SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

PENSION & BENEFIT COMMITTEE

APRIL 25, 2024

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING BEGINS AT 12:34 P.M.]

Catherine:

Welcome everybody. First item on the agenda is the approval of the minutes [inaudible 00:05:44] to this special meeting, and I'll entertain a motion to approve those minutes.

Mario:

So moved.

Kevin:

Second.

Catherine:

It's been motioned, moved and seconded. Any discussion changes?

All right, thank you.

All in favor [inaudible 00:06:03].

Committee members:

Aye.

Catherine:

Okay. It's all present [inaudible 00:06:07], so we'll move forward.

Next item on the agenda is a review of our 1/1/24 actuarial information.

Oh, good. Hello, Suzannee. Perfect timing.

Suzannee:

Great. Thank you. Sorry.

Catherine:

We're going to review the actuarial information and assumptions for pension and VEBA and related contribution amounts.

Please.

Catherine:

Jeff, can you hear us?

Jeff:

We lost you for a second. I can now.

Catherine:

Okay, so I think you're up.

Jeff:

Okay.

Albert:

Turn down to [inaudible 00:07:07].

Catherine:

Pension assumptions.

Jeff:

Yes. We'll go through... Just conjured out the 1/1/24 executive summaries for all three plans. I'll turn it over to Albert.

Albert, do you want to start?

Albert:

Good afternoon, everybody.

So similar to the prior several years, we put together this summary for each plan. So we're looking at the salary plan right now. Top section identifies the number of participants that were covered under the plan as of 1/1/24, so we can see that a total of 300 full participants covered under the salary plan. The breakout includes 67 actively employed participants. You have 60 participants who left employment, and then you have 177 participants commenced the benefit, and those benefits are being currently paid out of the plan assets for the total of 304.

The average age of the participants as of 1/1/24 was 57.2, so the natural evolution age slightly has gone up just like the average active participant service at 25.2 from 24.3 last year. And then similarly, the average age of inactive participants, those who are no longer employed, has gone up slightly from 69.2 to 69.6. And then the life expectancy, just as expected, has gone down as the participants have gotten slightly higher in age, from 19.9 to 19.6.

So that's kind of a high-level summary from a demographics. On the value of assets, 2023, that's the year that [inaudible 00:09:01] has based numbers on. So it was a favorable year in terms of the asset performance. The asset performed at about 11.9%, and the year closed at 45,276,275. On the market value, for purposes of the plan evaluation, we are using the actual smoothing when determining the plan value of assets for when we calculate the actual determined contribution, so the actual value of assets was 46,852,000 as of 1/1/24.

The prior year, the employer contributions were at 4,062,000. That's what was contributed from the prior year in the plan. In comparison to the outflow of the plan assets and expenses, the plan benefit payments were 3,561,000, and the expenses were just $200,000. So this is a positive event, where the employer contributions are higher than the outflow of the plan assets due to benefit payments and expenses from the plan. So that's good news.

So if we looked down a little bit, on the funded status, as of 1/1/24, we are still using 6.5% discount rate. We have discussed this with Morgan Stanley, and they are of the view that, given the current asset allocation or the asset allocation as of 1/1/24, 6.75 was still a reasonable assumption in terms of the long-term rate of return. So based on 6.75% interest rate assumption, we measured that the plan was about 84.26% funded. That was an improvement from 77% funded last year on the mark-to-market value of assets.

The bulk of that improvement was due to favorable asset performance. As we saw a few seconds ago, it was over 11% as a comparison of 6.75% assumed return. So this positive asset performance over expected helped, in addition to the contributions made into the plan, to see the improvement in the funded status from 77 to 84%. And then on the actuarial value of assets, the funders percentage improved as well, from 85 to 87%.

Any questions from group on any of those metrics?

Catherine:

No, thank you.

Albert:

Thank you. So moving forward.

From a contribution standpoint, what we calculated the actuarial determined contribution, based on the demographics of the plan, we've calculated to be just a little over $1.7 million, [inaudible 00:12:23]. And again, this is a reduction from the prior year because of demographic changes from the plan. So we are seeing the actuarial determined contribution to be at 1.7 million. And again, that's a slight reduction from the prior year.

As we have tracked in the past, we also make a note of the funding policy that has been in place throughout the past several years. Given the volatility of the asset performance over the last number of years, this full funding of the plan by 5/31/25 is likely going to be not a feasible exercise, so we've started a conversation with the management as to how the funded policy of the plan should be migrated to smooth over any gains and losses over the last few years, still with an eye to fully fund the plan.

I don't know if Jeff Liter and Jeff Bower have any thoughts or comments on that?

Jeff:

Yes, I can start and turn it over to Jeff.

I agree with Albert. I think in practical terms, having a closed-end amortization, as you had in past years, doesn't really give you the flexibility to make adjustments without having to change the funding policy. I think what would be helpful is if we study for you alternate funding policies, keeping in mind your minimum would traditionally always be the ARC. But anything above and beyond that could be looked at as an amortization period, but not one that's closed, that forces you, in a given year, if there's economic issues or if there's market conditions, to have to amend or to extend the funding policy.

So our task, I think, will be to come back to give you some suggestions to things to look at. Keeping in mind, as Albert said, the goal is to always get to full funding but have something a little bit more flexible to give you discretion in years that you needed without having to formalize change to that [inaudible 00:14:51].

Jeff Liter. Do you want to comment?

Jeff Liter:

Sure. I think it's important that we continue to base the funding policy on the current economic conditions. So it would make sense to have a funding policy based on the funded status. And what we're looking at is something similar to what's being done in private sector pension plans that are governed by ERISA.

Suzanne:

On my work call. But no, I don't have service. It's, like, in and out.

Moderator:

Can we just ask everybody who's not speaking to mute their microphones, please? It would be helpful.

Jeff Liter:

Thank you. So as I was saying, ERISA plans generally follow what we call a seven-year amortization of the unfunded liability. That period has been increased recently to 15 years, so we're looking at maybe some sort of method which is mirrored off of the ERISA funding rules but not going so far as 15 years. That's probably far more than the Authority would need. Something of a few years would be more reasonable given the current funded status of these plans and your desire to continue closing the funding gap.

Jeff:

Yes, I was just going to add to Jeff's comment that you'd be looking at a funding policy like... Again, your minimum would always be the ARC, which you've always met. But in practical terms, not having to amend the policy would give you amortization periods that would give you some discretion based on the funded status. But the difference here is you have a fixed closed-end funding policy now in terms of amortization. This would reset each year based on funded status and the economic conditions. As Jeff said, that's what mirrors, really, ERISA plans in terms of governance.

Catherine:

Thank you, Jeff.

Albert:

Great discussion. So, we will come back to discuss it further with management and go from there, but that's one of the things that we will be completing over the next couple of weeks.

And then in terms of the actuarial fiscal year contribution, I think that's something that Rochelle will report in the next section of the presentation.

And then lastly on this exhibit, the assumptions. We talked about the discount rate, which is pegged off of the expected rate of return, so there was no change from last year to this year, given the current asset allocation. And then we are continuing to use the same salary scale of 4%, as well as the mortality table. There were no changes to the mortality table from 2023-24. The mortality table we were using last year is still the most current mortality table that's recommended by the Society of Actuaries to use for measuring plan liabilities.

