PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES
QUARTERLY MEETING
MAY 11, 2016

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, May 11, 2016, in the Township Building. The meeting was called to order at 5:30 p.m. followed by a pledge to the flag.

ROLL CALL:

The following members of the Pension Advisory Board/Health & Welfare Board of Trustees were present: Greg Waks, Supervisor Liaison/Trustee; Eric Medrow, Chairperson; David G. Kraynik, Vice Chairperson; Police Chief Tom Nolan (arrived late); Thomas Minger, Secretary. Others present were: Sgt. Andy Fidler, Police Representative; Sara Evans, HR Director; Nick Hiriak, Finance Director; Bill Daywalt, Non-Uniformed Representative; James P. Kennedy, President, Thomas J. Anderson & Associates, Douglas Werley, Consultant, Thomas J. Anderson & Associates.

MEETING MINUTES:

It was moved by Mr. Kraynik, seconded by Mr. Minger, all voting “Aye” to approve the March 23, 2016 Meeting Minutes as submitted. None opposed. Motion approved unanimously.

PRESENTATION BY ANDERSON & ASSOCIATES

Mr. James Kennedy, President, Thomas J. Anderson & Associates, stated he has been working with Doug Werley to complete the actuarial reports and have preliminary MMO’s for both plans to provide a better budgetary forecast. He provided the current status of the pension funds, specifics on Minimum Municipal Obligation (MMO), an update on state related pension matters and investment areas.

Mr. Kennedy indicated last May he reviewed the last actuarial report (1/1/15) which happens every two years. Valuations on the pension funds are used for a number of purposes, including generating the actuarial numbers which are used to forecast the MMO the municipality pays on an annual basis. The next actuarial evaluation will be coming up on 1/1/17 based on the year 2016 and 2015 which they are currently in the process of completing.

Overall funding for this plan on a smooth level was at 95%, zero distress. From the overall pension standpoint the municipality is very strong from a statewide perspective. It was noted anything above 90% is zero distress.

Mr. Kennedy indicated they prepared the form 385 in March for both plans in order to certify and determine what state aid will be provided this year which is estimated at about $858,000. Factoring in the state aid, the MMO for this year is estimated at $916,000. Another factor taken into consideration is the new mortality tables.

Mr. Kennedy stated the last two years of investment returns over the last multiple years have been very solid.

Mr. Kennedy explained smoothing is a program similar to paying less on a mortgage for a period of time so the municipality in a down market year does not get hit with a pension spike. He said the purpose of smoothing is to avoid getting "killed" in one actuarial period for an extraordinary event similar to what happened in 2008. A lot of progress has been made, but he cautioned the news is not all positive. Mr. Kennedy wanted to make everyone aware that the MMO's for 2017 will be based on the same 1/1/15 data and should be very consistent. However, the 2018 MMO's are going to be based on the new valuation on 1/1/17 and without a major market correction there will be actuarial losses on the 1/1/17 because of underachieving the investment assumption.

Mr. Medrow asked about the origin of the 8% assumed rate of return. Mr. Kennedy responded that was calculated many years ago going back to the 1980's. He said Mr. Werley has audited plans throughout the entire state for many years. Part of the reason they all started at 8% was a different investment environment and state aid, in many cases, used to cover the pension costs.

Mr. Kennedy stated the implementation of a defined contribution on the non-uniformed side was a good move to mitigate some of the actuarial issues. He said a lot of municipalities are freezing their non-uniformed defined benefit plan and moving into defined contribution plans.

Referring to the police pension plan, Mr. Medrow asked if it is correct to say it would take legislative action at the state level to change to a defined contribution plan. Mr. Kenney responded the police pension plan is governed under Act 600 with a set of very specific benefits.

Mr. Kennedy discussed what can be done with the interest rate assumption which has been in place many years. He said if you lower the interest rate theoretically from 8 to 7% it increases the pension liability in a very significant way. Because you are assuming a lower investment rate you have to earn more and it drives a bigger number. The more liability, the more goes into unfunded and ends up getting in the MMO by being amortized to pay off the unfunded amount.

Mr. Kennedy stated there are two ways to deal with this. Once you change the assumption you are stuck with it at least for the next period of time.

Being at 7% longer term would be ideal but it would be an exceptionally costly option. There is another way to tackle this problem providing more flexibility. Smoothing aside, they always want people to be paying market MMO's, but knowing these losses will continue into the future years the municipality can budget more than the Minimum Obligation.

Mr. Werley pointed out what would happen looking at a 1% difference in the interest assumption which increases the net pension liability by $6.3 million. He said when you lower the interest assumption your normal cost percentage also goes up. Exactly how much it goes up depends on your demographic such as the age of the officers, etc. Using the 1/1/15 report, a quarter point would increase the MMO probably $300,000 which would continue for 14 years.

Mr. Minger commented it is his understanding there are two options. There is currently an 8% interest assumption. It could be lowered to 7 ¾ but once that is done it is up on a balance sheet and the township has to take care of it. The other option is working with the market side of pricing or market assumption and paying more into the MMO.

Mr. Werley cautioned once the assumption is changed you are stuck.

Mr. Medrow pointed out with all the new development in the township there is a significant increase in ratables and asked if it would not be prudent to do something with these problems when we have the opportunity to do so.

Mr. Kraynik stated once the budget comes together for 2018 if revenues exceed expenditures with all the ratables there could be an opportunity to put more in the pension plan.

Mr. Waks noted there are some significant capital expenses coming up. Mr. Kraynik said there has been a deferral of capital equipment for years.

Mr. Kennedy said there are three options as follows: (1) go along as you are doing and pay the minimum and keep doing it every year, (2) through the budgeting process try to budget or allot extra funds to pay more than the minimum and (3) the most restrictive option is lower the assumed interest assumption.

Mr. Kennedy stated investment returns do not solve these kinds of problems. They help, but in general MMO's are going up and that is the summary of what they wanted to review today.

Mr. Minger asked if the form 385 would be affected if the township exceeded the MMO contributions. Mr. Werley responded in the negative. He said each municipality gets state aid except Philadelphia which gets 25%. If they were not limited to 25% they would get it all because their MMO's are $400-500 million which is greater than the state aid available. Mr. Werley detailed how state aid is based on units.

Mr. Kennedy said the bottom line is he would love to see the assumed rate lowered, but in reality politically and budget-wise it is not advisable. The best option right now is to try every year to make sure you are hitting the market MMO payment or put in more if it is possible. Anything extra will help this plan.

ADDITIONAL BUSINESS

NEW BUSINESS: None

ADJOURNMENT

Without further business by the Pension Advisory Board, the meeting adjourned at 6:45 p.m.

David G. Kraynik
Township Manager and Vice Chairman

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Minutes Approved:
Minutes Entered: