A special meeting of the Town of West Hartford Pension Board was held on Friday, February 21, 2025 at 7:45 a.m. in room 400 of Town Hall.
The meeting was called to order at 7:46 a.m.

I. Roll Call/Attendance

Pension Board Members: Chair Lazaro Guzman; Commissioners Al Lebow, Jim Brennan (phone), and Perry Salonia (phone); Lisa Newton, Acting Director of Finance.

Participants/Guests: Mayor Shari Cantor (phone); Rick Ledwith, Town Manager (phone); Lori Kearney, Human Resources Specialist; Lexi Davidoff, Personnel Analyst; Chris Kachmar, Fiducient Advisors (phone); Becky Sielman and Yelena Pelletier, Milliman.

II. Lazaro Guzman, Chair

A. Opening Comments

III. Becky Sielman and Yelena Pelletier, Milliman

A. Pension Plan Actuarial Valuation Presentation – July 1, 2024 Valuation Results

1. Four key inputs to the valuation: census data/plan membership, plan assets/investments, plan assumptions, plan provisions.

2. Key Takeaways: Assets earned 12.71%, the funded ratio moved from 93.5% to 92.4%, the contribution for FY 25-26 will increase partially due to police contract changes, and the FY 25–26 Actuarially Determined Contribution will be $10 million with $8.6 million coming from the Town Operating Budget and $1.4 million coming from the Pension Reserve Fund.

3. Plan Membership: Active employees increasing steadily over the last 5 years, retirees make up the biggest portion of plan population, and there is a small group of terminated employees who have vested status or are due a refund of pension contributions. Total of 2306 members as of July 1, 2024. 155 new hires primarily from BOE. New hire liability is approximately $1 million. Active members total 893 with about half employed by the Town and half by the BOE. Of the actives, approximately half are in Part E of the plan. Of the 1280 members in pay status, over 1,000 are service retirees, 32 are retirees receiving disability pension, and 161 are beneficiaries. They receive $41 million in benefits per year.

4. Plan Assets/Investments: For the returns on the plan's assets over the last 5 years, FY 23-24 showed strong performance with almost a 13% return,

FY 22-23 with an 11% return, FY 21-22 down at -12%, FY 20-21 resulted in a great return of 30%, and FY 19-20 returned just under 5%. On a compound basis, the return for that 5-year period was close to 8.6% which is above our assumed rate of return of 6.5%. The timing of that negative year was unfortunate for the Town's sale of pension obligation bonds. The market value of plan assets dropped in 2022 and have been growing back, but have not yet reached the level they were at on July 1, 2021. A differentiation is made between the market value of assets and the actuarial value of assets. The actuarial value is a smoothed value calculated to avoid having market volatility translate into volatility in plan contributions. Milliman phases in asset gains and losses over a 5-year period. As of July 1, 2024, the actuarial value of assets was $566.2 million as compared to a market value of $546.5 million, a difference of $19.7 million. Despite the last two good years, there are still net losses that need to be phased in over the next several years. The FY 21-22 return continues to impact the value of plan assets.

5. Plan Assumptions: Several years ago, Milliman conducted an experience study through July 2022. This was an in-depth review of the plan's assumptions. An experience study is not conducted annually, and Milliman is not recommending any changes to the major assumptions at this time. However, they do wish to address the impact to the valuation from a change in the police contract.

Interest Rate Assumption: Combining the plan's target allocation with the capital market assumptions, Milliman expects the plan to return about 7% over the long term (25-30 years). The plan assumes 6.5%. Milliman recommends no change to the interest rate assumption, preferring to remain conservative. Perry noted that the Board increased the target asset allocation for fixed income to 35% earlier in 2024. Milliman had not been made aware of this change, and their slide reflects a fixed income allocation of 30%. The slide will be adjusted.

Mortality Table Assumption: The current assumption is based on experience for public plans using the Pub-2010 table based on data from 2010. The Society of Actuaries recently released a draft update for a 2016 version. As it is in draft form, Milliman recommends no change to the mortality table assumption at this time. When the 2016 table is implemented, it is not expected to result in a large change to the assumption.