So any questions on any of the metrics as it relates to a salary plan?

Catherine:

Yes, Suzanne.

Suzanne:

Thank you. So the 4%, is that a labor negotiated number? Is that a...

Rochelle:

[inaudible 00:18:26], and I do want to clarify. It's more than just an annual increase. It's adjusted for proportional changes.

Suzanne:

Meaning people move from different jobs-

Rochelle:

[inaudible 00:18:41] and all that kind of stuff.

Suzanne:

And this is our executive plan? And the language and the policy about fully funding status, we started this conversation, and we're going to finish it.

Rochelle:

Hopefully we will finish it today.

Suzanne:

Okay, so that's what we're referring to?

Rochelle:

Yes.

Suzanne:

Okay, thank you.

Catherine:

Are there any other questions on this? Can we move to the next item, "Union Plan"?

we can...

Albert:

So again, a very similar layout. From a participant count standpoint, the participant count went down, in this plan, from 220 last year to 213 this year. 60 actively employed participants. 37 terminated vested, those who left employment but yet to start their benefit. And 116 who are currently collecting their payments.

Similar to the other plan, the average age and participant service did go up from last year to this year, so about 59.3 for the average age, for active, and then 31.5. So you can see it's more a mature group of participants in terms of the years of service they had with the organization, 31.5 years of service.

And then the average age of inactive people, those who are no longer employed, went up slightly from 69 to 69.2. And similarly, life expectancy has increased due to changes in the demographics of inactive people.

From a funded status and the rate of return assumption, again, this was a similar positive year of asset performance was about 12.1% return of the asset portfolio from 1/1/23 to 12/31/23.

The plan contributions in this plan was 2,031,000 in comparison to the benefit outflows of 1,883,000 and the expenses worth about 120,000. So again, similarly, we see the same or better contribution level into the plan from what the distributions from the plan are. So that's a good news that you're replenishing all of the payments made out of the plan, either in the form of benefit payments or expenses by contribution to the plan.

From a funded status standpoint, again, we're using the same interest rate assumption as in another plan. Given the current asset allocation, and based on the performance of assets of over 12% last year, we can see that the funded status has improved from 77 to almost 86% on the market value basis. And similarly, on the actuarial value basis of the smooth value plan, they have improved funded status from 86% to almost 89%. So everything is moving in the right direction from a funded status standpoint.

Now similarly, on the actuarially determined contribution, or often referred as ADC, the plan has reduced actuarially determined contribution from 1,062,000 to 772,000. And again, that's a function of the plan participant demographics coupled with the asset performance we have seen over the course of 2023.

And then a similar discussion on the funding policy: the numbers are increasing because of the closed amortization period, as we talked about when we reviewed the prior exhibit. So this plan is also being analyzed, and we'll come back with some recommendations in terms of the period formatization to come up with a funding policy that will meet the goal of fully funding the plan but yet give you a flexibility of the level of contribution to contribute over the next few years in this plan.

And then lastly on this, again, same metrics. In terms of the assumption and the mortality level, we're still using the same mortality as last year. It's still the most current. And salary scale is not part of the equation for this plan because the benefit structure for this plan is not based on salary; it's based on the benefit multiplier per our service.

Any questions on any of that?

Suzanne:

So on the demographic information, where did these people go if they didn't [inaudible 00:24:50] disappear? They didn't die, right?

Albert:

Yes, the reduction in demographics, it's mostly due to deaths.

Suzanne:

So wouldn't your retired participants go down?

Albert:

Yes, the retired participants are down because of the deaths that were taking place in 2023. I don't know, Jeff, if you have any additional metrics on that?

Jeff Liter:

Yes, so for the plan year, beginning January 1, 2024, so activity during 2023, there were nine deaths among the retiree population. Seven of those participants did not have a beneficiary, so no further benefits are going to be paid. And then two of them did have a beneficiary, so the beneficiary will take over the payments, but that accounts for the reduction in the head count, the total head count from 220 to 213.

Suzanne:

Thank you. Second question is, on the mortality team, we are upping and our solutions team just by a little bit, but you mentioned that we're still using this talent team, so I was wondering why that went up by like 2% or something?

Albert:

Yes. Each year the Society of Actuaries in October release the mortality tables or come back with a commentary that they have no further changes in the mortality tables. So for the last two years there were no changes to the mortality tables and improvement skills that were issued by the Society of Actuaries. So I don't know Jeff, you have any additional comments?

Jeff Liter:

Yes, so the last update that was provided was in 2021, October 2021. And the Society of Actuaries conducts a study every year to determine whether the current rates are still appropriate. For the last two years, they have been reluctant to change the tables because of uncertainty around the impact of COVID-19. So they've been a little bit hesitant to change the tables based on the short-term experience they're seeing because they believe a lot of it is tied to COVID-19, and is not going to be a permanent change to population mortality.

So we expect them to continue annually conducting their studies and informing us whether or not adjustments are needed to this table. So as Albert said, we will revisit this again in October of 2024 when the Society publishes their next report.

Suzanne:

So we decided to up it to I think 19.7 instead of 19.5 just because they haven't.

Rochelle:

No, that's the life expectancy. It's not a change in the mortality, it's the demographics of people.

Albert:

That's right, Rochelle. This is strictly tied to the population of the participants that are no longer employed, that's correct.

Suzanne:

Very good. Thank you.

Albert:

You're welcome. Great question.

Suzanne:

[inaudible 00:28:23] mention is that we don't want our members to die without a beneficiary. They've worked their whole time here and we'd like to see those passings. I know it's a benefit to our funding, however, I think in the spirit of what people work for, I think we should make an effort to [inaudible 00:28:45], at least if it qualifies. If they don't have a qualifying person, then that's a different story.

Rochelle:

I think that's the point.

Suzanne:

Is that what the case was?

Rochelle:

Well, I don't know the specifics but don't have a qualified beneficiary, you have a lot of [inaudible 00:28:58] it also changes what your monthly payment?

Albert:

Yes.

Suzanne:

Okay. So they may opt to do that is what you're saying. Okay, thank you.

Jeff:

But HCHR has kind of an annual of people to make sure they update the beneficiaries and so I think it was in January that they do that.

Suzanne:

Okay. Thank you.

Jeff:

For all the claims.

Catherine:

Okay. Thank you. Any other questions? Okay, move on to the next item please. Great.

Albert:

So this is talking about the welfare plan, the post-retirement medical plan. So this plan covers 549 participants. That is a bit from last year, five 21. So this plan now has a younger average age population and average age service. Average age of active people is 48.8 and average service for active is 14.8. So it was a reduction in age and service from last year to this year based on the population covered under this plan and average inactive age for retirees only did not change. It stayed about the same at 72.3, but life expectancy did go down slightly by about a year this year.

We also seen the same level of returns in this plan. In this plan, we're using market value of assets. So you're not allowed to do on basis on the post-retirement medical. So we are using and the rate of return was 11.3%.

Then from a funded status standpoint, this plan did see an improvement in this funded status from 36% to almost 38% this year. Again, this is mostly due to the expected rate of return being at 6.75% where the actual return was north of 11%. So that positive performance allowed you to see a favorable improvement in the final status of this plan.

