SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

PENSION & BENEFIT COMMITTEE

APRIL 24, 2025

MEETING TRANSCRIPTION

[PENSION & BENEFIT COMMITTEE MEETING BEGINS AT 12:31 P.M.]

Catherine:

The first item on the agenda is approval of the minutes of the January 23rd, 2025 meeting.

Mario:

I'll make a motion to approve.

David:

Second.

Catherine:

It's been seconded. Is there any discussion? Changes? All in favor signify by saying "aye."

Committee Members:

Aye.

Catherine:

It's unanimous. We'll move on. The next item on the agenda is the review of, should we do actuarial reports first?

Sunny:

Yes.

Catherine:

All right. Review the actuarial reports. Just talk about this one.

Rochelle:

Which one do you want to start with? Jeff, what summary do you want to start with? Do you want to start with a salary?

Jeff L:

Could we start with the union plan summary?

Yes. Thank you very much. Hi, I'm Jeff Liter. I'm with Angel Pension Group. I'll be walking you through the summaries today. Just as an initial note, these summaries are in the same format that they have been in prior meetings. We're showing you in two columns, comparison results from the prior evaluation in 2004, as well as the recent evaluation for the current year, January 2025. Please stop me if there are any questions, although I will warn you, I'm having trouble hearing some of the conversation in the conference room. The microphone is not coming through, so maybe raise your hand if you need me to stop.

First of all, this plan was closed to new entrants in 2010. Existing participants are continuing to accrue benefits, but there are no new participants joining the plan, so you'll expect to see the head count in the plan dropping year over year. We see the active participant count decrease from 60 last year to 55, and we have a slightly smaller retiree population. We've lost two participants there. Those active participants who have left, employment have joined the ranks of the either terminated vested group or the retiree group. So they're moving through the plan, but the overall drop in participants is due to participants passing away.

The average age in the group is slightly going up again because it's a closed group. The average active participant age is just over 60 now, and as you see, the service for this group is quite long. The average service for the active group is over 32 years. Okay, let's move on down to the asset values. Assets did well in this plan last year. We increased the market value of assets from $26.8 million to $29.0 million. That was about a 10% return on investments. For funding purposes, we use a smooth value of assets where we smooth out investment gains and losses. This year that figure was actually close to the market value. In prior years, we've seen the actuarial value be slightly ahead of the market value.

Also summarizing here, the plan year contributions in the prior year, just over $1,500,000 was contributed to the union plan. Benefit payments coming out of the plan to retirees were just under $1.9 million and administrative expenses were $125,000. Now let's move on down to the funded status of the plan. These funded statuses are based on the benefits that have been earned to date in the plan for active participants. We're using a 6.75% discount rate on determining plan liabilities, and as you can see, the plan is better funded than it was last year. On a market value basis, the plan is 93% funded. Last year it was just under 86%, so we've seen an improvement there, primarily driven by the gains on the investment returns.

Let's move on to the second page. And here we're showing the calculation of the recommended contribution to the plan. Recommended cash contribution. Last year, that figure was $747,000. This year, that figure has decreased to $581,000. Now that's based on what we call the normal cost. That's a calculation of the amount of benefits that are being earned by active participants. It also takes into consideration using the particular funding method that we have, any unfunded liability where liabilities might have been greater than the assets.

So including interest for the year, the final recommended contribution is just under $600,000. We also calculate for you a level funding. How much would it require? How much funding would be required to fully fund the plan by May 31 of 2025? This is a funding target that was established some years ago, and initially it was a seven-year outlook on the funding. We've now come to the end of that seven-year period, so we're only looking at a few months out from the valuation date in determining this amount to fully fund the plan. And as you can see, it's come down since the prior year. Again, because of the good asset performance, it's just over $3 million presently.

And please be aware that that $3 million would fund the plan based on benefits earned to date. It would not fund the plan for benefits expected to be earned by those active participants in future years. And finally, at the bottom here, we summarize the actuarial assumptions and there have been no changes in the actuarial assumptions year over year. We're using a 6.75% interest rate and the mortality tables are the most recent that are available for public sector plans. Are there any questions about this plan?

Catherine:

No. Go on.

Jeff L:

Okay. Well let's move on to the salary plan. Thank you, we can make that a little bit bigger. Yeah, there you go.

Like the union plan, this plan is also closed to new entrants. It was closed in 2011, so again, we should see the plan population not growing. So we see a small reduction in the active population from 67 to 64. And again, these people have moved from the active status into one of the other statuses. You can see their retired population grew from 177 last year to 187. So some of those participants who were active are now retired, and some of the participants who were vested terminated have commenced their payments. So the retiree population has grown. The active group has an average age of 57.6, again similar to last year, and the past service in this plan is a little bit less than it is in the union plan, just under 27 years of past service.

Let's scroll on down to the asset values. Similar to the union plan, there was a good return on assets. This year we had a 9.9% return, so market value of assets has increased from $45.3 million to $49.1 million. Again, our smooth value of assets this year is very close to the market value of assets. Prior year cash contributions to this plan were just $3 million benefit payments to retirees were about $3.6, $3.7 million, and administrative expenses were about $225,000. Scrolling down to the funded status, we also see an improvement in the plan's funded status year over year. We were at 84% last year, and with the positive asset performance we're now at 89.25% Using that market value of assets. And again, no changes in the actuarial assumptions here year over year, so these numbers can be compared directly.

Now let's move on to the second page. Here we calculate the actuarially determined recommended contribution and again, we see a slight decrease year over year. We were at over $1,600,000 last year for recommended contribution. This year we're at $1,569,000. We add interest to that for the final recommended contribution of $1,621,000. As before with the union plan, we also calculate the amount that would be required to fund, to fully fund the accrued liability by May 31, 2025. That amount is $7.5 million. Again, an improvement over last year's figure of almost $9.5 million.

And finally, the actuarial assumptions, again, no changes year over year. This plan benefits are based on compensation, so we have a salary scale assumption. Again, that's not changed from year over year. We're assuming a 4% future increase in compensation for active participants. Any questions about this plan?

