



TOWN OF MONROE

PENSION COMMITTEE & OPEB BOARD OF TRUSTEES

MEETING MINUTES-AMENDED

Special Meeting – Thursday, January 25, 2024 - 6:00P.M.

PRESENT: Board of Finance Representative Steve Kirsch
First Selectman Terry Rooney
Superintendent of Schools Joseph Kobza
Town Council Representative Jonathan Formichella
Town Council Representative Jason Maur
Board of Education Representative Chrissy Martinez
Finance Director Ron Bunovsky, Jr.
Chairman Board of Police Commissioners Michael Vitello (*via phone*)

ABSENT: Pension Committee Member Dennis Condon
Deputy Finance Director Heidi Meade
Board of Finance Representative Michael Manjos
Town Treasurer Frank Dutches

ALSO PRESENT: Advisor, Fiducient, Devin Francis
Consulting Actuary at USI, Stephen Chykirda

1. CALL TO ORDER & ROLL CALL

There was no call to order. The meeting began at 5:53 P.M.

ITEMS ADDED TO AGENDA

a. Pension & OPEB-Vote for Temporary Chair

MOTION TO APPROVE THE PENSION & OPEB TEMPORARY CHAIR JONATHON FORMICHELLA

Motion: (S. Kirsch)

To approve the Pension & OPEB temporary Chair.

Second: (J. Formichella)

Discussion: Maur stated that they needed to appoint a temporary chair for Pension Committee and of OPEB. Kirsch stated historically they appoint one.

MOTION PASSED 8-0

2. REVIEW OF MINUTES

a. Pension Committee - Minutes/Voting Record for October 26, 2023 Special Meeting

Formichella asked if anyone had any comments or questions on the previous meeting minutes.

MOTION TO APPROVE PENSION COMMITTEE SPECIAL MEETING MINUTES AND VOTING RECORD FOR OCTOBER 26, 2023

Motion: (J. Formichella)

To approve the Pension Committee Special Meeting Minutes and Voting Records.

Second: (S. Kirsch)

Discussion: None

MOTION PASSED 8-0

b. OPEB Board of Trustees- Minutes/Voting Record for October 26, 2023 Special Meeting

MOTION TO APPROVE OPEB BOARD OF TRUSTEES SPECIAL MEETING MINUTES AND VOTING RECORD FOR OCTOBER 26, 2023

Motion: (J. Formichella)

To approve the OPEB Board of Trustees Special Meeting Minutes and Voting Record.

Second: (S. Kirsch)

Discussion: None

MOTION PASSED 8-0

3. NEW BUSINESS

a. Pension & OPEB-Vote for Chair & Vice-Chair

MOTION TO APPROVE PENSION CHAIR- MICHAEL MANJOS

Motion: (J. Formichella)

To approve the Pension Committee Chair.

Second: (S. Kirsch)

Discussion: None

MOTION PASSED 8-0

MOTION TO APPROVE PENSION COMMITTEE VICE-CHAIR- STEVE KIRSH

Motion: (J. Formichella)

To approve the Pension Committee Vice-Chair.

Second: (J. Maur)

Discussion: None

MOTION PASSED 8-0

MOTION TO APPROVE OPEB BOARD OF TRUSTEES COMMITTEE CHAIR- MICHAEL VITELLO

Motion: (J. Formichella)

To approve the OPEB Board of Trustees Committee Chair.

Second: (R. Bunovsky)

Discussion: None

MOTION PASSED 8-0

MOTION TO APPROVE OPEB BOARD OF TRUSTEES VICE-CHAIR- MICHAEL MANJOS

Motion: (J. Formichella)

To approve the OPEB Board of Trustees Committee Vice-Chair.

Second: (R. Bunovsky)

Discussion: None

MOTION PASSED 8-0

Formichella turned the meeting over to OPEB Vice-Chair *Kirsch*. *OPEB Chair Vitello* attended by phone. *Formichella* asked if *Vitello* would run the meeting. *Vitello* deferred to *Kirsch*.

b. Pension & OPEB- Meeting schedule for the 2024 calendar year.

Kirsch informed the board to review the meeting schedule and then called for a motion to approve.

MOTION TO APPROVE MEETING SCHEDULE FOR THE 2024 CALENDAR YEAR

Motion: (S. Kirsch)

To approve the meeting schedule for the 2024 calendar year.

Second: (M. Vitello)

Discussion: None

MOTION PASSED 8-0

c. Pension & OPEB- Discussion regarding discount rates and potential adjustment

Mr. Chykirda of USI, started his presentation. *Mr. Chykirda* stated that he had several things to review but the main topic was they were going to review pension assumptions, which are focused on the discount rate, and are long term investment rate returns. *Mr. Chykirda* started his presentation by discussing the valuation and the main purpose, which is the cost of the Town and the benefits, whether it's the pension side or OPRB side, for people that serve the town or community. When those individuals retire they will get some kind of benefits and there will be a fund set up to manage them. The Town's ultimate costs are the benefits paid, plus expenses incurred, but minus the investment return and employee contributions. *Mr. Chykirda* noted that the more the assets are the less the Town would have to pay. *Mr. Chykirda* stated that the Actuarial Valuation utilizes an actuarial cost method to assign a portion of the ultimate cost to the budget year. The valuation does not determine the ultimate cost of the plan and is only a tool used to determine the appropriate level of Town contributions. *Mr. Chykirda* noted that Actuarially Determined Employer Contribution developed from the valuation is comprised of two components, amortization of unfunded liability (12-20 years for 2022 valuations) and normal cost (assignment of benefits earned for the budget year). He stated that credits are not provided when over funded because the Town still wants to pay the normal cost. *Mr. Chykirda* continued to state that the Town is not quite there yet but, it could be in a few years. *Bunovsky* stated there is an ADEC on the Board of Education side, the Town side, and also on the OPEB side.

Mr. Chykirda continued by reviewing the key results from 2022 for the Board of Education pension plan. *Mr. Chykirda* noted that the Board of Education had 171 people in the pension plan with the accrued liability at \$15 million. *Mr. Chykirda* reviewed the market value of assets and actual value of assets. He noted that market value asset gets used in the CAFR. This is used because the government wants to see in real time the actual value. *Mr. Chykirda* noted that this is because in the older days, people used to use different kind of smoothing methods and felt like it wasn't an accurate cost. ADEC is the contribution number needed to be put aside to pay the plan. Reporting is completed for the future. *Mr. Chykirda* noted that the presentation showed the budgeted amounts for FY 23/24 and FY 24/25. He stated this also showed the impact of the discounted rate, and if it would change. He stated the plan was 97% funded at the time. The investment rate return is 6.75%. *Mr. Chykirda* noted the return rate at 6.5% and 6.25%, as requested and by lowering the rate from 6.75% to 6.5% there would be an increase to the budget of \$70,000-\$75,000 dollars. *Bunovsky* stated dropping the expected rate of return, would require the town to increase funding. *Mr. Chykirda* noted the presentation was for The Board of Education and the one for the Town would be similar. *Bunovsky* stated that if we change the discount rate now, it would change the valuations, therefore the budget numbers through FY 24/25 would remain as they are. *Mr. Chykirda* stated that would give them time to prepare. He further noted that once everything gets put into a financial report, they would look at the assumptions used in an effort to manage the liabilities for the pension plan as well as OPEB. *Mr. Chykirda* stated a 7% rate would look a little less favorable as opposed to something more deserved. *Mr. Chykirda* emphasized that this should be looked at

as long term. The market had moved a lot in the past 3 years and things have begun to come back to normal. The time line of the plan is worth 70-80 years. *Mr. Chykirda* noted that this should be viewed as if a 25 year old comes in today, they are going to be in the pension plan until the age of 85-90.

Kirsch asked *Mr. Chykirda* if there were recommendations for adjusting the value as part of the presentation. *Francis* stated that they don't have recommendations for adjusting the value but they have an asset allocation modeling, which will model out what the current portfolio generates in terms of an expected return, then will show what different portfolios would look like if the Town wanted to be more conservative. *Bunovsky* stated that a decision needed to be made before the value is done, but that they could push the vote until the next quarter in April. *Maur* stated that the last time they waited until they had further data, so an educated decision could be made. Last time it was not going to impact the budget process and they called a special meeting. *Maur* noted five years ago they adjusted the rate to 6.75%. *Bunovsky* stated the plan had recently been frozen on the Board of Education side and had previously been frozen for a while on the Town side. *Martinez* inquired if the data points would be shared with regard to how other municipalities are positioned like the 6.75%. *Mr. Chykirda* noted the presentation showed the Board of Education was at 91% and the Town was better at 94%.

Mr. Chykirda reviewed the OPEB summary which included the police plan, of \$2.3 million dollars of liability in 2022, and \$1.8 million dollars of assets. *Mr. Chykirda* stated they started smoothing in 2022. ADEC is at \$100,000. In 2020, it was \$185,000 because funding went from 43% to 82% therefore, there was a larger contribution requirement. *Vitello* inquired if the OPEB portfolio were stocks, mutual funds, and what the portfolio consisted of. *Francis* responded and stated that it was all mutual funds, and that after the last quarterly meeting they added active management on the fixed income side. *Mr. Chykirda* presentation showed the Town OPEB schedule of net liability, which was 89 % funded. The funding ratio was at 99 to 100 %. *Bunovsky* asked if they do any schedule of where the funding ratio was attached to the discount rate. *Mr. Chykirda* stated that you would have to group all that are 6.75 %, typically the ones that have a tougher time being funded are at the higher discounted rates. *Mr. Chykirda* showed that 7% of the plans are 100% funded vs. 13% of the plans funded at 100% as of the end of FY21.