Catherine:

Do you want to give me an overview about the group that is life benefits only, which is a unique aspect of this plan.

Albert:

So yes, active participants who have a life only that there was a significant increase in the participants covered in that from 138 to 172. Yes, that's a new feature of this plan.

Rochelle:

The plan is closed other than that connection so that's like $13,000 after so many years of service, even if you're not in the plan from life insurance policy.

Suzanne:

Is that why there are no conclusions?

Albert:

I'm sorry, I didn't hear that. Can you repeat the question please?

Suzanne:

No employee contributions to this fund?

Albert:

That's correct.

Suzanne:

There is certain retirees though are making [inaudible 00:32:36].

Albert:

From a contribution standpoint, there was almost 1.7 million of employee contribution going into this plan. And the benefit payments were just a little over $2 million that were paid out of this plan. But we all know the heavy concentration of improvement of the funded status was mainly concentrated on the two pension plans. Then as those plans become better funded and ultimately fully funded, it's our understanding that more funds in addition to our contributions that are currently being made.

Catherine:

Suzanne had a question about where are the employee contributions reflected or they reflected?

Suzanne:

This is the retiree contributions Albert that they're asking about? I know we usually break them out separately when we send the information in.

Albert:

Yes, it is not presented in this exhibit. We can certainly on a go-forward basis present it as to what the employee contributions were, but they definitely taking consideration when we determine the plan liability.

Jennifer:

Okay, thank you. So would it be in the market value for the employer? Where are we holding it in?

Suzanne:

So when we break it out separately, I think what Albert's saying is it's not reflected in this, this is a high-level summary, but they incorporated it into their... because we break out, we give them the retiree contributions.

Catherine:

And it's small enough that...

Suzanne:

It's relatively small.

Albert:

That's right.

Catherine:

Have a question?

Jeff Bauer:

If I may.

Catherine:

Go ahead.

Jeff Bauer:

So was it because of the active participant's life only that makes the average participant age so young?

Albert:

Correct. That is correct. So increase in the active participant life only increased, I'm sorry, decreased the average age of the participants. That's correct. Because those are younger people who were joining that group of participants. That's correct.

Jeff Bauer:

Okay, thank you.

Albert:

You're welcome.

Catherine:

David had question?

David:

Some of the reason for the big increase of 34 people in active, like only our subsidiaries or are they not part of this? That's a big number increase.

Rochelle:

I believe, and Albert and Jeff can correct me if I'm wrong, you qualify if you have more than 10 years of service. That's why that's the only reasonable plan is growing. Growing because more people are qualifying to the life only benefit.

David:

Because that jump from 138 to 172 is 12, 13% of our workforce.

Rochelle:

They wouldn't qualify yet.

David:

Okay.

Albert:

Right.

Catherine:

Any other questions? We cover everything?

Albert:

Yes. The only other item is the actual determined contribution. So there was a slight increase this year in that total. 1.9 to 2.1 million. And again, it's due to the fact that this plan now covers more participants. So that's the driver. That number has gone up from last year to this year.

Then on the assumptions for the discount rate, everything is the same as we talked about in the other plan. These are most current mortality tables that are published by the subsidiaries and the rate of return assumption consistent with the other plan.

Catherine:

Are there any further questions? Thank you very much.

Albert:

You're very welcome.

Jennifer:

You're helpful. And also thank you for your comments on the investment policy.

Jeff Bauer:

You're welcome.

Jennifer:

The next item on the agenda is our potential year-end contribution. I'm going to turn this one over to Rochelle.

Suzanne:

Can I ask one other question?

Catherine:

Yes.

Suzanne:

Are all the administrative expenses that are listed on these, certain way, not today, but maybe the next meeting we could just get a break out of what those administrative costs are?

Catherine:

Okay.

Suzanne:

I presume a meaningful amount of that's the actual asset management of the parks, right?

Catherine:

If we pay Angell through there.

Suzanne:

Yes. I'm sure. Pay Angell through that. Another question?

Catherine:

Okay.

Suzanne:

Item three, spontaneous utterance rate.

Catherine:

Rochelle, do you want to cover it?

Rochelle:

This item is consistent with our budget and we did include this in our projection. So this is to make an additional $250,000 contribution. You might say it's a little on the low side and that's because we're already contributing that amount that's like [inaudible 00:38:27] we have fiscal 24.

Larry:

And here we go with the fiscal '25, we have a million dollars budgeted.

Catherine:

Exactly.

David:

Do you want to take the three motions all together as one?

Catherine:

Unless if there's an objection, I think that's the most efficient way to do it.

Suzanne:

I don't have an objection to doing the three. I was just wondering if we're going to talk about the language about when to use additional contributions and when not to before we improve an additional contribution. Also, I would love to know why if we are making an additional contribution more than what's up here, why is that not in the resolution?

Rochelle:

The one that we just did was because the amount that you approved last year at this time was already above. All right. So it's already approved. The 250 is the only additional contribution for this year.

Suzanne:

Okay.

Rochelle:

The other's already been approved.

Suzanne:

Okay.

Rochelle:

This is what Larry just mentioned. This is just broken up between the salary and the union. It's overall a million dollars above the ARC. It's also consistent with our fiscal '25 budget and we got input from Angel as to how to allocate that additional amount between a salary plan and the union plan. And this reflects their input.

Catherine:

If I may, Suzanne raises a really good point. I think it might be more helpful for us to discuss item five before we do this. Without objection?

Jeff Bauer:

That's fine.

Catherine:

Okay. Can we go to item five? I hope this addresses the many comments that we received and gives us the flexibility. So as you recall, the existing investment policy statement, the item one is to unchange to achieve long term rate of return. Just elevated it because that should be first. And then second is the milestone goal is to be fully funded, excluding obviously your ongoing service costs eliminated the closed end requirement by 2025. But giving us the flexibility to contribute amounts above the ARC that can be authorized not less than annually as we were doing it this year in multiple authorizations. But the point is that there should be an evaluation by the committee and board on an annual basis to determine whether it is prudent to make that contribution an additional contribution on an annual basis considering all the various conditions, whether they're market, the capital needs of the organization and other requirements. And I am opening up to discussion.

Larry:

I'm wondering if we aren't on a bit of a treadmill saying that we're going to be fully funded given the fluctuations of the market. We're going to constantly be chasing a hundred percent, which may or may not happen end of the year.

Catherine:

Larry, I have actually seen funds. City of Hartford once had a fund that was 111% funded. It's possible to go over a hundred. I think it is reasonable to aim for that, but that's why the language is in there. That excludes your ongoing service costs because you don't have a close plan. But right now we are over 87%

funded, which is strong. But given the significant debt of the organization, it does make sense to narrow that gap even more. I mean we're bringing our debt down, but we have significant capital requirements with our construction costs over the next several years. It's prudent to reduce this, but not to the point where we're hurting other financial obligations that we have.

Larry:

That's why I would think that you might want to do a range that you would shoot for as opposed to a possible number of whole-funds that have a range. That way you could ride variations in the market year to year, which is going to happen and if it's above that range, great. It gives you a little bit more flexibility.

