



# Doylestown Township

## Pension Advisory Committee Meeting

425 Wells Road  
Doylestown, PA 18901  
215-348-9915  
<http://Doylestownpa.org>



~ MINUTES ~

---

Monday, February 10, 2020

4:30 PM

Large Conference Room

---

### IN ATTENDANCE:

Members: Chairman Ed Denton, Vice Chairman Sinclair Salisbury, Bob Salanik, Joe Delikat, Colleen Mullin, Tom Burke  
Board of Supervisors Liaison: Jen Herring  
Staff: Finance Director Ken Wallace and Township Manager Stephanie Mason  
Absent: Bill Mokriski

### WELCOME

Mr. Salisbury welcomed all the members to the committee meeting of the New Year.

### REORGANIZATION

Mr. Salisbury opened up the floor to nominations.

On motion of Mr. Delikat, seconded by Mr. Salanik, Ed Denton was elected as the Chairman of the Committee. Ms. Mullin was asked if she wanted to serve but she declined. On motion of Mr. Delikat, seconded by Mr. Salanik, Mr. Salisbury was elected as Vice Chairman. The Committee unanimously approved both motions.

### MINUTES APPROVAL – January 13, 2020

On Motion of Mr. Salanik, seconded by Mr. Delikat the minutes of January 13, 2020, were amended. The amendment deleted a sentence on page 2, 4<sup>th</sup> paragraph “Ms. Mullin indicated....” minutes were unanimously approved.

### NEW PAC Member Introduction – Tom Burke

The Committee introduced themselves to Mr. Burke and welcomed him to the Committee.

### OLD BUSINESS – Review draft of 2020 Goals

Mr. Denton handed out the 2020 Objectives (see attached). The Committee went through each of the objectives. They agreed that the six outlined by Mr. Denton would be the objectives for the coming year. The Committee reviewed each one in depth.

Mr. Salanik asked for a 7<sup>th</sup> item to be added which would be Cost Savings on Plan Design. The Committee agreed to add that.

The Committee then selected the objectives that they were willing to work on.

Objectives 1 and 2 – Bob Salanik and Colleen Mullin

- Objective 2 – Joe Delikat and Colleen Mullin
- Objective 3 – Joe Delikat and Tom Burke
- Objective 4 – Ed Denton, Ken Wallace, Bob Salanik
- Objective 5 – Tom Burke and Colleen Mullin
- Objective 6 – Ed Denton, Sinclair Salisbury and Bill Mokriski
- Objective 7 – Bob Salanik and Ed Denton

#### NEW BUSINESS – Review Pension Plan Financials

The Committee discussed reviewing the Pension Plan Financials Summary by Mr. Denton and reviewed what they would share with the Board of Supervisors. They agreed they needed to find a better way to make sure that everyone understands what happens if the liabilities go up.

The Committee looked at the attached Financials from 12/31/19. They reviewed the difference charts and the impacts that they are having on the pension plan.

Mr. Denton pointed out that on chart #4; the funding percentage is rather flat.

On chart, #5 there was a question regarding the weighted index and the performance.

The last slide showing the assets and liabilities per plan by year, Mr. Salanik raised a concern about consistency. The information previously provided indicated lower returns and now from 2019, it shows to be almost 92%. Although, when combined it is still lower and the liability is increasing. Being able to explain this to the Board of Supervisors, the public and employees in a consistent and simple way is very important. The Committee concurred.

#### THE NEXT AGENDA

The March meeting will be with Deb Brede, DK Brede Assoc. to talk about the investment policy. It was requested that she provide information on suggestions to improve the policy as well as other investment policies she may use. In addition, having the 2019 Performance and Attribution provided prior to the meeting would be helpful.

In response to a question from Mr. Burke, it was indicated that SEI is the administrator and record keeper and Commonwealth Advisors handles the transactions. Mr. Burke did raise a concern about credit risk within the bond funds that are being utilized. It was suggested that this topic be reviewed with Ms. Brede.

Next meeting will be March 9, 2020 at 4:30 PM.

Being no further business the meeting adjourned at 6:05 PM.

Respectfully submitted by



Stephanie Mason, Township Manager/Secretary

**Doylestown Township Pension Advisory Committee  
2020 Objectives (DRAFT)  
In Priority Order**

2020 OBJECTIVES	Target Completion Date	PAC POINT PEOPLE (2 members)
1) Work with Investment Advisor and Actuary to develop a formal 'Discount Rate Target'. This Target will be a 'living document' and will be revisited by the PAC on a regular basis. The PAC will also work with Board of Supervisors and Ways & Means Committee to develop a 'Discount Rate migration path' for the Township Pension Plans.	May 2020	
2) Develop Recommendation(s) Pension Plan Contributions for 2021 Budget and 'place holders' for 5 Year Plan.	Preliminary (May) Final (Sept)	
3) Meet quarterly with Debra Brede to review the new Pension Investment Monitoring Reports. <ul style="list-style-type: none"> <li>• Work with Ms. Brede to refine reports as necessary.</li> <li>• Work with Ms. Brede to determine reasonable timing of quarterly review meetings. <ul style="list-style-type: none"> <li>i. Teleconference twice per year with PAC only (2019 wrap up with PAC in Feb/March).</li> <li>ii. In person with BOS and PAC twice per year.</li> </ul> </li> <li>• Create Executive Summary Reports for BOS.</li> </ul>		
4) Pension Financials graphs, tables, sensitivities, etc. <ul style="list-style-type: none"> <li>• Update data with Dec. 2019 Financials</li> <li>• Ask Kennedy to update with estimated Liability and MMO Sensitivities to 6% Discount Rate (i.e. 7.5%, 7%, 6.5%, 6%)</li> <li>• Present data to BOS</li> </ul>	February June?	Ed Denton Ken Wallace
5) Work with Ms. Brede to review and revise (as necessary) the Township's Investment Policy. <ul style="list-style-type: none"> <li>• Last updated in 2011</li> <li>• Asset Classes</li> <li>• Expected Returns</li> <li>• Allocation of Actively managed vs. Passive investments</li> </ul>		
6) Develop and implement a 'Continuing Education Plan' for the PAC and the Pension Committee to ensure that all members are familiar with appropriate regulations and best practices. <ul style="list-style-type: none"> <li>• 2020 Topic (s)?</li> </ul>		

**Doylestown Township  
Pension Sub-Committee**

**Presentation to Employees  
October 25, 2017**

Taskforce Members  
Joe Delikat  
Ed Denton  
Bob Salanik

**Pension Sub-Committee Project Overview**

- I. Project Charter and Timeline:
- II. Township Pension Plan Design and Assumptions
- III. Pension Plan Financials (1997-2016)
  - Pension Liability and Funding %
  - Pension Surplus/Deficit
  - Pension Surplus/Deficit (using 7% Discount Rate)
  - Contributions (Township, State, Employees)
- IV. Summary of Findings from Secondary Research, Survey & Interviews
  - American Academy of Actuaries
  - Pension Studies (Temple, U of Pitt, etc.)
  - Interviews (Kennedy, Brede, Township Mgmt., Merck Pension Department, etc.)
- V. Pension Survey
- VI. Pension Portfolio Returns & Discount Rate
  - Actual Performance vs. Actuarial Assumption ("Discount Rate")
  - Expected Future Returns
- VI. Final Report & Recommendations (Sept. 2017)

**Pension Subcommittee Objective:**

**Evaluate the financial condition of the Non-Uniform and Police Pension Plans in order to help inform decisions impacting the Doylestown Township Annual Budgeting process.**

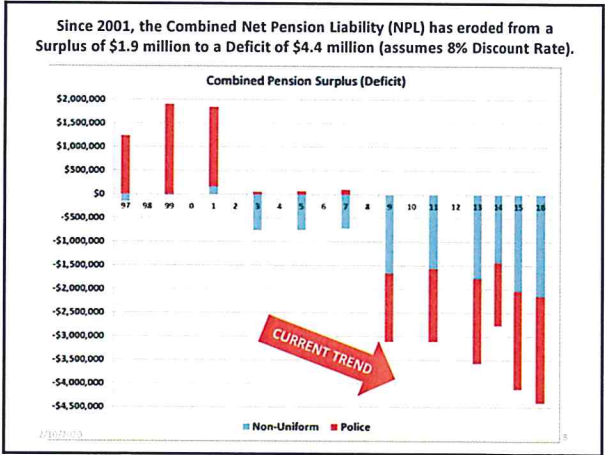
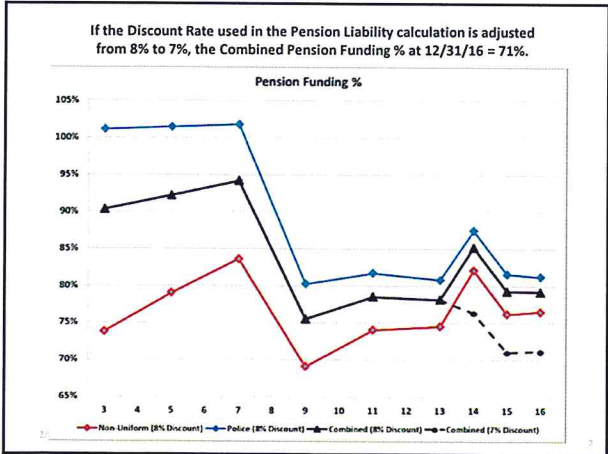
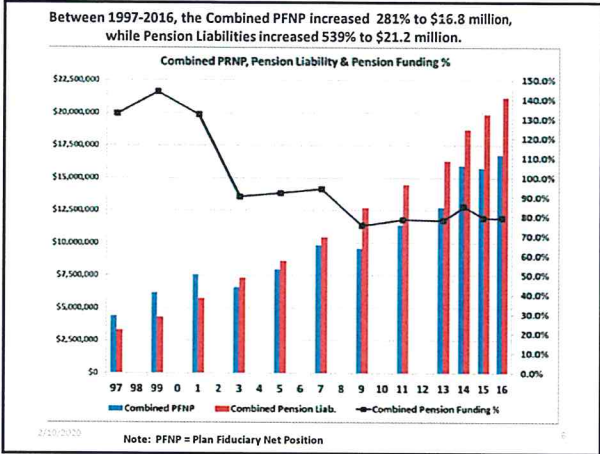
**How did we get here?**

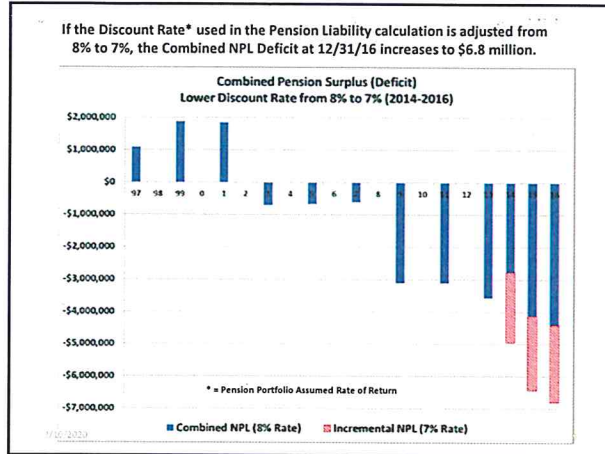
### "The 80% Pension Funding Myth"

Source: American Academy of Actuaries Issue Brief – July 2012

**Report Summary:**

- Frequent unchallenged references to 80% funded as a healthy level threaten to create a "mythic standard".
- No single level of funding should be identified as a defining line between healthy and an unhealthy pension plan.
- All plans should have the objective of accumulating assets equal to 100% of a relevant pension obligation, unless reasons for a different target have been clearly identified and the consequences of that target are well understood.
- A plan's actuarial funding method should have a built-in mechanism for moving the plan to the target of 100% funding.
- Funded ratios should be looked at over several years to determine trends and should be viewed in light of the economic situation at the time.
  - Higher ratios following periods of strong economic growth.
  - Lower ratios after recessions and economic downturns.
- Whether a particular shortfall affects the financial health of the plan depends on many factors, particularly the size of the shortfall compared to the resources of the plan sponsor.





### Summary of Findings from Secondary Research and Interviews

**Key Sources:**

- Interviews: Township Actuary (Kennedy), Investment Advisor (Brede), Merck Pension Department
- Governor Wolf Taskforce on Municipal Pensions (6/30/15)
- Temple University Center on Regional Politics: "The Problem of Funding Pensions" (Sept. 2012)
- Pa. Department of Auditor General: "Report on Municipal Pension Funds" (Jan. 2015)
- Pa. Intergovernmental Cooperation Authority: "Philadelphia Pension System: Reducing Risk and Achieving Fiscal Stability" (January 2015)
- University of Pittsburgh Institute of Politics Subcommittee Report "What to Do about Municipal Pensions" (April 2009)
- Allegheny Institute for Public Policy Report #07-02 "An Analysis of Local Government Pension Plans in Pennsylvania" (February 2007)
- The Pew Charitable Trust Pension Project (July 27, 2014)
- The Times Tribune: "Pension Plans can be fixed, but cost will be high" (Oct. 2013)
- Other readings and discussions

7/10/2019

### Primary Causes of the Underfunded 'Public Pensions'

The primary contributors to the public pension funding problems in *Pennsylvania and across the country* include (a):

- Two economic downturns since 2002 and slow economic growth have put a strain on Local, State and Federal Budgets.
- Lower than assumed Investment Returns: Actual investment returns for Pennsylvania's largest plans have fallen well below actuarial assumptions in recent years. These unrealistic return assumptions have artificially lowered the required MMO.
- Increased life expectancies of retirees and current employees
- Fewer active employees than retirees reduces pension contribution levels
- Binding Arbitration Awards: In the case of many police and fire fighter pensions in Pennsylvania, binding arbitration awards have increased pension costs over the stated opposition of elected municipal officials.
- Years of underfunding: Many plans did not make adequate annual contributions to keep public pensions actuarially sound (including years when plans were > 100% funded)
- Lack of consistent and sound investment assumptions: Too conservative /too risky/too variable
- Pension Plans are complicated: Some government officials may have difficulty understanding how pension plans work which can result in delayed and/or inadequate actions taken.

7/10/2020 (a) = Not all factors apply to Doylestown Township 11

### Primary Causes – continued (a)

- Spiking of overtime compensation by local government employees nearing retirement to raise their final average salaries, which under existing pension formulas raises their lifetime pension benefits. One pension expert has noted, however, that state law already prohibits spiking in third class cities but municipal officials sometimes fail to enforce this provision.
- Act 44 ("Smoothing") - Unintended consequences: Allowed communities with distressed pension plans to reduce the amount of the MMO calculated by their actuary by 25 percent for two to six years. The act helped municipalities with their general fund budget by reducing the amount they had to pay into the pension fund. But it seriously harmed pension plans as it caused unfunded liability to further increase.
- Labor contracts and legislation that expanded benefits: Such as increasing the multiplier for calculating retirement income, providing cost-of-living increases for current and future retirees, or allowing workers to retire with full benefits at an earlier age -- without funding those costs.
- Too many Small Pension Plans: As of 2007, Pennsylvania had 3,160 separate pension plans, most of them very small (67 percent of them had 10 or fewer members). This number represents more than one-fourth of the nation's public employee plans.
- Politics: "Pension benefits are a favorite political tool for local officials because they allow them to provide an immediate benefit that does not have to be paid for until later". "Funding pension plans has a very low political rate of return." When you put a dollar into a pension plan, there is no ribbon-cutting, there's nothing tangible to point to, like when you build a new park, playground or fix a bridge."

7/10/2020 (a) = Not all factors apply to Doylestown Township 12



**Doylestown Township: Pension Contribution By Year (2001-2016)**

Prior to 2011, there were several years when the Township and Employees did not make a contribution into the Pension Plan.

Year	2001	2002	2003	2004	2005	2006	2007	2008	Employer & Member Pension Contribution Average (2001-08)
<b>Non-Uniform</b>									
Contributions - Employer	\$ -	\$ -	\$ 3,984	\$ -	\$ 133,338	\$ -	\$ 108,911	\$ 114,545	\$ 45,097
Contributions - State Aid	\$ 141,590	\$ 142,070	\$ 132,134	\$ 215,440	\$ 93,457	\$ -	\$ 109,018	\$ 111,522	\$ -
Contributions - Member	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-Total	\$ 141,590	\$ 142,070	\$ 141,118	\$ 215,440	\$ 226,995	\$ -	\$ 217,929	\$ 226,067	\$ -
<b>Police</b>									
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,525	\$ 76,928	\$ 18,057
Contributions - State Aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,081	\$ 140,118	\$ -
Contributions - Member	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sub-Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 208,606	\$ 217,046	\$ 18,057
<b>COMBINED</b>	\$ 141,590	\$ 142,070	\$ 141,118	\$ 215,440	\$ 226,995	\$ -	\$ 426,535	\$ 443,113	\$ 63,154

Year	2009	2010	2011	2012	2013	2014	2015	2016	Employer & Member Pension Contribution Average (2009-16)
<b>Non-Uniform</b>									
Contributions - Employer	\$ 118,493	\$ 118,740	\$ 79,252	\$ 185,542	\$ 196,024	\$ 211,995	\$ 190,832	\$ 328,165	\$ 199,118
Contributions - State Aid	\$ 109,480	\$ 103,515	\$ 179,086	\$ 110,879	\$ 132,646	\$ 104,562	\$ 117,826	\$ -	\$ 79,713
Contributions - Member	\$ -	\$ -	\$ 92,779	\$ 89,034	\$ 96,831	\$ 73,828	\$ 68,051	\$ 64,888	\$ 71,265
Sub-Total	\$ 227,973	\$ 222,255	\$ 351,117	\$ 386,455	\$ 398,401	\$ 389,413	\$ 376,709	\$ 397,053	\$ 250,106
<b>Police</b>									
Contributions - Employer	\$ 77,902	\$ 83,604	\$ 186,341	\$ 301,662	\$ 262,379	\$ 279,542	\$ 282,119	\$ 83,040	\$ 232,847
Contributions - State Aid	\$ 125,121	\$ 122,924	\$ 212,664	\$ 135,892	\$ 178,837	\$ 179,416	\$ 141,130	\$ 293,101	\$ 71,265
Contributions - Member	\$ -	\$ -	\$ -	\$ 80,977	\$ 81,893	\$ 83,134	\$ 87,119	\$ 94,463	\$ 82,657
Sub-Total	\$ 203,023	\$ 206,528	\$ 489,095	\$ 518,651	\$ 484,607	\$ 542,095	\$ 510,668	\$ 470,604	\$ 196,769
<b>COMBINED</b>	\$ 430,996	\$ 428,783	\$ 840,212	\$ 905,106	\$ 883,006	\$ 931,508	\$ 887,377	\$ 867,657	\$ 446,875

INCREASE

**Impact of Higher "Township & Employee" Pension Contributions 2001-2010**

Year	2001	2002	2003	2004	2005	2006	2007	2008
Incremental Contribution	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Prior Year Balance	\$ -	\$ 221,800	\$ 470,518	\$ 819,615	\$ 1,180,427	\$ 1,497,371	\$ 1,950,591	\$ 2,221,475
Investment Value	\$ 250,000	\$ 471,800	\$ 680,518	\$ 1,009,615	\$ 1,430,427	\$ 1,747,371	\$ 2,200,591	\$ 2,541,475
Annual Return %	-11.28%	-8.73%	20.44%	10.36%	4.64%	11.63%	4.11%	-10.81%
Ending Investment Value	\$ 221,800	\$ 470,518	\$ 819,615	\$ 1,180,427	\$ 1,497,371	\$ 1,950,591	\$ 2,291,475	\$ 1,758,447

Year	2009	2010	2011	2012	2013	2014	2015	2016	Cum.
Incremental Contribution	\$ 250,000	\$ 250,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,500,000
Prior Year Balance	\$ 1,758,447	\$ 2,517,447	\$ 3,167,340	\$ 3,138,572	\$ 3,550,336	\$ 4,166,319	\$ 4,339,638	\$ 4,184,523	
Investment Value	\$ 2,008,447	\$ 2,777,447	\$ 3,167,340	\$ 3,138,572	\$ 3,550,336	\$ 4,166,319	\$ 4,339,638	\$ 4,184,523	
Annual Return %	25.84%	14.04%	-0.91%	13.32%	17.35%	4.16%	-1.27%	6.28%	
Ending Investment Value	\$ 2,527,429	\$ 3,167,340	\$ 3,138,572	\$ 3,550,336	\$ 4,166,319	\$ 4,339,638	\$ 4,284,523	\$ 4,551,593	

*Hypothetic Scenario: Annual Contributions into the Pension Plan between 2001 and 2010 were \$250,000 higher. Incremental funds earned same returns as rest of Pension Portfolio (a).*

*Result: There would be \$4.5 million more in the Pension Plan (approximately equal to the current Pension Plan deficit, assuming an 8% Discount Rate).*

(a) Source of Return % = D. Breda

