

KENT COUNTY PENSION REVIEW COMMITTEE

Quarterly Meeting Minutes

Thursday, May 14, 2020

Kent County Administrative Complex

555 Bay Road, Dover, DE

*Properly posted meeting conducted via teleconference due to COVID-19 pandemic*

Call to Order & Determination of a Quorum: 2:10 p.m. due to technical difficulties

*Members Present:*

David C. Craik, Chairman  
Susan Durham, Vice-Chair  
Kristopher Connelly  
Michael Petit de Mange  
Christopher S. Smith  
Ronald D. Smith

*Members Absent:*

Timothy R. Horne

*Others Present:*

Allan Angel, Levy Court Commissioner  
Allan Kujala, Personnel Director  
Tanya Laytin, Segal Marco Advisors  
(identified listener) – Lindsay Saienni, Financial Investment News

*Chairman Craik presiding.*

Call of the roll revealed a quorum was present.

**1. Approval of the Minutes of February 20, 2020 meeting.**

A motion was made by Ms. Durham, seconded by Mr. Connelly, and carried unanimously to approve the minutes for the meeting held on February 20, 2020.

**2. Segal Marco Advisors – 1<sup>st</sup> Quarter 2020 Fund Performance Report.**

Associate Consultant Tanya Laytin presented an “Analysis of Investment Performance” through March 31, 2020. The report showed the ending market value of total pension assets as \$39,482,786 with a quarterly decrease of -\$5,480,361 (-\$6,378,191/investment losses, +\$47,829/income, -\$854,049/withdrawals, +\$1,704,050 partial pension contribution). At quarter’s end, 42.10% of the assets were invested in domestic equities, 7.84% in international equities, 9.72% in global tactical asset allocation (balanced), 5.02% in real estate, 2.23% in emerging markets equities, 32.69% in fixed income, and 0.41% in cash. For the quarter, the pension fund underperformed with a return of -13.73% versus -9.96% for the Policy index. For the one year period, the Total Fund underperformed the Policy Index -5.76% vs. -1.07%, and for the three year period it fell behind the Policy Index +2.98% versus +4.15%. Since inception, the Total Fund has returned +9.19% compared to +8.54% for the Policy Index.

INTECH (Large U.S. Cap Growth – 24.18%), which started December 1, 2003, underperformed the index for the quarter with a return of -14.48% compared to -14.10% for the Russell 1000 growth index. For the one year, INTECH returned -1.97% versus +0.91%

for the comparative index, and maintains a +12.08% return rate compared to +12.93% for the index after 10 years. Since inception, INTECH has returned +9.10% compared to +9.22% for the Policy Index.

Wedge Capital (Large U.S. Cap Value – 18.33%), which started October 1, 2004, outperformed the index for the quarter with a return of -26.57% compared to -26.73% for the Russell 1000 value index. The Wedge investment returns for the one year period were -16.92% compared to -17.17% for the index and maintains a +8.92% return rate compared to +7.67% for the index after 10 years.

AQR International Equity Fund II (International – 7.84%), which replaced *Rogerscasey Target Solutions Large Cap Core International* effective January 1, 2019, underperformed for the quarter with a return of -26.83% compared to -22.83% for the MSCI NET EAFE index. For the one year period, AQR returned -21.52% compared to -14.38% for the index and since inception (January 1, 2008), the international allocation underperformed the Policy Index -2.73% versus -0.13%.

Invesco Balanced-Risk Allocation (GTAA – 9.72%) was established May 1, 2014 and outperformed for the quarter with a return of -11.54% versus the -11.74% for the 60% MSCI World/40% Barclays U.S. Aggregate benchmark. For the one year period, the balanced risk investment returns were -5.39% compared to -2.25% for the policy index year and for the five year period it underperformed the Policy Index +2.55% versus +3.90%.

Segal Marco Fixed Income Group Trust (Fixed Income – 32.69%), which replaced *Rogerscasey Target Solutions Core Fixed Income* established on January 1, 2015 effective January 1, 2019, underperformed for the quarter with a return of -1.35% compared to +3.15% for the Bloomberg Barclays U.S. Aggregate Bond index. For the one year period, the Bond composite allocation returned +3.16% compared to +8.93% for the index and the fixed income allocation maintains a +3.88% return rate compared to +4.23% for the index since inception.

RCTS Emerging Markets Equity-RBC/Wells (Emerging Equities – 2.23%) was established March 1, 2018 and outperformed for the quarter with a return of -23.02% compared to -23.60% for the MSCI EM (net) policy index. The RCTS investment returns for the one year period were -15.01% compared to -17.69% for the policy index. Since inception, the emerging markets allocation has returned -10.23% compared to -13.01% for the Policy Index.

Principal U.S. Property Account (Real Estate – 5.02%) was established March 1, 2018 and underperformed for the quarter with a return of +0.34% compared to +0.97% for the for the NCREIF ODCE Equal Weighted policy index. The Principal investment returns for the one year period were +4.51% compared to +5.33% for the index

The *RCTS High Yield Fixed Income (High Yield Fixed Income)* allocation established March 1, 2018 was liquidated and combined with Segal Marco FIGT effective January 1, 2019.

Ms. Laytin reported that all Segal Marco clients experienced declines in the First Quarter due to the coronavirus lockdown and the reaction by the markets. She said that many

rebounded in April, except commodities, to above +13%. She said the situation was similar to the mortgage crisis in 2008, except for the time frame and magnitude. In addition, she reported that Segal Marco Advisors continues to monitor INTECH after placing the U.S. large cap growth fund manager on “hold” status due to major staff changes and investment strategy adjustments along with significant asset level change. She said that planned in-person meetings with Intech principals have not yet happened due to the pandemic response, but that the company has been very responsive.

**3. DSPO – 1<sup>st</sup> Quarter 2020 Retiree Benefits Investment Performance Report.**

The State Pension Office reported that the comingled Delaware Public Employees Retirement Investment Pool (DELRIP) experienced a quarterly decrease of -8.5% compared to -12.5% for the DPERS Policy benchmark. The State Pension fund return was reported as -0.4% versus -3.6% for the benchmark for the one year period.

The unaudited DELRIP report for January 1 – March 31, 2020 showed a market value balance of \$17,675,894.42 with a decrease of -\$1,651,145.64 for the quarter. For the quarter, the County’s portion of the fund assets (0.17673%) decreased by -8.54% (+\$1,136.41 interest, +\$23,792.36 dividends, +815.73 securities lending income, -\$6,405.68 net change accrued income, -\$1,975,634.26 unrealized gain/loss change, +\$286,485.83 realized gain/loss, -\$122.36 securities lending fees/expenses, +\$337.14 accrued expense change-investment manager, -\$3,595.94 investment manager/advisory fees, -\$201.25 transaction fees, -\$15.34 legal-investment fees, -\$194.54 audit expenses, -\$7,540.74 investment manager fund fee.)

**4. Staff – Pension Valuation Report (January 1, 2020).**

Mr. Kujala advised that since the February meeting, the Pension Actuary had finalized the annual pension valuation and copies had been distributed to the Levy Court (Board of Trustees) and Pension Review Committee members. He advised that the Actuarially Determined Contribution for FY2021 increased from \$3,408,084 to \$4,125,794. He said Nyhart attributed the increase largely due to inclusion of a 1% compound COLA assumption expense granted to all pensioners retiring from active service. He noted that the new 5% contribution rate for new hires effective January 1, 2020 had no direct impact on the valuation.

**5. Staff – 2019 Annual Report to Levy Court Update.**

Mr. Kujala reported that on or about March 8, 2020 the Annual Report approved by the Pension Review Committee at its last meeting was distributed to Levy Court Commissioners and uploaded onto the Committee’s webpage.

**6. Staff – Partial FY2020 Pension & OPEB Contribution Update (\$1,704,100).**

Mr. Kujala advised that the second half (\$1,704,000) of the total annual pension contribution of \$3,408,084 would be deposited into the fixed income account (FIGT) in early June. In addition, he advised the full OPEB contribution of \$2,154,449 would be deposited with DELRIP about the same time.

