



Old Saybrook Pension and Benefits Board Meeting
Thursday, October 26, 2023

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:

Darrell Pataska
Carl Fortuna, First Selectman
Susan Quish
Rowena Moffett
Paul Tracey
Loraine Cortese-Costa

Others Present:

Lee Ann Palladino, Finance Director & Pension Plan Administrator
Janet Vinciguerra, Pension Board Liaison
Kevin Nichols, Morgan Stanley Investment Advisor
Rebecca Lilly, Morgan Stanley Investment Advisor
Barbara Labriola, Town Treasurer
Andrea Brundrett, Administrator
JT Dunn, Fire Department

Absent:

David Sparrow

Welcome and Public Comment

The meeting was called to order at 8:30 a.m. by Mr. Pataska. No members of the public were present.

Plan Administrator's Report

Ms. Palladino discussed the COLA for the Fire Department is reviewed every 10 years. This request was submitted to Milliman who looked at the current benefit multiplier, which is \$270, and suggested it should be increased to \$335 to adjust for inflation. There are two payments that firefighters receive; the regular multiplier for all firefighters which is what Milliman reviewed and the officer incentives which are not part of this assessment. Ms. Palladino explained that from a Town budget perspective, \$180,000 is put aside per year for the firefighter ADC. With the suggested increase that amount would be \$247,000. Mr. Tracey asked why the COLA isn't reviewed on a yearly basis. Mr. Fortuna clarified that the Town pension doesn't have a COLA and it has been best practice to review it every 10 years.

Mr. Dunn started by pointing out the actuarial report has an effective date of July 1, 2023 for this COLA, the Fire Department is requesting an effective date of July 1, 2024. This may adjust which year's budget

would be affected. He went on to explain the plan, which has been in place for 30 years. It began with a benefit multiplier of \$174 per year of service, a member must earn 150 points annually for a year of service to be counted towards the pension and is vested after 10 years. This equates to \$1,740 per year divided by 12, a payment of \$145 per month. In 2011 the officer incentive was added in which Lieutenants receive an additional \$2 per month, Captains receive an additional \$4 per month, Assistant Chiefs receive an additional \$6 per month, the Deputy Chief receives an additional \$8 per month, and the Chief receives an additional \$10 per month. These incentives have been the same for 12 years. The officer incentives are about 1.5% of the cost of the pension, about \$136 per month, \$3,300 per year.

Ms. Cortese-Costa wondered why in the Town of Deep River, their Fire Department pension costs about \$3,600 per year and with the suggested COLA increase the Town of Old Saybrook's pension would cost \$10,050 per year and why there would be such a big difference annually between towns. Mr. Dunn explained that Deep River's plan most likely wasn't established at the same time as Old Saybrook's, since Old Saybrook's Fire Department Pension Plan is the oldest in the area. He added that Deep River has a much smaller fire department with about 20 members, Old Saybrook's fire department has about 90-100 members. Additionally, the call volume for Deep River compared to Old Saybrook is significantly different and that Old Saybrook responds to Deep River when they need help with a call.

A motion was made by Mr. Pataska to approve the Cost-of-Living Adjustment for the Town of Old Saybrook Fire Department Pension Plan, the motion passed unanimously. Mr. Dunn also requested an action item for the Officer Incentive to be considered for modification, since those rates have not changed in 12 years. Mr. Pataska agreed to add this to the agenda for the month of November. Mr. Dunn also mentioned the effective year of the COLA should be changed to 2024 from 2023. A motion was made by Mr. Fortuna to change the effective date of the COLA from 2023 to 2024, Mr. Pataska seconded and the motion was passed unanimously.

Approval of the Minutes

The minutes of the September 28th, 2023, meeting of the board was reviewed. Mr. Pataska pointed out that Mr. Fortuna was listed under members present and others present, and requested he be removed from others present. A motion was made by Mr. Pataska and seconded by Ms. Quish to approve the minutes including the change. The motion passed unanimously.

Pension Liaison Report

Ms. Vinciguerra reported there have been no changes to the October payroll. The town has 95 retirees with a gross monthly payroll of \$147,524.39. The Fire Department has 36 retirees, a total of 37 participants, for a gross monthly payroll of \$13,805.70. There are four pending retirements; Larry Smith former Police Officer will be retiring January 2024, James Therrian of the Transfer Station will retire December 1st, Jeffrey Deperry Police captain with 25 years of service will retire on November 1st, and Timothy Sheehan of the Fire Department will retire October 2023 with 15 years of service.

As of October 13th payroll, the defined benefit plan has 48 contributing town employees, 22 contributing BOE employees. The defined contribution plan has 43 town employees and 19 BOE employees. 89% of DC participants elected the optional town match.

Plan Administrator's Report

A motion was made by Mr. Pataska to approve the Memorandum of Agreement (MOA) between Larry Bonin and the Town to adjust his pension according to the terms of the agreement. Mr. Tracey seconded this motion and the motion was opened for discussion. Mr. Fortuna explained that Mr. Bonin was on administrative leave for 1 year. When he was reinstated, he requested to retire with full pension benefits as of November 1, 2023. Mr. Bonin is 61 and not quite reached normal retirement age. In 10 months, he will reach full retirement. This MOA requires a vote by the PBB to approve his full pension as opposed to reduced early retirement pension. Ms. Cortese-Costa raised the concern that if the board approves this request what would stop the board from approving similar requests in the future and why wouldn't the board have allowed this in previous cases. Mr. Fortuna discussed that with Mr. Bonin being on leave for 1 year and several changes being made to the Public Works department, with an interim director in Mr. Bonin's place; it would make sense for the interim director to move forward with his progress and allow Mr. Bonin's request to retire early. Mr. Pataska agreed that the board would consider anyone in the future who submits similar requests. Mr. Fortuna continued that certain exceptions have been made in the past on a case-by-case basis. Mr. Pataska opened the vote to approve the Memorandum of Agreement between Larry Bonin and the Town to adjust his pension according to the terms of the agreement. The board was unanimously in favor and the Memorandum was approved.

Investment Advisor Report – Morgan Stanley

Mr. Nichols started by reviewing the Wealth Management Perspectives, saying that the stock market has not changed much in two years. In reference to the "Magnificent 7" stocks, their performance is up 61% but their change in earnings is only up 5%. Mr. Nichols stated that the expectations for these stocks are much higher than their actual returns. Because of this Mr. Nichols believes the leadership for these stocks is going to change. This would be a result of higher rates on corporate balance sheets including tech stocks, combined with U.S. slower consumer demand and global economic growth, which would have a negative impact on tech stocks. He added that the 10-Year and 30-Year Treasury rates are over 5%, which is higher than average. Since the 1980s they have not seen interest rates rise this quickly. Because of this Mr. Nichols suggests adding more duration to the portfolio, as he suggested last month as well.

Mr. Nichols then referenced the Equity Risk Premium chart. When looking at the S&P 500 Index without information technology, the equity risk premiums are very low, which does not result in a large return. The equal-weighted S&P 500 index is 360 basis point higher than the S&P 500 Information Technology Index. This shows there are 493 stocks that have opportunity to earn a higher return on equity, which is important when considering stock versus bond risk. Mr. Nichols expanded that earnings have grown while multiples remain elevated. Historically the S&P 500 is around 15/16 times in terms of poor

earnings, currently it is around 17/18, which is why he believes being more conservative at this time will benefit the portfolio.

Mr. Nichols reviewed the Town's performance, and said that duration was added to the fixed income portfolio last month. Mr. Nichols said that they would like to move about \$1 million more from the short-term bond ladder into the intermediate strategy. Mr. Fortuna asked what kind of income change would occur by increasing duration. Mr. Nichols explained the income may go down slightly because the yields the portfolio would be getting on short-term bonds are higher than the yields on long-term bonds. But when the Fed starts to cut rates the short-term bonds will go down, while the long-term bonds either stay elevated or increase. Mr. Nichols said there will be a normalization of the yield curve at some point though. He then referenced the Investment Summary, showing that over the last three years the portfolio has had an earned income of \$1.8 Million, while \$1.7 Million was distributed for benefit payments. Mr. Nichols is expecting higher income going forward because rates are much higher now than they were three years ago. Ms. Cortese-Costa asked how they will determine which stock funds to sell. Mr. Nichols stated that they will pro-rate between different managers to keep allocations the same. Mr. Nichols said the bond strategy is more about de-risking the portfolio and that when stocks become appealing again they will increase the allocation at that time. Ms. Moffett asked if this recommendation takes the portfolio outside of the asset allocation. Mr. Nichols said no it does not. The portfolio has been underweight in large cap, overweight in international and emerging markets, overweight in small cap and midcap. This will get the portfolio under the maximum allocation for short-term bonds because the portfolio has been over that for protection of rising interest rates. These moves will shift the portfolio closer to target allocation.

Ms. Lilly then presented a new report for the DC plan. Morgan Stanley has brought in Graystone Consulting who has taken Morgan Stanley's summary pages and put them into a more comprehensive report. For this meeting they will be doing an overview of all the information included in the report. Ms. Lilly started by reviewing the Plan Composition, which shows the Target Date funds have the largest amount of participation at 37.73% and breaks down the percentage of participation in the remaining asset classes. The Plan Investments show a breakdown of all the funds listed and the total of both DC plans which is \$5,216,361. Ms. Lilly went on to show the Investment Balances of the 457 and the 401(a) Plans as of September 30, 2023. A new report that will be helpful is one that shows what funds are in different Style Boxes. Also, Peer Group Rankings will help Morgan Stanley with the decision making and takes a comprehensive review into each individual fund and which funds should be on a watch list. Mr. Nichols added they have a few funds that are on the watch list because their three-year peer rankings are below what they would like. If their performance has not improved by Q1 they will have suggestions on replacing them. The funds included on the watch are Western Asset Core Plus Bond IS, Goldman Sachs Inflation Protected Secs R6, PGIM High Yield R6, BlackRock 60/40 Target Allocation K, Parnassus Core Equity Institutional, T. Rowe Growth Stock, AB Small Cap Growth, and MFS International Diversification R6.

Plan Administrator's Report

Ms. Palladino had nothing additional for the Plan Administrator's Report.

Old Business

No old business

New Business

No new business

Mr. Tracey made a **motion** to adjourn seconded by Ms. Moffett. All were in favor and the meeting adjourned at 10:06 a.m.

Respectfully submitted,

Andrea Brundrett, Recording Secretary

The next meeting will be Thursday, November 30, 2023, at 8:30 a.m. by hybrid meeting format in the Town Hall, first-floor conference room.