

KENT COUNTY PENSION REVIEW COMMITTEE
Annual Appreciation Lunch & Quarterly Meeting Minutes
Thursday, May 17, 2018
Roma Italian Restaurant
3 President Drive @ Bay Road, Dover, DE

Call to Order & Determination of a Quorum: 12:05 p.m.

Members Present:

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

Members Absent:

Timothy R. Horne
Christopher S. Smith

Others Present:

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

Chairman Craik presiding.

Call of the roll revealed a quorum was present.

1. Approval of the Agenda.

The agenda was approved without objection.

2. Approval of the Minutes of February 15, 2018 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 15, 2018.

3. Election of Chairman and Vice-Chairman.

A nomination was made by Mr. Petit de Mange that David Craik continue to serve as Chairman and Susan Durham continue to serve as Vice-Chairman. No other nominations were received. The reelection of current officers was approved unanimously.

4. Segal Marco Advisors – 1st Quarter 2018 Fund Performance Report.

Senior Analyst Tanya Laytin presented an “Analysis of Investment Performance” through March 31, 2018. The report showed the value of total pension assets was \$42,264,077 with a quarterly increase of +\$1,949,683 (-\$148,739/investment loss, +\$45,741/income, -\$660,477/withdrawals, +\$2,743,160 full annual contribution). At quarter’s end, 40.58% of the assets were invested in domestic equities, 10.20% in international equities, 9.31% in global tactical asset allocation (balanced), 4.16% in real estate, 2.56% in emerging markets equities, 32.64% in fixed income, and 0.55% in cash. For the quarter, the County pension

fund lost -0.03%, well below the -0.78% Policy index. For the one year period, the Total Fund outperformed the Policy Index +8.58% vs. +5.69%, and for the three year period it outperformed the Policy Index +7.37% versus +5.99%. Since inception, the Total Fund has returned +9.86% compared to +8.96% for the Policy Index.

INTECH (Large Cap Growth – 21.02%), which started December 1, 2003, outperformed for the quarter with a return of +2.32% compared to +1.42% for the Russell 1000 growth index. For the one year, INTECH returned +21.30% versus +21.25% for the comparative index, and maintains a +11.01% return rate compared to +11.34% for the index after 10 years.

Wedge Capital (Large Cap Value – 20.10%), which started October 1, 2004, underperformed but bested the index for the quarter with a return of -1.47% compared to -2.83% for the Russell 1000 value index. The Wedge investment returns for the one year period are +15.12% compared to +6.95% for the index and maintains a +9.62% return rate compared to +7.78% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (International – 10.20%), which started on June 1, 2013, underperformed for the quarter but bested the index with a return of -1.21% compared to -1.53% for the MSCI NET EAFE index. For the one year period, RCTS returned +14.85% compared to +14.80% for the index and for the three year period it outperformed the Policy Index +6.52% versus +5.55%.

Invesco Balanced-Risk Allocation (GTAA – 9.31%) was established May 1, 2014 and underperformed for the quarter with a return of -1.23% compared to -1.21% for the 60%MSCI World/40% Barclays Aggregate. For the one year period, the balanced risk investment returns were +6.66% compared to +8.92% for the policy index year and for the three year period it underperformed the Policy Index +4.88% versus +5.72%.

Rogerscasey Target Solutions Core Fixed Income (Fixed Income – 28.99%), started on January 1, 2015, and underperformed the index for the quarter with a return of -1.51% compared to -1.46% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are +1.28% compared to +1.20 for the index and the fixed income allocation maintains a +6.54% return rate compared to +6.42% for the index since inception on January 1, 1986.

NEW: RCTS Emerging Markets Equity (Emerging Equities – 2.58%) was established March 1, 2018 and only had one month's performance to compare to the quarterly +1.42% return for the MSCI EM (net) policy index.

NEW: Principal U.S. Property Account (Real Estate – 4.16%) was established March 1, 2018 and only had one month's performance to compare to the quarterly +2.17% return for the NCREIF ODCE Equal Weighted policy index.

NEW: RCTS High Yield Fixed Income (High Yield Fixed Income – 3.65%) was established March 1, 2018 and only had one month's performance to compare to the quarterly -0.91% return for the BofA Merrill Lynch High Yield Master II policy index.

Ms. Laytin reported that equities were down for the quarter due largely to speculation that the Federal Reserve would continue to increase interest rates in 2018. She said new

funds - Emerging Markets and Real Estate were positive for the quarter, but High Yield along with GTAA commodities were off. Ms. Laytin noted that GDP was down slightly last quarter, but employment has achieved full employment status at 4% and labor force participation is up a bit to 63%. She said SegalMarco anticipates the Federal Reserve will increase interest rates at least 2 more times in 2018 and 3 or 4 times in 2019.

5. OPEB Pool – 1st Quarter 2018 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 -0.8% compared to -0.6% for the Russell 3000 policy index, and was +9.2% for the one year period compared to +13.8% for the index. The State Pension fund return was reported as -0.1% for the quarter compared to -1.0% for the DPERS Policy Benchmark and +9.9% compared to +9.1% for the one year period.