Catherine:

I understand that. Without dominating the conversation, because I want everybody else's thoughts as well. I think full funding is prudent. Corporate funds are required to be fully funded. We're governmental, we're not subject to [inaudible 00:44:09]. It's not a requirement, but it's prudent. It doesn't mean that we have to do this under all circumstances where we're making an additional contribution of $9 million. That's impractical and imprudent. But the point of this language is to give us the flexibility to consider this on an annual basis. It's really what we have been doing that. Right.

Larry:

Yes.

Catherine:

Any other concerns, comments?

Suzanne:

Well first off, I have no concerns with you dominating the conversation because you have been the one who's been steeped in the... So I would love to hear everything you're thinking about. No, I'm not being cheeky at all. I'm serious. Two is, thank you for pulling out the rate of return, the actual rate return as its own achievable piece of the puzzle.

On the fully funded piece. I agree if it's an aspirational milestone goal, I think that I'm comfortable with that. But I think this language doesn't give us the flexibility to make the choice of an annual contribution. It says, we will. It says to achieve full funding, the authority will contribute amounts above the ARC as authorized, not less than annually. So I feel like that's telling us that we have to, and I'd like to soften that language then it's optional for us.

Catherine:

So change "will" to "may" and you'd be comfortable with that?

Suzanne:

The minimum to be ARC?

Catherine:

Well the ARC-

Larry:

The ARC is something-

Catherine:

Actually the ARC has to be done, right?

Rochelle:

Right.

Larry:

This is same [inaudible 00:45:55].

Catherine:

"May" may do the trick and you don't think there's any confusion about the ARC gets absolute?

Suzanne:

I do not.

Catherine:

Okay.

Suzanne:

The counter?

Catherine:

What?

Suzanne:

Do you have a friendly amendment?

Catherine:

A friendly amendment to the fifth friendly amendment?

Larry:

Actually, [inaudible 00:46:20] which means the authorize and not me-

Catherine:

Could be a dollar.

Larry:

Could be a dollar. Say our goal is to be fully funded achieving some... can't even speak today.

Catherine:

99.9%,

Larry:

99.9% fully funded. Should be seriously considering this. I would be concerned that we slipped and slide because it's too easy to put the money towards this as opposed to towards the pensions.

So I prefer it be a little bit more forceful versus-

Catherine:

And, frankly, with the original language, that was one of the things I was most concerned about is the possibility of future boards taking pension holidays. So which, frankly, is what gets you into trouble with respect to your funding status.

I think the language is clear that it's above the ARC, which means we have to make the actuarial recommended contribution. Above the ARC as proofed and the reason why this language is the way it is, and again, I tortured this will push out, sorry, to try to get us to the point where we actually have to have a conversation at least annually about this issue.

Rochelle:

We have to make a contribution at least annually, even if it's a dollar based on this language.

Catherine:

Actually, I argue for will because it's a stronger viewpoint. It could be a hundred thousand dollars, could be a couple million dollars. It depends upon the circumstances and it forces us to have the conversation. I think that's the important part.

Suzanne:

And then when we're fully funded, could this no longer [inaudible 00:48:46].

Catherine:

Correct.

David:

We'd have to revisit that though. If this stays, then we would've to contribute even if we're fully funded.

Catherine:

And dependent upon market conditions, we could go to a hundred percent, we can go to 110% and then...

Rochelle:

Well it says to achieve full funding. So if we are at full funding, then I've been saying this doesn't apply because we achieved it already. So it'll give us the ability to do that. I'm fine either way. I think a future board that isn't part of this conversation will feel like they have to make additional contribution every year.

And I guess if that forces the conversation, it's a dollar and that's okay. I always think we should have-

David:

I think the language is fine as is and I'm okay if it's changed to "may" as well, but I think it accomplishes the intent. But I had a question. I remember a few years ago, Michelle, when we originally, when did we originally set the 2025 date? Why did we put a date on it back then?

Rochelle:

So actually it was way back, it was fiscal 23 and it was based on the seven-year starting at the time that we lowered the discount rate from being what we do is too high down to 7%.

David:

Oh right.

Rochelle:

A few years ago, changed it to fiscal '25. I can recall there was some discussion held with the board about doing that and that was really because we were quite similarly very close to that, and it did make sense, just at least in my opinion, it didn't make sense to contribute $14 million this year just to say that we'll be doing a fiscal '25.

Catherine:

And when did this board select 2023?

Mario:

Yes, that's what I was going to add.

Catherine:

Double check.

Mario:

Five or seven year plan.

David:

Yes.

Mario:

Right.

Rochelle:

I think it was at least a few years ago, so changed here from '23, pre-pandemic, but after the global financial meltdown.

Mario:

Exactly, yes. Right.

Rochelle:

Okay.

Mario:

That is right. So this changes that whole process of end date.

Rochelle:

It's not an end date, I don't know if Angell's still on but some of the conversation with them is, they would, if this is what they said they'd be working on, instead of giving us a few level contributions with specific end dates like they did for this past year, each year they would give us the ARC and give us, if you're looking for input from [inaudible 00:51:24], do we want three years, five years, seven years, or something a little bit different? But it would be more rolling and then each year we would say, "Based on where we are, based on the funding level, how much do we want to contribute into the beginning of the year?" And then we've gotten into a routine where we also come back to the board if we think we should do, and can't, or another additional.

Catherine:

Rochelle, did the other board members get the copies of the projections for the three to five years?

Rochelle:

I don't think so.

Catherine:

Okay. I think the reason I worked with Rochelle to get to this point when we were just taking out the 2025, is taking a look at the projections that Angel provided or, let's see, this one was full-funded by 2025, but not going to happen.

Mario:

$8 million.

Catherine:

Yes, it was a huge number, but there was still large numbers for full funding by 2028 and 2030, still. And so, the market conditions and other needs of the organization... It made me very nervous about having an end date, having a closed in requirement to meet that and it just...

Rochelle:

Had to keep failing it.

Catherine:

Exactly. Then we'd have to keep pushing it out. Well, why not just try to be prudent and have the conversation on an annual basis so we're not ignoring it, but we're still trying to move towards as close to 100% as possible.

Mario:

I think the intent is the same, to get to fully funded as soon as we can that... within reason. I am fine with the language the way it is. I prefer an end date even if it was seven years, and even if we didn't quite make it seven years from now, just because it's there. That's just my personal preference.

Catherine:

Nothing like a deadline.

Mario:

Yes. Well, I just think that it's for all the reasons that we talked about, I think probably not us, but a future boarder would go in a different direction without that. But I am fine with the language the way it is. I just prefer some hard line in the future because, to me, if you're working towards it, and you don't make it because the market conditions, oh well.

You're trying, but without an end date, I don't know, nothing to look forward to, necessarily. That's black and white.

Rochelle:

It can become [inaudible 00:54:09]. You can be making a dollar contribution every year and you're following the letter of the policy, but you're not achieving the goal.

[inaudible 00:54:20] way I think to get a dollar contribution is really not helping experience [inaudible 00:54:21].

Mario:

I didn't think that would happen.

David:

I do. In order for them to come up with the ARC, they had to have a date of when it would be 100%. What was that? They catch us, say, "Well, it was eight," they came up with baking this. What year will that get us fully funded?

