

Pension and Employee Benefit Board (PBB)

Presentation by Darrell Pataska, Chair of the PBB, to the Board of Finance

June 7, 2022

Pension & Employee Benefit Board

The PBB was established by Town Code

Members are appointed by the Board of Selectman (BoS)

Current Members are:

- Darrell Pataska, Chair
- Carl P. Fortuna, Jr. (ex officio voting member)
- Lorraine Cortese Costa
- Rowena Moffett
- Susan Quish
- David Sparrow
- Paul Tracey

Retirement & Benefit Programs

- The Town of Old Saybrook currently has four retirement plans:
 1. **Defined Benefit plan** covering employees of the town
 - Currently 82 active employees and 88 employees in retirement receiving benefits.
 2. **Defined Benefit plan** covering volunteer firefighters
 - Currently 35 in retirement receiving benefits. Active FD members earn points toward retirement, so the amount of the benefit, if any, is not known until a member retires.
 3. **Defined Compensation 401a plan** (defined contribution) for town employees
 - Currently 45 active members.
 - The town matches employee contributions under this plan (up to 8%).
 4. **Deferred Compensation 457b plan** (employee contribution plan up to IRS maximum limits) for town employees
 - Employees can make extra tax-deferred contributions to this plan but there is no match by the town. Fifty-eight current participants.

Employee Benefit Programs:

1. Health insurance plans
2. Dental insurance
3. Life insurance
4. Voluntary insurance plans: Long Term Disability, Accident, Critical Illness, and Hospital Indemnity
5. Employee Assistance Plan

Pension & Employee Benefit Board

- The BoS is the Fiduciary of the retirement plans and for other employee benefits provided to town employees
- The PBB's role is to oversee the finances and operations of the retirement plans and benefit programs and make recommendations to the BoS.
- The PBB assists the BoS in carrying out the duties as described in the Town of Old Saybrook Retirement Plan and the Old Saybrook Fire Company No. 1 Retirement Plan.
- The PBB gives advice to the BoS on matters related to the deferred compensation and defined benefit plans.

Consultants

- The PBB utilizes the following professionals to assist in their work:
 - Morgan Stanley – discretionary management of the two defined benefit pension plans and advisor to both deferred compensation plans
 - Milliman – the Town’s actuary for the defined benefit plans
 - Brown & Brown – the Town’s consultant for employee benefits

Key Activities of the PBB Each Year

- Monitor retirement plan activities including number of employees receiving benefits, number of active employees, plan assets available for benefits, etc.
- Oversee investment results and recommendations of the Investment Advisor
- Review and update the asset allocation study as necessary
- Perform an annual review and updates necessary to the Investment Policy Statements
- Discuss major assumptions made by the actuary in determining the annual employer benefit contribution recommendations for the defined benefit plans
- Review the overall employee benefit package and make recommended changes if necessary

Key Actions/Activities of the PBB over the Past 5 Years

- Created a new defined contribution 401a retirement program
- Conducted a long-term asset allocation study to ensure asset management meets plan objectives
- Formalized an Investment Policy Statement for the Defined Benefit plans
- Formalized an Investment Policy Statement for the Deferred Compensation plans

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Morgan Stanley – Investment Advisor

Assists with the preparation of the Investment Policy Statement (IPS)

Provides advice on the plans' long term asset allocation

Reviews performance against criteria of IPS (return, cash flow, benchmarking, rebalancing, etc.)

Performs due diligence on money managers for each type of asset class (stocks/bonds, etc.)

Selects money managers based on Town's criteria

Uses full resources of Morgan Stanley's research to assist the town

Provides Investment Advice to the Town's employees in the Deferred Compensation plans

Milliman – Actuarial Advisor

Estimates the value of employer obligations (ADC)

Uses historical data and future expectations to assist the PBB in setting assumptions


Provides annual/bi-annual plan valuations

Calculates final benefits for retirees (full, spouse, etc.)

Creates annual benefit statements for employees

Uses the full resources of Milliman to assist the town

- Pension studies
- Union negotiation impact



Brown and Brown – Benefit Consultant



Provides resources on laws and regulations associated with benefits



Works across many insurance carriers to find most cost-effective, appropriate programs for the town



Assists the town in implementing benefit programs



Assists employees with benefit questions and open enrollment



Assists management with collective bargaining assessment of benefit plans



Brown and Brown has in-depth knowledge of group insurance, employee benefits, and other resources.



