

**Minutes of the Special Meeting of the Region 9 Special Pension Committee Meeting
September 28, 2011**

Filed subject to approval

Attendees: Thomas Logie (Acting Chair), David Boczar, Jeanne Wendschuh, Peggy Sullivan, Michael Welz (Investment Advisor with USI Consulting Group) and Lloyd Wang (Actuary with USI Consulting Group). No members of the public attended.

1. Call to order at 5:31 pm in the Career Center at Joel Barlow High School.
2. Motion to approve the minutes of the May 5, 2011 meeting was made by Mrs. Sullivan, seconded by Mr. Boczar, and approved unanimously.
3. There was no public comment.
4. Mr. Wang presented preliminary results for the Plan's 2011 actuarial valuation (copy attached). He reported that the American Academy of Actuaries has released a new actuarial standard that requires active practicing actuaries to use actuarial assumptions conforming to the Academy's guideline and requires that they use a mortality assumption that includes mortality improvement at least through the valuation date. ("Mortality improvement" means people are living longer.)

He proposed using a mortality assumption that includes mortality improvement to 2015, specifically PPA 2008 Combined Static Mortality Table (based on the RP-2000 Combined Healthy Mortality Table used in the Plan's 2010 actuarial valuation). This mortality assumption could then be used for three or four years before using a more current one (2011) would be required.

5. He presented a schedule of preliminary funding results comparing the 2010 valuation with the 2011 valuation using both the mortality table used in the 2010 valuation and the proposed mortality table. Noting that the Plan has a high concentration of female participants, he reported that this mortality assumption change increases the Plan's liability less than 3% and increases the Plan's recommended employer contribution for 2011 about 5.5% (from \$354,504 to \$374,151).

The Committee tacitly accepted adopting the proposed mortality assumption.

6. Mr. Wang then discussed the Plan's actuarial experience during 2010-2011:

Asset Performance

- He noted that the market value of the Plan's assets increased from \$2,219,579 to \$2,995,126, an estimated return of 22.13% that will be phased into the actuarial value over five years. The actuarial value of the Plan's assets increased from \$2,441,537 to \$2,903,841, an estimated return of 8.03% that reflects the average estimated returns for the last five years, reduces the 2011 year normal cost and exceeds the 7.25% interest rate assumed for Plan liabilities. He does not consider the 7.25% interest rate aggressive, but noted that we will need to provide evidence to support using it under the proposed GASB statement discussed below.

Salary Changes

- He noted that for the Plan's active participants total compensation decreased 1.07% from \$2,540,810 to \$2,513,569 and average compensation decreased 6.28% from \$47,042 to \$44,098. This reflects replacing older, more highly compensated employees with younger, lower cost employees, created a liability gain and reduced the 2011 year normal cost.

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Mortality

- He noted that all Plan participants survived the 2010-2011 year, which created a liability loss and increased the 2011 year normal cost.

Other Factors

- The number of Plan participants increased from 107 to 112.
- Two participants took early retirement, thereby increasing the 2011 year normal cost. (When participants retire at age 55 and the assumption has been that participants would retire at age 65, the difference increases the net present value of their accumulated benefits and thereby increases their related required pension contribution.)
- Because the number of Plan participants is relatively small, the impact of each participant is greater than it would be in a larger plan.
- Any significant variances between actual data and assumptions used in the actuarial valuation affect either the net present value of the pension liability or the asset valuation, the two primary factors used in determining a plan's funding status or ratio.

7. The Governmental Accounting Standards Board (GASB) has exposed a proposed statement on Pension Accounting and Financial Reporting that is nearing its comment deadline (September 30, 2011). Mr. Wang briefly discussed the changes proposed by the GASB, which will probably be effective for Easton-Redding Region 9 beginning July 1, 2013.

He characterized the current standards as being cash flow focused with the net pension obligation based on the difference between the recommended and the actual pension contribution.

In contrast, the proposed standard would focus on the funded status of pension plans and be front-loaded, based on projected future salary increases with the net pension liability based on the difference between the actuarial value of plan assets and the actuarial accrued liability (under entry age normal actuarial cost method).

He emphasized that for all pension plans subject to GASB standards (plans of governmental entities), the proposed statement would apply to pension accounting and financial reporting but it would not govern funding decisions, which would continue to be reflected in the recommended pension contribution calculation. The proposed statement would require use of the entry age normal actuarial cost method and would probably result in use of lower interest (discount) rates for pension accounting and financial reporting. He noted that when the statement becomes effective, plans will need to be able to support their interest rate assumptions.

8. Based on the June 30, 2011 GASB report (which Mr. Wang offered to provide to all members of the committee), the Plan's Net Pension Obligation was reduced from \$577,000 at June 30, 2010 to \$482,000 at June 30, 2011. Mr. Wang pointed out that the only way to reduce this

underfunding is to contribute more than the Recommended Pension Contribution (under current GASB standards). This Net Pension Obligation is expected to be made obsolete by the proposed GASB statement and replaced with the unfunded actuarial accrued liability, which for the Plan was \$1,278,000 at June 30, 2010 and \$1,149,000 at June 30, 2011.

Under the current aggregate actuarial cost method, the Plan's funding ratio (the actuarial value of plan assets as a percentage of the present value of accumulated benefits) was 88.11% at July 1, 2010 and 89.92% at July 1, 2011. Under the proposed GASB statement's entry age normal actuarial cost method, the Plan's funding ratio (the actuarial value of plan assets as a percentage of the present value of projected future benefits) was 65.6% at July 1, 2010 and 71% at July 1, 2011.

