

KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting Minutes
Thursday, November 1, 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
Kristopher Connelly
Timothy R. Horne
Michael Petit de Mange
Christopher S. Smith
Ronald D. Smith

Members Absent:

None

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 August 16, 2018 meeting.

A motion was made by Mr. Horne, seconded by Mr. R. Smith, and carried unanimously to approve the minutes for the meeting held on August 16, 2018.

3. Segal Marco Advisors – 3rd Quarter 2018 Fund Performance Report.

Senior Analyst Tanya Laytin presented an “Analysis of Investment Performance” through September 30, 2018. The report showed the ending market value of total pension assets as \$42,237,359 with a quarterly increase of +\$590,654 (+\$1,301,203/investment gain, +\$40,029/income, -\$750,578/withdrawals). At quarter’s end, 44.11% of the assets were invested in domestic equities, 9.87% in international equities, 9.35% in global tactical asset allocation (balanced), 4.36% in real estate, 2.35% in emerging markets equities, 29.40% in fixed income, and 0.56% in cash. For the quarter, the County pension fund gained +3.25%, slightly behind the +3.39% Policy index. For the one year period, the Total Fund outperformed the Policy Index +8.02% vs. +7.46%, and for the three year period it outperformed the Policy Index +10.24% versus +9.01%. Since inception, the Total Fund has returned +9.82% compared to +8.96% for the Policy Index.

INTECH (Large Cap Growth – 23.19%), which started December 1, 2003, underperformed for the quarter with a return of +8.05% compared to +9.17% for the Russell 1000 growth index. For the one year, INTECH returned +20.96% versus +26.30% for the comparative index, and maintains a +12.96% return rate compared to +14.31% for the index after 10 years.

Wedge Capital (Large Cap Value – 21.48%), which started October 1, 2004, outperformed the index for the quarter with a return of +6.46% compared to +5.70% for the Russell 1000 value index. The Wedge investment returns for the one year period are +12.69% compared to +9.45% for the index and maintains a +11.74% return rate compared to +9.79% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (International – 9.87%), which started on June 1, 2013, underperformed for the quarter with a return of +0.69% compared to +1.35% for the MSCI NET EAFE index. For the one year period, RCTS returned -0.53% compared to +2.74% for the index and for the five year period it underperformed the Policy Index +4.11% versus +4.42%.

Invesco Balanced-Risk Allocation (GTAA – 9.35%) was established May 1, 2014 and underperformed for the quarter with a return of -0.78% compared to +3.05% for the 60% MSCI World/40% Barclays Aggregate benchmark. For the one year period, the balanced risk investment returns were +4.47% compared to +6.53% for the policy index year and for the three year period it underperformed the Policy Index +7.56% versus +8.98%.

Rogerscasey Target Solutions Core Fixed Income (Fixed Income – 25.65%), started on January 1, 2015, and was even for the quarter with a return of +0.02% compared to +0.02% for the Bloomberg Barclays U.S. Aggregate Bond index. The Bond composite investment returns for the one year period were -1.18% compared to -1.22% for the index and the fixed income allocation maintains a +6.43% return rate compared to +6.31% for the index since inception on January 1, 1986.

RCTS Emerging Markets Equity (Emerging Equities – 2.35%) was established March 1, 2018 and underperformed for the quarter with a return of -1.61% compared to -1.09% for the MSCI EM (net) policy index.

Principal U.S. Property Account (Real Estate – 4.36%) was established March 1, 2018 and outperformed for the quarter with a return of +2.46% compared to +2.08% for the for the NCREIF ODCE Equal Weighted policy index.

RCTS High Yield Fixed Income (High Yield Fixed Income – 3.75%) was established March 1, 2018 and underperformed for the quarter with a return of +2.01% compared to +2.44% for the BofA Merrill Lynch High Yield Master II policy index.

Ms. Laytin reported for the quarter that domestic equities continued to charge ahead due to solid economic and earnings data, job growth, low unemployment, and high consumer confidence, but much of the equity gains were reversed during the month of October. She said the analysis was not yet completed for the quarter, but the stock market losses could very well wipe out all gains for the year. She said international equities and emerging markets continued to struggle due to the strong U.S. dollar and concerns about a possible trade war

with China. The GTAA allocation was also impacted by uncertainty in emerging markets, since many commodities originate there. She said negative returns in the bond portfolio continued, but with the Federal Reserve consistently raising interest rates that may change as notes come due. Ms. Laytin pointed out that the equity market advance last quarter was largely driven by the technology sector – especially FAANG (Facebook, Apple, Amazon, Netflix & Google), which if removed from the overall performance equation would have resulted in a negative return for equities.

She said analysts are not expecting a catastrophic event like the mortgage crisis in 2008-2009 any time soon.

4. OPEB Pool – 3rd 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 +2.8% compared to +7.1% for the Russell 3000 policy index, and was +6.4% for the one year period when compared to +17.6% for the Index. The State Pension fund return was reported as +3.9% for the quarter compared to +2.9% for the DPERS Policy Benchmark and +9.7% versus +6.5% for the one year period.

The unaudited OPEB quarterly report showed a market balance of \$17,818,811.64 with a quarterly increase of +\$483,206.12. From July 1, 2018 through September 30, 2018, the County’s portion of the fund (4.37%) increased in value by +2.79% (+\$50,515.26 interest, +50,477.85 dividends, +\$903.89 net change accrued income, +\$202,895.68 unrealized gain/loss change, +179,878.01 realized gain/loss, -\$67.28 custodian fees, -\$1,389.83 investment manager/advisory fees, and -\$7.46 legal/investment fees).