Catherine:

Any questions? I just want to clarify one thing, and this is also true with the union fund, that the amount that is outgoing in benefit payments, administrative expenses still exceed the amount that we are contributing, which includes the amount that we're contributing above the actual recommended amount.

Rochelle:

This is like in the example in the salary plan where the employer contribution was three [inaudible 00:14:44].

Catherine:

Right. So the benefits were exceeded the amount of the contribution? Yeah.

Rochelle:

Yeah. I thought you said it the other way around.

Catherine:

No, did I say the other way around?

Committee members:

No.

Catherine:

Okay. Didn't intend to. Okay. Only to clarify that, even though we're adding more, adding above the actually recommended contribution, we're still earning more than we're putting in.

Jeff L:

But yeah, imagine a situation, if the plan were fully funded, then your recommended contribution would be zero. So you'd be putting nothing in the plan and you would see that same amount coming out in benefit payments. That means that those benefit payments are being paid for by investment earnings. So that's where we are right now is our investments earnings are high enough that they're covering a fair amount of the cost to operate the plan.

Catherine:

Yes.

Speaker 2:

Go ahead.

Catherine:

No, the $3 million did not include the earnings from the [inaudible 00:15:55].

Jeff L:

That's correct. The $3 million, that's employer cash contributions on top of any investment earnings from the trust.

Mario:

That's what I was going to say.

Catherine:

Yes? We have one more question. Go ahead.

Jeff B:

Yeah, that was me I think.

Catherine:

Was that an echo?

Suzanne:

The 7.5 change the fiscal year contribution to fully fund by May 31st, 2025. If that was to be made, that's only covering who's vested in the plan or is that covering the entire, whoever might, whoever the current active participants are for their future benefits?

Rochelle:

That's a good question. It doesn't include, and Angel can correct me if I'm wrong, but it doesn't include the annual service cost of active employees that are still getting accruing benefits.

Suzanne:

Okay. So what would that mean when we say act of service cost, what does that exactly?

Rochelle:

It's usually we get the update at each fiscal year-end. So I think this is from memory, it's probably $1 million-ish between the two plans, probably even a little bit lower. So it's not significant, but it is an annual additional cost.

Suzanne:

But would there be any other additional requirement for funding other than that? If we had the money to put the $7.5 in the plan for a future, for a current act of participant when they start retiring, or we anticipate that the earnings from the investments would cover whatever their costs are?

Jeff L:

To be clear on that, that the $7.5 million contribution would close the gap on benefits that have already been earned, but it would not cover benefits that will be earned in the future. So your active plan participants are still earning benefits. Those benefits would have to be paid for in future periods.

Catherine:

Right, because you don't know what they are, they haven't earned-

Suzanne:

But it's the anticipation that would be paid for by the earnings of the investments, or would we need to continue to contribute?

Rochelle:

I know from the... go ahead.

Jeff L:

You would need to contribute.

Jeff B:

Yeah, you would. In our tenure model, you might remember, we do put in, reach fully funded that there's still an annual service cost.

Suzanne:

But that service cost covers those additional benefits to be earned or that service cost covers the cost of service renewal?

Jeff B:

The additional accrued benefits that are happening for the active employees.

Suzanne:

Oh okay. That's about $1 million. Got it. Thank you. That's good to see. Thank you.

Jeff L:

So we're going to determine if the $7 million puts us into bed.

Suzanne:

Well, when we were going over the union plan, something caught my ear that would be covering what's been actually earned, not what's still being earned. And so I know that it'll never be, even if we 100% fund, we're always going to be contributing something for the life of the plan, but I just wasn't sure if what the additional cost still gaining benefits now. Yeah. So if we would, I mean at some point in time, would we be back at 88% for example, or 90%, or you've fully funded it?

Jeff L:

That would only happen if there was a major significant change in the market. But otherwise, I mean, it's possible it could go the other way if there's a real, yeah, you might not have to actually put money in for the [inaudible 00:20:04].

Suzanne:

Right. Thank you.

Rochelle:

It could be a lower level fluctuation.

Catherine:

Are there any other questions?

Mario:

I guess the only sort of elephant in the room is no, we're not making seven-

Suzanne:

Well we're not making that goal of 2025, which was my next question.

Jeff B:

Correct.

Suzanne:

So is that a problem, Rochelle?

Rochelle:

No, I think what's important is that we're continuing to fund the bookmark.

Suzanne:

Okay. Thank you.

Jeff B:

So I guess for me, the big question is, this is obviously year to year and you have to put a stake in the ground, right? But this is obviously very different now, correct? In terms of where we stand, market value and everything else.

Suzanne:

As of today.

Jeff B:

Yeah. Does that change anything or does it matter? The clock starts ticking on January 1 and we'll wait until next year.

Rochelle:

I thought in a prior meeting we talked about that it was imprudent to make such a large contribution and that it would be more important to put more in than the arc.

Suzanne:

Is it because the market is sagging so much?

Rochelle:

Because that's like the credit rating agencies are looking at us to continue to make improvement. And so even though we're not making, let's say, a prior goal to get to a fully funded, that we're still doing more than are.

Suzanne:

Right, and that's Kevin's question. My question is, since the market has changed so much since January 1, do we even care about that? Of course we care about that, but does that affect at all our calculation of what we want to contribute or we just wait till next year, figure out what it is, see if the market evens itself out, and then we make the contribution?

Rochelle:

I think it changes what we're proposing today, and we still, just like we do every year, it doesn't mean that even if we approve something day, it doesn't mean that later in the fiscal year like we've done previously in the last month of the fiscal year, we can change our calculation.

Suzanne:

Okay, so it doesn't affect it.

Stephen:

Right. Could I add something there? We do have plans that when the markets are rough, if they're thinking of funding more, that they do it when it's rough. And I'll give you context, although the equity market that we all watch is down 8.25% through last night, year to date, your assets are down 1.47% through last night. So it's not as dramatic as you otherwise might think.

Jeff L:

Correct. Yes. This is the benefit of being overly invested and fixed [inaudible 00:22:44].

Stephen:

Right.

Suzanne:

That's the downside.

Stephen:

This is it.

Suzanne:

The upside.

