

ANNUAL REPORT – 2010

Kent County Pension Review Committee Annual Report to Kent County Levy Court February 17, 2011



Background

The Kent County Pension Review Committee was established by the Kent County Levy Court to advise the body on “the various aspects of the Kent County Employee Pension Fund.” The Committee is composed of three members of the community appointed by Levy Court – including David Craik, Tom Leary, and Duke Strosser, the Kent County Finance Director Susan Durham, a Kent County Employee Council representative Kelly Crumpley, and the Kent County Comptroller Georgette Williams, who serves as an *ex officio* member. The Committee meets regularly on a quarterly basis to review the pension fund performance report and more often as needed to conduct additional business such as new fund manager interviews.

The Committee is also responsible for reviewing investment performance of the Retiree Benefits program (OPEB) invested with the State of Delaware Local Government OPEB Pool through the State Pension Office.

Kent County Levy Court serves as the Board of Trustees and is the fiduciary for both plans.

Investment Strategy

Per the Pension Investment Policy adopted by Kent County Levy Court, the Committee is committed to maintaining an average 60/40 asset investment ratio between equities (stocks) and fixed income (bonds).

The portfolio is structured to maintain an average balance of 25% for large capitalized growth stocks, 25% for large capitalized value stocks, 10% for international non-US growth stocks, and 40% for fixed income. Rebalancing can occur as necessary, but historically happens once per year upon transfer of the County's annual contribution.

During 2010, the Committee continued to closely monitor the performance of the international equities fund manager and the large capitalized equities fund manager. On a quarterly basis the group reviewed the performance of the State of Delaware pension fund to help it determine the best time to transfer management of the retirement fund assets to the State Pension Office, as previously approved by Levy Court. The Committee waited until recovery and consistent growth of the equity market appeared certain before recommending that the assets be transferred in early 2011 with \$5 million retained with the fixed income manager to minimize risk and pay pension benefits.

Investment Managers

The Pension Fund's investment managers include INTECH (large cap growth) effective November 30, 2003; Wedge Capital Management (large cap value) effective September 30, 2004; McKinley Capital Management (international growth) effective November 30, 2007; and Amalgamated Bank (core bond) effective May 1, 2008. Segal Advisors Inc. serves as pension consultant responsible for independently evaluating investment manager performance. Wachovia Retirement Services, now Wells Fargo, performs pension custodian services including distribution of monthly pension checks/direct deposits.

Fund Performance

The stock market continued to rebound from losses experienced in 2008 and the fund's performance improved by 13.55% over 2009. The fund value increased from \$21.2 million to \$24.4 million. This figure includes a \$2,133,498 annual contribution recommended by pension fund actuary, SMART Business Advisory & Consulting Services, in its report dated March 16, 2009. Over the one year period the total Fund increased 13.55% while the policy index (50% S&P 500/40% Lehman Brothers Aggregate/10% MSCI EAFE) increased 11.45% over the same time period. For the year, INTECH bested the Russell 1000 growth Index (16.71%) with a return of 17.58% in the large cap growth segment. Wedge Capital grew 18.05% in the large cap value segment, which outperformed the Russell 1000 Value Index (15.51%). Amalgamated Bank returned 6.92% for the year while policy index Barclays Capital Aggregate returned 6.54% for the same time period. McKinley

Capital Management rebounded with a return of 12.15% compared to the MSCI EAFE index which returned 7.75% for the year.

The retiree benefits fund managed by the State Pension Office experienced very good gains during the year growing 11.1% through its commingled investments compared to 11.8% for the policy benchmark for a year end market value of \$9,706,467.72, which included a \$43,400 contribution (\$630,976 less \$425,844.60 for actual retiree benefit costs in FY2010). At year's end, 109 retirees received County health benefits, 19 dependents were covered, and 11 retirees waived coverage.

Actuarial Valuations

Due to the improving market, Levy Court decided in late 2009 to conduct annual pension fund valuations and approved updates to the actuarial cost method and actuarial assumptions in early 2010. The valuation was completed as of January 1, 2010 by SMART Business Advisory & Consulting Services, LLC, which merged with LECG, LLC during the year, and recommended a contribution of \$1,539,554 for FY2011. The figure was much lower than the previous \$2,133,498 and was attributed to fund growth due to the improving stock market, static pay rates, and staff reduction as a result of the 2009 pension incentive program. The next pension plan actuarial valuation is underway as of January 1, 2011, as is the biennial OPEB valuation.

Plan Changes

In an effort to rein in future costs, Levy Court adopted three pension plan amendments for new hires, including a lower 1.85% multiplier, a higher three percent (3%) pension deduction on base salary less \$6,000, and a longer vesting period (8 years). These amendments do not apply to current or prospective members of the two collective bargaining units. Employees hired before December 20, 2010 continue to have a one percent (1%) base salary pension contribution under the IRS employer pick up provision. Application for an IRS determination letter for the plan was also initiated in late 2010 for a January 31, 2011 submission.

Fund Expenses

Pension and fee payments are drawn from the fixed income (bond) segment and transferred to Wachovia, now Wells Fargo, on a monthly basis. For 2010, pension payments totaled \$1,878,857.24 with a total of 169 recipients at year end. The annual fee for pension consultant Segal Advisors was \$26,000, although the current agreement expired July 1, 2006. The fund custodian fee paid to Wachovia Retirement Services, now Wells Fargo Retirement Services, was \$15,311.55 for processing checks, reports, and trades. The actuary expenses were \$18,808.20 paid to LECG/SMART for the valuation, various studies, and pension benefit calculations. The fund manager fees not assessed from proceeds totaled \$29,676.68.

Comments and Recommendations

Calendar Year 2010 was a much better year for the pension fund. The stock market recovered significantly and the fund benefitted greatly from those gains. The equity managers returned to form by outpacing indices, and the fixed income manager continued to prove itself as a growth leader in the sector. Overall, the pension fund's performance improved significantly in 2010, and the Committee remains optimistic that moving assets to the State program will enhance future performance. The Committee has no specific recommendations at this time.