Rochelle:

I think you used an iterization. Maybe, Jeff you can...

Jeff:

Yes, this is Jeff. I can say a little bit about that. There is a end date implicit in the calculation of the ARC for the salary plan, that implicit period is about seven years, and for the union plan, that period is about six years, and that depends on the demographics of the plan. So as the active population changes through attrition, termination, retirement, that number will change. So, each year when we prepare the valuation, we reevaluate what that period is based on the current demographics of the plan.

So, seven years for salaries, six years for union. That's based on the demographics as of January, 2024. And to be clear, for the ARC, that period would fund the entire obligation of the plan, not just the current unfunded plus new accruals. That's meant to cover the current unfunded and accruals that would occur for the life of the plan. So it's a more aggressive calculation than what has been looked at for the level of funding calculation in prior years.

Stephen:

Jeff, could you add-

Sorry, if you don't mind, I'd ask a question too here, because I think there's a thought here that you get to fully funded status and then you're done, or I'm sensing that thought. And the reality is a multitude of factors that can get you to 105% in a given year just to pick a number, and then that same multitude of factors, if nothing else happens, could get you back to 95% funded the following year.

Can you comment on that? Because achieving 100% is a wonderful goal, and I think it's always been a goal, but depending on the markets, the demographics, the number of retirees, the number of new hires, the accruals, Jeff can help me here, but you're going to stay... Unless you got fully funded and then fully de-risked the plan, meaning it's still an active plan, you likely wouldn't do that, de-risked the portfolio except lower projected rates of return. Just because you got to 100% doesn't mean you stay there because there's all these extraneous factors working on you. Jeff, do you want to add anything to that?

Jeff:

Yes, I totally agree with that. And one of the reasons that I think this investment objective is important is there's a note in here saying, "Excluding ongoing plan service costs," which is additional benefit accrual. So the level funding figures that we've talked about in previous years are based on getting the plan's current unfunded liability funded, but then they're still going to be ongoing costs for new benefits that are accrued. So that will still be true under what we're proposing here for a new funding policy, though you're right that even if you get fully funded, there are factors that would perhaps drag you back under fully funded, losses in the market, additional benefit accruals by ongoing active plan participants. So it's a moving target and it has to be looked at every year.

Stephen:

I'm sorry that I interrupt. I just want to make that point that you don't get there and then it stops, whatsoever.

Rochelle:

Exactly.

Stephen:

It's a living, breathing entity.

Stephen:

Any other questions or comments?

Suzanne:

Just one last thing on the language. So if we're at 99.9%, we're not fully funded.

Catherine:

Correct.

Suzanne:

We are forced to make a contribution above the ARC with this language. So I would be more comfortable with, "Will consider additional contribution amounts above the ARC, as authorized." I understand those people are more comfortable with it. I wouldn't put the board in a position where it has to make a contribution.

Catherine:

So you're leaning towards, "May" instead of, "Will."

Suzanne:

I don't mind saying, "Will consider."

Catherine:

I see.

Suzanne:

So that it forces us to consider it every year. I don't mind being forced to consider it, but I do mind-

Catherine:

It was in there originally. I just didn't like the language of having, "Consider" and "Consider," in the same sentence.

Suzanne:

I'll yield to the board, but I just don't like forcing the board to...

Mario:

I don't read this as, "Afforded the board." I think it's fine either way. I don't think that they're required to, under this language, because it says, "As authorized," not, "Less than annually by that," so they could not authorize a contribution. That was [inaudible 00:59:46]. But either way I think I understand the comments, but either way I'm fine with it if you want to change it to, "May," or I'm fine either way.

Catherine:

I just don't like using, "Consider" twice in the same sentence. Just a draft edition. It's funny. It did say that earlier.

Are we ready?

Mario:

Yes, just [inaudible 01:00:17] earlier comment with the end date. So if the board is going to consider this every year, in that consideration and resolution, if there was a goal that would be, not as part of the policy statement, because we don't want to be cheating that year, but as part of the consideration and the resolution that the board does, this is using a target goal of whatever the year is and then the following year you would know, "Okay, last year we were looking at 2030, [inaudible 01:00:53]." Are we still aiming for 2030? So it's not in our policy statement, which is a public thing. This is more internal.

Catherine:

I think that's part of the evaluation process that we use that word, "Evaluating" on purpose, so that... Frankly we're getting this information anyway, so we get the same information. We just have to consider, in our process of considering, whether and how much, if we decide to move forward with an additional contribution, there's a process of looking at the data and making a decision as to what makes sense, what are our capital needs, what additional amount is available to add to it as necessary.

If we're at 99%, or 99.9%, or frankly 101%, we can make an informed, prudent decision based upon the information that we have on us.

Larry:

Mario, to your point, what Angell is planning on giving us what should help answer that question, because then it's with her, we need to [inaudible 01:02:06] putting it together.

Mario:

That would be helpful. If you're asked the question, at least you'd, "Okay, our target is this," may or may not hit.

Catherine:

In drafting this, I did not intend to make a requirement that a contribution above the ARC had to be made on an annual basis. It's just, it's based upon what it's authorized, but that's after the evaluation of all the data that we have.

Any further discussion? This is not supposed to go on this long. Sorry David.

David:

No, that's all right. I will support this the way it's written. Initially, I think I would like May, because we're getting near three, four years of similar growth to what we had this year. We will be near the 100% but I didn't spend nearly as much time on it. You've convinced me that this is fine, Kevin seems to agree as well that if nothing's authorized, it doesn't get done and I think if we get there, that's a nice time to have another discussion.

Catherine:

Hope we don't have to have the discussion again next year, but we don't. It says we have to evaluate.

I'm sensing a consensus.

David:

You want a motion to recommend this to the full board?

Catherine:

Yes please.

David:

Vote. [inaudible 01:03:27].

Catherine:

Thank you. It is ongoing. [inaudible 01:03:40].

Mario:

Great sentence. It's good.

Suzanne:

I'm going to vote against it, but you'll have to [inaudible 01:03:54].

... Still think that's worth a seven. Appreciate your help. [inaudible 01:04:00].

Catherine:

Yes.

Rochelle:

It's great.

Catherine:

It's been moved. Did I get a second?

Mario:

Yes.

Catherine:

It's been moved and seconded to approve the language as amended, the friendly amended. All in favor signify by saying, "Aye."

Committee members:

Aye.

Catherine:

Those opposed? No, motion carries.

Rochelle:

Thank you. Thank you for working on it.

Mario:

Thank you.

Catherine:

Thank you everybody. Now we will go back to item three.

The additional pension contribution. Is there any further discussion on the three resolutions?

Suzanne:

On the first one, can you say what we gave, what we already contributed last year, for the year '24?

Catherine:

The contribution for fiscal '24, we've been contributing combined $4 million, like $750, I believe it's about $1.8.

Mario:

[inaudible 01:05:05].

... Before this resolution.

Suzanne:

Or it's supposed to be over $2 million.

Catherine:

A little bit over, which would be very similar to last year, at the end. [inaudible 01:05:19].

Rochelle:

This is to make up your investment charts. It's to help support the funding level, because we have this available, we know that our fiscal '25 contribution is a little short of three years, the additional years, so this will help with that. It's a small amount, an additional amount.