Catherine:

All right. Can we move on to the VEBA? I'm sorry, the [inaudible 00:22:59]?

Jeff L:

Yes. Okay. We have here a summary of that participant count. As you can see, it's increased overall year over year, 549 participants last year, 576 this year. Most of those new participants are in the group of active participants with only life insurance benefits. You see they increased from 172 to 208. Those with medical, eligible for medical coverage is actually decreased a bit year over year. And the retiree count, those who are actually currently receiving benefits has come down by a few. The active participant age in this group is a steady year over year at around 48. And the past service for these participants is only 13.7 years. So this plan is picking up a lot more younger active participants than the other pension plans because those plans have been closed for some number of years. The retiree population average age is about 72, and we also show you the life expectancy, future life expectancy for that retiree group at about 15.6 years. Assets for this plan are greater than they were last year. We've increased from $9.9 million to $10.9 million. That represents about a 6.9% return on investments.

Employer contributions to the trust last year were just over $2 million and benefit payments from the plan were again, just over $2 million. On a year-over-year basis on the funded status, we see that the funded status has improved. Last year it was 37.7%. This year we're at 42.45%. Again, no changes, no significant changes in the actuarial assumption, so those numbers can be compared directly.

The actuarially determined contribution has risen slightly year-over-year. Well, the normal cost for active participants has actually gone down a bit. It was 191 last year, sorry, it's gone up 191 to 211. The actuarially determined contribution has gone down a little bit from $2.1 million to just over $2 million. And the cash contribution to the trust has also gone down slightly. Again, these are due to a good asset balance and the improvement in the funded status.

Stephen:

Jeff, could I ask a question? Is the date of the funded status. Jeff, could I ask a question? Are the ending dates on all three of these plans the same in your reports?

Jeff L:

Yes, they are.

Stephen:

So I'm questioning, and I just checked the numbers, and they're through December on these reports?

Jeff L:

That's correct.

Stephen:

I think there may be discrepancy in the return on the VEBA. I'm showing a higher number for the investment return on the VBA in percentages, at least, on our end. Something we could take offline, I think, but I just want to throw that out there, because you had six point some odd percent?

Jeff L:

Yeah, we were showing 6.9. If you're seeing something different, then I think we should look into that offline.

Stephen:

We are seeing something different. We're seeing it closer to the other two plans.

Jeff L:

Okay. And I questioned this when I saw it, as well, because I assumed that the investment was similar, the portfolios were similar. This would suggest a much more conservative investment for this plan.

Stephen:

They're similar.

Jeff L:

Okay.

Stephen:

Nick, correct me if I'm saying anything wrong, but that's exactly what I'm seeing. I'm checking numbers through December as you were talking, so I think it will only make it better, I assume, but that is what I'm seeing.

Jeff L:

Okay. Thank you for that. And like the other plans, we're not showing any significant changes in the actuarial assumptions. We're still using 6.75% and the most up-to-date mortality tables prescribed by the Society of Actuaries. Any other questions about this plan?

Suzanne:

No, but if you can calculate the market value of the assets, the 9.9 and the 10.8, it's actually a 9% percent increase.

Stephen:

Right, so it might not change anything. You might have the dollars the same as us, but the percentage is different. It's possible. I couldn't do it fast enough as you were moving through there. But between Jeff and us, we'll double check that. So it's possibly just the six nines in miscalculation, not the dollars.

Catherine:

We can get a supplemental document. Thank you. Is there anything else? No questions on this end.

Stephen:

We need to make a new recommendation as a committee to the [inaudible 00:28:37].

Kevin:

Yes, [inaudible 00:28:40]. I'd rather you make [inaudible 00:28:42] item on the agenda from there.

Stephen:

Yes, already know.

Kevin:

I see them, yeah. And there's three different ones, two on one page. Well, there's two on one page: your salary union and then another item is...

Stephen:

Oh, I see it, right. [inaudible 00:29:35].

Catherine:

[inaudible 00:29:35].

Before we have any discussion, is there a motion with respect to the proposed resolution for salary? We can do them one at a time or we can do them both together, the salary in the union.

Kevin:

I can make a motion based on the salary and the union presented in our package, that we recommend either approval or recommend approval to the full board.

Catherine:

Is there a second?

David:

Second.

Catherine:

Okay. Discussion?

Suzanne:

No, I think these are prudent contributions based on the information that we [inaudible 00:30:13] from our actuary and prepared to making financially, yes.

Stephen:

Yes. Yeah, I agree.

Catherine:

Any other discussion? We'll move to the vote. All in favor?

Committee members:

Aye.

Catherine:

It's unanimous. Next item is the proposed resolution for FY 2026 VEBA Plan Contribution. Is there a motion?

Suzanne:

I'll make that motion as presented in our board pack $1,570,423.

Catherine:

Second?

Mario:

Second.

Catherine:

Okay. Discussion?

Suzanne:

I'd say basis. Seems pretty contribution based on the actuary's explanation for VEBA, and we have the financial resources to do so.

Stephen:

I'm just curious the extent that funded VEBA is [inaudible 00:31:14].

Suzanne:

It's about that 43%,

Stephen:

Right. That's reasonable with other organizations our size and type.

Suzanne:

Yeah, I mean, we know that it's under where it wants to be, but we talked about we want to focus more on the [inaudible 00:31:32] right now.

Stephen:

And then we contribute towards VEBA, because [inaudible 00:31:37] continues to be the point. Okay. Thank you.

Suzanne:

And when you're asking if it's reasonable, are you trying to be competitively reasonable?

Stephen:

So with pension, we always look at 80%, 70%. How does that compare to other organizations our size, communities? Curious on the VEBA end, to get a sense.

Suzanne:

Okay, thank you.

Kevin:

I think there's more variability to what other municipalities have. Some are much lower, some a lot higher. The pensions tend to be more consistent.

Stephen:

And are more focused.

Kevin:

Right.

Jeff B:

Right. This is Jeff Bauer. That's accurate, as well. Also, many organizations started welfare trusts to fund the VEBA at different times, so you will see greater disparity in the funded percentages when the welfare trusts were actually established.

Kevin:

We're fortunate we inherited this from our acquisition of Birmingham, and it was one of the better assets that we received.

Catherine:

[inaudible 00:32:55] discussion? You ready to vote? All in favor of the resolution say aye.

Committee members:

Aye.

Catherine:

Then it's unanimous. Nice. You got something, Mario? I’ll turn it over to Stephen.

Stephen:

Okay. I'm having a little trouble hearing the room, but I think you're turning it over to us?

Catherine:

Sorry, I'll speak louder.

Stephen:

And can you hear me okay?

Catherine:

Yeah.

Stephen:

Okay. Good afternoon, everyone. We'll try to go relatively quickly. I think we're somewhat concise today unless there are questions, which we always welcome, obviously. So we'll start with the market commentary. There is a little talk about there, to say the least. And then we'll look at the asset allocation of each of the three pools of money versus their targets, and we'll look at the investment results.

Why don't we jump ahead? And we know that there's a lot going on in the equity market in particular right now, but there's also a lot going on in the non-US market, the bond market underneath the surface between growth stocks and dividend yielding stocks, et cetera.

So we always start with the Standard and Poor's 500 chart from our friends at JP Morgan. And here's the thing: you see that all the variations obviously back to 1996, but in the upper right, you see that looks like a very straight steep downward spiral that the equity market's been in. It has been all of those. It's been quick, it's been relatively steep, reaching as much as just touching 20% at one point on the S&P. And what it's done is for the last year plus, you've heard us talk about how the market's 22 times earnings, and that's likely to be a high number at the end of the day. So the one benefit, I'll call it, of a down market is that it adjusts the valuations. It's painful to go through, but we're now 19 times a reduced forecasted forward earnings.

Now, the caveat in this is it's extraordinarily difficult to forecast earnings at the moment, as one can imagine, not knowing what this tariff situation will evolve to, but for better or worse, the current forecast has fallen from 22 to 19 as the market has fallen. One would argue the market's still not cheap, but it's certainly a lot more attractive at 19 times forward earnings than it was at 22, albeit the numbers a little less sure.

We would argue that this market was, we'll call it in perfect hindsight, priced for some perfection, and clearly, perfection is not occurring at the moment in the economy and in the markets, and thus, it was ready. We never know what the trigger will be that causes a bull market to end, but this has actually been a dual trigger. We currently all, I think, think that it's the tariffs, but in reality, prior to the tariffs, the DeepSeek AI news out of China really put a dent in the techs part of the market, and there were a lot of cracks under the surface in the US equity market and the global equity markets, heavily the US, though, before the tariff discussion even began because of DeepSeek and potential reduced spending in data centers, potential reduced spending on chips, et cetera, computer chips.

So it really started with DeepSeek and Nvidia in particular, and it has only gotten more exasperated with the day-to-day gyrations on the tariffs, so it's a dual-edged thing, but ultimately, we were priced for perfection when it all began. So that's the trigger. We now know the triggers. We don't know where this down market stops, but we'll look at a few facts, I guess.

Let's jump ahead, please. During this little crisis, which, so far, I considered a relatively modest crisis for the broad market, at least, it's big, but not on a epic scale at this point in time, so you had interest rates jump. Just a few months ago, you look at the current curve there, if you slide right along the bottom of the 10-year, go up, you'll find 4.4, which is current. Just a few months ago, that rate was in the high threes, 3.83, 3.85%.

So there's been, what I would call in bond terms, that's a relatively enormous jump in interest rates in a very short time. A lot of that is attributed to the fact that the tariffs are creating some chaos in the markets and they look like it's causing some investors to flee from US bond markets into other bond markets around the world.

You can see it on the short end, the market is still anticipating this moment in time two additional Fed rate cuts between now and year-end. So 2.25 basis point rate cuts, which would bring the Fed funds target, bring that 4.3% down closer to 3.8, in which case, you would have a normal upwardly sloping curve. So dynamic, hard to know what's going to happen. It could be none, it could be four, but currently, literally as of yesterday when I looked, two were still priced in. So we're expecting interest rates to fall still. And if that does happen, that should indeed... Or I shouldn't say we are. The market's expecting rates to fall still that should be beneficial to the market value, at least, of the bond side of the portfolio.

If we jump ahead again, please, this gives you a lot of data, but basically it says whether it's the Fed funds rate, the 10-year treasure, the 30-year mortgage, the trend forward-looking what the markets are telling us, this is not us predicting it, that rates will come down from here and you should see mortgage rates in the 5% range. You should see money market rates in the 2-3% range, even. And currently, mortgages are closer to seven and those money market rates are closer to four. So longer term, the market's still [inaudible 00:38:46].

I will add that it's very difficult to predict interest rates long-term, regardless of what the market's telling us. I would trust more the six-month number, likely to have a rate cut or two, and discount what we're seeing longer term, here, especially with so many known unknowns.

Bonds are still up despite the climb in interest rates. Bonds, as of just a few days ago at far right, are still up 1% year to date, so they're still providing some cushion in an equity market that's down 8% or so.

Jump ahead again, please. So here's what's really happened this year, and this is not surprising, but it's interesting at the speed in which it's happening. So if we look at last year, you had an S&P that was up 25%, yet the average stock under the surface was up 13. In isolation, either the 25 is fantastic, that 13 is actually a good year, right? So if you look at what's happening this year, the S&P, and this is as of April 11th, I made these more current. It's about the same number today. It's 8.23 through last night. S&P's down 8.47. The average stock is down 6.94. So the average stock's not quite as bad as the more tech-centric index.

You see it even greater down here. You look at the Magnificent Seven, about mid-page in the blue. Those seven stocks' market cap weight were up 64% last year. They're down 70.5% year to date now, and they're down a lot more than that from their peak. Remember, the market was up early in the year.

Yet you go to the more strict dividend-oriented equities, which were up 14.21 last year according to Morningstar's index, they're actually still marginally up year to date. Our investors who are super dividend-focused and only go dividends and weren't pulled into the growth set of the equation and don't want to be, they're actually up year to date or flat. Growth index is down 12.5%, but the value index, broader based than just dividend yielding, is down 4.33.

