

Ridgefield Pension Commission
Minutes of the Meeting of February 26, 2018 [FINAL]

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

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

MEMBERS ABSENT: Mr. Chris Sierakowski

OTHERS PRESENT: Bill Burns and Phil McCabe, Vanguard Advisory Services (by telephone)

- 1) The members heard a presentation by Mr. Burns and Mr. McCabe on the 2017 performance results for the Plan portfolios and on Vanguard's economic and market outlook. Looking ahead into 2018 and the next several years, Vanguard expects increased market volatility and lower returns for most asset classes. They see this as a result of the high returns of the past year, not because they assign a high likelihood to recessionary factors. They do have a concern for increasing upward inflationary pressure, and the possible influences this will have on equity market returns and Fed actions. They expect equity returns to be lower for US markets than for non-US markets in general. Overall, the portfolio performed well in 2017 and into January, with results in line with benchmark expectations in most cases.

In response to a member's question, Mr. Burns stated that he did not recommend any changes in the portfolio's target asset mix at present, particularly the 50/50 split between US and non-US equities. Most of their other pension clients have a higher US allocation and Vanguard is recommending to them to move to a mix close to our current policy targets. Mr. Aaronson asked what Vanguard's strategy was for fixed income in light of their expectation of rising interest rates. Mr. Burns indicated that Vanguard does not expect the rise to be large and that it would not result in a significant flattening of the yield curve, and thus they did not have current plans to adjust the fixed income mix. After further discussion Mr. Burns agreed to look at options for a somewhat more defensive strategy and to return with his thoughts.

The members noted that the current Vanguard 10-year forward forecast for markets returns seemed materially lower than what was presented in the November meeting by Vanguard, and asked whether there was a need to look at the Plan's long term return assumption. Mr. Burns responded that he did not see a need to adjust this or the Plan's overall asset mix targets at this time, given the uncertainties of current forecasts.

The members discussed materials circulated previously by Mr. Hayes and by Vanguard in their meeting package, on the potential counter-cyclical effects and benefits of having a specific commodity-sector allocation in the portfolio mix. Mr. Hayes noted that Vanguard did not seem to offer mutual funds that were a good fit for this possible

allocation, but that there were some EFTs that he and Mr. Aaronson had identified that could be appropriate. It was agreed that Mr. Hayes and Mr. Aaronson would discuss this potential mix change with Mr. Burns, and present their discussion and any recommendation at the Committee's next meeting.

Mr. McCabe reported that the asset mix of the OPEB portfolio had been modified as of January 23, 2018 to reflect the change in asset mix targets that the Commission had adopted at its January meeting. He noted that the 2017 portfolio results were reflective of the prior asset mix, and that going forward the OPEB results should closely mirror those of the pension fund.

Mr. Burns reviewed the 2017 management and trust fees for the two portfolios, and reported on some research work and changes in portfolio managers that were in process at Vanguard. Mr. Burns and Mr. McCabe left the meeting at 7:35.

- 2) Upon motion and second, the members approved the minutes of the Commission's January 22, 2018 meeting.
- 3) Mr. Christiansen reported that there were no invoices for review. He has received a billing from Cohen and Wolff for their work on the Plan documents, but is in discussion with them on some questions about the bill.
- 4) Mr. Christiansen distributed final versions of the OPEB Actuarial Valuation report that had been reviewed at the previous meeting. He noted that he has confirmed with the Town and the BOE that the funding amounts presented in the final report have been incorporated into the respective budget plans for the coming fiscal year.
- 5) Mr. Christiansen and Mr. Stoveken presented an analysis of option factors for the pension plans that they recently completed in conjunction with the plan actuary. Mr. Christiansen noted that these factors are used in the calculation of benefits when a retiree chooses one of the payout options other than a single full life annuity, and that the current option factors are using mortality tables and interest rates that are significantly out of date. Mr. Christiansen reviewed an exhibit showing the expected effects of moving to a current mortality table and consistent interest rate assumption. In general, in almost all situations these new factors would result in slightly higher benefit payments. He noted that if changed, the factors would only apply to new retirees, and would not affect existing retirees' benefits. In response to a question, he reported that the plan's actuary had estimated the effect of adopting the changes on the plan's estimated liability position, and judges them negligible.

The members indicated agreement with the proposed changes. There was a discussion of whether this change was an action that was appropriate for the Commission to take, or whether this was a decision that should be made by the Town as the plan sponsor. It was generally felt that this decision should be made by the Town. Mr. Christiansen will

draft language for such a recommendation for consideration at the Commission's next meeting.

- 6) Mr. Christiansen circulated an updated Investment Policy Statement document for the OPEB plan, reflecting the change in asset mix approved at the previous meeting. He noted that in review, Mr. Aaronson had noticed several edits to the base document that were needed, for consistency or accuracy. These changes were presented to the members in the review and discussion.

Voting Action: Upon motion and second, the updated OPEB Investment Policy Statement, as amended, was approved.

- 7) Mr. Christiansen distributed a proposal for amending the section of the Town Charter relating to the Pension Commission. He noted that as has been discussed previously, the Commission will be working on changes to the various governing documents for the Commission's activities, and that the plan is to bring these together in an integrated form. We have identified changes to the Charter to clarify the Commission's role, particularly that its primary focus should be responsibility for overseeing the assets of and managing the several Trusts, not for the full administration of the plans involved. This proposed change would be one of several we expect, including changes to the related Town ordinances, and adoption of a "Terms of Reference" document that Mr. de Pinho has been working on, that will provide further details around the Commission's responsibilities and operation.

Voting Action: After further discussion, upon motion and second, the Commission agreed to present the following proposal to the Town Charter Commission for consideration:

Current Charter Language:

The Pension Commission shall consist of seven members serving for three-year terms ending June 1. Two or three members shall be appointed each year, as appropriate.

The Pension Commission shall be responsible for the planning and management of a pension system for municipal employees, and shall have powers and duties in accordance with the General Statutes and applicable ordinances.

Proposed Charter Language:

The Pension Commission shall consist of seven members serving for staggered three-year terms ending June 1. Members shall be (re)appointed each year, as appropriate.

The Pension Commission shall be responsible for the management, administration, and oversight of the investment activities of those trusts which fund the retirement-related benefit programs for Town employees and elected officials, as are assigned to its purview by resolution of the Board of Selectmen, and shall have powers and duties in accordance with the General

Statutes, and as enumerated in applicable ordinances and written Trust Agreements.

- 8) In a related matter, Mr. Christiansen brought to the members' attention a discussion he has started with Vanguard. There are two trust agreements in place for the pension plan – the original (1964/1984) one between the Town and the Commission, and a second between the Town and Vanguard, which was signed when Vanguard was hired as investment advisor. This is also true for the OPEB plan. Vanguard feels there should only be a single trust/trustee for each. They can function as advisor without the Vanguard trust agreement, but if we want them as trustee, they will want their trust language.

The members discussed the situation and agreed that there should only be one trust document. The members discussed what it means to have Vanguard as trustee and how that would work in relation to the other funds and accounts, such as the Union Savings Bank account. It was agreed that Mr. Christiansen, Mr. de Pinho and Mr. Rettger will meet to review the trust documents and the situation, and come back with an analysis and recommendation to the Commission at the next meeting.

Upon motion and second, the meeting was adjourned at 8:50 p.m.

Submitted as approved at the Commission's March 19, 2018 meeting.

Michael Rettger, Secretary
February 27, 2018