

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
JANUARY 20, 2010
REORGANIZATION MEETING

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Reorganization Meeting on Wednesday, January 20, 2010, in the Township Building. The meeting was called to order at 7:03 p.m.

ROLL CALL:

The following members of the Pension Advisory Board/Health & Welfare Board of Trustees were present: Erika Spott, Supervisor, Trustee and Liaison; Ronald G. Wagenmann, Township Manager & Trustee; Fred Santoro, Staff Liaison; Robert S. McKernan, Non-Uniformed Representative; Chief Ronald M. Fonock, Chief of Police/Trustee; Andy Andreyko, Police Representative; Vince Mallon, Civilian Member; Eric C. Medrow, Chairman.

APPOINTMENT OF TEMPORARY CHAIRMAN:

Mr. Ronald Wagenmann, Township Manager, was appointed temporary chairman for this reorganization meeting.

ELECTION OF CHAIRMAN:

It was moved by Chief Fonock, seconded by Mr. Wagenmann, all voting "Aye" to appoint Eric C. Medrow as Chairman of the Pension Advisory Board. None opposed. Motion unanimously passed.

ELECTION OF VICE CHAIRMAN

It was moved by Mr. Wagenmann, seconded by Mr. Medrow, all voting "Aye" to appoint Ronald M. Fonock as Vice-Chairman of the Pension Advisory Board. None opposed. Motion unanimously passed.

ELECTION OF SECRETARY

It was moved by Chief Fonock, seconded by Mr. Medrow, all voting "Aye" to appoint Ronald G. Wagenmann as Secretary of the Pension Advisory Board. None opposed. Motion unanimously passed.

MEETING MINUTES:

It was moved by Chief Fonock, seconded by Mr. Medrow, all voting "Aye" to approve the October 13, 2009 meeting minutes as submitted. None opposed. Motion unanimously passed.

REAFFIRMATION OF POLICE PENSION FUND MANAGER, D. F. DENT AND COMPANY

The motion to reaffirm D. F. Dent and Company as the Police Pension Fund Manager in accordance with the Investment Advisory Agreement was unanimously approved. None opposed. Motion unanimously passed.

REAFFIRMATION OF PENSION FUND CUSTODIAN, PNC BANK

The motion to reaffirm PNC Bank as the Pension Fund Custodian was unanimously approved. None opposed. Motion unanimously passed.

REAFFIRMATION OF ANDERSON AND ASSOCIATES AS PENSION CONSULTANT

The motion to reaffirm Anderson and Associates as Pension Consultant was unanimously approved. None opposed. Motion unanimously passed.

OLD BUSINESS:

For the information and review of the members, Mr. Wagenmann provided a copy of the Investment Program policy adopted by this Board in the past that represents Mr. Dent's guidelines in managing the portfolio for the Police Pension Plan. He called attention to the main part of this policy under "Portfolio Composition" wherein it states that the assets within the supervised portfolio will be allocated within the following ranges: 30% in Reserve Funds, 30-60% in Fixed Income, and 30-55% in Equities. With regard to Portfolio Diversification, Mr. Wagenmann noted that there are limits on how much can be invested in any one of these categories.

Mr. Medrow noted that the manager will not invest directly in foreign securities. He explained that there are no American citizens who may invest directly into foreign securities and all investments in foreign securities must be done through ADRs, (American Depository Receipts). He stated that it is his understanding that the current manager invests in securities that are USA domiciled, but are heavily invested in foreign securities. Mr. Medrow pointed out that as we move forward in the investment world less and less investing is done in the United States and more and more is done in foreign securities, particularly as we see some of the other economies such as India, China, Brazil and Russia growing to the extent that they are. He said there might be some consideration in the future that we encourage our investment manager to attempt to increase his exposure to foreign securities by whatever method he may find adequate to pursue.

Chief Fonock recalled that at the last meeting Mr. Dent was asked for clarification on asset allocations. He paraphrased Mr. Dent's response that 55% is currently the ceiling and we are bumping right up against the ceiling because the market is going up. The allocation is reviewed from week to week and if it gets up to 57% or 58% he then feels it is necessary to cut back. By virtue of our holding U.S. companies that have international exposure approximately 40% of our generated equity income comes from international impact. The example of General Electric was provided since much of their revenues produced overseas are the result of the international market.

Mr. Wagenmann commented that General Motors had more sales outside the United States this past year than in the United States.

Mr. Medrow expressed concern as we are bumping up against the 55% ceiling since the interest rate structure in the United States is very close to zero. He said it puts us in a serious situation regarding asset allocation because there may be no other choice but to go into fixed income assets. Mr. Medrow recalled that Mr. Dent discussed going into a bond issue in Brazil because it is a very good holding and selection.

Mr. Wagenmann suggested that Mr. Dent address the 55% ceiling on equity investments and that this be placed on the agenda for his next presentation.

