

April 17, 2013

Regular Meeting Pension Plan B

The Board of Trustees, Pension Plan B, met on the above date.

President Klein called the meeting to order at 6:13 p.m.

Present: President Klein, Trustees J. Meszoros, M. Lee, D. Garcia, J. Buck and T. Herlihy
Ann Kelly-Lenz, Finance Director (City of Bridgeport)
Tom Dawidowicz, The Segal Company
Attorney John Galiette, Reid and Riege
Timothy Ryor, Hooker & Holcomb
David Reiser, Morgan Stanley, Smith Barney (via phone)
Mark T. Anastasi, City Attorney (City of Bridgeport)
Attorney Bruce Barth, Robinson & Cole (City's Pension Legal Advisor)
Philip White, Labor Relations (City of Bridgeport)
David Dunn, Civil Services (City of Bridgeport)

Absent:

Trustee Lee entertained a motion to dispense with reading of the minutes of the previous meeting; seconded by Trustee Meszoros and the Board passed it unanimously.

Old Business:

1. None

New Business:

- 1) Letter of Resignation from Treasurer James Morley.

Deputy Chief Petrucelli read Treasurer James Morley's resignation letter addressed to Stuart Rosenberg dated April 5, 2013.

- 2) Per Morgan Stanley recommendation, entertain a motion to designate President Jonathan Klein as Sole Signatory for Pension Plan B so there is no interruption of pension checks to retirees.

Trustee Buck questioned as to whether there will be direct pay/payroll service. President Klein stated that Morgan Stanley needs input from us. Need to ensure that they information is given to Morgan Stanley.

Trustee Herlihy spoke to Trustee Buck about taking the Treasurer position and Trustee Buck said that he is interested and has experience working for a medical practice handing their pension accounts and financial statements. Role of treasurer is changing as the plan has reduced active participants, a closer examination of fee structure and duties of the treasurer might be in order.

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Trustee Lee stated that she would prefer more than one name to vote on.

President Klein does not see this as a permanent appointment. The motion could be raised at any time.

Trustee Herlihy motioned to designate President Klein as Sole Signatory for Pension Plan B subject to revisiting this at the May meeting; Trustee Meszoros seconded and the Board passed it unanimously.

- 3) Trustee Meszoros made a motion to add to the agenda the appointing of a new Treasurer for Pension Plan B; Trustee Herlihy seconded and it was passed unanimously.
- 4) Question from a Pension Plan B member (active and retired members present) asked to see if they would be able to speak at this meeting. Attorney Anastasia said that this was not advertized as a public meeting and should not be open to public comments. If the Trustee wished to open time for questions from the members; it would have to be motioned to add it to the agenda and 2/3 vote in favor is needed. President Klein suggested that we move on, being that questions may be answered after the upcoming discussion.
- 5) Presentation by the City Administration and Consultants (e.g. The Segal Company) concerning request for supplemental funds transfer from the BPT Firefighters Pension Plan B accounts to the Connecticut Municipal Employee Retirement System (CT MERS); relevant discussion by the Plan B Pension Board of Trustees; and possible action on any related motion(s).

City Attorney Mark Anastasia

There are three components for this evening's presentation:

1. Presentation by the City
2. Discussion
3. Possible action

The purpose is to submit a proposal and proposed motion that City Administration believes will enable the Board to fulfill its fiduciary responsibility to both the retirees and the active members and that there will be an equitable split of funds between those two interest groups. Here to give justification to support the proposed motion and they believe it is the appropriate action.

- The special meeting held in June 2012 was for discussion purposes only. The vote was added on to the next regularly scheduled meeting and the City was not notified. Taking this opportunity to correct that now. Asking for a supplemental appropriation.
- Stated that back in June 2012; Mr. Davidowicz and himself argued for the total \$45 million back then. It is not like they are coming back and asking for a different amount of money.
- Projection that is presented is with "0" additional dollars from the City.

