

PENSION ADVISORY BOARD/HEALTH & WELFARE BOARD OF TRUSTEES  
QUARTERLY MEETING  
MAY 10, 2017

The Pension Advisory Board/Health & Welfare Board of Trustees, met for their Quarterly Meeting on Wednesday, May 10, 2017, in the Township Building. The meeting was called to order at 5:30 p.m. followed by a pledge to the flag.

ROLL CALL:

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

MEETING MINUTES:

It was moved by Mr. Kraynik, seconded by Chief Nolan, all voting "Aye" to approve the April 13, 2017 Meeting Minutes as submitted. None opposed. Motion approved unanimously.

PRESENTATION BY ANDERSON & ASSOCIATES

Mr. James Kennedy, President, Thomas J. Anderson & Associates, stated they have just finished the 1/1/17 actuarial valuation cycle which occurs every two years. The last actuarial report was on 1/1/15 and was based on the two prior years 2014 and 2013. The 1/1/17 actuarial evaluation was based on the years 2016 and 2015. Overall funding for this plan on a smooth level was 95% for both pension plans (same as 1/1/15 report).

Mr. Kennedy explained when looking at the funding on a market value basis, not including smoothing, the plan is now at 87% funded which is minimal distress and previously the plan was 92% funded on a market value basis. He explained the reason for the spread and the difference between the market and smooth. It was noted smoothing distorts valuation differences and, in particular, these are related to the 2015 market which was a bad investment year for everyone.

Mr. Kennedy discussed the underachievement of the 8% investment assumption due to being slightly above zero in 2015 and below 8% in 2016. The unfunded liability for the police plan as of 1/1/15 market value was about \$5.8 million which increased to \$9.9 million primarily related to 2015 and 2016 and the

fact the plan was supposed to earn 16% over those two years. It was explained when starting off in 2015 at almost zero there is no compounding factor making it worse in an already bad year.

Mr. Kennedy stated the liability for police has crept up from \$5.8 million to \$9.9 million. He said he always advises paying the market MMO rather than the minimum MMO. Mr. Kennedy advised trying to pay \$2 million in 2017, if possible, or as much as possible over the original amount.

Mr. Kennedy discussed what can be done with the 8% interest rate assumption which has been in place for many years. He said there is a need to start budgeting to lower that 8% rate by about 25 basis points spread out over time in order to avoid a big hit all at once.

A discussion followed about prudent ways to view the long-term perspective and plan accordingly during the budget process. Various percentage suggestions were made for lowering the 8% rate gradually.

Mr. Kraynik asked if Thomas J. Anderson could provide the township with the numbers and the financial impact on the MMO in going down 25 basis points a year. Mr. Kennedy responded they would have to run a cost study.

Mr. Kraynik asked what is involved with a cost study. Mr. Kennedy responded a \$1,500 cost study paid for by the plan would look at the MMO going forward at 8%, 7.75%, 7.50%, 7.25% and 7%.

Mr. Kraynik commented that would be the prudent approach since asset smoothing has served its purpose and the economy is much better now. He said the cost study will be an important tool as the budget process begins in the next 3-4 months.

Sgt. Fidler commented about spending \$1,500 for a cost study if nothing happens as a result.

Mr. Waks stated this ultimately will be a Board of Supervisors decision based on the recommendations of the Pension Advisory Board.

Mr. Kraynik commented the \$1,500 for the cost study is money well spent to provide the Board of Supervisors with the numbers and rationale so they can make a decision.

Mr. Waks stated he would like to see the cost study start with something smaller than 7.75% such as 7.8%, etc.

Mr. Kraynik noted we are at 95% with the asset smoothing and 87% market value and asked how this compares with other municipalities who are on

asset smoothing. Mr. Kennedy responded Upper Merion Township is in the upper echelon.

Mr. Medrow asked about the legislative climate in Harrisburg with regarding to any proposals to change the pension plans to defined contribution or some combination thereof. Mr. Kennedy responded it has been tried before and did not succeed and remains unlikely.

Board Action:

It was moved by Chief Nolan, seconded by Kraynik, all voting “aye” to authorize \$1,500 for the cost study as discussed. None opposed. Motion approved unanimously.

ADDITIONAL BUSINESS

Mr. Kraynik explained the need to reschedule the June 7<sup>th</sup> Pension Advisory Board meeting with the ICMA. He said an email would be circulated to determine the date for the next Pension Advisory Board meeting. *(Subsequent to this meeting it was determined that the next Pension Advisory Board meeting would be held on Tuesday, June 13<sup>th</sup> at 5:30 p.m.)*

ADJOURNMENT

There being no further business to come before the Pension Advisory Board, it was moved by Chief Nolan, seconded by Mr. Kraynik, all voting “Aye” to adjourn the meeting. None opposed. Motion approved unanimously. Adjournment occurred at 6:38 p.m.

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David G. Kraynik  
Township Manager and Vice Chairman

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Minutes Approved:  
Minutes Entered: