

Ridgefield Pension Commission
Minutes of the Meeting of October 29, 2018 [FINAL]

The meeting convened in the small conference room of Town Hall at 7:05p.m.

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

MEMBERS ABSENT: None

OTHERS PRESENT: Mr. Williams Burns, Vanguard; Mr. Brian Binkley, Vanguard; Mr. George Sarris, Vanguard (all by phone)

1. Mr. Binkley reviewed the results for the pension plan portfolio. He reported that for the 12 month period ending September 30, US equities had outperformed international equities, while international fixed income had higher returns than US fixed income for the period. The actively managed US equity funds were lower than benchmarks, while the actively managed international funds were better than benchmarks. For the calendar year to date, net cash flows for the portfolio were negative overall by about \$759,000. The downturn in financial markets in October has had a substantial negative effect on the portfolio, so that all funds now have flat or negative returns for the calendar year through this point.

Mr. Binkley reported that the asset allocations for the OPEB trust now mirror the pension plan, but the results for the prior year are lower for the OPEB trust, as these allocations were much more tilted toward fixed income funds until the Commission changed the allocation policy earlier this year.

2. Mr. Burns and Mr. Binkley reviewed the information that Vanguard had prepared regarding alternative asset allocations discussed at the prior Commission meeting. Vanguard has modeled two new alternatives, one that shifts 2 percentage points of allocation out of REITS and TIPS each, shifting these allocations equally to US equities and international equities. The second then moves the remaining 3% allocation in TIPS into the aggregate US bond fund. The discussion focused on the Vanguard 30-year capital markets estimation model. Both alternatives would be estimated to produce about a 12 basis point increase in median expected returns (6.6% vs 6.48%) with a corresponding small increase in volatility, but both allocations would have the same estimated Sharpe ratio as the current allocation.

The members discussed these results as well as other alternatives. Both Vanguard and members noted the concern that some of the alternatives would result in very small allocations to certain segments, which might then have immaterial effect for that market segment. A third alternative was suggested, of taking all of the 5% TIPS allocation and 1 point of the current REIT allocation, and re-allocating that 6% of the

portfolio equally between US and international equity position. It was agreed not to make any change in the current allocation at this time, and that any changes should be decided based primarily on long term outlook rather than current market conditions. The members asked Vanguard to model this new alternative so that the information could be discussed at the November meeting.

The members discussed the relative underperformance of the actively managed funds in the equity portfolio, and questioned the Vanguard team about the frequency with which they reviewed their choices for individual fund selection. There was discussion about whether the commission at some point should consider directing more of the trust's assets to be held in passive index funds, and asked the Vanguard team for their views on this choice.

The Vanguard representatives left the meeting at 8:05.

3. Upon motion and second, the minutes of the Commission's September 11, 2018 meeting were approved.
4. Mr. Christiansen distributed for review the quarterly Vanguard management fee statement, noting that it did not specifically require approval for payment as the fees are authorized under the investment management agreement. Mr. Christiansen presented and reviewed two invoices from Cohen and Wolf, one for work on the revision to the OPEB Trust agreement and one for work on the money purchase plan updates. Mr. Christiansen noted that although the former billing was specifically for the OPEB agreement, once finished this would be a template for changes to the pension trust agreement, with resulting lower effort, so he proposed allocating the cost equally between the OPEB and pension trusts. This was agreed as appropriate. Mr. Christiansen also distributed an invoice from TR Paul for a number of new pension benefit setups and for the processing of monthly benefit payments. He noted that the number of retirees was higher than in the past due to the number of employees who chose to accept the Town's retirement incentive program at the end of last fiscal year.

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

- 5) Mr. Christiansen reported that as part of the actuary's work on the annual pension actuarial review, he had identified an error in the benefit calculation for an employee who had retired about a year ago. The calculated benefit was higher than actual, and has resulted in an overpayment of benefits to date of approximately \$1000. Both the Town HR manager and the Cohen and Wolf attorney agree that the benefit needs to be corrected going forward, but questioned the need to recoup the overpayment. Mr. de Pinho noted that having the Pension Trust absorb the overpayment would in effect be taking the money from all the other plan participants, and the commission does not have that option as the fiduciary for the trust. The other members agreed with this

position. It was suggested that we should check the TR Paul contract to see if they are responsible for making reimbursement for such an error, and if not, propose to the Town HR that the Town should be responsible for reimbursing the Trust if they don't want to require making recovery for the overpayment. In response to a question, Mr. Christiansen noted that he is aware of only one or two other calculation errors in the past, and he understands that all benefit calculations by TR Paul have a second review. It was suggested that we ask TR Paul to confirm their controls for the accuracy of their benefit calculations.

6) Mr. Christiansen provided several updates on administrative issues discussed at the previous meeting:

- The several gaps in process and definition that arose with the recent retirement by a participant from the Money Purchase Plan have all been resolved to everyone's satisfaction.
- The process of shifting retiree payment processing from TR Paul to Vanguard appears to be proceeding well.
- The difference in the interest rates for the Union Savings Bank accounts results from some being regular checking accounts and the others being money market accounts. USB is looking into whether all can be made money market accounts.

7) Mr. Christiansen reported that he had a discussion with Laurie Fernandez of Town HR, who suggested that the town is estimating future payroll rate increases will be around 2.5%. However, the actuary is reporting that his data is suggesting payroll increases in the range of 3% to 3.5% as year. After discussion, the members agreed not to change the payroll increase assumptions that had been decided at the previous meeting to be used in the current year pension plan analysis.

8) The members returned to a discussion of the asset allocation question, with additional suggestions and commentary on alternatives and possible timing of any changes. It was agreed that given the recent market performance, we should direct Vanguard to move rapidly to rebalance the portfolio to the current policy allocations, rather than wait on future cash flows to accomplish the rebalancing. It was felt that doing this now would give the portfolio the desired equity exposure in the current market conditions. The members agreed that any changes in the current allocation policy should await the additional modeling analysis that had been requested for the November meeting.

9) Mr. Christiansen reported that he has received an annual survey request from the US Department of Commerce, which surveys pension plans for information about assets, assumptions and asset allocations. He indicated that he will reach out to the department to see what information we might be able to obtain from their survey to provide additional comparative information for the Commission's allocation policy decisions.

10) Mr. Christiansen and Mr. Rettger provided an update on the project to review the

various pension and OPEB governance documents. The proposed change to the Town Charter has been accepted and will be on the ballot in next Tuesday's election. The proposed changes to the town ordinances concerning the Commission have been approved, with some minor amendments, by the Board of Selectmen. These changes had been scheduled for a Town Meeting vote last week, but this had to be postponed when it was found that the published version of the amendments was not the correct and latest version. The Town Meeting vote has now be re-set for November 28.

Upon motion and second, the meeting was adjourned at 8:45 p.m.

Submitted in draft with the concurrence of the Commission members
Michael Rettger, Secretary
October 30, 2018