**7. Staff – 2021 Budgeted Pension & OPEB Contributions update.**

Mr. Kujala reported that Levy Court was scheduled to hold a public hearing on the FY2021 Budget on May 26, 2020 when it is expected to be adopted with the full actuarially determined contributions of \$4,125,794 for the pension plan and \$2,735,837 for OPEB included.

**8. Staff – OPEB Assumptions & Funding Policy Recommendations Update.**

Mr. Kujala advised that with the COVID-19 emergency declaration limiting public gatherings, Levy Court had not yet had the opportunity to consider the Committee's recommendation at a public meeting to revise the OPEB valuation assumptions as follows: 1) Mortality table – Change from RP-2000 Combined Mortality Table with mortality improvement projected to 2016 using Scale AA to *RP-2014 Total Mortality Table with fully generational improvements projected from 2006 based on assumptions from the 2018 Social Security Administration Trustee's Report for Healthy versus Disabled lives*; 2) Termination rate table – Change from a table with 9 ranges for ages 25-65+ and gender to a table of rates that more closely aligns with actual experience with 9 ranges for ages 20-60 and gender based upon a study of actual experience for the plan from January 1, 2011 – January 1, 2016 or later; and 3) Employer Funding Policy – Add language describing the methodology and determining the calculation for the Actuarially Determined Contribution using a decreasing 30-year amortization period beginning in FYE 2019\*.

Mr. Kujala said he expected the topic to be on a Levy Court meeting agenda when public meetings resume. He noted that the interim OPEB valuation would not typically be completed until November.

**9. Grant Thornton – OPEB Modeling Report (w/requested revisions).**

Mr. Kujala recalled that after a formal presentation at the February meeting, Grant Thornton was requested to revise the tables and charts in the report to provide a 20-year total cost figure for each scenario table and depict the actuarial normal contribution on the charts. He reported that the revisions were made and a final version was distributed to the Committee members. He noted that the additional analysis was requested by Levy Court following a presentation of options prepared by Nyhart as the result of budget discussions in spring 2019 about retiree health benefit costs.

*Grant Thornton OPEB Cost Sharing Projections Report dated 02/20/2020*

<b>Scenario \$ in millions</b>	<b>OPEB Contributions 2019-2025</b>	<b>OPEB Contributions 2026-2040</b>	<b>Total OPEB Contributions Over 20 years</b>	<b>Total OPEB Savings Over 20 years</b>
BASELINE – retirees pay 7% under age 65 & \$0 post-65	17.8	56.6	74.4	-
Alternative 1- <u>new</u> retirees pay 15%, post-65 pay 5%	17.1	55.1	72.2	(\$2.2)
Alternative 2 – <b>new hires</b> pay 15%, post-65 pay 5%	17.7	56.6	74.3	(\$0.1)
Alternative 3 – <u>new</u> retirees pay 15%/5% & new hires NOT eligible	16.4	55.1	71.5	(\$2.9)
Alternative 4A – <u>new</u> retirees pay 7%, post-65 pay 1% more annually until reach 7%	17.5	54.8	72.3	(\$2.1)
Alternative 4B – <u>current</u> & future retirees pay 7%, post-65 pay 1% more annually until reach 7%	16.7	53.7	70.4	(\$4.0)
Alternative 5A – <b>new hires &amp; non-vested</b> pay 60% @ 8 years declining 5%/year until 0% @ 20 years	16.6	53.7	70.3	(\$4.1)
Alternative 5B – <u>new</u> retirees pay 50% @ 8-14 yrs, 25% @ 15-19 yrs & 0% @ 20 yrs (20% spouse)	17.8	56.6	74.4	(0.0)
Alternative 5C – <u>current</u> active & <b>new hires</b> pay 50% @ 8-14 yrs, 25% @ 15-19 yrs & 0% @ 20 yrs (20% spouse)	16.0	52.2	68.2	(\$6.2)
Alternative 5D - <u>current</u> active, <b>new hires, &amp; spouses</b> pay 50% @ 8-14 yrs, 25% @ 15-19 yrs & <b>15%</b> @ 20 yrs	15.2	49.6	64.8	(\$9.7)

