

WEST WHITELAND TOWNSHIP
PENSION ADVISORY BOARD MINUTES
May 10, 2023

Members Present

Tom Belisari
Jeff Glisson
Denise Bailey
Jack Ellis
Chris Bamber
John Weller (Non-uniformed Representative)
Kurtis Rainey (Police Representative)

Township Staff Present

Caroline Partridge, Finance Director
Pam Gural-Bear, Township Manager

Supervisors Present

Brian Dunn

The meeting was called to order at 9:20 A.M. The meeting was a hybrid with participants attending both in person at the Township Building and on-line via Zoom.

1. Approval of Minutes – January 25, 2022

MOTION: To approve the January 25, 2023, Minutes.

ACTION: The motion was unanimously approved.
(Bamber/Bailey)

2. Presentation of Actuarial Valuations of Pension Plans and OPEB Trust as of 12/31/2022 (Conrad Siegel, John Vargo, FSA, EA, MAAA)

John Vargo, the Township's actuary from Conrad Siegel, reviewed the Township's funding requirements and Minimum Municipal Obligation (MMO) projections. He presented a chart showing the history of the Police Plan's Funded Ratio (assets over liabilities) for the last five valuations cycles (odd years every two years). The Police Pension Plan went from being 103% funded to 86% funded due to the market's sharp downturn in 2021 and poor performance in 2022, but the blue line representing the smoothing method value, shows the Plan fully funded with a slight surplus. Mr. Vargo said the smoothing method is doing what it is supposed to do – smooth out the volatility of poor markets over a period of time. Market value investment results for 2021 were 13% and -17.8% for 2022. Smoothing values were 10% for 2021 and 5% for 2022.

At the beginning of the year, the Police Plan market value was \$18.9 million vs. \$22.3 million using the smoothing method. Standard actuarial practice does not allow the gap between market and smoothing to be greater than 120%. These figures represent a 7% discount rate assumption and use of the latest mortality tables which show a current 60-year-old male living to 82 years of age.

Mr. Bamber asked what effect, if any, COVID will have on the mortality tables. Mr. Vargo said it's still inconclusive. He thinks there may be some minor ramifications but said we won't know for another two years or so.

The expectation for the 2024 MMO for the Police Plan is \$424,000. With 27 active officers, the amount of State aid to be received is about \$275,000. The MMO is projected to go up by about \$300,000 in 2026. Mr. Vargo then reviewed the history of MMO's, noting that we are currently at a low point.

Ms. Partridge asked if adding some cash to the fund would help with the MMO increase. Mr. Vargo said the biggest impact would be made by putting money into a side fund. A second option is to put money in the fund and let it grow. Mr. Belisari asked how the projected increase will affect the Township's budget. Ms. Partridge said it will impact the budget, but it can be absorbed. Mr. Bamber suggested putting extra dollars in short term CD's, or money market accounts where the capital will be preserved and can be used to stabilize the budget.

Moving to the Non-Uniformed Plan, Mr. Vargo said the Plan is half of the Police benefit but is funded stronger. Returns are similar to that of the Police Plan. The projected MMO is \$78,000 with an increase of \$150,000 in 2026. The MMO has gone down as a result of staff turnovers and deaths of a few retirees.

The OPEB Trust has no funding requirement. It is currently about 92% funded and is in the distribution phase, with a balance of \$3 million. The Trust is working as it was set up to do.

Mr. Glisson asked how long a typical smoothing period is. Mr. Vargo said about 4-5 years on the asset side. Comparing West Whiteland to its peers, Mr. Bamber noted that over 61% of Chester County municipalities use market value and asked if West Whiteland was in a good minority using smoothing value. Mr. Vargo said he recommends smoothing to all of his clients and added that the interest rate assumption is what is most important. As for OPEB Trusts, only about 20% of municipalities have one, and West Whiteland is ahead of the curve in that it has shut off the post-retirement benefits for new police employees hired after 2006.

