

KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting Minutes
Thursday, February 16, 2017
Kent County Administrative Complex
555 Bay Road, Dover, DE

Call to Order & Determination of a Quorum: 2:00 p.m.

Members Present:

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

Members Absent:

Christopher S. Smith

Others Present:

Allan Angel, Levy Court Commissioner
Allan Kujala, Personnel Director
Tanya Laytin, Segal Marco Advisors

Chairman Craik presiding.

Mr. Craik welcomed new Committee members Tim Horne and Mike Petit de Mange to their first official meeting since Levy Court amended the Committee format in December. Introductions were made.

Call of the roll revealed a quorum was present.

1. Approval of the Agenda.

Chairman Craik noted that staff needed direction on which funds to allocate the first half of the \$2,166,460 Fiscal Year 2017 pension contribution. He placed the item under additional business. The agenda was amended without objection.

2. Approval of the Minutes of December 1, 2016 meeting.

A motion was made by Ms. Durham, seconded by Mr. Connelly, and carried unanimously to approve the minutes for the meeting held on December 1, 2016.

3. Segal Marco Advisors – 4th Quarter 2016 Fund Performance Report.

Senior Analyst Tanya Laytin presented an “Analysis of Investment Performance” through December 31, 2016. The report showed the value of total pension assets was \$34,779,626 with a quarterly decrease of -\$423,929 (+\$148,085/investment gains, +\$43,369/income, -\$615,383/withdrawals). At quarter’s end 52.08 of the assets were invested in domestic equities, 8.77% in international equities, 10.38% in global tactical asset allocation (balanced), 27.99% in fixed income, and 0.78% in cash. For the quarter, the County pension

fund returned +0.56%, just under the +0.62% Policy index. For the one year period, the Total Fund outperformed the Policy Index +7.34% vs. +6.51%, and for the three year period it slightly outperformed the Policy Index +5.12% versus +5.11%. Since inception, the Total Fund has returned +9.72% compared to +8.92% for the Policy Index.

INTECH (Large Cap Growth – 25.16%), which started December 1, 2003, underperformed for the quarter with a return of +0.73% compared to +1.01% for the Russell 1000 growth index. For the one year, INTECH returned +5.90% versus +7.08% for the comparative index, and maintains a +7.46% return rate compared to +8.33% for the index after 10 years.

Wedge Capital (Large Cap Value – 27.07%), which started October 1, 2004, underperformed for the quarter with a return of +5.11% compared to +6.68% for the Russell 1000 value index. The Wedge investment returns for the one year period are +13.81% compared to +17.34% for the index and maintains a +6.74% return rate compared to +5.72% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (International – 8.77%), which started on June 1, 2013, outperformed for the quarter with a return of -0.59% compared to -0.71% for the MSCI NET EAFE index. For the one year period, RCTS returned +2.13% compared to +1.00% for the index and for the three year period it slightly outperformed the Policy Index -1.36% versus -1.50%.

Invesco Balanced-Risk Allocation (GTAA – 10.38%) was established May 1, 2014 and underperformed for the quarter with a return of -0.80% compared to -0.01% for the 60%MSCI World/40% Barclays Aggregate. The balanced risk investment returns were +12.62% compared to +6.09% for the index after 1 year.

Rogerscasey Target Solutions Core Fixed Income (Fixed Income – 27.99%), started on January 1, 2015, and outperformed the index for the quarter with a return of -2.85% compared to -2.98% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are +3.03% compared to +2.65% for the index and maintains a +6.74% return rate compared to +6.61% for the index since inception.

Ms. Laytin reported that equities were up 4% for the month of January with the Dow reaching new highs nearly every day. The best performers were in financials and energy, which impacted active fund managers due to underweighting in those sectors. She also noted that interest rates seemed destined for an increase in March.

In addition, Ms. Layton advised that the acquisition of Marco Consulting Group of Chicago had been completed and Segal Rogerscasey was now Segal Marco Advisors.

4. OPEB Pool – 4th Quarter 2016 Local Gov't Retiree Benefits Performance Report.

The State Pension Office reported that the Delaware Local Government OPEB Pool fund experienced a quarterly loss of -0.1% compared to +0.2% for the Russell 3000 policy index, and was +6.9% for the one year period compared to +6.9% for the index. The State Pension fund performance was reported as +1.0% for the quarter compared to +1.4% for the DPERS Policy Benchmark and +7.0% compared to +7.5% for the one year period.

The unaudited OPEB quarterly report showed a market balance of \$14,658,370.86 with a quarterly decrease of -\$14,505.79. From October 1, 2016 through December 31, 2016, the County’s portion of the fund (4.48%) decreased by -0.1% (+\$33,769.82 interest, +\$60,476.57 dividends, +\$1,448.88 net change/accrued income, -\$194,954.67 unrealized gain/loss, +\$86,027.18 realized gain/loss, \$-72.92 custodian fees, and -\$1,200.65 investment manager/advisory fees).

5. Staff – OPEB Valuation Report.

Mr. Kujala noted that the preliminary biennial OPEB valuation report as of July 1, 2016 prepared by plan actuary - The Nyhart Company, had been distributed at the previous meeting and electronically. He reported that the new GASB 74/75 provisions were incorporated with the new July 1 plan year and that the draft report recommended an annual contribution of \$1,218,059, an increase of \$432,948 over the previous valuation recommendation of \$785,111.

He advised that the actuary will finalize the biennial valuation once a determination is made on the interest rate assumption and any changes adopted for the pension program.

6. Staff – OPEB Interest Rate Study Report/Recommendations.

Mr. Kujala presented copies of the OPEB Interest Rate Study completed by Nyhart in January 2017. He also advised that per the Committee’s recommendation, the actuary (Randy Gomez) personally reviewed the study conclusions with the Levy Court Commissioners in a workshop meeting on January 24, 2017.

According to the Nyhart report, *“The recommendation for Kent County Levy Court is to reduce the interest rate assumption to 7.0%. Our recommendation was based on a review of the following information: 1) an analysis of the historical returns of the assets; 2) 10-year forecasted returns prepared by the Trust manager; 3) modeling done by Nyhart to estimate the probability of reaching an 8.0% return over the next 10 years; and 4) a comparison to the assumptions used by relevant peers.”*

For discussion purposes, the following table was presented to the Committee:

Kent County Retiree Benefits Program (OPEB) Interest Rate Study – Jan 2017	Description	Recommended contribution	Adjusted contribution
OPEB – FY2016 & 2017	Previous valuation	\$785,111	
OPEB valuation 2016-17	GASB 74/75 valuation	\$1,218,059	+\$432,948
Interest rate assumption	Reduce from 8% to 7%		+\$358,850
Total contribution increase		\$1,576,909	\$791,798
OPEB valuation 2017-18	GASB 74/75 valuation	\$1,248,883	+\$463,772
Interest rate assumption	Reduce from 8% to 7%		+\$358,850
Total contribution increase		\$1,607,733	\$822,622
ALTERNATIVE OPTIONS-PRC:	2016-17 valuation	Estimate	Estimate
Interest rate assumption	Reduce from 8% to 7.75%	\$1,307,722	+\$89,713
Interest rate assumption	Reduce from 8% to 7.50%	\$1,397,484	+\$179,425
Interest rate assumption	Reduce from 8% to 7.25%	\$1,487,197	+\$269,138

After much discussion, a motion was made by Mr. Craik, seconded by Mr. R. Smith and carried unanimously to recommend to Levy Court that the Retiree Benefits (OPEB) program’s annual discount rate (interest) assumption be reduced from 8% to 7.75% effective with the July 1, 2016 valuation and direct the actuary to incorporate gradual 0.25% discount rate reductions in subsequent biennial valuations until achieving 7%.