It's fine, it's [inaudible 01:05:57].

Catherine:

My question was, can we afford it? [inaudible 01:06:01]. The answer is yes.

So we're doing it just to do it. We vote it.

We've met the [inaudible 01:06:08] and the investment performance achieved what it needed to achieve. So-

Rochelle:

That's good.

Catherine:

... Just doing it because we have money. …Performance which you'll see and we're [inaudible 01:06:18], this is actually higher than [inaudible 01:06:21] grade. First part of that was because last year was so low, but is doing well. So this just helps us to get to it.

It's part of the evaluation, what our capital needs, what's available, can we get there? That's why I was comfortable with it.

And the other two are for full year 2025.

Rochelle:

Yes, so the second one is, as Larry mentioned, it's the million dollars over the ARC allocated across the two plans based on input from the actuary. And then for the VEBA Plan, we, at this point, contribute the recommended cash [inaudible 01:07:05].

If we had to estimate that we did a budget, this is very close to this. Again, for the record.

Catherine:

Management is comfortable that this is prudent. We have the money to pay for it. It's not going to harm our other capital or operational needs. There are no other [inaudible 01:07:37] this applies to.

Larry:

Correct. We can do this. We're just going to fully considered it and we can make this extra contribution.

Catherine:

All right.

Mario:

You need a motion to recommend it to the Chair?

Catherine:

Yes please.

Mario:

I can do that.

Kevin:

I can do that.

Mario:

[inaudible 01:07:59] the proposed budget contributions, five for 2025, it's agreed.

2029, seven. [inaudible 01:07:59] to 8 June. And that's $2,397,959. In [inaudible 01:08:39]. $1,083,084, should be [inaudible 01:08:39] attribution, $1,694,075, as stated in those resolutions.

Catherine:

Is there a second to the motion? …. is going to be seconded to approve the resolutions and gives it to the board for approval. Is there any further discussion?

Suzanne:

Just one more question. So the full year '25 contributions are the ARC. The pension is a million above, and the VEBA is a bit different. It's the recommended cash contribution for actuarial.

Okay. So all I would ask is in the future that in the resolution we identify the [inaudible 01:09:28].

Mario:

... The digital contribution.

All the reasons we discussed. [inaudible 01:09:33].

Catherine:

Question? [inaudible 01:09:38] to none, all in favor say, "Aye."

Committee members:

Aye.

Catherine:

Any abstentions. Thank you, [inaudible 01:09:46].

Mario:

Thank you.

Catherine:

So, item four, if we can move on to our quarterly investment performance please.

Stephen:

Yes, thank you. Can you hear me okay?

Catherine:

Yes. We can hear you, Steve.

Stephen:

Okay, let's go then.

I'll give you a very brief market commentary where we are. It was a very good first quarter, which makes, frankly, most all of the numbers good, especially the long-term numbers. They're meeting and exceeding year 675 number, no question. Long run at this point.

So the market. We reached and have surpassed our prior peak. I think we talked about this a little bit the last time we met, but the market took two years from the peak of '22. This is just the S&P to the more recent peak and it's now surpassed that. The only thing that I give caution to is we're now 21 times earnings again, which is where we were at the prior peak as well. That's historically not inexpensive. You're seeing a little bit of a, barely correction, but a little correction so far during the month in April. No surprise there.

A few things are different this time than in '22, always dangerous words when you're investing. It's different this time. But we are potentially, I'll use the word, going to see rates having stabilized. We've seen that already. Wall Street consensus still believes the next move for interest rates is down, albeit, quite a bit delayed from prior expectations. We now also know there's a potential that the next move for rates could possibly be up. We don't think it's the likelihood case, at least, but it's entered the equation of discussion as a possibility, as opposed to only flat or down. We still think it's likely flat to down, but perhaps later in the year.

You got a soft GDP report just today, which actually makes that more likely than less than it was just yesterday. So the market's still being driven by just a few stocks at this point in time at the end of MARCh.

And that 21 times earnings, if you look under the surface, is really closer to 17 on the average stock. If you exclude those magnificent seven names. We could jump ahead.

So we think it's a little pricey at the moment, broadly speaking. We do also think one main thing we expect to have happen this year, and it's on the upper right-hand side here, is early in the year, we're expecting to see earnings growth of the narrow number of tech names to be very high versus the rest of the market. You can see that in the 37%, 24%, 14% graph bar there. Wall Street consensus, this is not us, this is not JP Morgan, either believes that by the fourth quarter of this year, you'll actually see the average stock in the S&P having earnings growth greater than these narrow focused seven names. That would be very healthy from a broadening perspective. And, indeed, starting in MARCh and continuing through April, you're already seeing a bit of a broadening in the market, meaning value stocks, participating sectors outside of just technology participating countries outside of just the US participating, even. So you're seeing some broadening in the markets and that is healthy, in our view, I think in anyone's view. But I'll stick to our view.

We could jump ahead please. I'll skip this one for the moment in the interest of time. We had a very strong first quarter. S&P was up just over 10%, as you can see in the lower left. So I thought be interesting to share what has happened historically, there have not been many first quarters quite that strong in history, as you can see about 10 or 12.

Historically, the second quarter is still positive, right? On average we run 27%, so pretty normal, actually, with a wide range, however. And the month of April tends to run about 1%. So it doesn't mean that we've stolen everything for the rest of the year, at least with regards to April, although it does look like we have at the moment, and the second quarter. But if you look at the final nine months of the years where this has happened, and there's one unique incident, it was 1987, which, really, was there was a crash in the October of '87. Those of you in my category of birth dates probably remember that well.

But the average return for the remaining nine months of the year if it means anything, but it's interesting, is 6.5%, which I would argue is normal even after a pretty big spike up. Why did the market spike up? Let's jump to the next one please. The market really spiked up because early November, the equity market and bond market both spiked up as you recall, the world and the US in particular began thinking that inflation was behind us, and that stocks ran up very hard and heavy, I will call it hot and heavy, with upwardly biased momentum. And it resulted in a very good fourth quarter last year, a very good first quarter last year. And then the inflation numbers more recently.

Stephen:

... last year, a very good first quarter last year, and then the inflation numbers more recently began to change and look a bit softer again, meaning inflation is accelerating a bit again at the moment. The last reported CPI was actually 0.4%. I believe the T-12 was three and a half or 3.8 range, but if you look at the most recent quarter and multiplied it by four as opposed to looking at the last 12 months, we're running closer to the mid-fours again, so that's not near really where the Fed needs to be, which is their stated goal is two. Whether they stick to that stated goal or not, we'll see. We really think that's a number that we've experienced since the global financial crisis, but prior to the global financial crisis, our numbers were more between two and two and a half to 3% even, so call it two and a half.

So the Fed may soften on their goal, but clearly their goal is not in the four range, so thus, rates have backed back up. Last I looked today, the 10 year was at 4.6, 4.7 range, so it was 4.2 just four weeks ago. Can we jump ahead, please? I'll jump ahead on this one too in the interest of time, and this one too.