Alternative 6 – <b>New hires</b> NOT eligible, but provide a fixed subsidy	<b>17.0</b>	<b>56.6</b>	<b>73.6</b>	<b>(\$0.8)</b>
--	-------------	-------------	-------------	----------------

*NOTE: Current OPEB funding policy requires greater of maximum expected benefits payments or the annual normal cost plus a 30-year amortization of the unfunded actuarial obligation. Benefit payments begin to exceed the obligation around 2025(baseline).*

Mr. Kujala recalled the Committee had initiated in May 2018 an analysis of potential OPEB expense reduction strategies including a graduated service based cost share option similar to that used by the State of Delaware, and a fixed percentage cost share for pre-65 retirees and those on the Medicare supplement. He said the Committee was dissatisfied with the analysis and results in the OPEB Modeling Report dated February 12, 2019 and decided not to make a specific recommendation at that time to Levy Court to reduce future OPEB expenses, although the sliding scale design appeared to be most favored.

**10. Staff – Deferred Compensation (457) Provider RFP Status Report.**

Mr. Kujala reported that Strategic Retirement Partners had completed analysis of the RFP responses for possible selection of a new Deferred Compensation (457) Provider for County employees. He advised that the COVID-19 pandemic response has delayed the final interviews of the top 3 vendors, but he anticipated that interviews would be scheduled as soon as normal operations resume. Once a final selection is made, he said he expects Levy Court will request that the Committee review the annual performance report to be prepared by Segal Marco Advisors.

Mr. C. Smith requested that a copy of the SRP report be emailed to each member for review.

**11. Staff –Quarterly Pension Activity Report.**

Mr. Kujala reviewed the Quarterly Pension Activity Reports to keep the Committee members apprised of participant cost changes to the pension fund. A summarized version of the report is presented below:

*Quarterly Pension Activity Report*

Pension Payment Date	Gross \$ Paid	# Recipients	Comments
May 1, 2020	\$261,375.79	232	-1 (R) w/retro -\$608.35; +1 (B) w/retro +\$1,034.35
April 1, 2020	\$260,949.79	232	+1 (R); -(R) w/retro -\$3,041.65; -1 (P) w/retro -\$1,505.00
March 1, 2020	\$263,615.40	233	+1 (R) w/retro +\$2,709.09; -1 (R) w/retro -\$1,867.43
February 1, 2020	\$262,773.54	233	-1 (R) w/retro -\$483.19; +1 (B) w/retro +\$234.49
January 1, 2020	\$263,022.24	233	-1(R); +1(B)
December 1, 2019	\$263,033.77	233	+3(R); +1(P); +1(P) w/retro \$137.05; -1(B)
November 1, 2019	\$258,310.63	229	+1(R); +1(P) w/retro \$862.56; -1(P)
October 1, 2019	\$255,266.06	228	+1(R)
September 1, 2019	\$253,321.24	227	+1(R); -1(B)
August 1, 2019	\$251,910.24	227	+1 (B) w/retro \$514.87