Mr. Chykirda ended the presentation with a slide that showed decisions for 2024 and looking ahead to the future. The plan would be to review the current 6.75% investment return for pension and 6.5% investment return assumption for OPEB based on the emerging capital market assumptions and long-term inflation expectations. It also showed a goal to monitor mortality and looking into performing an experience study on all assumptions.

d. Pension & OPEB- Quarterly Investment Review- Fourth Quarter 2023

Francis stated that the most important thing they would discuss was regarding the fiduciary governance calendar, because the updated capital market assumptions are included. *Francis* explained that at this time of year they input the portfolio into the asset allocation monitoring system using updated capital market assumptions to see what the expected return would be, with a long-term expectation over a 20-year period.

Francis noted that the biggest takeaway is that the return expectation for the fixed income had increased substantially compared to last year. *Francis* noted this was a reflection of the rising interest rate environment for the past 18 months. The outlook for fixed income was looking stronger because there is not the headwind of rising interest rates, which will most likely fall. The outlook for fixed income was much better than a year ago. The return expectation for global equity have decreased modestly compared to last year. *Francis* stated they think the international markets and emerging markets will likely produce higher returns on a 10-year basis. Finally, the return outlook for real estate and broad, those asset classes had increased. *Francis* stated that inflation had been choppy and they expect it to be around 2% to 5% and noted that with that type of volatility, things like real assets tend to do well. *Kirsch* inquired if they thought inflation would get to 5%.

Francis stated they could have pockets for a one month reading. *Francis* stated the biggest takeaway was that fixed income looked attractive relative to equities. *Francis* noted that equities had a great year which means their valuation looked higher and for most clients they are increasing fixed income exposures.

Francis continued the presentation with the Frontier Engineer Outlook that models the current portfolio and two alternatives to fixed income. She explained they have 25% in fixed income, they modeled going up to 30%, and then going to 35%. *Francis* noted that she found the return expectation does not differ significantly between the 3 portfolios and noted the results are a median expected return, which means 50% of the time they could be higher and 50% of the time they could be lower. *Francis* stated that for most client portfolios, they have increased the fixed income exposure by 5%. *Francis* noted that there was a common sense overlay and it looked like the return expectation was the same for 35% versus 30% fixed income. *Maur* stated while it is more volatile downwards, it is also more volatile upwards. *Francis* stated there was more of a chance to make up for those years where the market might not.

Francis recommended moving to the 30% fixed income, with a 5% increase. *Maur* stated if we go to the full 10%, it sounded based off of current projections, now would be the time to go with interest rates falling. *Francis* stated they did think 2023 was when the interest rates would go down, the problem was that anytime there is a 10% point shift changes in the portfolio it means that there would be 10% equities taken in a concentrated time. *Francis* recommended not taking that jump all in one fell swoop.

e. Pension- Replacement of MetWest with Harbor Core Bond

MOTION TO REPLACE THE METWEST BOND WITH HARVRD CORE BOND

Motion: (S. Kirsch)

To approve the replacement of the MetWest Bond with the Harbor Core Bond.

Second: (M. Vitello)

Discussion: None

MOTION PASSED 8-0

f. Pension- Potential adjustment of the asset allocation profile of the pension portfolios

MOTION TO INCREASE PENSION FIXED INCOME BY 5%

Motion: (S. Kirsch)

To approve the pension increase of fixed income by 5 %.

Second: (J. Maur)

Discussion: Maur stated that increases and allocations should be consistent with recommendations of Francis and her team.

MOTION PASSED 8-0

Bunovsky inquired about international equity and stated that we are looking at the highest potential returns in the 10-20 year period. *Maur* stated that next year when they get the numbers that are 10 year, they will continue on that trend and eventually will even out.

Francis finished the presentation and stated that the Town pension and the Board of Education started with \$10 million in assets and since then they have had new outflows in the form of pension payments of about \$1.5 million and investment gains of \$6 million to bring the current value of about \$14.6 million, strong growth. OPEB is up 15.8% in the portfolio.

4. Adjournment

MOTION FOR ADJOURMENT

Motion: (S. Kirsch)

To approve adjournment.

Second: (J. Maur)

Discussion: NONE

MOTION PASSED 8-0

Respectfully submitted,

Megan Morley

Pension Committee/OPEB Board of Trustees Clerk