This diagram is talking about the Fed's expectations and the market's expectations. Obviously, they're changing so dynamically during the months of April that last I looked, the markets are now expecting a one to one and a half rate drops in the current year. That's down from six about three months ago. So the Fed has very much tempered their expectations, as has the market, on what it is expecting, what both are expecting in terms of actual rate cuts occurring, because the inflation is paused, it's drop if you will.

We could jump ahead again please. Okay, let's look at the funds. Shall I pause? I am being an auctioneer here at the moment. Everyone catch their breath? Okay, time off.

Catherine:

No key questions, so move on. That's fine.

Stephen:

The salary and union plans that we spent a lot of time talking about today, this is MARCh 31st. There were 74,227,000 combined. They're invested per the pie chart and the chart at the right. Almost 60% in equity, 59.50. Three quarters of that equity domestic. I'm in the box in the upper right quarter. International, we really haven't changed there strategically. A bit more of a value tilt than the market though, and you can see that in the bottom of that box, to reduce some volatility. The Russell 3000 today is almost 38% in growth stocks, heavily concentrated in just a few names in order to avoid that volatility and risk, which avoids some upside when they're hot but it also avoids some downside in months like this.

We have tilted more balance between value and growth. As you can see, we're almost equally balanced where the market, through growth of itself over years, has become a little bit warped, if you will, with a very heavy weighting to growth and a very light weighting to value, so we're trying to anticipate and reduce volatility with the more equal exposures there at the moment, and that remains as it's been for some time now. We're trying not to chase those hottest names and be more steady here.

Jumping to the next slide, please? Pretty much on target, we are a little overweighted in equities versus the benchmark at the moment, about 3%, 2.83. A little underweighted, that's domestic equities. A little underweighted internationally. Absolutely a little overweighted in bonds because we're not really carrying a cash position right now. We are light in real estate, although we are in it, and we are absolutely very light in alternatives and we are zero in global bonds. So the domestic bond exposure comes heavily from not being in global bonds and not wanting to invest just in cash at the moment.

You'll see the same story true on the VEBA. The VEBA has a little bit more restriction on what we are allowed to invest in, although slight. It does not have the alternative pieces in it, which we're barely using anyway, but it's 60% and the statistics on the right are about the same. We are also balancing the exposures between growth and value differently than the broad market is doing at the moment.

The overweights and underweights are similar, the main underweight being nothing in global bonds, the main overweight being domestic equities against international and bonds itself versus cash and international bonds. How has it done recently? How have they done? It's been a very strong start to the year. I'm sure we could jump ahead, please.

A very strong start to the year. The three plans are listed in the upper left and across the page. The three trusts at Matrix that correspond to those three plans are listed in the next three lines, a total of six lines. There was 82,147,295 combined at the beginning of the year. You had net contributions of 107,000. That's contributions net of withdrawals during the year. Transfers equal zero, that's money moving between Matrix or Morgan Stanley. The top three accounts are domiciled at Morgan Stanley. The bottom three accounts where all benefit payments are made from, all contributions go into, et cetera, are at Matrix, the trustee. Thus, your net invested is 82,000,255. You can see your ending value jumped quite a bit for a ninety-day period, 86,000,131, so not quite 4 million but a gain of 3,875,000 in the first quarter, which is over and above what we just saw in the Angel reports. I believe those end at 1231. Angel will correct me if I'm wrong. 4.81% net, 4.9% gross above both midpoint benchmarks and very clearly above the extra rate of return at the moment. That was a strong market.

We go a little deeper on the next slide. Fiscal year, so this is June one till MARCh 31. Here, I won't read you all the numbers. The math works the same, but basically, from this time period, your net invested is the 75,836,000. Same ending value because it's the same end date, so for the fiscal year thus far into the fiscal year, you're up 10,292,000 or 13.75% net and 14.09% gross. The actual rate of return broken down for these months would be 5.63, so you're vastly surpassing that at the moment, and between the two sets of benchmarks where market cap weighted outperformed a little bit, but very strong numbers. If we jump ahead again, we go to the last 12 months.

Numbers are similar in the last 12 months, right? The dollar gain is 9,870,00. The net return is 13.09. The gross return is 13 and a half. The assumed rate of return for the actuaries is 6.75, so you've got not quite double that, and the benchmarks are very broad here. You had a bifurcated market. In the midpoint of the higher one is 15.53 and the midpoint of the average stock is 11.37, so nicely between those. If we keep jumping out - if I'm going too fast, stop me - three years, we've still got some rougher numbers versus the required rate of return on the three-year basis because we've still got 2022 in there.

If you recall, '22, the bond market was down double digits and the stock market was down 18%, a very difficult year. Here, you're talking a gain of 8,790,000 over three years, 3.7% net, 4.07 gross, not meeting the required rate of return over a three-year period. However, vastly beating very much all the market benchmarks for that timeframe. And here's where we saw some benefit come in, albeit still not meeting the required rate of return, but some benefit coming in versus the market to quite a decent degree because there's some downside controls in the portfolio.

You go out to five years, it begins to improve. Your five-year number, this is all through MARCh 31st. The funds earned, 23,390,000 over the last five years, getting close to the actual required rate of return, 6.55% net, 6.93 gross. Not quite making the 6.75 required at the moment but close, and the 6.93 benchmark is close to the higher of the two market benchmarks.

And we keep going. We get to eight years, so this is a full eight year. The first time we had this I believe was the last time we met, and we're going to go one after this too, but let's pause on this for a minute. I think this gives us a very good perspective of a long timeframe. Eight years ago, the funds combined had... And this will make you feel... I know that people feel frustrated not getting to a hundred percent funded at the moment, I think, or at least I sensed a little bit of that, but understanding the pushes and pulls of the world for contributions versus markets. But we look at eight years and eight years ago, just for perspective of progress, there was $43 million in the funds eight years ago. There's net deposits from the organization of 7,725,000, so that's net of any benefits paid. You as an organization have contributed to the 7,725,000. Those added together equal 50,891,00. Same ending value. You now have 86,131,000 and a market dollar gain of 35,240,000.

So I look at the hard numbers, 43 million has become 86 million, and all the benefits have been paid over those eight years. The funded status is better than it was back then. The net return on an annualized basis is 7.01%. The growth is 7.41. Your actuary rate of return assumption is 6.75, and earlier on, it was seven. So regardless, for that eight year period, you have nicely matched and/or beaten, out earned the actuary required rate of return for the whole period. And this is where long time frames begin to matter, right? If you had 10 years, 12 years, 15 years, we've talked about this, short numbers move around very easily. Look at what '22 did to the three and five year numbers. They had a lot less impact on the eight-year number. Not saying none, but if you had a 20-year number, a single year has a lot less impact on that as well. So we're getting there with these long-term numbers at this point and you're meeting your goals.

We then have one last slide and I'll leave with that. When you add eight years and one quarter, which we now have, the 41,761,000 was what it was worth back in December of '15. Deposits the entity has put in net of any withdrawals over that timeframe are 8,543,000. Thus, your net capital, if you will, is 50,305,000. Same ending value, the 86 million, so the dollar gain over eight years and one quarter is 35,835,000, 6.96% net net, 7.36 gross. Benchmarks nicely and it does out earn the actuary required rate of return. The goal is to meet or exceed that rate, so there you are on a long-term basis. Again, we're in and out of there depending on markets obviously and that's always going to be the case, but the longer time you're invested, the longer time you maintain the track record, the longer time you stick to the strategy, the less volatile these long-term numbers become.

