiansen will ask Vanguard to participate in the January Commission meeting, and to be prepared to discuss their views on their selections of actively-managed funds in addition to their regular quarterly results commentary.

Upon motion and second, the meeting was adjourned at 8:35 p.m.

Submitted as approved at the January 28, 2019 meeting of the Commission
Michael Rettger, Secretary
January 29, 2019