The unaudited OPEB quarterly report showed a market balance of \$16,290,370.93 with a quarterly decrease of -\$540,960.14. From January 1, 2018 through March 31, 2018, the County’s portion of the fund (4.19%) decreased in value by -3.21% (-\$418,323.55 partial withdrawal for retiree healthcare expenses, +\$43,512.75 interest, +\$33,816.62 dividends, +\$1,414.07 net change/accrued income, -\$337,237.83 unrealized gain/loss change, +\$137,283.87 realized gain/loss, -\$103.18 custodian fees, and -\$1,322.89 investment manager/advisory fees).

Mr. Craik advised that the State Pension Office would be initiating active management for the OPEB fund beginning in early 2019.

6. Staff – Pension Valuation Report (January 1, 2018).

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 FY 2019 increased from \$2,743,160 to \$3,024,582. He noted that the increase was largely due to the previously approved incremental reduction of the interest rate assumption from 7.75% to 7.50%. He added another quarter percent reduction is planned for FY2020.

It was noted that the OPEB valuation is completed every other year and the contribution for FY2019 will remain \$1,366,633.

7. Staff – Biennial Pension Statements report.

Mr. Kujala reported that every two years employees are provided a pension statement. He said Nyhart had been asked about a couple of minor tweaks to the statement, which was approved by the Pension Review Committee two years ago, but the cost estimate seemed too high, so the format was retained and copies distributed during the week of May 14, 2018. He advised that the statements generated very few comments from employees, although a couple

did notice that the lower than actuarially assumed pay increase in FY2018 reduced pension benefit figure projections at age 62, 65 and 67.

8. Staff – SegalMarco Advisors fee adjustment update.

Mr. Kujala reported that on March 27, 2018 Levy Court approved the Committee's recommendation to extend and adjust the annual retainer for SegalMarco Advisors from \$26,000 to \$38,000 for a two-year term effective April 1, 2018.

9. Staff – 2017 Annual Report to Levy Court update.

Mr. Kujala reported that on or about February 27, 2018 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.

10. Staff – FY2019 Budgeted Pension & OPEB Contributions update.

Mr. Kujala reported that the Levy Court adopted the Fiscal Year 2019 budget on May 8, 2018 with the full actuarially determined contributions of \$3,024,582 for the pension plan and \$1,366,633 for OPEB budgeted.

11. Staff – OPEB Expense Reduction Strategy fee estimate (Nyhart).

Mr. Kujala advised that during budget discussions, some Levy Court Commissioners expressed concern about ever increasing liabilities for retiree benefits (OPEB). He said after discussing the matter further with Commissioner Angel, he asked the actuary for a cost estimate to analyze scenarios which could have a positive long term impact on future OPEB liabilities.

In response, Nyhart submitted the following proposal:

Our estimated fees and design comments are listed below:

1. *\$3,000 fee for evaluating two strategies*
 - a. *Option 1: Similar to State of Delaware service-based subsidy that would apply to all current employees & future hires, see snapshot below for an example. The County's subsidy would apply to pre-65 and post-65 coverage. The majority of the County's liability is for post-65 coverage so changes to the Medicare coverage are needed to significantly bend the cost curve.*

Future Retiree Contributions:

If hired prior to 07/01/1991 or are on disability retirement, no contributions are required. If hired on or after 07/01/1991 (and not retired on disability) and before January 1, 2007, contributions depend on years of service, as shown in the table below:

Years of Service	Percent of State Share Paid by State
Less than 10	0%
10-14	50%
15-19	75%
20 or more	100%

b. *Option 2: same as option 1 except new hires will contribute 50% of the premium after retirement to continue coverage with the County.*

2. *Additional \$1,500 fee for*

a. *Same as option 1 & 2 except the County’s subsidy for spouse coverage would be reduced by 25% for the incremental spouse cost. For example 100% is now 75%; 75% is now 50%, 50% is now 25%.*

Please note we have assumed existing retirees would be grandfathered and are not affected by these proposed changes. The deliverable is an impact statement on the actuarial liability, PAYGO, OPEB contribution for the coming year and summary of current and proposed changes. We anticipate using the most recently completed actuarial OPEB valuation for the analysis.

Please let Carter or me know if you would like to discuss the fees or potential scope.

Randy Gomez, FSA, MAAA
The Nyhart Company LLC

Mr. Craik noted that when the State of Delaware adopted the service based format several years ago, it applied to existing non-vested employees as well as future new hires. The consensus of committee members favored the graduated percentage strategy rather than the 50% concept proposed in Option 2.

After some additional discussion, a motion was made by Mr. R. Smith, seconded by Ms. Durham, and carried unanimously to proceed with an OPEB Expense Reduction Strategy analysis for Option 1 only as proposed by Nyhart with an appropriate reduction in the fee since Option 2 was eliminated.