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Tom Dawidowicz (The Segal Company)

- When original decision was made it was to have this plan 100% funded; estimated liability of approximately \$50 million.
- Recommend 4.25% interest rate; decision at that time (July 1, 2012) was to retain \$50 million in assets.
- For the record, a 4044 allocation is an ERISA rule that determines how to allocate assets to various classes of participants which is not necessary for public sector plans.
- Initial 4044 allocation was roughly \$53 million. Later in the report the calculation was a non-4044 calculation of 4.24% interest rate, that produced a \$50 million liability.
- \$22.5 million transfer to MERF was based on that calculation.
- Initial transfer recommended was for 100% funded. Generally recommend 80% funded level of liability.
- What happens with a 100% funded is that when it goes to 110%, you have excess money that can't be used for anything other than paying benefits, but you don't need it for the benefits. There is a problem with having too much money in a pension plan.
- 4.25% interest rate is ultraconservative; more reasonable rate would be 5.5-6%.
- With a supplemental transfer of an additional \$22.5 million will bring up to the original \$45 million and will retain approximately \$32 million in the fund.
- If an additional transfer is made to get up to the \$45 million that the City recommended that would retain \$32 million and would be secure funding until 2030 with a 4.25% return; if the fund earns 8%, will have ability to pay funds until 2043 depending on the return on investment.
- Benefits will probably be paid out for the next 45-50 years.
- It is the City's responsibility to cover if the fund runs out.
- Every year an actual evaluation is done for the City measuring the current funding status and the liabilities to assess how well funded the plan is and to make recommendations should the City make additional funding contributions at this point.
- Making the additional \$22.5 million does not hamper the ability of this plan to exist and pay the benefits that this Board has a fiduciary responsibility to honor and pay.
- Will be treating equally, the active firefighters and the retired population.
- Plan created in mid-1980's; 4.25% was the right rate to measure. PBGC does not cover this plan. A lot of the rules are designed not to let corporate entities to underfund their pension plans. We don't believe that the 4044 calculation is necessary and required or to be used in this purpose.
- Looking for 80% funded; 4.25% is a reasonable rate. Will probably earn much higher than that.
- Most municipalities are below 8%; trend around the country is 7.5%; 5.5-6% far more conservative.

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- Concern that fund will not be adequate to pay current benefits; City will continue to make contributions; fund will increase if market stabilizes.
- The City determines the ARC annually.
- Does not think that re-measuring annually would work.
- Fund achieved decent assets.
- Concern that a future Board may not transfer funds annually.
- Pension Funding is a difficult subject; need to look at what is fair and right.

Ann Kelly-Lenz (City of Bridgeport)

- On the Pension Plan A committee, and they make the contributions every year.
- There was not an equitable split and need to revisit.
- 79 people at \$159,000/month is a small plan.
- Amortization payment is made every year.
- If the funding isn't done, the City pays more into MERS, taxes may increase \$4+ million per year.
- In bargaining unit agreement it is required to make ARC annually.

Tim Ryor (Hooker & Holcomb)

- In their study, they were instructed to follow the 4044 standard, and what needs to be left behind to the Trustees to be comfortable with to secure the benefits of the retirees.
- Roughly 10% underfunded.
- What is fair and right?
- Looking for both plans to be equally funded.
- City ends up paying more to MERS.
- Initial transfer was not correct.

President Klein

- Alternative to raiding Pension Plan B of \$22.5 million: determine excess annually for additional contributions rather than all now.
- Plan benefit to pay out for the next 45-50 years would bring us 20 years past the life of the fund.
- Plan calls for Actuary study annually (Section 13-Plan B); chosen by Trustees, not by the City.
- Last June the City did not provide any documentation
- The Trustees are reminded that they are here to serve Pension Plan B.
- Suggest to allow advisors to take a new look at the numbers and report back next month.
- Need to include beneficiaries as well.

David Reiser (Morgan Stanley/Smith Barney)

- Mitigating risk; need to think about risk. Need to think about both sides (active and retired). How do you balance between both parties.

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- Were asked to come up with a conservative estimate (4-5%) showing no further contributions to the plan.
- The problem with what they call reverse withdrawal averaging vs. dollar cost average in is tremendous. No matter if market is up or down, your adding money, drawing off a certain amount. The same could be true when you do your calculations on just a withdrawal program.
- Need to look at every input to the equation.
- What would we feel comfortable with. Goal is to do the best that we can with the least amount of risk as we've done in the past.
- We wouldn't venture to modify the equation based on a City's promise to pay because there are many municipalities that are struggling right now that make the same promises, and it's the Trustee's responsibility to decide how sound they feel that obligations are made to future retirees.

