KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting Minutes
Thursday, August 16, 2018
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
Timothy R. Horne
Michael Petit de Mange
Christopher S. Smith
Ronald D. Smith

Members Absent:
Kristopher Connelly

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 revised agenda with the Rogerscasey Target Solutions (RCTS) investments matter added was approved without objection.

2. Approval of the Minutes of May 15, 2018 meeting.

A motion was made by Ms. Durham, seconded by Mr. R. Smith, and carried unanimously to approve the minutes for the meeting held on May 15, 2018.

3. Segal Marco Advisors – 2nd Quarter 2018 Fund Performance Report.

Senior Analyst Tanya Laytin presented an "Analysis of Investment Performance" through June 30, 2018. The report showed the value of total pension assets was $41,646,705 with a quarterly decrease of -$617,302 (+$37,776/investment gain, +$36,308/income, -$691,457/withdrawals). At quarter's end, 41.75% of the assets were invested in domestic equities, 9.94% in international equities, 9.57% in global tactical asset allocation (balanced), 4.32% in real estate, 2.42% in emerging markets equities, 31.49% in fixed income, and 0.51% in cash. For the quarter, the County pension fund gained +0.17%, well behind the +1.16% Policy index. For the one year period, the Total Fund outperformed the Policy Index +8.77% vs. +6.92%, and for the three year period it outperformed the Policy Index +7.57% versus +6.53%. Since inception, the Total Fund has returned +9.79% compared to +8.92% for the Policy Index.

INTECH (*Large Cap Growth – 21.80%*), which started December 1, 2003, underperformed for the quarter with a return of +2.33% compared to +5.76% for the Russell 1000 growth index. For the one year, INTECH returned +18.00% versus +22.51% for the comparative index, and maintains a +10.92% return rate compared to +11.83% for the index after 10 years.

Wedge Capital (*Large Cap Value – 20.46%*), which started October 1, 2004, underperformed the index for the quarter with a return of +0.28% compared to +1.18% for the Russell 1000 value index. The Wedge investment returns for the one year period are +12.47% compared to +6.77% for the index and maintains a +9.73% return rate compared to +8.49% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (*International – 9.94%*), which started on June 1, 2013, underperformed for the quarter with a return of -3.98% compared to -1.24% for the MSCI NET EAFE index. For the one year period, RCTS returned +5.32% compared to +6.84% for the index and for the three year period it outperformed the Policy Index +5.15% versus +4.90%.

Invesco Balanced-Risk Allocation (*GTAA – 9.57%*) was established May 1, 2014 and outperformed for the quarter with a return of +1.39% compared to +1.09% for the 60%MSCI World/40% Barclays Aggregate. For the one year period, the balanced risk investment returns were +8.30% compared to +6.80% for the policy index year and for the three year period it slightly outperformed the Policy Index +6.26% versus +6.24%.

Rogerscasey Target Solutions Core Fixed Income (*Fixed Income – 27.77%*), started on January 1, 2015, and underperformed but bested the index for the quarter with a return of -0.10% compared to -0.16% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are -0.40% compared to -0.40% for the index and the fixed income allocation maintains a +6.48% return rate compared to +6.36% for the index since inception on January 1, 1986.

RCTS Emerging Markets Equity (*Emerging Equities – 2.42%*) was established March 1, 2018 and underperformed but bested the index for the quarter with a return of -6.76% compared to -7.96% for the MSCI EM (net) policy index.

Principal U.S. Property Account (*Real Estate – 4.32%*) was established March 1, 2018 and outperformed for the quarter with a return of +2.19% compared to +2.10% for the for the NCREIF ODCE Equal Weighted policy index.

RCTS High Yield Fixed Income (*High Yield Fixed Income – 3.73%*) was established March 1, 2018 and underperformed for the quarter with a return of +0.53% compared to +1.00% for the BofA Merrill Lynch High Yield Master II policy index.

Ms. Laytin reported that equities were up for the quarter due to solid economic and earnings data, although Intech’s performance was impacted by a relatively low exposure in technology which has some of the best performing stocks. She said Emerging Markets and International Equities were down due to trade worries and a strong US dollar, but GTAA was up due to increasing oil prices. Ms. Laytin noted that Real Estate was positive for the quarter and should be a strong contributor to the plan going forward. She noted that fixed income remained flat.