NEW BUSINESS:

Sgt. Andy Andreyko asked for clarification about Act 64 (2002 Ad Hoc COLA) and whether a certain police officer who has been retired for 25 years might be eligible for this benefit.

Mr. Wagenmann stated that the former officer in question is not eligible to receive that benefit since the pension fund is not fully funded and we are receiving Act 205 money.

Sgt. Andreyko asked if the pension consultant, Anderson & Associates, could issue the township a letter with regard to the 2002 Ad Hoc COLA benefit.

Mr. Wagenmann stated that Anderson would be asked to take a look at it.

In response to a question about 205 money, Mr. Wagenmann responded that the 205 money is the tax on foreign casualty insurance policy sold in Pennsylvania.

Mr. Medrow explained that in the insurance business the term “foreign” means not with the Commonwealth of Pennsylvania. As an example, an Alabama contribution would be a “foreign” contribution.

Mr. Medrow asked if there is a drain on 205 money from some of the depressed municipalities. Chief Fonock responded that there is a direct correlation with the health of the stock market and it has become more and more of a drain.

Mr. Wagenmann stated this is the first year that we have been notified in a long time that the unit price was going down and they are actually going to distribute less money per unit as there are a lot of distressed pension plans. He explained that a law was adopted in Pennsylvania to establish four levels of distress and it depends on how badly you are distressed as to what modifications are allowed in the calculations.

Mr. Wagenmann stated Anderson will take a look and determine if the retired police officer in question qualifies under Act 64 and how is this calculated. He noted that an actuarial study is conducted every two years.

Mr. Medrow asked what is involved with the actuarial study. Mr. Wagenmann responded that Anderson has an actuary who works with the township staff as a consultant. Once the actuarial study is completed it is reviewed with staff and members of the bargaining unit are invited to sit down and listen to a presentation [by Anderson].

Mr. Medrow asked to be included in this invitation and Mr. Wagenmann responded that he would be notified when the presentation is scheduled.

Chief Fonock provided a brief history of Act 600 that was enacted in the 1950's. He noted that it is rare to have any significant changes; however, one significant change occurred in 2002 when Act 600 was amended to provide for a “killed in service” benefit.

Mr. Wagenmann stated that this is a case where a piece of legislation was adopted as an unfunded mandate and then to fund and carry out the mandate the police officers pension fund out of its dollars had to pay the expense. The \$18,000 will now remain which helps with meeting the accrued liability cost within the pension.

Mr. Medrow stated we are always concerned because Upper Merion has a good, well managed pension plan thanks to this Board and the administration. He said that although the police pension fund is well managed, it is constantly under attack. Mr. Medrow recalled that as recently as last summer legislation

was proposed to lump all of the pension plans together into one statewide fund. Mr. Medrow asked Mr. Santoro to keep an eye on possible pension plan assaults by the state legislature.

Chief Fonock pointed out that he serves on the Pennsylvania Chiefs of Police Legislative Committee and one of the areas under his jurisdiction is pension legislation. He noted that he is also official liaison with the State Fraternal Order of Police so that he actually has a responsibility to keep his hand on the pulse of such matters and he will certainly report to this Board any significant developments in this regard.

Mr. Wagenmann indicated that he is on the legislative committee for PSATS and he will also monitor such developments.

Chief Fonock discussed House Bill 1828 and the four levels of distress. He said that after awhile the state will try to manage the most distressed funds.

Mrs. Spott asked if we have indicated our feelings about these matters to Senator Leach. Mr. Wagenmann responded that he met with him personally and went over some legislation of concern to the township. He also pointed out that there are several associations that will run up “red flags” when pieces of legislation such as this are introduced. With hundreds of pieces of legislation they will monitor and bring them to our attention.

With regard to health care, Mr. Wagenmann said that members of the police bargaining unit and a number of civilians will be invited as the township considers some significant savings for the township and the retiree.

Mr. Santoro reported on the wellness program established this past year in conjunction with the township’s health care provider and pharmaceutical management firm. He explained that credits are being offered to employees and members of the plan if they accomplish various goals such as completing an online health risk assessment vehicle, obtaining an annual physical, completing a smoking cessation program or weight loss program. The credits will then be applied to the 2010 health care cost share premium. Mr. Santoro noted that approximately 84 employees took advantage of this program obtaining anywhere from 50 points up to as much as 600 points.

Mr. Medrow said it is a well accepted program. Mr. Wagenmann stated studies have indicated that in a two or three year period there is a 4 to 1 payback. Mr. Medrow said it is probably a big difference in prevention as opposed to diagnosis and treatment.

Mr. Medrow concluded by saying that the members should remain alert to any issues or concerns and bring these matters to the attention of the Board.

ADJOURNMENT

With no further business to come before the Board, the meeting was adjourned at 8:40 p.m.

Alfred E. Santoro, III
Board Liaison

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Minutes Approved:
Minutes Entered: