



Date: May 20, 2015

To: Timothy M. Herbst, First Selectman

Subject: Pension Board Update

Below is a brief update on the performance, activities and initiatives for calendar year ending 2014.

**Executive Summary:**

(All numbers calendar year based)

- We continue to make financial and administrative progress.
- Net cash flows for calendar year 2014 were positive, because of large make-up contributions, as they were in 2012 and 2013.
- The fund returned 4.5% for 2014. This compares with the U.S. public pensions reported median returns of 6.8 percent according to Wilshire Associates.
- The funded ratio is 35% for 2014 as compared to 32% for 2013; as of March 31, 2015, the funded ratio is 38.5%.
- Administrative changes now provide for a monthly “flash report” of how investments are performing as well as an annual governance calendar to guide quarterly meeting agendas.
- Development of an Investment Policy Statement continues.

**Pension Investments:**

Investment returns for 2014 were 4.5%, which was lower than the actuarial return assumption of 7.5%; however, the annualized 3 and 5 year results for this same period were 11.3% and 9.3% respectively, higher than the 7.5% return assumption.

The low annual return can be attributed to the fluctuations in the market. Although the S&P 500 Index gained 13.7% in 2014, smaller names in the U.S. were up less than 5% and international equities posed negative returns (~-4.0%) during the year.

Although the attributes associated with diversified portfolios over the longer term tend to be favorable with a more stable investment return, this did not occur in 2014. However, this trend appears to be changing in 2015, and the benefits of having a globally diversified portfolio such as ours are once again emerging.

Calendar Year	2014	2013	2012	2011	2010
Investment Performance	4.5%	17.2%	12.5%	(0.9%)	14.0%
Plans Assets (millions)	\$27.5	\$24.9	\$20.5	\$17.8	\$18.3
Town Contributions	\$ 4.8	\$ 4.1	\$ 3.3	\$ 2.6	\$ 2.1
a. Current	\$ .9	\$ 1.1	\$ 1.1	\$ 1.2	\$ 1.2
b. Make-up	\$ 3.9	\$ 3.0	\$ 2.2	\$ 1.4	\$ 0.9
Employee Contributions	\$ .9	\$ .9	\$ .9	\$ .8	\$ .8
Less: Payments	\$ 4.3	\$ 4.2	\$ 3.9	\$ 3.7	\$ 3.6
Net Cash Flow (thousands)	\$1,379	\$779	\$264	(\$292)	(\$781)

Investment manager changes made by the Pension Board are shown below:

- Thornburg International Value was sold and replaced by Dodge & Cox Int'l Stock during the second quarter of 2014.
- Pimco Total Return was replaced by two fixed income firms namely Western Asset Core Plus Bond (50%) and Met West Total Return (50%) during the fourth quarter of 2014.

### **Actuarial Report:**

The plan actuary Bryan, Pendleton, Swats, & McAllister, LLC (BPS&M) performed the biennial valuation. A special meeting was held on December 9, 2014, to review results. Key highlights follow:

- The Annual Recommended Contribution on a fiscal year basis (July 1, 2014 – June 30, 2015) is \$4,144,000, comprised of two parts: normal contribution \$885,000 and make-up contribution \$3,259,000.
- Return assumption of 7.5% remains the same and is considered reasonable. If returns miss that target, plan costs will increase.
- The Government Accounting Standards Board has overhauled their reporting requirements for municipal pension plans effective June 30, 2014.
- Mortality Tables used reflect longevity increases for participants thereby increasing plan costs.
- Active participants are declining due to the plan being closed to new hires.
- Salary Increase assumption was changed from 4% to 3.5%. This would decrease plan costs.

See the chart below for valuation results:

	July 1, 2014	July 1, 2012	July 1, 2010	July 1, 2008
Participants				
Active	376	436	453	433
Deferred Vested	68	74	69	79
Receiving Benefits	340	325	320	288
Total	784	835	842	800
Total Liabilities	\$71,162,375	\$67,905,000	\$62,863,043	\$57,704,539
Actuarial Value of Assets	\$24,997,527	\$19,096,003	\$16,807,159	\$19,572,031
Funded Status (unfunded)	(\$46,164,848)	(\$48,808,997)	(\$46,055,884)	(\$38,132,508)
Funded Ratio	35.1%	28.1%	26.7%	33.9%

### **Operations:**

The quarterly schedule of meetings was advanced one month to match quarterly reports in a more timely way. Moreover, the Investment Advisor, Fiduciary Investment Advisors provides a monthly “Flash Report” to provide more timely information on investment performance.

The new governance schedule is below:

1 <sup>st</sup> Qtr: Fee Focus	2 <sup>nd</sup> Qtr: Practice & Policy Focus
<ul style="list-style-type: none"> <li>• Investment Review</li> </ul>	<ul style="list-style-type: none"> <li>• Investment Review</li> </ul>
<ul style="list-style-type: none"> <li>• Administrative fee review</li> </ul>	<ul style="list-style-type: none"> <li>• Investment policy statement review</li> </ul>
<ul style="list-style-type: none"> <li>• Portfolio expense analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative update</li> </ul>
3 <sup>rd</sup> Qtr: Asset/Liability Focus	4 <sup>th</sup> Qtr: Pension Landscape
<ul style="list-style-type: none"> <li>• Investment review</li> </ul>	<ul style="list-style-type: none"> <li>• Investment review</li> </ul>
<ul style="list-style-type: none"> <li>• Annual actuarial review*</li> </ul>	<ul style="list-style-type: none"> <li>• Pension landscape update</li> </ul>
<ul style="list-style-type: none"> <li>• Asset Allocation review</li> </ul>	<ul style="list-style-type: none"> <li>• Market environment overview</li> </ul>

\*Timing of actuarial and liability review dependent on client's individual plan and/or fiscal year and actuarial input.

### **Long Term Improvement Plan:**

The following has already taken place this year:

- The Inflation Protection segment was liquidated during the first quarter of 2015. This segment represented a target allocation of 5% and consisted of three funds, Vanguard Short Term Inflation Protected Securities, Credit Suisse Commodity Return and Van Eck Global Hard Assets. Liquidation proceeds were allocated to existing funds and asset class targets were adjusted as follows: Fixed Income allocation from 30.0% to 32.5%; the Domestic Equity allocation from 45.0% to 46.25%, and the International Equity allocation from 20.0% to 21.25%.

The following recommendations are in progress:

- Development of an Investment Policy Statement.
- Discuss procedure and schedule for reviewing 401a and 457b Plan investments.
- Consider annual actuarial valuation reports versus biennial valuation reports.

One personnel change was the addition of Mr. James Meisner to fill the vacancy occurring when Mr. Michael Charland resigned.

The Town of Trumbull's commitment to fund its Pension Plan at the annual required contribution including the make-up contribution will continue the financial improvements we have seen in recent years. The Pension Board understands the need for the administration to weigh all town financial concerns and it appreciates the ongoing support for the Retirement Plan. We welcome the opportunity to meet with you and accept ideas and recommendations for improvement.

Respectfully submitted,

The Pension Board

James Lavin  
Chairman

John Ponzio

Maria Pires

Donna Pellitteri

James Daly  
Secretary

Michael Knight

James Meisner