And I think, if I sound preachy, I apologize that I sound a little bit, but I'm focused on the long-term here because look what... We've been through COD, we've been through '22, we've been through some high inflation. We've been through some boom times too. We've been through narrow markets, we've been through broad markets, and over time, the numbers are working towards the goal because the goal is not random, right? The goal is based on market expectations, current rates of interest, and really the asset allocation, as I'll remind you as I always do, where is it derived from? It's not derived out of thin air. It's derived because you have pension obligations to make next week, next month, next year, some short ones over the next three years, the next five years, intermediate over the next seven and 10, and long-term obligations beyond 10 years. And the portfolio allocation is derived annually, we re-look at that.

What are the obligations that need to be made over three years? Five years? We look every year, all the way out actually, so there's nothing random about the allocation, I guess is my point. And there can be some randomness about the returns around markets, but in the long run, that randomness tends to negate itself because markets become rational over long times, not short periods of time. So I sound preachy again. Sorry. I have a little more, but I think that can... What's on the next slide, please? Appendix. Good. Let's not take that out. It's going to be painful. We're good.

Any questions, comments, concerns? Again, I apologize for going fast, but I know that you usually do finish up in about an hour or so. We're about an hour and a half in.

Catherine:

I appreciate your speed. Suzanne, you had a question?

Stephen:

We can't hear clearly on this end, or at all actually.

Suzanne:

Yes, I guess it's the last slide.

Stephen:

Can we go back a slide?

Suzanne:

2015 to 2024, so eight years and a quarter. So we have the 41,761, we have 854 and 3362. Are all our contributions... My understanding was all our contributions, like the ones we just passed, show up in this net deposits and withdrawals.

Stephen:

Correct. Yes, they would, but net being the key word, right? We could provide that data but you make gross contributions and then Matrix makes pension payroll, so it's eight and a half million net of any payments made to beneficiaries.

Suzanne:

Right. One of the things I thought that Linda explained to us, Rochelle, was that the investment performance did not include the additional contribution.

Stephen:

It does not.

Suzanne:

Okay, so help me understand that, when you talk about net investments and you look at all the numbers across, how that is so.

Stephen:

Yes, the percentage returns, 6.96, those are industry-standard, time-weighted, calculated daily returns over that timeframe. They have nothing to do with the deposits or withdrawals. I'm just giving you the math on the dollars there. The percentage-

Suzanne:

Right, but the deposits are contributing to the performance, not as deposits but the return that you're getting on the deposits. Correct?

Stephen:

They're contributing to the 50 million. The earnings on them are contributing to the 35 million, but the eight and a half million is not.

Suzanne:

Right.

Stephen:

We don't count deposits as earnings.

Suzanne:

Correct, but you count the earnings [inaudible 01:30:01] deposits as earnings.

Catherine:

Can I say it a different way? So the deposits are invested, and the investment earnings-

Suzanne:

On those deposits?

Catherine:

On all of the assets including show up under your net gain clause. Is that correct?

Stephen:

That's correct. And the thing you remember is the eight a a half million wasn't there in the beginning, the middle. Only on this date. The number is moving such that maybe a million was added eight years ago. Maybe there were years perhaps where the withdrawals were greater than the contributions. I'd have to go back and look at all that. But in essence, yes, on a net basis, in addition to the 41 million that was there eight years and a quarter ago, there's eight half million dollars more that's been added by the entity, but in a very uneven manner. So you didn't have the 50 million the whole time, if I'm making sense.

Suzanne:

Yes. And what you're also saying is that it's the earnings on the 50 million that you're using in the calculation, or on the 86 million that you're using in the calculation for the net performance.

Stephen:

No, the 86 million includes the earnings that have been made. The 86 million includes the 35.8 million. So it's the earnings on the 41 million plus the earnings on the portion of the 8 million that we had at any given moment in time. That equals the 35.8 million, which equals the 7% basically.

Suzanne:

Okay.

Stephen:

So they're all completely industry standard calculations here. The industry uses time-weighted returns, especially for long time periods. There's another calculation called dollar-weighted returns. If you had substantial withdrawals or deposits in any one period versus the size of the principle, it can be worth looking at dollar-weighted returns. But you do not have that. You have, I wouldn't want to call it steady, but relatively speaking, a steady stream of deposits over time.

Suzanne:

So the deposits impact [inaudible 01:32:16] funding status, not the investment performance, right?

Catherine:

No, both.

Stephen:

Yes, I agree.

Catherine:

The deposits are invested, so it's the investment performance that is ultimately... Well, the deposits add to the Ability to invest the assets.

Suzanne:

Just let me say it differently. The deposits don't add to the rate of return that the assets are getting, but it adds to the market value growth.

Stephen:

Yes, the deposits don't add directly, is what I would say, to the rate of return, but indirectly, they do because we have that eight and a half million to invest for some period of the eight and a quarter years. So to the degree we have an extra million dollars almost the whole time, they do not add directly to the rate of return, but the ability of them to earn and be invested adds to the rate of return.

Suzanne:

The what?

Stephen:

The fact we have the deposits and as we receive them, we invest them, assuming we don't need to pay them right back out, we invest them. Once they're invested, they're adding to both the dollars and the rate of return, right? But the rate of return actually is sequenced into time as opposed to dollars, so Yes, it doesn't really change the 6.96. It does change the 35,825,00 to the degree those eight and a half million earned money.

Suzanne:

Thank you.

Catherine:

Are there any other questions on the investment performance?

Stephen:

Was that clear as mud? Sorry.

Catherine:

Very helpful. Thank you very much.

Stephen:

All right, thank you so much. Very much appreciate all of you and the opportunity to continue working with your committee, and always let us know if you need anything at all, questions, comments, concerns.

Catherine:

Thank you. We appreciate that very much.

Stephen:

Thank you.

Catherine:

Moving to our final item, item six, which is the work plan.

David:

Are we letting all these guys go?

Catherine:

They can, unless they're [inaudible 01:34:32] listen to this. All right. If you want to stay, that's fine. If not, we don't need to take your time. We're going to just go over our work plan for fiscal 2025.

Stephen:

Much appreciated. Thank you.

Catherine:

Great, thank you very much.

Catherine:

Thank you. All right. So Rochelle, do you want me to do this or do you want to do it?

David:

I'm fine with it, so hopefully we've all looked at it.

Catherine:

They build on it. It is what is.

Rochelle:

It basically follows the prior year.

Mario:

Right? Yes, makes sense.

Rochelle:

I think the only thing on that would be for the next meeting would be probably a discussion about [inaudible 01:35:27].

Catherine:

[inaudible 01:35:27] request for information, and that would be the next meeting.

David:

Okay. July.

Catherine:

In the interest of time, any questions, any comments?

David:

Motion to adjourn?

Catherine:

Yes, please.

Kevin:

Second.

Catherine:

All in favor, signify by saying aye.

Committee members:

Aye.

[PENSION & BENEFIT COMMITTEE MEETING ADJOURNS AT 2:04 P.M.]