In response to question from Mr. Logie, Mr. Wang said that the impact on the funding ratio of an additional contribution of \$50,000 would be greater under the current back-loaded actuarial method than in the proposed front-loaded actuarial method. He further stated that the Plan's current 89.92% funding ratio is on a par with other plans for which he provides actuarial services.

Mr. Wang offered to update Mr. Karvelis and Mr. Miller, who were absent, either by telephone or in person, if requested.

9. Mr. Welz then distributed copies of the Investment Review Based on Plan Assets as of June 30, 2011 (nearly three months ago), noting that a review as of September 30, 2011 will be available shortly before the scheduled October 24, 2011 meeting. After a brief discussion acknowledging the current uncertainty in both domestic and international financial markets which may settle somewhat before October 24, the consensus was to concentrate tonight's review on June's Executive Summary and changes to be made to the Investment Policy and to focus the October 24, 2011 meeting on investing the annual contributions of \$406,780 made to the Plan in July 2011 (\$63,783 additional 2010-11 contribution and \$343,000 2011-12 contribution) and rebalancing the portfolio investments.
10. Mr. Welz discussed in some detail USI's concern with the Plan's investment in Davis NY Venture A and its strategy and performance. He noted that historically Davis has been overweight in the financial sector, but it has recently invested heavily in the energy sector. Davis NY Venture A underperformed its peers in 2010 and its poor performance continues. As a result of this concern, USI invited its fund managers for an update meeting. The fund managers believe that the energy sector will do well and therefore they are overweight in energy. USI continues to be concerned about this because the fund managers are in unfamiliar territory, outside of their comfort zone. In addition, this year the market has favored oil companies while the fund typically holds natural gas companies. The fund is still suffering from losses it incurred during the last bear market due to a large exposure to financials. The fund tends to be oriented toward globally dominant leaders and away from overpriced, cyclical and highly leveraged stocks which did well in 2010. Recently the fund had invested in foreign plantation manager Sino-Forest which has lost over 80% of its value; this appears to have been a stock selection problem that pulled down the fund's performance. All of these factors support the fund's being on "Watch." Mr. Logie suggested that we consider reducing this investment by \$100,000 (~ half) at our October 24 meeting and that we continue to watch its performance. Mr. Boczar concurred with rebalancing out of financials.

11. Mr. Boczar noted that DFA All Equity Portfolio has improved its performance recently and that he is not averse to investing additional amounts in it. Mr. Welz recommended that if we invest more funds in the DFA All Equity Portfolio, it would be appropriate to upgrade it from “Watch” to “Hold.”
12. Mr. Logie asked Mr. Welz to provide the committee with information and recommendations on at least two additional large cap value investment choices before the October 24 meeting. Mr. Boczar asked Mr. Welz to provide this well before October 24 so the committee has ample time to review them before the meeting.
13. Mr. Welz pointed out that the market has actually “corrected” the Plan’s portfolio so that it is now within the boundaries of the strategic allocation adopted in the Investment Policy. This allows the committee more time to discuss strategic and tactical policies. Since the portfolio is within the boundaries of the strategic allocation adopted in the Investment Policy, Mr. Boczar suggested not changing the strategic allocation. In revising the Investment Policy, Mr. Welz will consider relevant current best practice, move the discussion of volatility into the discussion of risk, revise the upper and lower limits for fixed income to 60% and 30% (which would complement the 40% and 70% lower and upper limits for equity), and change the standard benchmark for the Plan to the 60% , 40% blended index adopted by the committee on October 25, 2010 (“it was agreed that the performance of the Plan’s equity investments would be compared with the S&P 500, its fixed income investments would be compared with Barclays Aggregate and the entire Plan portfolio would be compared with a blended index comprising 60% S&P 500 and 40% Barclays Aggregate”).
14. Mr. Logie expects a global slowdown in the next few months. With the Federal Reserve holding interest rates low while inflation is rising, he suggested moving our portfolio toward 70% equity to avoid expected losses on fixed income. He is not expecting a US recession but the major drag on the economy will be reduced government spending while domestic new housing construction cannot go any lower. Internationally, he expressed concern about how the European Union will address the Greek debt crisis and suspicions that China’s current growth rate may not be sustainable.
15. To address these economic and market concerns, Mr. Logie suggested that the committee consider making the following changes to the Plan’s assets at its October 24 meeting:
 - Reducing the investment in Davis NY Venture (and exposure to the financial sector) by \$100,000
 - Reinvesting \$100,000 in a large cap value fund (to be selected from those to be recommended by USI)
 - Reducing the investment in Oppenheimer International Bond Fund (and exposure to international fixed income) by \$100,000
 - Reinvesting \$100,000 in an emerging market fund such as Pioneer Strategic Income Fund or another recommended by USI
 - Of the July 2011 Plan contributions
 - Investing \$100,000 in Ivy Asset Strategy Fund
 - Investing \$100,000 in Invesco Developing Markets Fund
 - Investing \$100,000 in a large cap value fund (to be selected from those to be

recommended by USI)

- Investing \$75,000 in Columbia Acorn International Fund

16. Mr. Welz summarized the decisions to be addressed at the October 24 meeting:

- Reallocating from fixed income to equity,
- Reallocating within fixed income,
- Moving DFA All Equity Portfolio to “Hold,”
- Expecting better information concerning the European debt crises, and
- Reviewing the recent performance of American Funds Growth Fund of America for improved risk-adjusted returns

17. Motion to adjourn was made by Mrs. Wendschuh, seconded by Mr. Boczar, approved unanimously at 7:08 pm.

Respectfully submitted,

Jeanne Wendschuh, Secretary