July 1, 2019 (+1% cola#)	\$250,880.50	226 (\$2,027.39)	-1 (R)
June 1, 2019	\$249,524.91	227	+2 (R); -1(R); +1(QDRO)
May 1, 2019	\$247,078.62	225	-1 (P)
April 1, 2019	\$247,204.79	226	+1 (P)
March 1, 2019	\$246,514.51	225	- 1 (P) & (+\$89.61) net interest adjustment/credit*
February 1, 2019	\$246,576.44	226	+2(P)
January 1, 2019	\$243,264.77	224	+2 (R); +1 (P)
<b>Pending Pensions - Type</b>	<b>Effective Date</b>	<b>Service Years/Age</b>	<b>Estimated Benefit</b>
(R)	06/01/20	15.8 yrs; 62	\$1,212.29/mo. CC10yrs
(R)	06/01/20	15.5 yrs; 62	\$1,101.28/mo. Life
(B)	04/01/20		\$664.30/mo. Life (Active employee died 03/20/20)
<b>Pensions started – Type</b>	<b>Effective Date</b>	<b>Service Years/Age</b>	<b>Monthly Benefit/Type #2019 interest adjustment</b>
+(B)	05/01/20		\$1,034.35/mo. Life-Beneficiary (retro to 03/01/20)
-(R)	05/01/20		-\$608.35/mo. Died 03/06/20 retro
+(R)	04/01/20	16.4 yrs; 65	\$1,881.04/mo. Life
+(R)	04/01/20		-\$3,041.65/mo. Died 02/21/20 retro
-(P)	04/01/20		-\$1,505.00/mo. Died 02/08/20 retro w/Beneficiary
+(R)	03/01/20	30.1 yrs; 53	\$2,709.09/mo. CA50% (retro to 02/01/20)
-(R)	03/01/20		-\$1,867.43/mo. Died 01/18/20 retro
+(B)	02/01/20		\$234.49/mo. Life-Beneficiary (retro to 01/01/20)
-(R)	02/01/20		-\$483.19/mo. Died 12/22/19 retro
+(B)	01/01/20		\$1,152.77/mo. Life-Beneficiary
-(R)	01/01/20		-\$1,164.30/mo. Died 12/08/19
+(P)	12/01/19	5.3 yrs; 62	\$137.05/mo. CC10yrs (retro to 11/01/19)
+(P)	12/01/19	13 yrs; 62	\$1,170.87/mo. CA100%
-(R)	12/01/19	8.1 yrs; 70	\$1,008.08/mo. Life
-(R)	12/01/19	17.4 yrs; 65	\$1,273.92/mo. Life
-(R)	12/01/19	18 yrs; 62	\$1,339.27/mo. CA50%
+(R)	11/01/19	32.8 yrs; 53	\$2,889.96/mo. Life
+(P)	11/01/19	16 yrs; 60	\$287.52/mo. CA100% (retro to 08/01/19)
-(P)	11/01/19		-\$132.91/mo. Died 10/14/19
+(R)	10/01/19	27 yrs; 62	\$1,944.82/mo. CA 50%
+(B)	09/01/19		-\$265.54/mo. Died 07/29/19 retro
+(R)	09/01/19	25 yrs; 58	\$2,191.41/mo. CA50%
+(B)	08/01/19		\$514.87/mo. w/retro to 07/01/19
-(R)	07/01/19		-\$671.80/mo. Died 04/14/19 retro
+(R)	06/01/19	11.6 yrs; 69	\$1,279.25/mo. CC10yrs w/QDRO
+(QDRO)	06/01/19		\$351.67/mo. QDRO
+(R)	06/01/19	18.1 yrs; 65	\$1,235.87/mo. CA100%
-(R)	06/01/19		-\$420.50/mo. Died 03/31/19 retro
-(P)	05/01/19		-\$126.79/mo. Died 03/28/19 retro
+(P)	04/01/19	11.6 yrs; 62	\$750.02/mo. Life
-(P)	03/01/19		-\$151.54/mo. Died 02/07/19
+(P)	02/01/19*	8.8 yrs; 62	\$303.92/mo. Life (retro to 01/01/19)
+(P)	02/01/19*	27.2 yrs; 55	\$3,022.87/mo. CA100% #(retro to 01/01/19)
+(P)	01/01/19	12.5 yrs; 62	\$302.91/mo. CA100% #(retro to 01/01/19)
+(R)	01/01/19	8.3 yrs; 67	\$511.83/mo. Life
+(R)	01/01/19	20.3 yrs; 62	\$1,392.86/mo. CA100% #(retro to 01/01/19)

R=Retiree from active service; P= Pensioner, vested former employee; B=Beneficiary of deceased participant; QB=QDRO beneficiary; \*benefit addition or deletion retroactive to eligibility month. Life=Life Annuity; CA=Contingent annuitant (beneficiary) & %; CC=Continuous & certain for # years

**13. Any other additional business properly brought before the Committee:**

None.

**14. Next Meeting.**

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, August 20, 2020 for the Annual Appreciation Luncheon & Quarterly Meeting at 12 noon if possible, otherwise at 2:00 p.m. with the lunch

A motion was made by Mr. R. Smith, seconded by Ms. Durham, and carried unanimously to adjourn the meeting at 2:55 p.m.

*Minutes drafted by Allan Kujala and are subject to change at a future Committee meeting*