6. Plan Provision Assumptions – Police: Milliman recommends a change to this assumption. This is based on changes negotiated in the 2024 – 2028 collective bargaining agreement settled in 2024. A significant change impacted Tier III police members of the plan. For this group, the years of

service required for eligibility for retiree medical coverage changed from Normal retirement with 25 years of service to Normal retirement with 20 years of service. Milliman's assumption prior to this contractual change was that no one would retire prior to reaching eligibility for retiree medical at 25 years of service. Another notable change was the removal of the 5% super step pay increase at 20 years of service for those reaching 20 years by 6/30/2024. Milliman believes the removal of the super step warrants an adjustment to their salary scale assumption. They will remove the large increase at 20 years but assume a slight increase in the earlier years. Milliman would not normally look at this assumption in between experience studies, however, it seemed appropriate to bring it to the Board's attention, demonstrate the impact they expect the contract changes to have, and suggest the assumption change to the Board. With the change in retiree medical eligibility for Tier III, liability increases because members are expected to retire earlier. Liability also increases because of another contractual change that permits eligibility for a pension COLA for Tier III police members retiring with a Normal retirement at 20 years of service. Previously, COLA eligibility required a Normal retirement at 25 years of service. The salary scale change decreases liability.

7. Liability was expected to be at $609 million for 7/1/2024. Reflecting the plan and assumption changes, Milliman adjusted that to $612.6 million.

8. Unfunded accrued liability was $315.2 million is 2020, was almost gone in 2021 after the issuance of pension obligation bonds, and has hovered around $40 to $46 million since.

8. The funded ratio sat at 40.6% in 2020. With the issuance of the pension obligation ponds, it jumped to 98.5% in 2021. Since that year, it has hovered around 92-93%.

9. The actuarially determined contribution consists of three pieces: normal cost (benefits earned by active members each year), past service cost (unfunded accrued liability), and interest. The increase in normal cost from FY 24-25 from $6.1 million to $6.4 million in FY 25-26 is based on the plan and assumption changes. The issuance of the pension obligation bonds reduced the past service cost.

10. Each valuation determines the Actuarially Determined Contribution for the fiscal year starting one year later. The July 1, 2024 valuation determines the ADC for FY 25-26. The ADC as of the July 1, 2023 valuation for FY 24-25 was about $9.2 million. For FY 25-26, the ADC is $10 million. That change results from updated member information, updated investment performance, police plan changes and increased pension contribution rates

for some bargaining units, and the assumption changes for police retirement and salary growth. The Pension Reserve Fund helps manage the volatility of the ADC and what the Town budgets from year to year. The Operating Budget payment is capped at whatever was paid the prior year plus 8%. The Pension Reserve fund pays the remainder. To pay the ADC of $10 million for FY 25-26, $8.6 million will come from the Operating Budget and $1.4 million from the Pension Reserve Fund. Of this $10 million, approximately $1.8 is allocated to BOE and $8.2 million is allocated to Town.

11. It was noted that plan changes such as those for the police were not factored into the establishment of the Pension Reserve Fund, and such changes can deplete funds more quickly than anticipated. However, if future plan changes are made that do not cause the Operating Budget payment to increase more than 8%, then the entire ADC will be paid from the Operating Budget. It is plausible that plan changes could be made with no impact to the Pension Reserve Fund. The Operating Budget-Pension Reserve Fund interplay did not take into account that there might be plan changes that would shift the burden to the Pension Reserve Fund. This would be an important consideration if significant plan changes were being contemplated. It was also noted that some plan changes, such as increases to pension contributions made by members, can reduce the ADC.

12. Mayor Cantor shared with the Board that the changes made to the police contract were unique and considered crucial to the Town's ability to attract, recruit, and retain officers, and compete with other police departments for the limited pool of law enforcement candidates.

Motion by Al Lebow to adopt the plan and assumption changes proposed by Milliman. Second by Chair Guzman. All in favor. Motion passed.

13. Becky Sielman announced that she will be retiring from Milliman on March 17, 2026.

IV. Adjournment

Motion by Chair Guzman to adjourn the meeting at 9:11 a.m. Second by Al Lebow. All in favor. Motion passed.

Minutes submitted by Lori Kearney.

Attest,

Lori Kearney