In addition, the Committee by consensus requested that the following table illustrating possible funding solutions and Retiree Benefits plan design adjustments be forwarded to the Levy Court for future consideration to maintain program sustainability.

Kent County Retiree Benefits Program (OPEB) <i>Long Term Funding Options</i>	Description <i>Long Term Funding Options</i>	Contribution FY2017 (estimate)	Est. Adjusted contribution
OPEB – FY2016 & FY2017	Previous valuation (OPEB)	\$785,111	
OPEB valuation 2016-17 w/o int. adj.	GASB 74/75 valuation	\$1,218,059	+\$432,948
OPEB valuation 2017-18 w/o int. adj.	GASB 74/75 valuation	\$1,248,883	+\$463,772
FUNDING OPTIONS			
Fund full GASB 74/75 expense	+1.3 cent property tax increase	\$1,218,059*	+\$432,948
Fund full 1% interest rate reduction	+1.0 cent property tax increase	\$1,576,909^	+\$358,850
Retirees pay 10% of health insurance	County pays 90% (GASB 74/75)	\$968,059*	-\$250,000
Retirees pay 10% of health insurance	County pays 90% (Interest rate)	\$1,326,909^	-\$250,000
Retirees pay 30% of health insurance	County pays 70% (GASB 74/75)	\$438,059*	-\$780,000
Retirees pay 30% of health insurance	County pays 70% (Interest rate)	\$796,909^	-\$780,000
Retirees pay full dependent cost	County discontinues 70% cost share	\$unknown	Meaningful
Retirees purchase own health ins.	County contributes fixed amount	\$1,218,059	Significant
Future retirees purchase own ins.	County contributes \$500/yr. to HRA	\$1,218,059	Meaningful
Future retirees purchase own ins.	County contributes \$ based on years	\$1,218,059	Meaningful
New hires	Offer no retiree benefits	\$1,218,059	Significant
Other ideas?	1 cent tax increase = \$343,000		

Figures in tables are estimates and will require actuarial calculations to determine actual implications.

7. Staff – Pension Valuation status update.

Mr. Kujala reported that the employee census was forwarded to the actuary shortly after the new year for the annual valuation process. He advised that plan actuary - The Nyhart Company had contacted the plan’s various managers to collect data regarding fund performance and expenses, but needed a decision soon about the experience study recommendations for the pension program in order to timely complete the valuation.

8. Staff – Pension Plan Experience Study Report/Recommendations.

Mr. Kujala presented copies of the Pension Plan Experience Study completed by Nyhart in January 2017. He also advised that the actuary (Carter Angell) personally reviewed the study conclusions with the Levy Court Commissioners in a workshop meeting on January 24, 2017.

According to the Nyhart report (highlights), “The current interest rate assumption at January 1, 2016 is 8.00% (net of investment expenses). Based upon the past experience of the plan, a comparison to the investment return assumption utilized by peers, and future expectations of market returns per Segal, we are recommending an interest rate of 7.25% (net of investment and administrative expenses)... While not required under the statutes applicable to the Plan, ad hoc Cost of Living Adjustments (COLA) have been provided for 19 of the past 25 years, making it consistent enough for the valuation assumptions to reflect the expected increases in benefits paid. We recommend that unless ad hoc COLAS are ceased, an assumption in the valuation should be made to capture the expected liability. This assumption would apply to current retirees as well as future retirees. Historical ad hoc COLAS awarded to retirees have averaged 2.0% over the last 25 years and 1.9% over the last 5 years. If ad hoc COLAS are going to continue, we recommend the use of an assumed 2.00% annual increase in benefits, payable to current participants in receipt and future retirees... The RP-2000 Healthy/Disabled Mortality Tables are no longer an appropriate assumption to value Plan liabilities. We strongly recommend the use of a more recent mortality table and to include a measure of expected future mortality improvement beyond the valuation year... We recommend moving to the following tables and scales: Healthy: RP-2014 Mortality Table projected generationally with Scale SSA-2016 from 2006 & Disabled: RP-2014 Disabled Table projected generationally with Scale SSA-2016 from 2006... The actual experience of the plan suggested some refinements to the retirement rates should be reflected. Of particular note, some participants have deferred the commencement of their benefit past age 65. We recommend shifting the age at which 100% of remaining participants are assumed to retire from age 65 to 70.”

For discussion purposes, the following table was presented to the Committee:

Kent County Pension Program Experience Study – Jan 2017	Assumption Description	Recommended contribution (Estimate)	Est. Adjusted contribution
Baseline	Previous valuation	\$2,166,460	
COLA	Assume 2% annual adjustment		+\$1,051,589
Mortality Table	Update to RP-2014 Scale SSA-2016		+\$405,953
Interest rate	Reduce from 8% to 7.25%		+\$505,527
Salary increase	Change from 3.25% to age rated table		-\$77,823
Retirement rate	Base rate on actual experience		+\$161,012
Termination rate	Base rate on actual experience		-\$42,283
Baseline (starting point for FY18)		\$4,170,475	+2,004,015
ALTERNATIVE OPTIONS-PRC:	01/01/2017 valuation	Estimate	Estimate
Interest rate assumption	Retain 8%	\$2,166,460	\$0
Interest rate assumption	Reduce from 8% to 7.75%	\$2,334,969	+\$168,509
Interest rate assumption	Reduce from 8% to 7.50%	\$2,503,478	+\$337,018
COLA	No COLAs	\$2,166,460	\$0
COLA	Assume 1% annual adjustment	\$2,692,255	+\$525,795

*Figures illustrate potential impact of Pension Plan assumption adjustments on current fiscal year contribution, before the 01/01/2017 valuation incorporates plan experience from preceding year for FY2018 contribution determination.

After much discussion, a motion was made by Mr. Craik, seconded by Mr. R. Smith

and carried unanimously to recommend to Levy Court that: 1) the practice of granting cost of living adjustments to pension recipient be discontinued immediately; 2) the mortality table be changed to RP-2014 projected generationally with Scale SSA-2016 from 2006 with adjustments for Healthy versus Disabled lives; 3) the Interest Rate be adjusted from the current 8% to 7.75% for the January 1, 2017 valuation, then decreased to 7.50% for the January 1, 2018 valuation, and then finally to 7.25% for the January 1, 2019 valuation; 4) the Salary scale be adjusted from 3.50% to an age rated table; 5) the Retirement rates table be adjusted to align with actual experience; and 6) the Termination rates table be adjusted to align with actual experience.

In addition, the Committee by consensus requested that the following table illustrating possible funding solutions and Pension Plan design adjustments be forwarded to the Levy Court for future consideration to maintain program sustainability.

Kent County Pension Program <i>Long Term Funding Options</i>	Description <i>Long Term Funding Options</i>	Contribution (estimate)	Est. Adjusted contribution
Baseline FY2017	Previous valuation (PENSION)	\$2,166,260	
FUNDING OPTIONS			
Fund all assumption proposals	+5.8 cent property tax increase	\$4,170,475	+\$2,004,015
Current employees paying 1%	Increase pension contribution to 2%	\$2,060,460	-\$106,000
Current employees paying 3%	Increase pension contribution to 5%	\$1,938,260	-\$122,200
New Hires	Increase pension contribution to 7%	\$unknown	\$0
New Hires	Reduce benefit if retire before 62	\$unknown	\$0
New Hires	Lower multiplier from 1.85% to 1.5%	\$unknown	\$0
New Hires	Raise retirement age to 65	\$unknown	<i>Minimal \$</i>
New Hires	Raise vesting from 8 years to 10	\$unknown	<i>Minimal \$</i>
New Hires	Close plan	\$2,166,260	\$0
New Hires	Create defined benefit plan w/match	\$unknown	\$0
Other ideas?	<i>1 cent tax increase = \$343,000</i>		

Figures in tables are estimates and will require actuarial calculations to determine actual implications.

9. Staff – Pension Review Committee ordinance amendment update.

Mr. Kujala reported that the Levy Court took formal action on December 13, 2016 to amend *Kent County Code Chapter 64 - Pension Review Committee* as recommended by the Committee to replace the ex-officio Comptroller with two new voting members to include one additional citizen member and the County Administrator, to better define the qualification of the citizen members, to incorporate OPEB investment review responsibilities, and delineate the Committee’s other duties to oversee the fund valuation processes, ensure compliance with applicable pension or OPEB rules and regulations, direct studies and fund manager searches, and make prudent recommendations regarding plan amendments, investment policies, investment strategies, professional fund manager(s) or trustee(s), investment advisor(s), etc.

10. Staff – Pension Review Committee bylaws revision update.

Mr. Kujala reported that the Levy Court also took formal action on December 13, 2016 to amend the Pension Review Committee bylaws as recommended by the Committee to incorporate the various changes contained in the amendment to Chapter 64 of the Kent County Code.

Chairman Craik executed an official copy of the new bylaws.

11. Staff – Annual Report to Levy Court.

Mr. Kujala presented a draft annual report to Levy Court for review by the Committee which included pension performance information and recommendations, but still needed OPEB figures.

Mr. Craik said he expected the OPEB figures within the next few days.

A motion was made by Ms. Durham, seconded by Mr. R. Smith and carried unanimously to submit the Annual Report to Levy Court with the updated OPEB performance information.

12. Staff – Quarterly Pension Activity Report.

Mr. Kujala presented the Quarterly Pension Activity Report to keep the Committee members apprised of the administrative 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
<i>February 1, 2017</i>	\$203,004.95	201	+1 (R); -1 (P); +1 (B)
<i>January 1, 2017</i>	\$200,867.97	200	+3 (R)
<i>December 1, 2016</i>	\$196,275.58	197	+1 (P)
<i>November 1, 2016</i>	\$196,079.70	196	-1(P); +1 (B)
<i>October 1, 2016</i>	\$196,379.14	196	+5(P)
<i>September 1, 2016</i>	\$193,611.54	191	-1 (R)
<i>August 1, 2016</i>	\$194,242.63	192	+1(R); +1(P); -1(B)
<i>July 1, 2016 (+1% cola)</i>	\$193,619.76	191 (+1,917.03)	
<i>June 1, 2016</i>	\$191,702.73	191	+1(R); +1(P); -1(P); +1(B)
<i>May 1, 2016</i>	\$186,901.13	189	-1(R)
<i>April 1, 2016</i>	\$187,514.87	190	
<i>March 1, 2016</i>	\$187,514.87	190	+1 (R); -1(R)
<i>February 1, 2016</i>	\$187,959.42	190	
<i>January 1, 2016</i>	\$187,959.42	190	+1 (R)
<i>December 1, 2015</i>	\$186,844.02	189	+1 (R)
<i>November 1, 2015</i>	\$186,300.26	188	
<i>October 1, 2015</i>	\$186,300.26	188	
<i>September 1, 2015</i>	\$186,300.26	188	
<i>August 1, 2015</i>	\$186,300.26	188	+1 (P)
<i>July 1, 2015(+2% cola)</i>	\$185,134.21	187 (\$3,617.23)	+1 (P); -2 (R); +1(B)