So it's almost biblicalized: what I say is, "Last shall first and first shall we last," and it's happening. You look at what's happening outside the US right now, the global markets, equity markets are up, call it 0.8%, the 0.79, and the bond markets are up. So the comment I made earlier while Jeff was speaking: look at, yes, the equity markets down eight and a quarter percent this year, but South Regional Connecticut Water Authority accounts are down about 1.47%. It's because you have some global exposure, you have some dividend orientation, you have less weighting in the Magnificent Seven than the market has and you have some bonds.

And that has come together to really give at the moment, this moment in time at least, it's given some extremely strong durability on the downside. And that's nice, because ultimately, to get long-term returns and to get them in a relatively steady manner, you've got to have a downside protection. Otherwise, you've got to earn that much in the next updraft. So we're super comfortable with what we're seeing in the accounts right now as far as being down 1.5% and an equity market that's down eight plus. So I just want to stress that.

The other reason that's important... We could jump to the next slide. The other is important, and we just saw this while the actuaries were speaking: these plans are becoming mature, the salary and union plan, right? The average age, I want to say it was over 60 and one of the plans, I don't remember the other one, and someone or a few of you asked the question about, "Well, we're taking out more money to pay benefits than we're putting in." That's expected in the plan that's this mature and this well funded.

So it is expected that the asset values are likely peaking, we talked about this a meeting or two ago, and this is why we're now going to get the asset liability numbers by year, the projections from Angel, now that they've done their work. And in the future meeting, in the next meeting or two, we'll come to you and say, "This is what your liability streams look like over the next five years, over the next 10 years, over the future life of the plan."

And if you recall, that's what we use to help craft how much is in stocks and how much is in bonds. And we've seen a shift to where if you're taking out more than you're putting in, which is likely to be a long-term shift, actuary, please stop me if I'm talking out of school at all or you don't agree, you likely will have to at some point shift the assets to more fixed income centric as the population ages and the younger population doesn't come in behind them in these plans, and, at some point, have a lower assumed rate of return because of that. But it's a logical mechanical thing as a plan ages. So I diverted there.

But what are tariffs likely to do? Tariffs are a tax, they're a flat tax, so they're considered regressive tax. That's good, bad or indifferent, depending on how you think, probably politically or otherwise, right? But it's just a fact. What tariffs will do, the estimates of that, they will absolutely hurt GDP in the short run. In the long run, they tend to be a blip in history, meaning they'll hurt it if they run through the system, they'll create some inflation as they run through the system, but it will likely be transient to overuse the Fed's overuse term, right? Because you don't have tariffs that go in 10% now and then an additional 10% next year. It's a one-time thing. It's much like these tax cuts that we got in Trump's first term. If those are renewed, the folks are talking about as being stimulative. Frankly, if they're renewed, it's simply more of the same. If they're not renewed, it will be the opposite of stimulative, right? It will actually cause some friction in the economy. But if they're renewed, it's not a tax cut. It's extending the tax cuts that we've had for a decade.

So it's very interesting set of circumstances going on. One is not stimulative, the other one is definitely hurting the economy. So we think GDP numbers are going to be low and we think that the number of 1.90 right there is likely overstated, that we might get into a very flat GDP. Depends on the... Again, the variability is all on the outcome of these tariff conversations, and probably then the tax bill. Hard to predict right now. But I would predict lower than 1.90 for the current year.

How long do these down markets last? I'm only going to focus on the left side of this slide, but I thought it was important to get our heads around. Look at, we hit 20% Dow. So I'm going to the very bottom left. We just hit it intraday on the S&P. How frequent does it happen? About every five and a half years. We've been through it before together. And what I'm more interested in is how long does this last? How long could we be in pain?

So let's use the Dow 15% more, which would definitively have hit and the down 20% more, which you could argue we didn't hit it on a closing day, but definitely, the growth stocks have hit it. That's closer to a year. And this is from peak to trough. It's not back to prior peak. So as long-term investors, we should think forward and say, "On average, this isn't the mean and the median and the mode, this isn't the shortest and longest, but on average, you're talking a minimum likely of six months to the bottom and a maximum of a year plus." And remember the financial crisis it took us, that was something like 18 months or close to it to get to the bottom.

This is more of a self-created bear market. So in a way, one could argue when you see it day to day. As good news comes out, the market goes up 1000 points; as bad news comes out, it goes down 1000. It smells like, it's not really technical, but it feels like, and we can see it, as good news comes out, it feels like it could recover quite quickly, unless it carries on for a long time. In which case, it could go long. But those are just averages. So I thought they were helpful for our minds to think, "How long could this last?" Any questions, comments?

Suzanne:

Yeah. Can I just ask a question, Steve? You said that you thought the closed plan, as we get closer to the end, should shift to fixed income and expectation on return should be lowered, and I just want to hear more about why you think we should do that.

Stephen:

Well, because think about this: let's say that everybody's already retired. No one's accruing more hours. It's pretty definitive what's going to be paid out at that point if life expectancies come true. And let's say that the last person will likely be paid out in the next 10 years. I'm jumping forward. But at that point, the money doesn't have a long-term time horizon. The entity, the authority could continue to put money in there and keep it in equities if they chose to, but if I've got to pay out money next year, the year after, and I'm paying out my last penny over the next 10 years, and the plan then ceases to exist because all of the retirees have now moved on, meaning they've met their life expectancy, it would be unusual, I would say, and I'm looking for Jeff to comment on that, the Jeffs, but to keep it heavily in equity, because that money's a known known that we're going to pay it out at some point.

Suzanne:

And it's the idea for the plan to be at zero when it's done? And what do you do with excess assets if you have them?

Stephen:

There's a Jeff and Jeff question, right there.

Jeff L:

Yeah. In this type of plan with this type of employer, those excess assets, if there were any, would revert to the authority, but it would be better to have it go to zero. At the same time that your benefits are paid out, your trust is wiped out. That would be the ideal outcome, I would say, because that means you haven't overfunded in the meantime and you've been able to use your funds elsewhere where they could be used better.