Assets under Management as of 4/30/22

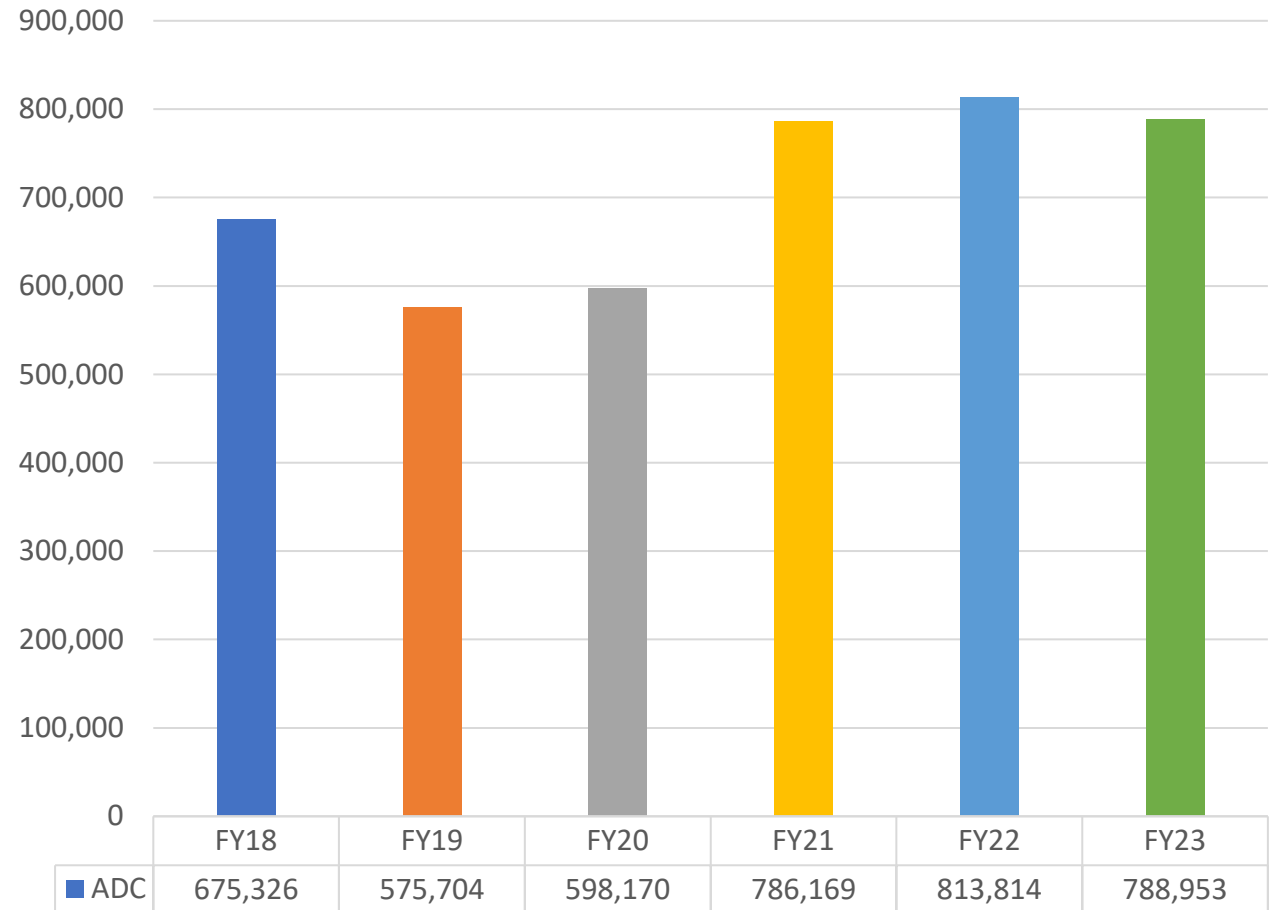
- Assets in Defined Benefit Plans:
 - Town defined benefit plan - \$25.6 million
 - Town Fire Department defined benefit plan - \$1.6 million
- Assets in Deferred Compensation Plans (not specifically managed by the Town). Employees determine investment vehicles among options provided.
 - Town Defined Contribution 401a plan - \$867 thousand
 - Town Deferred Compensation 457b plan - \$3.3 million

Defined Benefit (DB) Plans:

The ADC is volatile due to several factors

- **Plan Participation:**
 - Retirees remain stable over past 5 years growing from 85 to 88
 - Active DB participants have declined 25% over past 5 years, from 110 to 82*
 - Employee contributions have declined about \$55 thousand or 15% from \$365,321 (FY18) to \$310,166 (FY21)
- **Assumptions:**
 - Discount rate has decreased from 7.75% to 6.75%
- **Stock Market Returns**
 - Last 3 years returns were 6.38% vs. assumed rate of 6.75%
- Town pension fund is 85% funded

Actuarial Determined Contribution Trends



* Eligible new hires after 7/1/17 entered DC plan (except PD)

Future Recommendations

- The funding policy for the fiscal 2023 budget has been changed from “pay as you go” to “fully fund” the Actuarial Determined Calculation (“ADC”).
- PBB recently passed recommendation to establish a pension reserve fund.
 - This enhances the ability of the Town to continue to fully fund the ADC going forward.
 - Minimizes volatility in the budget expense necessary to fund the annual ADC.
 - Provides certainty to current and future retirees regarding the town’s ability to pay pension benefits.



Thank you

- Questions or Comments