

A special meeting of the Town of West Hartford Pension Board was held on Friday, November 17, 2023 at 7:45 a.m. in room 407 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 Alan Lebow, Perry Salonia, and Jim Brennan, and Peter Privitera, Director of Finance

Participants/Guests: Mayor Shari Cantor (via conference call), Rick Ledwith, Town Manager, Lori Kearney, Human Resources Specialist, Becky Sielman and Yelena Pelletier, Milliman.

Absent: Mary Fay, Town Council

II. Chair's Opening Comments

A. Pension Plan Experience Study presented by Becky Sielman and Yelena Pelletier

1. Best practice is to conduct an experience study every 5 years.
2. Provides a deep dive into the actuarial assumptions and methods Milliman uses to perform its valuation to measure the plan's liabilities. Provides a look at what actually happened versus what was expected to happen, which then forms the basis for adjusting the assumptions.
3. The review is broken down into three areas: economic assumptions, demographic assumptions, and the funding method.
4. Economic assumptions
 - a. Inflation: current assumption is 2.75%. Looking long term (30,50,75-year time horizon), the new proposed assumption is 2.50%. Inflation gradually declining for 20-30 years but has spiked up since the war in Ukraine. With Feds actions, Milliman believes inflation will come back down towards Feds stated target of 2% in a couple of years. May feel counter-intuitive to reduce the inflation rate in a high inflationary period but that's what Milliman sees for a long-term prospect.
 - b. Interest Rate: current assumption is 6.25%. The new proposed assumption is 6.5%. The Town moved to a 6.25% rate in

conjunction with the POBs. It was a deliberately conservative approach to determine if POBs would be a good direction for the Town. If approved, this increase in interest rate will have a positive impact on the annual pension plan contribution.

- c. **Pay Increases:** current assumption is that pay increases are graded based on age from 6% to 2.8% with higher increases at younger ages and lower increases at older ages. Experience study showed that pay increases for Police and Fire are different from all other non-public safety bargaining units. It also showed that pay increases are tied more closely to length of service than to age. For non-public safety, the current assumptions were too low for the early years of service, about right in the middle years, and too high for later years of service. Proposed assumption: graded based on service from 6% to 2.75%, plus a one-time additional increase of 1% in the first year. For Police and Fire, the data was challenging and it was difficult to find meaningful patterns due to overtime pay during the pandemic and the adoption of new wage schedules with step compression and pay equalization. Milliman feels it is more appropriate to base the assumption on the wage schedule in current contracts rather than the historical data in the experience study. The proposed assumption for Police and Fire provides for a rate that includes step and wage inflation, plus a one-time additional increase of 1% in the first year.

5. **Demographic Assumptions**

- a. **Mortality:** Milliman uses industry-wide large scale mortality studies to set the assumption rather than the Town's own mortality experience because there are not enough members for the Town's data to be credible. Milliman proposes no change to the current mortality assumption and will adopt future updates to the MP Scale as they are published.
- b. **Turnover:** The current assumption for non-public safety is decreasing rates based on age and years of service. Experience study shows different patterns for different groups (B, B-1, and E), and between BOE and Town employees. For Town employees, the experience study showed fewer terminations than expected. Turnover rates were not strongly tied to age,

service, or gender – all about 5% regardless of age, service, or gender. The new assumption proposes a flat 5% per year. For BOE, the custodial/maintenance group showed a different turnover pattern than other BOE groups. Turnover varied by service, was low, and lower than expected. For other BOE groups (paras, clerical, cafeteria workers, security workers), the rate was also tied to service. There were more terminations than expected. The proposed assumptions for BOE are tied to service with different rates for the custodial/maintenance group than for the other BOE groups. Higher rates at lower years of service and decreasing rates with increased years of service. For public-safety, turnover rates were similar between Fire and Police, with rates decreasing as service increased. There were more terminations than expected. Current assumption: no turnover for Fire, and a standard table with decreasing rates based on age for Police. The proposed assumption will be the same for Police and Fire and based on service, with a significantly higher rate in the initial year of service and decreasing to 0% at 10 or more years of service.

- c. Retirement: This is the most complicated assumption because a lot of factors play in such as date of eligibility for an unreduced benefit and eligibility for retiree medical. There is often a bump in retirements in the first year when a member is eligible for both an unreduced benefit and retiree medical. There are often spikes at certain ages and increasingly at age 67 due to the Social Security retirement age. Anticipated contractual changes and unrelated things such as health and a spouse's retirement can spur retirements. For non-public safety employees in Part B, the experience study showed fewer retirements than expected. The current assumption assumed too few retirements at early ages and too many at older ages. The study showed that people are working longer, past age 70. Proposed assumption increases retirement rates at some of the earlier ages, reduces the rates at some of the older ages, and extends beyond age 70. For Fire, the experience study showed more retirements than expected and earlier than expected with a spike at first eligibility. In this study period, there were no early retirements. The proposed

assumption increases rates at the earlier ages. For Police, the experience study also showed more retirements than expected and earlier than expected with a spike at first eligibility. The proposed assumption increases rates at the earlier ages. In terms of disability retirements, few occurred during this study period. A standard industry table is used, and Milliman proposes no change to that assumption.

6. Impact of proposed changes on the July 1, 2022 valuation - If the changes had been adopted (salary scale, demographic, turnover, and retirement assumptions), the result would have been only a modest increase over the baseline actuarially determined contribution (ADC). Not a bad outcome as it says that although we didn't have actuarial assumptions grounded in the results of the experience study, we weren't too far off in measuring liability. A more profound change can be seen when all assumptions are applied plus the increase to a 6.5% interest rate. That scenario would have lowered the liabilities, normal cost, and ADC, and modestly improved the funded ratio.
7. Milliman will update the experience study exhibit with the Board's suggestions for the December meeting. There will be further discussion about the discount rate at that meeting with the goal of setting the discount rate.

III. Adjournment

- A. **Motion by Peter Privitera to adjourn the meeting at 9:22 a.m. Second by Chair Guzman. No objections raised. Motion passed.**

Minutes submitted by Lori Kearney.

Attest,