I do agree, and Jeff Bauer can step in on this, as well, that once the plan is fully mature, it would make more sense to go to a more fixed income investment approach and to reduce the expected rate of return to match that portfolio. And again, it takes risk off the table and it helps you avoid overfunding as the plan winds down.

Jeff B:

If no one's actively accruing anymore, at that point, you'd be much more of a liability-driven investment for the whole portfolio, where you'd be managing liability and asset duration matching without having to worry about what the cost of the accrual is, because right now, a portion of your assumed rate of return has to cover the cost of the still active accruals.

Suzanne:

So what would be the contributions? Once you put more into fixed income and you lower the rate of return, then you're also lowering the contributions?

Jeff B:

Well, you'd still be measuring your funded status and amortizing that piece of it, but the volatility of one year, adding more to the underfunding, it would be... If it was fully LDI at that point, you'd really just be saying, "Okay, at this juncture, there's no more actives. We're locking it in." And you'd sort of be amortizing the underfunding without expecting more underfunding going on because you'd be matching.

Stephen:

Or, Jeff, can you give an example of if the plan was 100% funded at that point in time, at the beginning of that point in time, and you went to an LDI strategy because there's no more accruals?

Jeff B:

Yeah, that's a good point. I mean, if the last active came and went into retiree status and you weren't 100% funded, if you went to LDI, then you'd just be amortizing the difference. If you were 100% funded and there were no more actives and it was truly matched, then, other than administrative expenses amortized back for contributions, I assume, Jeff, you wouldn't expect really much in the way of having to contribute, right?

Jeff L:

Correct. If the plan is fully funded and the assets and liabilities or duration matched, then you would not expect any additional cash contributions, except, as you said, for administrative expensive, which could be paid outside the plan, at that point.

Stephen:

You'd expect the asset and liabilities to offset each other at that point, Suzanne, so that yeah, it could move around a little bit, but the moves wouldn't be material.

Jeff B:

Yeah, it would just be how close the curve is to the actual liability. Any tracking error would be contributions. But to Steve's point, if you were 100% funded, no more actively accruing, you wouldn't expect to have to put much into the plan.

Stephen:

So you wouldn't be as worried about meeting that rate of return, because you would've defined it by the portfolio?

Jeff B:

Correct.

Suzanne:

Right. And so what you're saying is... I think what you're saying is that your ability to pay all of it becomes quite certain, right?

Jeff B:

Correct.

Suzanne:

The number becomes certain, and when the fixed income is a part of the strategy, it becomes predictable that you can actually pay it, right?

Stephen:

Correct. Correct. And it's...

Jeff B:

Yeah, I was just going to say...

Suzanne:

It's growing.

Jeff B:

Yeah, exactly. The analogy would be a mortgage. Right now, you have a variable mortgage. If you're...

Jeff B:

Would be a mortgage. Right now, you have a variable mortgage. If you're a hundred percent funny, you went to LDI, it would be a... Just think of it as a fixed mortgage,

Suzanne:

Right. There's no benefit to having it continue to grow. It's like we're looking at these as pockets of money that are not interrelated. Correct?

Jeff B:

I mean, again, when the last person is paid out, the excess would go back to the authority. So from that point of view, we wouldn't view it as a great use of your capital to put more money in at a hundred percent funded.

Suzanne:

Well, I'm not talking about putting more money in. I'm talking about having the investment portfolio not be fully fixed income.

Jeff B:

Oh, I see. You mean in terms of a potential gain back again? Yeah, I guess the question would be if you're a hundred percent funded and your duration matching and the curves are spot on, in order to get a potential gain out of it, your asset duration would have to be lower than your liability duration. So you'd still have some volatility there.

Stephen:

And/or, in effect, at that point in time. I'm not saying now you'd almost be taking the equity risk on the... Not that you're not, but you're taking it on the entity's balance sheet in an optional fashion in a way.

Jeff B:

Yes. Right.

Suzanne:

When do we see this happening, timewise?

Stephen:

Can I start with that, Jeff? Because and this is what I've been trying to drive to, Suzanne, I'm happy we're having this conversation because it's slowly happening year to year now, month to month now it's slowly happening as we speak. It's just the funded status is not a hundred percent.

But what the asset liability studies tell us and will continue to tell us over time is if we just looked at the duration of the assets as we move forward each year, our suggestion on fixed income is, I think, in a linear fashion, likely to increase, and the suggestion on the equity side is likely to shrink until it gets to a hundred percent fixed and fully funded because it organically got there as opposed to jumping there overnight one day. I don't know if Jeff and Jeff want to add to that, but that's-

Jeff B:

Yeah, I mean, you still have a fair amount of active participants in their fifties accruing.

Stephen:

Right.

Jeff B:

So I agree with Steve.

Suzanne:

My question is how long do you think we are until we are at a hundred percent, and then from the hundred percent, how long will it take to pay off all the... I know you don't know definitively, but are we talking 10 years, 20 years, 50 years?

Jeff B:

Jeff, you have a comment on that?

Jeff L:

Yeah, it's going to be longer than 10. I'm thinking that the union plan may get to that fully accrued state sooner just because that group is a little bit older.

Suzanne:

Right.

Jeff L:

Average age of the union group is 60. Now, many of them are working well past 65, which is the normal retirement age. But they're also bumping up against the benefit accrual maximums in the plan. The benefit accrual limit in the union plan is 40 years of service. Average for current actives is over 32. So they've only got roughly eight more years of accrual to go.

So once people are getting to that top, they're going to think harder about retiring because they're not going to be getting any more out of this plan. So let's say it was 10 more years of actives accruing benefits and then everybody's in the inactive population, it's still going to take probably 25 years to pay those people out completely. Maybe longer as life expectancies increase.

So the plan's not going to go away in 10 years or even 20 years. I put it more at between 30 and 40.

Jeff B:

Right. To Steve's point, your asset allocation will start to materially shift during that 10 or 15-year period because you'll have no more active.

Jeff L:

Right. Correct. So that shift in the allocation should be occurring probably in the 10 to 15 year range.