Trustee Buck

- Report submitted by Hooker and Holcomb to follow ERISA would have required \$53.74 million to remain in the fund based on the 4044 allocation.
- 3% COLA – fantasyland – general accounting standard. 2% is a more accurate number. Raises have not kept pace with any type of percentage COLA.
- Question to David Reiser: Knowing that the City's obligation to meet their annual required contribution (ARC); and that would be incoming funds if needed, would this modify the way you look at the percentage. Would funds coming into the fund annually unwind some of the damage of not having weekly or monthly contributions, does it reduce the harm of that.
- Contract obligation is to review every 36 months

Attorney John Gallette (Reid and Riege)

- Four (4) decision points:
 1. 5% - 4.25%; net return; increase rate
 2. 4.25% interest rate; retained liability 100% funded; decrease to 80%; reduce percent (%) funded vested-terms
 3. Using 4044 allocation (spin-off) eligible in last 3 years in 2nd category
 4. (COLA) 3% salary increase and benefit liability.
- Trustees have a fiduciary responsibility not only to the retirees but to the active members also.
- Only actives went to MERS.
- Supplied list of Trustee issues for consideration.

Trustee Lee

- Concerns that administration and Board may change.
- Trustees have contractual obligation.
- Trustees are responsible for Plan B.
- Annual study seems fair considering the economy.

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- Asked whether the split was mandatory or optional, and Trustee Buck said that it was not optional and that it was part of the collective bargaining agreement.

President Klein recommends that the professionals prepare analysis and present next month. Do not feel we can vote on this tonight. Trustee Buck agrees to resume next month after revisions done and new advice given.

Trustee Buck motioned to add to the agenda to allow Pension Plan B members to pose questions and comments to the Board; Trustee Meszoros seconded and the Board passed it unanimously.

Trustee Buck motioned to allow Pension Plan B members prior to the split to pose questions and comments to the Board; Trustee Meszoros seconded and the Board passed it unanimously.

Open Questions/Comments from Pension Plan B members

- Ralph Quintilliano: Why was the group split in the first place, it seems that it would have made more sense to just give them what they wanted. President Klein responded that as part of the collective bargaining process it was a joint decision of the City and of the Union to do that. Trustee Buck added that during negotiations, MERF does not allow those in pay status to transfer in. Pension Plan B did not have the opportunity to go into MERS.
- Bruce Collins: Do you actually see the City's report that they were talking about today? President Klein stated that they do not have it front of them. Trustee Buck stated that they were not presented it at the time of the split or to this day. President Klein said that he asked them to provide this to the Board and advisors ahead of time but this was not done. He will ask for this so the advisors have more information to work with.
- Marc Strickland: The pension is ideally supposed to be self-sufficient. We should start thinking that the City has to put additional money in when our money runs out, the cart is broken. Our goal is to be self-sufficient. Is this being considered and are the spouses and children of the retirees being considered? President Klein stated that this was an interesting question, which they haven't been provided with an answer to. Tom stated that this is in their projections.
- Doug Smith: has City always made ARC responsibilities and has always been 100% funded? Trustee Buck stated that there were periods of overfunding.
- Richard Thode: Actuary study in 2009, but now 50% of department is eligible for retirement. Will funding be available?

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- 6) Trustee Herlihy made a motion to appoint Trustee Buck as new Treasurer of Plan B; Trustee Garcia seconded and the Board passed it unanimously.

Treasurer's Report:

Treasurer Buck thanked previous Treasurer Morley for his work over the past years.

Treasurer Buck read the Treasurer's report.

Trustee Herlihy motioned to accept the Treasurer's as submitted; Trustee Meszoros seconded and the Board passed it unanimously.

Miscellaneous:

President Klein received a copy of an unsigned letter sent to the State Attorney General regarding concerns with Pension Plan B. David Dunn objected stating that there is a policy that prohibits letters of this kind should not be read and put in the official records until the City Attorney has looked at it especially since it is unsigned. Attorney Anastasia agreed.

Trustee Klein is unavailable for the next meeting, Wednesday, May 15, 2013 and asked if the meeting could be moved to the following Wednesday. Trustee Meszoros needs to check his schedule; might not be available. Possibly look to move it to Tuesday. President Klein will inform everyone of new date.

There being nothing further to come before the Board; Trustee Herlihy motioned to adjourn the meeting; Trustee Buck seconded; and the Board passed it unanimously.

Meeting adjourned at 8:45 p.m.

Next Meeting: Tuesday, May 21, 2013

**NOTE – a CD of the meeting is available upon request (CT K. Gardiner)
Minutes are just a summary**