12. Staff – Actuarial Consulting Services Renewal/RFP?

Mr. Kujala reported that the current agreement for actuarial consulting services with Nyhart will conclude at the end of 2018. He advised that the current cost for services is as follows:

Actuarial Services	Pension Valuation	Pension Certificate	OPEB Valuation	Pension Statements	Add. Services
11/24/2015	Annually	Per Retiree	Biennially	Biennially	As needed
Nyhart	\$12,750	\$250	\$6,500	\$2,450	\$375/hr

He asked if Committee members would like to seek an extension with Nyhart or issue an RFP.

After some discussion, the consensus of committee members favored seeking a flat rate extension from Nyhart, but if the request is denied or their response is unreasonable then to prepare an RFP.

13. Staff – Quarterly Pension Activity Report.

Mr. Kujala presented the Quarterly Pension Activity Reports 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
May 1, 2018	\$222,575.02	211	+1(R); -1(R); -1(P)
April 1, 2018	\$224,036.80	212	+1(R); -1 (R); -1(B) w/retro;+1(B); & (+\$13.05) net error correction on interest adj.
March 1, 2018	\$224,682.66	212	+1(R); +1(P); -1(P) & (-\$20.35) net interest adjustment
February 1, 2018	\$222,215.56	211	+4(R); +1(B); +1(P)
January 1, 2018	\$210,550.62	205	
December 1, 2017	\$210,550.62	205	
November 1, 2017	\$210,550.62	205	-1(R); +2(P)
October1, 2017	\$211,077.81	204	-1(R)
September1, 2017	\$212,260.27	205	+2(R); -2(R); +1(B)
August 1, 2017	\$209,713.88	204	+1(R)
July 1, 2017 (+1% cola)	\$208,948.36	203 (\$2,063.63)	+1(P); -1(R).; +1% COLA
June 1, 2017	\$206,620.41	203	+1(R); -1(R); -1(P); +1(B)
May 1, 2017	\$206,065.58	203	+1(P)
Pending Pensions - Type	Effective Date	Service Years/Age	Estimated Benefit
(R)	07/01/18	12.6 yrs; 63	\$1,150.92/mo. Life?
(R)	07/01/18	17.7 yrs; 66	\$1,152.77/mo. CA100%
(P)	06/01/18	7.1 yrs; 62	\$208.18/mo. CA75%
(R)	06/01/18	12 yrs; 70	\$913.52/mo. Life
(R)	06/01/18	17.6 yrs; 62	\$1,207.97/mo. Life
(R)	06/01/18	38.1 yrs; 59	\$4,752.34/mo. Life
(P)	06/01/18	5.1 yrs; 62	\$298.62/mo. C&C10yrs (retro to 05/01/17)
(P)	02/01/18	14.1 yrs; 62	\$912.36/mo. Life?
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+ (R)	05/01/18	13 yrs; 63	\$1,125.73/mo. CA75%
- (R)	05/01/18		-\$2,375.14/mo. Died 04/03/18 w/life benefit
- (P)	05/01/18		-\$212.37/mo. Died 04/09/18 w/life benefit
+(B)	04/01/18		\$1,083.66/mo.
- (R)	04/01/18		-\$2,429.01/mo. Died 03/01/18 w/beneficiary
- (B)	04/01/18*		-\$189.34/mo. Died 06/24/17 (retro to 07/01/17)
+(R)	04/01/18*	15.5 yrs; 66	\$875.84/mo. Life CC10yrs (retro to 03/01/18)
+ (P)	03/01/18	11.1 yrs; 62	\$382.64/mo. CA100%
+ (R)	03/01/18	29 yrs; 59	\$2,376.19/mo. Life
- (P)	03/01/18*		-\$271.36/mo. Died 01/22/18 w/life (retro to 02/01/18)

+ (R)	02/01/18	30.3 yrs; 64	\$3,100.10/mo.* CA100%
+ (R)	02/01/18	15.7 yrs; 68	\$1,725.37/mo.* CA100%
+ (R)	02/01/18	18.6 yrs; 60	\$2,306.08/mo.* CA50%
+ (R)	02/01/18*	33.9 yrs; 61	\$2,408.43/mo. CA100% (retro to 01/01/18)
+ (B)	02/01/18*		\$1,147.83/mo. Life (retro to 01/01/18)
+ (P)	02/01/18*	8.8 yrs; 62	\$977.13/mo. Life (retro to 12/01/17)

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*

14. Any other additional business properly brought before the Committee:

A. *Levy Court Appreciation.*

Commissioner Angel thanked each of the Committee members for their service to the employees and citizens of Kent County. He said the Levy Court genuinely appreciates the important role the Committee members have in helping the pension plan and retiree benefits program meet their future investment performance and funding goals.

15. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, August 16, 2018 at 2:00 p.m. at the Kent County Administrative Complex.

A motion was made by Mr. Petit de Mange, seconded by Mr. R. Smith, and carried unanimously to adjourn the meeting at 1:35 p.m.

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