3. OPEB and Pension Plans performance review (PFM - Bikram Chadra)

Bikram Chadra provided an overview of market performance for the first quarter of 2023. The markets began the year with some positive momentum, but then the mid-quarter saw the regional banking crisis which created some uncertainty in the markets. So far in the second quarter Domestic markets are mostly flat with Small Caps and Mid Caps negative so far. International markets are up 6.87% in the first quarter and Fixed Income is up 2.9%.

From an economic perspective, Mr. Chadra said the data is mixed. PFM thinks we will see a soft landing rather than a recession because the labor market is strong, and if there is a recession, PFM thinks it will be shallow. Certain sectors of the economy have slowed down, but others in services have grown.

After just raising rates again, PFM thinks the Federal Reserve will leave rates where they are at least through the end of this year and consider a rate reduction next year. Inflation is currently at 4.9% with 3.5% expected by the end of the year.

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The Yield Curve continues to be inverted, the short end of which is controlled by the Federal Reserve.

Turning to an overview of PFM's investment strategy, Mr. Chadra said things are very balanced right now as compared to last year when the strategy was defensive. Domestic Equities, International, and Fixed are largely neutral at this time.

Mr. Belisari asked when the Yield Curve will normalize. Mr. Chadra said it remains inverted because of the Federal Reserve's actions and noted that rates over the last 15 months have risen faster than any time in history.

The Police Plan saw returns of 4.6% with a benchmark of 5.43%. The underperformance was due in part to Invesco Equal Weight ETF and Jensen Quality Growth Fund. Mr. Chadra explained that these strategies are good during a down time for risk mitigation, and they make sense in the long run, but in the short run, these strategies were not good this quarter. Mr. Chadra further explained that MAGMA (Meta, Apple, Google, Microsoft, and Amazon) makes up 90% of the S&P 500. If there is unrest in this area, strategies like Invesco and Jensen help mitigate risk. In the short run, these strategies were not good this quarter. Additionally, going into 2023, PFM decided to go slightly overweight in Small and Mid Cap thinking some of the risk of the previous year was over, but then the regional bank crisis happened. Last Friday, PFM reduced the allocations in Small and Mid Caps.

International returned 7.27% over the benchmark of 6.8%. This was due to the good job of the active managers. No change was made to the line-up, but two emerging markets were added. Fixed Income was up 3.12% over the benchmark of 2.96%. The balance of the plan as of April 17, 2023, is \$19,618,710 up slightly into the second quarter, and the asset allocation remains roughly neutral.

With regard to the debt ceiling, PFM's view is that it will be raised, but the question remains how last minute it will be and what is on the table.

The Non-Uniformed Plan and OPEB Trust performed similarly to the Police in returns and line-up.

In response to a question from Mr. Ellis, Mr. Chadra said there is no target for cash at this time, but typically 1.5% - 2% is kept to manage benefits.

In response to an article previously provided to Mr. Chadra from Mr. Glisson regarding different asset allocations, Mr. Chadra provided a handout of Asset Allocation Modeling covering Capital Market Assumptions that analyze expected future return vs. expected risk and the correlation between the two for both intermediate (5 years) and long term projections. Mr. Chadra said Alternatives as allocations make sense only for some investors. The current allocation to the Pension Plans will allow the Township to meet its 7% return goal. Alternatives take on greater risk. Mr. Chadra would only recommend Alternatives if the Plans were in need of help reaching their return goal, but they are not.

4. New Business from PAB Members

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Mr. Weller advised that there has been a recent lull in development within the Township, but that appears to be picking up now. Construction is starting on two large residential developments which will provide the Township with additional Earned Income Tax when the units are sold/rented.

Adjournment

The meeting adjourned at 10:57 a.m.

Respectfully Submitted,

Caroline Partridge

Caroline Partridge,
Finance Director/Recording Secretary