Jeff B:

Yeah. The only reason you wouldn't dial down the equity piece is you're still underfunded at that point, and you want to earn your way out of that underfunding, not contribute your way out. But if you were a hundred percent funded and then no more actives, that's when you would start looking at a much more significant LDI strategy.

Suzanne:

Right.

Stephen:

So today, when we look at this once a year, we look at the liabilities or the pension incomes that need to be provided in the next 1-year, 3, or 5-year, 10-year, et cetera. This pie chart's not random. The fixed income piece comes from what you're likely to pay out in the near term.

In our world, near term is between the three and seven year mark. So there's nothing random about the fixed income piece of the pie. Today, it's meant to defuse the liabilities that you will pay out in the relative near term.

Catherine:

Thank you. This is a conversation when we get to the work plan. This is part of the conversation I wanted to have in January, and that's why it's on the work plan. So if we could move on.

Suzanne:

Move on.

Catherine:

That's fine with me.

Stephen:

We went a little deep. So let's look at the salary union plan. 57% equity in the box in the upper right, about three quarters domestic, again, in the box in the upper right, and a quarter, international. You can see that you're versus the Russell 3000, you have a value tilt that's eight to nine percentage points higher in value and is similar amount reduced in growth, and that's really helping the volatility at the moment.

If we jump to the next slide just to get you to the numbers, I'll be pretty quick here. You're pretty much on benchmark, but we're overweighted bonds because we're underweight hedged assets and global bonds, and we don't have a lot of cash either, purposely.

The VEBA looks relatively similar, and that's why to my earlier point, the dollars might be correct, but the percentage return should be closer to the other two plans, about 58% in equity with very similar weighting. So I won't spend our time looking at the weighting. You all have a copy of the deck I believe.

Again, same overweights and underweights at the moment or similar, I should say. Investment results, so this is for the first quarter of the calendar year. If you look in the upper center, you December 31st until March 31st. You see the three plans on the left side, the three X, dot, account numbers, salary union, and VEBA. Then the trust has the three trust accounts where the contribution is going to and payroll for the pension goes out of.

You had 89,000,187 in aggregate at the beginning of the year. 1,000,832 net of deposits has gone out for pension purposes. Transfers between us and Matrix equals zero. In this timeframe, you can see we've been sending money to Matrix to fund the payments out of all three plans and simple math says your net corpus meaning what you started, what we took out, 87,000,354 for an ending value of 87,000,851.

So even in the first quarter, there's a slight gain, albeit 497,000.56% net, 0.64% gross. So obviously, in a down market, even though it's positive, we're not meeting the actual requirement for those 90 days, which is 169. But on a market basis, if you used the market cap weighted indices, you would've expected the portfolio to be down about 21 basis points.

But in the reverse of what we've seen in the last few years, if we're a hundred percent equal weighted, you'd expect to be up 151. So again, no surprise, like it wasn't when the market cap was doing better. It's in between the two. The Russell 3000 at that point was down 472. I'm in the bottom right. The S&P was down 427. The average stock was only down 61 basis points. That's huge delta. Your value was up two 14, and growth was down 997.

I wrote all of them, but I will point out that the rest of the world was actually up 523 in equities at that point in time. So really, I haven't been able to say this for the last year, but boy is diversification, or a girl, right? Is that working well right now? Diversification is saving the day right now for diversified investors. It suddenly feels great to be diversified for a change from last year.

Suzanne:

So what's the rate of return? Let's just look at the salary plan for a second. What's the rate of return on the equity portion of the portfolio in this timeframe right now?

Stephen:

I don't. We have that in our data but I don't have it in this report. Although I could in the appendix, we do. Can you hold that for a minute? We'll look at the... But I don't have it, specifically.

Nick:

I can pull it up while we carry on, Stephen.

Stephen:

You got to get every equity, Nick, just for the record, not just each individual holding, but-

Nick:

Yeah. Yeah.

Stephen:

Okay.

Nick:

The system breaks it out by.

Stephen:

I know. We might want to follow up with the number, but let's jump forward.

You go fiscal year-to-date. So obviously, different timeframe last May to this March. So it's not the whole fiscal year, but I won't read you all the numbers other than you had 85 and a half million net took out about 2.6 million for pension, payroll, et cetera, benefits. Any asset value is 87,874. So you're up. The last 12 months, the market-based returns are about 4.9 million or 581 net, 611 gross.

So still, in that timeframe, the actuaries saving was... What is it, nine months? The actuaries are saying a little more that you need 563. So we are still, at least from the fiscal year, at this point in time, March, a little bit ahead of what the actuaries need, 581 net versus 563. From a market perspective, your gross number at least is ahead of both benchmarks and net above the market cap weighted. So it's still strong on a fiscal-year basis at this point in time.

Jump ahead again, please. Last 12 months, little harder, right? So 86 million when you put the whole 12 months. You got 3 million in benefit payments. Ending value is the same, 87,000,874, about a 4.8 million gain over 12 months to 568 net, 604 gross. That net does not meet what the actuaries need over the trailing 12-month basis now, even though it does meet it over the fiscal year right now, and you'll start to see that your returns are getting... The 604 is nicely ahead of the 595, and it's very nicely ahead of the 463, and we'll jump out further.

I think we go to three years which still have 22 in them. So it's still tough. There was about, call it $79 million. 1 million, 984 net has gone out over three years because you have been making contributions too. 77 million net invested, same ending value of the 87,874. 10,000,860, 441 net, 478 gross.

So on a actuary basis over the last three years now, so if we're running the actuary report today, it would look a lot different than it just looked but not able to keep up with the actuaries during that down market of 22 coupled with a current one, but on a competitive basis, on a market benchmarking basis, your mid-points are 442 and 315 no matter what. It's either at or very much above those.

We started to go out further, and you start to see the results of long-term working. The five-year numbers look phenomenal right now. You had $60 million five years ago, four and a half million dollars in net withdrawals. Thus, your net invested corpus is 55 million. Despite the fact there's two bear markets in here, right? There's 22, and there's a current year. 87,000,874. It's made 32 million in the fairest pools of money over the last five years. It nets 9.08% and gross is 946.

Obviously, vastly outpacing what the expected rate of return is at 675, and it is basically more or less at the market cap where have benchmarked. That was tough to beat when the tech stocks were too hot. Were so hot. Sorry, I'll stick with two, maybe, and 939 equal weighted. Either way, it's a great absolute return, and it looks like a very strong relative return too. Then we go...

I think we had so many time frames. I think we just jumped to since inception. So this is almost a 10-year time. Nick, how many years is this at this point? It's nine years and a quarter, I believe, if I did that right. There were 41.7 million nine and a quarter years ago. You've made net contributions. So that just flipped right of about five and a half million, because earlier on, it's the whole thing with aging of the population, right?

Earlier on, you were making contributions that were greater than withdrawals. Now, it's withdrawals greater than contributions. 47,000,254 is your net invested, same ending value, the 87,874. So 40.6 million made over those nine and a quarter years, 682 net, 721 gross. We needed 7% early on in there until year of '21, 675.

So I didn't do the time weighted average, but it's basically exactly what the actuaries need over those nine and a quarter years. From a benchmarking perspective, you're benchmarking above either midpoint of 706 and 636. So I sped up there, Catherine. I hope that helped a little bit. But, Nick, do you have any-

Catherine:

That was fine.

Stephen:

Everybody, go ahead.

Suzanne:

Any more questions? Were you able to figure out the number for the equity?

Nick:

Yep. So the total equities, which account for individual stocks, mutual funds, ETFs, for the quarter-to-date/year-to-date time period, they were down 31 basis points, and then we can break it out by US equities, global equities, international equity-

Suzanne:

Yeah. I don't need it broken out. Just the year-over-year equity portfolio and the quarter. That's all.

Nick:

Yeah.

Stephen:

So you're saying that was through the quarter, Nick, through March 31st?

Nick:

Yeah, it was down 31 basis points. Then the trailing 12 months, the equities were up 6.22%.

Suzanne:

Thank you.

Stephen:

What's the SMP year-to-date, Nick?

Nick:

I need to add that to the benchmark.

Stephen:

I said it a minute ago. Oh, it should be-

Suzanne:

What's the equivalent of the 31 basis points, percentage-wise?

Stephen:

0.31% positive.

Nick:

Well, yeah, -0.31.

Stephen:

Oh, down. Sorry. The SMP was down 4.27%. So it's less than 10% of the down of the SMP because of diversification. But likewise, last year, as we know, it wasn't up as much. So this is the trade-off of trying to get smoother returns to keep the actuaries happy, and the fund is status at least within a range, and to have the money to pay the current benefits payments as well.

But it's just super almost thrilling to see it work in a down market to the degree it's working at the moment.

Suzanne:

The fixed income... I don't need it now, but I'd love the fixed income percentage return for the last year and the first quarter.

Stephen:

Yep, we can get that.

Nick:

I have those right now if you want, or I can follow up with you.

Suzanne:

Nope, that's good. Just [inaudible 01:07:07], if you would.

Nick:

Year-to-date fixed income was up 2.62%.

Suzanne:

Okay.

Nick:

Then over the trailing 12-month through last month end, it was up 5.85%.

Suzanne:

Thanks so much.

Nick:

Yep.

Suzanne:

Are there any other questions? Thank you very much, Steve.

Stephen:

No, thank you very much. I hope that it comes across that we feel good about the difficult market in that it's painful but survivable so far, anyway.

Catherine:

Well, let's hope that continues. Also, thanks, Jeff. It was actually great to have the two teams together answering all the questions. So thank you very much.

Stephen:

Thank you all, too. Have a great rest of your day.

Nick:

Yeah, take care, everybody.

Catherine:

The next item on the agenda for the meeting is the work plan.

First of all, does anyone have any questions on the work plan? So one thing I wanted to say... I mean, I've asked to put the investment management services on the January list. I wanted to push it off until then for a reason. Obviously, there are other critical time-consuming matters that are happening.

Also, I think by then, we'll have an idea of what other obligations we have from our expansion from a pension perspective, and that is going to be a conversation that we need to have about, well, because at that point, we'll have an idea of the workforce population, how we can best leverage all of our relationships and get best management pricing that we can for all of the obligations that we have to be on the pension side. So that's why that's on the agenda.

David:

I think the timing is good to get it done by the end of the year when it would need to, anyway.

Catherine:

Yeah, its-

David:

It's enough runway to work on it.

Catherine:

Exactly. So there's no questions on the work plan?

Suzanne:

So what I was asking about for was their strategy to reduce the equity exposure to go down to zero. The reason why I was asking that is less about... January's fine with me for the rest of that stuff. It's that what they're doing is they're saying if you were an individual, your retirement is in this pocket, your college money is in this pocket, this money is in this pocket, and they don't work together.

They're a corpus that could grow and benefit one another over time. So yes, if we wanted to reduce this pocket down to zero, that's what we would do. If you want to match the liabilities completely at a hundred percent, you could do that. I'm not sure that's the best strategy for us.

But anyway, the second piece, because when you have a corpus that's that big. It has the opportunity to provide leverage for us. But anyway, putting that aside, the other thing I wanted to point out was that their fixed income return last year was almost 6%, right? So I just keep coming back to this. What is the value these guys are adding at the end of the day?

We're not after alpha. Clearly, we're not after alpha, right? But we've got this whole manager and all this stuff going on for the proposal of alpha. So at the end of the day, if we're going to lower our strategy to 5 or whatever it is, 6% or whatever it is, we can do that at fixed income when we don't need third party managers, and mutual funds, and all sort of stuff. We're paying all these supplemental fees.

So I still stand in this place of, it just doesn't make a whole lot of sense to do this this way. I think we're just got to stop, the belt and suspenders, and everything else on this thing, and it seems a little excessive for the return that we're getting.

Catherine:

Understood. Any other comments? Nope? So I'm going to take a motion to adjourn and reconvene as the Authority. Very good.

Kevin:

So moved.

Catherine:

Is there a second?

Mario:

Second.

Catherine:

We have Mario. All in favor?

Committee members:

Aye.

[PENSION & BENEFIT COMMITTEE MEETING ENDS AT 1:41 P.M.]