4. Segal Marco Advisors – RCTS Investment Funds Dissolution/Transition.

Ms. Laytin reported that Segal Marco Advisors has decided to close the current RCTS Investment Funds and transition to Segal Marco Group Trust Funds acquired when the two companies merged a few years ago. She advised that management would like to conclude the transition by the end of the calendar year.

As a result, Segal Marco recommended that the existing RCTS Fixed Income Fund and RCTS High Yield Fixed Income Fund transition to the Segal Marco Fixed Income Group Trust which uses a broad strategy including Fixed Income (Baird Core Bond), Fixed Income Core Plus (PIMCO & Western Asset), Fixed Bank Loans (Voya), Fixed Global Multi Sector (Loomis & Franklin Templeton) and residual cash components. FIGT is currently composed of 28 Segal Marco clients with the objective of outperforming the Bloomberg Barclays US Aggregate Index by allocating within and outside the benchmark sectors to capture value, provide diversification, and maximize risk adjusted returns over the medium and long term. Since inception in September 2010, the Fixed Income Group Trust has returned 3.4% compared to 2.6% for the index, 0.0% vs. -0.4% for the index at one year, +2.4% vs. +1.7% after three years, and +2.5% vs. +2.3% after five years. The FIGT management fee is also lower at 26 basis points compared to the RCTS fee of 27 bps. If the County chose instead to move to direct management by existing fixed income managers Shenkman and IR&M (rather than in the current RCTS comingled vehicle) the fee would increase to 38 bps versus 26 bps. FIGT also offers daily liquidity.

Ms. Laytin that Segal Marco is establishing a new investment Group Trust for Emerging Markets Equities utilizing the same underlying managers, and recommended the current RCTS product transition to it.

Finally, Ms. Laytin advised that the underlying fund manager for the Large Capitalized Core International Equity investments – AQR Capital Management LLC has agreed to directly manage the Kent County exposure at the same 60 bps fee.

After much discussion related to individual fund manager performances, a motion was made by Mr. Craik, seconded by Mr. Horne, and carried unanimously to recommend to Levy Court the selection of the Segal Marco Fixed Income Group Trust as fund manager for the pension program's combined fixed income/bond and high yield fixed income investments, the selection of AQR as fund manager for the International Equity investment, and the transition of the Emerging Markets Equity investment to a new comingled Segal Marco Group Trust at the proposed fees.

5. OPEB Pool – 2nd 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 gain of +0.8% compared to +3.9% for the Russell 3000 policy index , and was +6.9% for the one year period when compared to +14.8% for the Index. The State

Pension fund return was reported as +1.8% for the quarter compared to +0.9% for the DPERS Policy Benchmark and +8.4% versus +7.0% for the one year period.

The unaudited OPEB quarterly report showed a market balance of $17,335,605.52 with a quarterly decrease of +$1,045,234.59. From April 1, 2018 through June 30, 2018, the County's portion of the fund (4.39%) increased in value by +6.42% (+$1,366,633 annual contribution, -$455,475.32 partial withdrawal for retiree healthcare expenses, +$47,930.56 interest, +$66,321.18 dividends, +$18.49 net change/accrued income, +$21,150.80 unrealized gain/loss change, and -$1,344.12 investment manager/advisory fees).

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

Mr. Kujala recalled that during budget discussions, some Levy Court Commissioners expressed concern about ever increasing liabilities for retiree benefits (OPEB). As a result the actuary provided a cost estimate to analyze scenarios which could have a positive long term impact on future OPEB liabilities.

