A regular meeting of the OPEB Committee was held Wednesday, November 14, 2018 at 9:22 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Dick Gardiner, Mark Krock, Jay Jeffries, Gregory Reichert and Stan Joyner.

Staff present was Pension Attorney Frank Carney and Town Clerk Lynn Carmack. Also present were Susan Fletcher and Ryan Miller of First Tennessee Bank and Richard Ellis of Ellis and Ward Benefits Group, Inc.

Approval of Minutes

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the August 16, 2018 meeting.

ROLL CALL: Gardiner – yes, Krock – yes, Jeffries – yes, Reichert – yes, Joyner – yes. Motion approved.

Review of the Quarterly Investment Performance of the OPEB Trust Fund by Financial Advisors - First Tennessee Bank (Ryan Miller and Susan Fletcher)

CAPITAL MARKET ASSUMPTIONS: this page displays the allocation targets. The acceptable ranges and variance from the target and then expected rates return.

This Plan targets a 35% allocation to fixed income and a 65% allocation to equities. The capital market assumptions have not changed and the expected returns have not changed either since the last meeting. The expected long term return for 35% allocation to fixed income is 1.04%. The expected long term return of a 65% allocation to equities is 4.20%. Overall the long term expected return for the entire portfolio is 5.24%.

MARKET VALUE AND PERFORMANCE as of 09/30/18; over time for the portfolio in July was up 1.76; it was up 1.46 in August; and it was down -0.54 basis points in September. Overall for the 1Q, the portfolio was up 2.69; over the past year, it has been up 6.96; over the past 3 years, the portfolio has returned 9.07 annually; over the last 5 years, it has been up 7.38 annually; since inception, 9 years, 4 months, the portfolio has annualized at 10.16. Overall, returns have been quite strong.

More recently, October was not a pretty month. The portfolio in the month of October was down 5.14%; November (through November 13) has been a little bit better; the portfolio is up .41% for the month; for the FYTD, over the past 5 months, the overall portfolio is down 2.19% (through November 13).

ASSET ALLOCATION as of 09/30/18:

This page details the dollar amount and percentages of each sub asset class. Total Cash and Cash Equivalence and Fixed Income totaled $4,775,009, which represents 34.79% of the portfolio. That is a slight variance of -0.21 % from the 35.00 target.

The Total Equity and Real Estate totaled $8,951,991, which represents 65.21% of the portfolio. That is a slight variance of 0.21 % from the 65.00 percent target.

The total fund balance is $13,727,001.

The main takeaway here is that all allocations to the respective asset classes are in line with their respective target ranges.

HOLDINGS AND PERFORMANCE: this helps illustrate the performance of the underlying holdings in the portfolio for the past 3 months.

The Fixed Income Funds in the portfolio all enjoyed positive returns for the quarter. And moving into the individual common stocks, overall performance was positive. Again, noteworthy performers were CA Inc., Apple Inc., Walgreens and Biogen Inc. Luckily, there were no meaningful detractors to report. No position changes were made in the common stock portfolio during the quarter.

Mr. Miller said that although he mentioned CA Inc. being purchased in the past month, the Investment Committee is working on a replacement and should have something within the month.

No other positions in this individual common stock portfolio are on watch or give any cause for concern.

Individual Funds in the portfolio: Domestic Equity Funds enjoyed a very nice quarter with positive returns across the board. International Equity Growth and Emerging Markets did not fare as well; both pulled back about 2.6 to 4.2% respectively. But, the Value International Fund was positive out of those three international emerging markets for the quarter.

Real Estate again was flat to slightly positive for the quarter and there was only one change overall in the funds in the portfolio, which was Vulcan Value Partners, which was sold August 20 and replaced with a fund that is already in the portfolio, Vanguard High Dividend Yield (that was due to under performance on a 3 and 5 year basis and fees). Fees are 15 basis points for the Vanguard Fund and they were 108 for the Vulcan Fund.

Other than that, there are no funds that are on watch at this time or recommendations for changes.

HISTORICAL SUMMARY: This page displays the FY performance from 2009 to 2015 and the quarterly performance from 2016 to the present. The last 3 annual returns have been 0.95, 10.56 and 7.42.

EXPENSE SUMMARY: Ms. Fletcher said the Mutual Fund Weighted Expense ratio is 11 basis points; Billed Expenses are at 6 basis points. Overall it is at 17 basis points for the quarter.

There were no questions or comments.

Review of Actuarial Report as of July 1, 2018 (Richard Ellis, Ellis & Ward Benefits Group, Inc.)

Mr. Ellis pointed out that the report says revised as of October 25, 2018. He said that when he did the first calculation of the actuarial determined contribution, he did not build in an amortization of the over funding. But, he revised it to look at the amortization of the over funding and that resulted in the actuarially determined contribution being zero.

Mayor Joyner said he likes zero.

Mr. Ellis referred to page 3 of the report, stating that it shows how many people are in the plan under accrued liability is $8,334,463, but assets are $13,376,413. So the Plan is over funded by $5,041,950. The normal cost is $241,801 (that is the cost for this year's accrual). He said that if he does not amortize the over funding, the actuarially determined contribution would be $241,801 plus interest rate to the end of the year (about $250,000).

Mr. Krock said he questioned the original report because of the concern of the overfunding continuing to grow if the overfunding is not considered, and amortized, as part of the actuarial report.

Mr. Ellis said that is a concern.

Mayor Joyner said there is no reason to over fund in the OPEB account.

Mr. Ellis said that Page 9 of the report illustrates what effect the discount rate would have. The discount rate of 7.5% shows the over funding of $5 million dollars. If the discount rate was decreased to 6.5%, it would add to $921,000 to the liability. It would still be over funded by $4 million dollars. He said the discount rate has a lot to do with this and he advised the Committee to keep in mind that it is hard to say whether we are going to get the 7.5%.

Mr. Ellis added that another thing that is interesting is that he is using a healthcare cost trend rate, starting at 8%. They look at averages for the country and what the healthcare increases are in the future (they start at 8% and go down). He said they have been increasing so fast over the last 10 years or so that people say it cannot continue to increase that fast, because it will be too big of percentage of gross domestic product. If you start at 7% and go down, it increases the over funding. The discount rate is the driving factor of liability and what makes the thing over funded is claims cost.

Participant claim cost is $6,047 for retirees who are under 65. The dependent claim cost is $7,462.

In 2014, those corresponding numbers were $7,462 and $7,713. In 2016, they went down to $6,453 and $7,388. And they are down again (calculation is done every 2 years). Collierville's claim costs have been going down. In 2013 and 2014, there were some unusually high claims. They take a 5 year average and those two increased it for 2014, but there are some good years coming and the average is going down and this is what drives the decrease in liability.

Mr. Ellis said that in 2017, $196,000 in claims was paid out and in 2013, it was $400,000; they are going down every year.

Mr. Ellis said that everybody else's claims are going up and they are having problems keeping it funded, but Collierville's claims are going down.

The average claim cost for people over 65 has gone down even more dramatically. In 2014, it was almost $12,000 and it went to $10,000 and now it is $7,486.

Mr. Ellis said it is a great Plan in terms of the funding and he does not think OPEB is going to cause any problems.

Brief discussion ensued.

Mr. Ellis ended his presentation, stating that the suggested contribution is zero for the next 2 years. He said that it is good design and good management that is making this thing work.

No other questions or comments.

Adjournment

There being no further business, the meeting was declared adjourned at 10:10 a.m.

Chairman

Lynn Carmack
Town Clerk