Pending Pensions - Type	Effective Date	Service Years/Age	Estimated Benefit
Retiree	04/01/17	25.4 yrs; 69	\$2,257.11/mo. Life?
Retiree	03/01/17	13.4 yrs; 62	\$1,268.12/mo. CA100%
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+(R)	02/01/17	27 yrs; 60	\$2,195.38/mo. Life
+(B)	02/01/17*		\$92.75/mo. Life (retro to 01/01/17)
-(P)	02/01/17*		-\$151.15/mo. Died 12/27/16 w/beneficiary
+(R)	01/01/17	16.1 yrs; 67	\$1,165.60/mo. Life
+(R)	01/01/17	26.2 yrs; 62	\$2,619.79/mo. CA50%
+(R)	01/01/17	12.5 yrs; 73	\$807.00/mo. Life
+(P)	12/01/16	6.1 yrs; 62	\$195.88/mo. CA50%
+(B)	11/01/16		\$187.47/mo. Life (retro to 10/01/16)
-(P)	11/01/16		-\$486.91/mo. Died 09/20/16 w/beneficiary
+(P)	10/01/16	6.0 yrs; 62	\$216.43/mo. Life
+(P)	10/01/16	19.8 yrs; 60	\$606.53/mo. CA100%
+(P)	10/01/16	19.4 yrs; 60	\$1,149.18/mo. CA100%
+(P)	10/01/16*	8.0 yrs; 62	\$171.91/mo. CA100% (retro to 07/01/16)
+(P)	10/01/16*	7.8 yrs; 62	\$623.55/mo. CC10yrs (retro to 07/01/16)
-(R)	09/01/16		-\$631.09/mo. Died 08/10/16
+(P)	08/01/16	11.1 yrs; 62	\$286.73/mo. CA50%
-(B)	08/01/16		-\$132.84/mo. Died 07/04/16
+(R)	07/01/16	9.8 yrs; 63	\$468.98/mo. CA50%
+(R)	06/01/16	30.1 yrs; 60	\$4,298.89/mo. Life
+(P)	06/01/16	7.7 yrs; 62	\$528.75/mo. CA100% (retro to 04/01/16)
+(B)	06/01/16		\$263.95/mo. Life
-(P)	06/01/16		-\$289.99/mo. Died 05/08/16 w/beneficiary
-(R)	05/01/16		-\$613.74/mo. Died 01/31/16 (retro to 02/01/16)
+(R)	03/01/16	6.7 yrs; 62	\$392.15/mo. CA50%
-(R)	03/01/16*		-\$836.70/mo. Died 01/28/16 (retro to 02/01/16)
+(R)	01/01/16	13.1 yrs; 63	\$1,115.40/mo. CA100%
+(R)	12/01/15	8.4 yrs; 65	\$543.76/mo. Life
+(P)	08/01/15*	25.3 yrs; 55	\$1,166.05/mo. Life (retro to 07/01/15)
-(R)	07/01/15		-\$471.01/mo. Died 06/04/15
+(B)	07/01/15*		\$774.07/mo. Life (retro to 06/01/15)
-(R)	07/01/15*		-\$1,010.21/mo. Died 05/24/15 (retro to 06/01/15)
+(P)	07/01/15	18.4 yrs; 60	\$656.69/mo. Life

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:

A. Annual Contribution Allocation

Mr. Kujala advised that the first half of the FY2017 pension contribution of \$1,083,230 is scheduled to be made by the end of this month. He asked the Committee to determine which fund(s) into which to make the deposit.

Ms. Durham recommended all the FY17 contribution be invested with the fixed income manager.

Mr. Craik asked Ms. Laytin if the recommendation would be consistent with the desired portfolio allocation.

Ms. Laytin said it would.

A motion was made by Ms. Durham, seconded by Mr. Connelly and carried

unanimously to invest the Fiscal Year 2017 pension contribution with the fixed income fund manager.

14. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, May 18, 2017 for the Annual Appreciation Lunch at 12:00 noon at a restaurant to be determined later.

A motion was made by Mr. Horne, seconded by Mr. R. Smith and carried unanimously to adjourn the meeting at 3:00 p.m.

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