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Date: November 22, 2023
To: Joseph Mooney, Chairman Board of Finance
From: James Finch, Director of Finance
Re: Pension and OPEB Asset Allocation and Return on Asset Approaches

As I noted at our last meeting the recent rise in interest rates compelled us to revise our approach with an eye towards immunizing additional years of projected payments with less risk. In November I had meetings with our pension advisor and actuary to coordinate and discuss the following tasks:

- Update the asset allocation study based on revised market assumptions.
- Consider immunizing additional years of projected payments.
- Evaluate the potential benefits of extending the duration of the fixed income portfolio.
- Estimate the impact on liabilities and funding requirements.

The analysis suggest we can achieve the following:

- We can immunize an additional two years of projected police pension liabilities with an asset allocation of 55% fixed income and 45% equities. The return on asset assumption would remain at 6.5%
- We can completely immunize projected OPEB liabilities by shifting to an asset allocation of 80% fixed and 20% equities. The return on asset assumption would be lowered to 5.5% with minimal impact on funding requirements.

I will distribute a presentation which provides the detail for these results as well as an alternative scenario for the board's consideration once it becomes available.

Cc James Cosgrove, First Selectman
Lisa Arpin, Town Clerk