Lower Saucon Township
Pension Advisory Committee Meeting
Meeting Minutes September 8, 2021

Roll Call: Present –John Jolls, Morgan Stanley, Joe Scott, PSAB, Chuck Friedlander, Municipal Finance Partners Molly Bender, Jonathan Mull, Leslie Huhn, Township Manager, Cathy Gorman, Director of Finance

Meeting opening 11:03

Missing: Brian Courtney, Officer Jared Gunshore and Jason Banonis (not in attendance due to email issue)

1) PSAB- Joe has stated that there were no legislative updates at this time.

2) Morgan Stanley –John shared screen. As of June, the markets continue to move higher. S&P 500 was up 15.25%, the Russel 1000 VL was up 17.05%, the Russell 1000 Gr up 12.99% and the MSCI EAFE was up 8.83%. The market was driven by strong economic growth unprecedented fiscal and monetary policy, and corporate earnings. Page three on fixed income, through June of this year, it was a very challenging year. Interest rates have risen over the last six months beginning at -.90 to .03 in June. When interest rates go up, bond prices go down so that was one reason for a challenging fixed income market. The overall fixed income market was down -1.6% and the intermediate market was down .0.9% and TBills down .03%. Touching on the sectors. What was driving the market over the last six months was economically sensitive sectors with energy returns at 45.6%, financial at 25.7% and real estate at 23.3%. As of August 30th, equity markets continue to move higher. The S&P 500 up 21.09%. Yields declined over growth concerns with the overall market for fixed income down .07% and the intermediate market down .37%. The real change that has occurred since June is the return and pick up on the growth stocks. As you can see with the 20.19% in growth stocks. There are been a slight decline in interest, and a very strong performance across the board. The market remains in record highs. Valuations are becoming stretched though, while we expect the overall year to end well we are poised for a correction at some point. On page 6, the year to date as of June is 8.99% and as of yesterdays close we are up approximately 12.07% year to date. The allocation as of 6/30 was 47.23% in domestic equity, 15.41% in international equity, 27.67% in fixed income, 5.87% in real estate and 3.83% in cash. On page 7, the assets are at a record high at $367,245,067. We remain well diversified, with a good balance between passive and active managers. No changes in managers however we will be adding a second real estate manager for further diversity in October. Cathy asked what is our outlook for real estate. John said they expect for real estate to continue to do well. The addition of the real estate manager and bringing in more diversity will give us more stability in that style in the portfolio. Cathy asked if that is ownership. He is there is a combination a portion of that is ownership and there is a small portion of that is for liquidity maintained. Jonathan asked if he is adding weight to the real estate sector. John said no, they are just going to diversify. There will be a slight increase but it will be just to diversify amongst the other real estate managers. Jonathan asked what that represents. John as of June it was at 6% and it can go up to 10%. Jonathan asked if a portion of that is an inflation hedge. John said usually Real Estate is used as an inflation hedge. Jonathan asked if those investment payout in a coupon or dividend. John said any income is reinvested back into the portfolio.

3) 2022 MMO –
The MMO's presented at the last meeting, nothing has changed. The Uniformed Plan is $430,113 and Non Uniform Plan is $180,965. These are based off the current valuations which we received from Chuck which we are still in the process of reviewing. These MMO's will be brought to the

September 15th meeting for Council. Chuck Friedlander said that the change this year is the updated the mortality table. When we last updated the mortality table on of the things we decided to do is to use a mortality improvement scale. If we assume future mortality improvement when we get the next table update it will not be that big of a change. What happened here with this table which I highly endorse because it actually based on municipal plans exposed when we updated the improvement scale it reduced cost. This is something that is a good change but it will bring a little bit of relief to you. Cathy said in comparison to the 2021 MMO, between both plans, it is an increase of $8,678.00. We had mentioned historically that the last two years has been a great investment period and we were expecting a little bit better MMO but at the end of the day those investment returns are amortized or smoothed out over a couple of year period so that if we do have a really bad year it will not affect our MMO greatly. Chuck said we smooth to constrain volatility. This is one of the good periods when we had gains the investment saved gains for future years. So, I am going to talk about the Police Plan because it is the bigger plan but the same applies to the Non-Uniform Plan but on a smaller scale, based on the chart the market value of assets is a good deal higher than the actuarial value. That gap is a reserve which will feed more gains in the next valuation to enhance gains we already have or to lower future costs to offset the MMO. And you will see the same thing for the Non-Uniform Plan. The bottom-line number is not quite as much but 2 years ago we were smoothing up, 4 years ago we were smoothing up and now we care caught up and are smoothing down. We did have investment gains during the year but we when we smooth the gains instead of getting 16 and 10 ½ we get 6 1/2 and 8 ½ and since we are assuming 6 as a gain, but not a huge gain if we were using the market value. Cathy said that she thinks it is worth noting that the liability of the unfunded liability of both plans is a little over a million and we are in the 90th percentile correct? Chuck said the police experience gains and the non-uniform we have some experience losses. The funding percentage for the non-uniform is 86% and the police we are over 90% on a smoothed basis. We are in very good shape; if you are over 90% you are level 0; we are very close. At level one there are no penalties or remedies for that level so it is rather meaningless. Cathy said that we will add this to the September 15th meeting for approval an put in the 2022 Budget.

4) Financial Report
The Non uniform plan the Township put in $104,506.30 and the Police plan; $350,743.07. We will continue the process of paying monthly. I am holding off September's until I can get the State Aid amount so the funding is properly recorded on PSAB's ledgers.

5) COLA Increases

Mr. Guy Lesser has a Cola 5.5% increase totaling 10.63% of his 30% maximum. Mr. David Roxberry has a 5.5% at 12.62% and Mr. Jacoby has a 5.9% at 26.51% of his 30%. I will forward to Mr. Werley confirmation that these were received at this meeting and he will adjust payments accordingly. Cathy said for those who might not know, typically COLA's are set at the beginning of the year for most plans but our officers requested that the COLA percentages follow the Social Security CPI. Chuck said the COLA's are higher this year than expected however, we fund these COLAs based on an assumption that these COLAs will increase each year. Because they went up a little higher this year due to an inflationary year, it is going to cause a small loss in the next actuarial evaluation. They are going to get to the 30% max but the question is how soon they get there.

6) Settlement Filings – None Received

7) Minutes approved – Since we lost the recording it was very limited but reports will be attached for reference.

Chuck said he could be present for meetings if by Zoom. Doug Werley said he had nothing to add. Cathy asked if he heard anything about State Aid. Doug said that he does not have anything concrete but he thinks we might get about what we got last year. Any loss due to COVID does not appear to be coming down the pike. Chuck said that is good news because last years went down a bit which was a COVID affect because the revenues that came in fell. But it is a June 30th year, if we experienced a little drop from a couple of months think what a full year of lower revenues would be. Mr. Werley said that is what he heard but they have not received an official number. He said some good news on the MMOs, besides the gains that were smoothed going into the future, on the Police side, there are two amortizable bases of roughly $48,000.00 that will be dropping off besides the deferred gains. This will help on the 2023 report. The reason why the MMO for Non-Uniform spiked up is because a realized gain of $15,000.00 dropped off but the loss of 05 still goes forward. Doug said we and Chuck are doing a good thing here being conservative. Many places don't do this and I always give you guys credit by doing the right thing by having attainable assumptions. Chuck said if he was going to be around for 10 years, he was making decisions 10 years ago assuming he would be here 10 years later to have to defend them. Doug said too many look to kick the can down the road and as you well know, two years goes by quickly, so does ten, you are absolutely correct.

Chuck said on the police plan there are a couple of basis points that was not part of this MMO but will be dropped in the 2023 valuation so 2024 MMO will recognize that loss but will be mixed up with experience in the next two years. Doug said he was referring to the 2023 valuation. He said it is kind of like a built-in gain that will offset any COLA increases in 2024.

Cathy said once the evaluations are reviewed, they will be sent out. Chuck will sign off then and send out final copies. Chuck said he will be working with the State's database in uploading the Act 205 forms in March of 2022. He is working on it to automate the process and between his reports and their database but it will be done way ahead of March 2022.

Meeting set for December 8th 11:00 AM

Close meeting 11:29 AM

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