Old Saybrook Pension and Benefits Board Meeting
Thursday, April 25, 2024
8:30 a.m.
First-floor Conference Room, Town Hall – Hybrid Meeting
To access the audio from this meeting, please use the following link:
https://youtu.be/4Pmx3QuwCEo

Meeting Minutes

Attendees

Members Present:	**Others Present:**
Darrell Pataska	Lee Ann Palladino, Finance Director & Pension Plan Administrator
Carl Fortuna, First Selectman	Janet Vinciguerra, Pension Board Liaison
Paul Tracey	Kevin Nichols, Morgan Stanley Investment Advisor
Loraine Cortese-Costa	Rebecca Lilly, Morgan Stanley Investment Advisor
Leland Mckenna	Barbara Labriola, Town Treasurer
	Andrea Brundrett, Administrator

Absent:

Susan Quish
Rowen Moffett

Welcome and Public Comment

The meeting was called to order at 8:31 a.m. by Mr. Pataska. No members of the public were present.

Approval of the Minutes

The minutes of the March 28th, 2024, meeting of the board was reviewed. A motion was made by Mr. Pataska and seconded by Mr. Tracey to approve the minutes. The motion passed unanimously.

Pension Liaison Report

Ms. Vinciguerra reported that for the April pension gross payroll the town had 98 retirees with a gross monthly payroll of $155,114.68, with one less retiree with the passing of Police Chief Edmund Mosca. There is a total of 99 participants with one QDRO spouse. The Fire Department has 37 retirees for a gross monthly payroll of $14,022.44. There is a total of 38 participants with one QDRO spouse.

There is one pending retirement, Richard Champlin, Highway Maintainer II, will retire May 1st with 24.5 years of service. Mr. Fortuna added the Mr. Champlin is taking an early retirement, Ms. Vinciguerra said this is a benefit amount of about $2,200 as opposed to about $2,500.

As of April 12th, 2024 the defined benefit plan has 46 contributing town employees and 21 contributing BOE employees. The defined contribution plan has 43 town employees and 20 BOE employees. 83% of DC participants elected the optional town match.

Investment Advisor Report – Morgan Stanley

Mr. Nichols started by reviewing the Wealth Management Perspectives, referring to the Executive Summary. Under Major Investment Controversies, in regards to the path of inflation, the stock market is saying the Federal Reserve is going to cut aggressively to go back to 1-2% inflation. The bond market is saying otherwise. Over the last month the market has shown that we will be in a "higher for longer" interest rate environment for the next 12 to 24 months. Inflation has shown to be trending up while unemployment is low, so the Fed's mandates are being met and if they start cutting rates now it will be more inflationary. Mr. Nichols continued, the market is at about 21 times price/earnings ratio, where it is typically at about 15-16 times price/earnings ratio. In the beginning of the year expected rate cuts were between 6 and 7, now they are below 3. When referring to the Equity Risk Premium graph, the S&P 500 Index was at 61 basis points at the end of March. It is now at 30 basis points because the 10-year has increased from 380 to 460 basis points, which is another example of the Fed staying higher for longer. He then went over the S&P 500 Earnings Estimates graph, which showings the expectations for earnings in 2024 decreasing and in 2025 they are remaining stable. He continued, the market gain over this year is not because earnings are getting better, it's because multiples have expanded. Mr. Nichols added with the inversion of the yield curve going on 2 years now, no recession has come from it even though historically, an inverted yield curve has resulted in recession. Again, the stock market is saying no recession while the bond market is saying otherwise. Mr. Tracey commented that people are looking forward to rate reductions even though it means the economy is weakening. He then asked Mr. Nichols if Morgan Stanley is still calling for a soft landing, in which Mr. Nichols replied yes, they are. Mr. Nichols added that government expenditures are a big part of why the economy is doing so well right now. Ms. Labriola added that she read the Fed could actually raise rates in the future. Mr. Nichols said that's correct, with inflation increasing and oil being a big part of that, one of the problems is the U.S. producing more oil per day than ever before. For every 100,000 barrels of oil produced there's 1 million that other OPEC companies are cutting, so the U.S. is losing supply. If inflation continues to increase, the Fed may have to raise rates by 25 basis points as we go into next year.

Ms. Nichols then reviewed the report for the town pension which as of March 1st, 2024 which has a return rate of 9.52% vs. 11.29% for the OS IPS and 12.50% for the 60/40. For the month of April, the portfolio is down 2% versus 2.40% for the IPS and down 3% for the 60/40, which is protecting better on the downside. For the fiscal year as of April 24th, 2024 the portfolio is up 7.28% versus 8.60% for the OS IPS and 9.13% for the 60/40; the portfolio value is at $27,127,000 opposed to $27,694,221 as of March 31st, 2024. Mr. Tracey said in terms of the 60/40, we're right on target but we got there by overweighting international and emerging markets and underweighting large cap, and that the 60/40 is misleading on the pie chart. Mr. Nichols said that historically international and emerging markets have been more volatile than the S&P 500 but the concentration in the U.S. has been concerning. If you look at international and emerging markets this month, they've held up much better than U.S. International was down about 2%, emerging markets were down about 1.3%, and the S&P 500 was down almost 4%. This is because their valuations aren't as high as in the U.S. Mr. Tracey said he would like to discuss the portfolio being target weighted in large cap rather than underweight by 1/3, possibly during the IPS review. Ms. Cortese-Costa also asked how large cap versus international and emerging markets effects income. Mr. Nichols said international and emerging markets pay much higher than the U.S. Adding that the yield on the S&P 500 right now is around 1.2%, one of its lowest points because technology stocks are dominating and the weighting of the other companies are very low. The yield on emerging markets is over 5% in terms of income and yields on international stocks are around 4%. Mr. Pataska added that he is still concerned with the portfolio return lagging behind the IPS and if you look at the 3 year the return is at 2.12% as opposed to the IPS which is 4%. Mr. Nichols said that because this is a net cash flow negative portfolio, because of benefit payments, if the portfolio was in the S&P 500 it would've resulted in lower recovery in 2023. The goal is to have a lower volatility portfolio over time that's going to match the IPS but with less risk, eventually they will be adding large cap. Mr. Mckenna asked for clarification as to how the figure in the OS IPS is determined. Mr. Nichols referred to the asset allocation chart and said they take all the indices and multiply them by the target weights to get the IPS benchmark. The chart then shows if the portfolio is overweight or underweight in asset classes. Ms. Palladino added that at the June meeting the parameters that the pension board has created should be reviewed in terms of risk and return. Mr. Nichols also referred to the Time Weighted Performance Summary which shows the net contributions/withdrawals over periods of time. When looking at net cash flow, the portfolio is about equal in terms of money coming in from dividends and interest. The portfolio has been able to be funded just through dividends and interest without having to sell principal. Mr. Fortuna asked to see the total income received each fiscal year because this would reflect the conservative investments and rise in interest rates. He was also wondering if Morgan Stanley would be able to do a projection of the longer-term bonds that are paying 5-6% over the next 5 years and what that might look like. Mr. Nichols said they would be able to provide that. Mr. Tracey then referred to the actuarial figures on the Cash Flow Report saying it shows the towns responsibility will decrease over the next 10 years in terms of the ADEC. Mr. Nichols said that's correct, if you look at the 2021 valuation the ADEC was around $1 million and would trend downward after 10 years to $800,000. Now, because the funding ratio has stayed stable or increased, the ADEC is at $750,000 and will decrease to around $370,000 in the next 6-7 years. He continued, that is why the net cash flow looks worse than it did last year, the ADEC has been cut in half over the next 10 years. Mr. Tracey added that you would think that's because the employees are paying more but it's actually because they are paying less. Mr. Nichols said yes, and there are less employees in the plan. Ms. Palladino commented that it looks like by 2028 the portfolio will be fully funded and continue to be overfunded after that, this would be a good time to discuss immunizing the portfolio when we get to a certain level. Mr. Nichols said once plans are 110-115% funded is when they start immunizing the portfolio but because the assumed rate of return growth is higher than the growth in the liabilities, that's why the portfolio will reach full funding over the next few years and possibly look for more volatility. He added, you decide how many years of liability payments you want to do and build a bond ladder to make sure that will happen while the rest of the portfolio can be in stocks so there is still growth over time. Then that can be revisited every 3-5 years.