Per the Committee's direction, Nyhart completed an analysis using Option 1A at a reduced cost of $2,400 using a format "*similar to State of Delaware service-based subsidy that would apply to all current employees & future hires. The County's subsidy would apply to pre-65 and post-65 coverage."*

Nyhart submitted the following report dated August 9, 2018:

Actuarial Accrued Liability Impact *(08/09/2018)*

	Current Design 2016/17	***Alternative Option 1a***	***Liability Savings***
Active Pre-Medicare	*$3,229,854*	*$3,277,158*	*$47,304*
Active Post-Medicare	*$10,892,954*	*$9,454,661*	*($1,438,293)*
Active Liability	*$14,122,809*	*$12,731,819*	*($1,390,990)*
Retiree Pre-Medicare	*$725,549*	*$725,549*	*$0*
Retiree Post-Medicare	*$7,494,681*	*$7,494,681*	*$0*
Retiree Liability	*$8,220,230*	*$8,220,230*	*$0*
Total Actuarial Accrued Liability	*$22,343,039*	*$20,952,049*	*($1,390,990)*

As of June 30, 2017

Discount Rate	*7.75%*

Option 1a
Future retirees and covered spouses required to contribute a % of the monthly premium for pre-65 and post-65 coverage. Applies to medical and dental coverage for retirees.

Service at Retirement	***% Paid by Retiree***
< 10	*100%*
10 – 14	*50%*
15 – 19	*25%*
+20	*0%*

Notes
1. Spouses pay the full cost of dental coverage (same as current)
2. Service at retirement was not available for existing retirees so the design change was not evaluated for this group.

Cash Flow Projection *(08/09/2018)*

	CURRENT OPEB PLAN DESIGN			ALTERNATIVE OPTION 1a			
FYE	Current Retirees	Future Retirees	Total	Current Retirees	Future Retirees	Total	Paygo Savings
2018	$867,543	$167,575	$1,035,118	$867,543	$111,902	$979,445	($55,673)
2019	$843,502	$265,624	$1,109,127	$843,502	$195,746	$1,039,249	($69,878)
2020	$823,013	$353,667	$1,176,679	$823,013	$273,863	$1,096,876	($79,804)
2021	$823,726	$453,851	$1,277,577	$823,726	$359,357	$1,183,083	($94,495)
2022	$821,900	$570,553	$1,392,453	$821,900	$455,648	$1,277,548	($114,905)
2023	$794,111	$692,647	$1,486,758	$794,111	$561,847	$1,355,958	($130,800)
2024	$784,173	$834,888	$1,619,060	$784,173	$681,273	$1,465,446	($153,614)
2025	$750,007	$995,108	$1,745,115	$750,007	$814,059	$1,564,066	($181,049)
2026	$742,569	$1,149,734	$1,892,303	$742,569	$946,409	$1,688,978	($203,326)
2027	$732,845	$1,274,930	$2,007,775	$732,845	$1,058,852	$1,791,697	($216,079)
2028-2037	$6,312,962	$19,071,494	$25,384,456	$6,312,962	$16,639,248	$22,952,210	($2,432,246)
2038-2047	$3,315,994	$26,016,504	$29,332,499	$3,315,994	$24,057,078	$27,373,072	($1,959,426

Option 1a
Future retirees and covered spouses required to contribute a % of the monthly premium for pre-65 and post-65 coverage. Applies to medical and dental coverage for retirees.

Service at Retirement	***% Paid by Retiree***
< 10	*100%*
10 – 14	*50%*
15 – 19	*25%*
+20	*0%*

Notes
1. Spouses pay the full cost of dental coverage (same as current)
2. Service at retirement was not available for existing retirees so the design change was not evaluated for this group.

Actuarially Determined Contribution *(08/09/18)*

	Current Design 2016/17	***Current Design 2017/18***	***Alternative Option 1a 2017/18***
Discount rate for amortization	*7.75%*	*7.75%*	*7.75%*
Actuarial cost method	*Entry Age Normal*	*Entry Age Normal*	*Entry Age Normal*
Amortization type	*Level Dollar*	*Level Dollar*	*Level Dollar*
Amortization period	*30*	*30*	*30*
Actuarial Accrued Liability - beginning of year	*$21,090,424*	*$22,343,038*	*$20,952,048*
Actuarial value of assets - beginning of year	*($14,221,832)*	*($15,749,065)*	*($15,749,065)*
Unfunded actuarial accrued liability (UAAL)	*$6,868,592*	*$6,593,973*	*$5,202,983*
Normal cost	*$642,772*	*$682,402*	*$514,171*
Amortization of UAAL	*$552,934*	*$530,827*	*$418,850*
Total normal cost plus amortization	*$1,195,706*	*$1,213,229*	*$933,021*
Interest to EOY	*$92,667*	*$94,025*	*$72,309*
Actuarially Determined Contribution	*$1,288,373*	*$1,307,254*	*$1,005,330*
Actuarially Determined Contribution - Final	*$785,111*	*TBD*	*TBD*

Option 1a

Future retirees and covered spouses required to contribute a % of the monthly premium for pre-65 and post-65 coverage. Applies to medical and dental coverage for retirees.

Service at Retirement	***% Paid by Retiree***
< 10	*100%*
10 – 14	*50%*
15 – 19	*25%*
+20	*0%*

Notes

1. Spouses pay the full cost of dental coverage (same as current)

2. Service at retirement was not available for existing retirees so the design change was not evaluated for this group.

Mr. Craik noted that the State of Delaware adopted the percentage contribution format studied by Nyhart in the early 1990s.

Mr. Kujala advised that a quick review of current employee age and years of service indicates that about 99 could be impacted by such a change if they chose to retire before achieving 20 years of service. Based upon the Nyhart report, he pointed out that adoption of the proposed (Option 1a) percentage cost share format could immediately reduce the annual OPEB contribution by about $300,000.

Ms. Durham noted that the report was prepared using the current 7.75% discount rate rather than 7.5%, which will be used for 2019 and therefore increase the overall contribution.

After much discussion about whether the Committee should make a formal recommendation to Levy Court about the issue, Mr. Craik requested that Mr. Kujala contact peer groups for comparison of retiree cost share formats for further discussion at the next meeting.

7. Staff – Actuarial Consulting Services Agreement extension or RFP?

Mr. Kujala reported that at the direction of the Committee, he requested a quotation for extension of the current agreement for actuarial consulting services with Nyhart. He advised that Nyhart submitted the following cost adjustment for a three-year term beginning January 1, 2019:

Actuarial Services	**Pension Valuation**	**Pension Certificate**	**OPEB Valuation**	**Pension Statements**	**Add. Services**
Nyhart	*Annually*	*Per Retiree*	*Biennially*	*Biennially*	*As needed*
CY2019-2021	$13,750	$275	$7,000	$2,750	$415/hr
CY2016-2018	$12,750	$250	$6,500	$2,450	$375/hr

In addition, Nyhart quoted a fee of $3,000 for an Interim GASB 75 Actuarial Update, which is needed for the County's Annual Financial Statement since the OPEB valuation is conducted every two years.

After some discussion about actuary expense for peer groups and the quality of services provided to date including some concerns about responsiveness to GASB related reporting, a motion was made by Mr. C. Smith, seconded by Mr. Horne, and carried by a vote of 5-1 (*No-Durham*) to recommend extension of the current actuarial services agreement with The Nyhart Company LLC to Levy Court at the fees proposed.

8. 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**
August 1, 2018	$235,258.02	218	+1 (P); -1 (B)
July 1, 2018 (+1% cola)	$234,443.42	218 ($2,299.61/mo.)	+2 (R)
June 1, 2018	$229,955.65	216	+3 (R); +2 (P)
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/mo.)	+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)	10/01/18	20.3 yrs; 62	$1,523.55/mo. CA100%
+ (R)	10/01/18	24.9 yrs; 66	$2,058.27/mo. Life
+ (R)	09/01/18	33.1 yrs; 66	$3,052.32/mo. CA50%
+ (P)	09/01/18	15.3 yrs; 60	$836.67/mo. CA100%
+ (P)	09/01/18	15.1 yrs; 60	$409.35/mo. CA50%
Pensions started – Type	**Effective Date**	**Service Years/Age**	**Monthly Benefit/Type**
- (B)	08/01/18*		-$97.76/mo. *Died 06/18/18 (retro to 07/01/18)*
+ (P)	08/01/18*	14.1 yrs; 62	$912.36/mo. Life w/QDRO *(retro to 02/01/18)*
+ (R)	07/01/18	12.6 yrs; 63	$1,035.39/mo. CA75%
+ (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)*
+(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*

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

None.

10. Next Meeting.

By consensus due to scheduling conflicts, Committee members agreed to schedule the next quarterly meeting for Thursday, November 1, 2018 at 2:00 p.m. at the Kent County Administrative Complex rather than the third Thursday.

A motion was made by Mr. R. Smith, seconded by Ms. Durham, 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