Ms. Lilly then reviewed the DC plans. The balance in the 401a as of March 31st, 2024 was $1,756,325.37 and the balance in the 457b was $4,365,381.86 for a combined total of $6,121,707.23. The 401a has 100% participation rate with an average contribution or 5% and the 457b has a participation rate of 82.5% with an average contribution of 4.86%. Mr. Fortuna asked what the total assets under management are approximately. Mr. Nichols said the DB plan has $27 million and the DC plans are just over $6 million, this does not include the fire department. Ms. Lilly then referred to the Market Values Over Time Chart which shows where the DC plan started in 2021 and the contributions and distributions throughout the life of the plan. A breakdown of all the plans assets throughout the 401a and the 457b is also included. Which shows the asset allocation of both plans is at 41.73% and that people are choosing target allocations or a 60/40 80/20 allocation. Participants are also taking advantage of other allocations within the program such as international, large cap, and bonds. Mr. Nichols added that target date funds are a good option because they give active management without the participant having to change anything themselves. Ms. Lilly said there are differences in how people choose to be invested in the 401a versus the 457b, with the 457b being fully vested and its contributions being elected through paychecks which is more conservative. Ms. Lilly then discussed the Investment Plan Review which includes a market overview that goes over the asset allocations by category. She continued that the purpose of the plan investment report is to review the managers that are in the DC program and see if they performing well enough to be included in the plan or do adjustments need to be made. The report includes a monitoring criteria for investments that includes 15 criteria and how they are weighted. She then went over the Historical Plan Watch List Summary which goes through the different investment lineups, which are meeting or exceeding the criteria and which are not. There are 3 strategies that did not meet criteria and Morgan Stanley does have suggestions to replace those funds. The Scorecard Detail shows in red where the investment does not meet the criteria and the total score. At the end of the 117-page report that Ms. Lilly will be emailing to everyone, it goes through each individual strategy and the ones to keep an eye on say “watch” at the top of the page. Mr. Tracey asked, if they see a fund they’re concerned with do they reach out to the employee to let them know it’s underperforming and the alternative solution. Mr. Nichols replied they come to the board first with the solution and once there is a resolution, Empower is contacted and they send a notification to all employees letting them know which fund is being replaced and to reach out if they would like to discuss it further. Mr. Pataska asked about the suggestions to replace the current 3 funds on the watch list. Mr. Nichols said they usually wait until a fund is on watch for 3 quarters before replacing them in case the start meeting criteria.

Plan Administrator’s Report

Ms. Palladino reported that in May, Brown & Brown will come in and do their annual review. In June Ms. Palladino suggested her and Mr. Nichols add a line item to discuss the IPS and any suggestions the board may have to be reviewed over the summer.

Old Business

No old business

New Business

Mr. Fortuna discussed 2 union negotiations in which one is ongoing and the police negotiations. There's been a lot of discussion around pensions for the Police Department. The Support Union negotiations were asked to be started in January, but they were not ready and requested additional information. Mr. Fortuna said the information was provided and that they asked to start negotiations 3 more times in which the Support Union said they weren't ready. A labor practice complaint was filed against the union. Mr. Fortuna continued he doesn't believe there will be a lot of changes in regards to health insurance since it is difficult in the public sector to ask them to take on more in the deductible. Currently the HDHP has a $2,500 deductible for an individual and $5,000 for a family. The town contribution for those is between 30-40%. He added, going above a $5,000 deductible for a family in the public sector isn't out there right now but it is in the private sector, the deductible can be $10,000 for a family. Mr. Mckenna asked if the employee health plan design is public knowledge on the town's website. Ms. Palladino said it may be at the end of the union contracts as an addendum but she will ask Brown & Brown to send their presentation early for review. Mr. Mckenna said that would be great and if they have information based on spending by site in terms of how much is being paid to doctor's offices versus emergency departments versus imaging centers to review that as well.

Mr. Pataska made a **motion** to adjourn seconded by Mr. Tracey, all were in favor and the meeting adjourned at 9:35 a.m.

Respectfully submitted,

Andrea Brundrett, Recording Secretary

The next meeting will be Thursday, May 23, 2024, at 8:30 a.m. by hybrid meeting format in the Town Hall, first-floor conference room.