Mr. Craik advised that the OPEB Pool assets are slated to be comingled with the State Pension plan assets for investment purposes during the 4th quarter. He said that while the combination could be viewed as a bit riskier due to the types of funds held by the \$1B+ pension plan, overall plan performance is expected to yield greater returns for OPEB purposes.

5. Staff – Fund Manager Selection/Transition Recommendation Update.

Mr. Kujala reported that as recommended by the Committee, Levy Court approved on October 9, 2018 the selection of Segal Marco Fixed Income Group Trust as fund manager for the pension program’s combined core fixed income/bond and high yield fixed income investments, the selection of AQR Capital Management LLC as fund manager for the International Equity investments, and the transition of the Emerging Markets Equity investments to a new comingled Segal Marco Group Trust.

6. Segal Marco Advisors – Proposed Pension Fund Investment Policy Revisions.

Ms. Laytin advised that with the pending dissolution of the current RCTS Investment Funds on or about December 31, 2018 and Levy Court’s approval to transition those assets to new

fund managers, revisions to the Statement of Overall Investment Objectives and Policy are necessary.

A copy of the proposed policy revisions with highlighted changes was emailed to the members prior to the meeting for review. The revisions combined the core fixed income and high yield fixed income allocations into a single Total Fixed Income comingled fund to be managed by the Segal Margo Fixed Income Group Trust, adjusted the applicable policy performance benchmarks and performance measurement, and revised the manager specific guidelines pages.

After some discussion, a motion was made by Mr. Horne, seconded by Mr. Petit de Mange, and carried unanimously to recommend approval of the draft Statement of Overall Investment Objectives and Policy to the Levy Court.

7. Staff – Partial FY2019 Pension Contribution Allocation (\$1,512,291).

Mr. Kujala reported that the first half of the total annual pension contribution of \$3,024,582 would typically be contributed to the plan in early calendar year 2019. He asked the Committee which fund(s) should receive the funds.

Ms. Laytin noted that fixed income portfolio lags the recommended allocation due to the fact that month pension expenses are withdrawn from the asset class. She said with the pending closure of the RCTS funds, the contribution cannot be made until late January or February.

A motion was made by Ms. Durham, seconded by Mr. R. Smith, and carried unanimously to invest the partial Fiscal Year 2019 pension contribution into the fixed income fund after the first of the calendar year.

8. Staff – OPEB Expense Reduction Strategy Review (w/peer cost share comparisons).

Mr. Kujala recalled that the Committee reviewed an analysis prepared by the actuary at the last meeting, which estimated annual cost savings if the County established a service years-based subsidy for retiree benefits, similar to the State of Delaware format. At that meeting, he said the Committee requested a comparison of retiree benefit subsidy formats used by Kent County’s peer groups.

Mr. Kujala presented the following OPEB comparison table for discussion purposes:

Respondent	KENT	DOVER	NEW CASTLE	SUSSEX	STATE of DELAWARE
Effective Date(s)		07/01/12	04/01/97	07/01/01	07/01/1991 01/01/2007*
Under Age 65 Plan	DVHT/Aetna PPO 100%/90% No in-network coinsurance or deductible	State of Delaware plans	Highmark Cooperative 80%/20% coinsurance w/\$200	Highmark Gold 100%/90% or Silver w/\$500 deductible	State of Delaware plans

			deductible		
Retiree cost share	Retiree pays 7%	Retiree pays 15% or 20%	Retiree pays \$0	25+ years, Retiree pays 5% or \$0	20+ years, Retiree pays 5%
Retiree cost share				15-25 years, Retiree pays 50%	15-20 years, Retiree pays 25%
Retiree cost share				Less than 15 years, Retiree pays 100%	10-15 years, Retiree pays 50%
Retiree cost share					Less than 10 (15*) years, Retiree pays 100%
Dependents	<i>Retiree pays 20%</i>	<i>Retiree pays 25%</i>	<i>Retirees get a subsidy of \$10 times years of service</i>	<i>Retiree pays 8%+/-</i>	<i>Retiree pays 5%+/-</i>
AGE 65 & OVER Plan	DVHT/Aetna PPO \$0	State of Delaware plans	Aetna Medicare Advantage Classic	Highmark Gold 100%/90% or Silver w/\$500 deductible	State of Delaware plans & Highmark Medic-fill
Retirees Age 65 & Over	Over 65, Retiree pays \$0	Over 65, Retiree pays 15%/20%	Over 65, Retiree pays \$0	Over 65, 25+ years, Retiree pays 5% or \$0	Over 65, 20+ years, Retiree pays 5%
Retirees Age 65 & Over				Over 65, 15-24 years, Retiree pays 50%	Over 65, 15-20 years, Retiree pays 25%
Retirees Age 65 & Over				Over 65, less than 15 years, Retiree pays 100%	Over 65, 10-15 years, Retiree pays 50%
Retirees Age 65 & Over					Over 65, less than 10 years, Retiree pays 100%
Dependents	<i>Dependents - Retiree pays 20%</i>	<i>Dependents - Retiree pays 25%</i>	<i>Dependents - Retiree pays \$0</i>	<i>Dependents - Retiree pays 8%+/-</i>	<i>Dependents - Retiree pays 5%+/-</i>

During discussion, it was noted that the Nyhart analysis was limited in scope at the Committee’s direction to Option 1a. The report only evaluated the potential costs savings of implementing a percentage cost share format similar to that used by the State of Delaware and included all existing employees and retirees as follows:

Option 1a (from the NYHART report)

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.

The Nyhart Report indicated a potential OPEB annual contribution reduction of \$300,000+ if the cost share percentage format had been implemented before the last valuation on July 1, 2016. Mr. Kujala reported that the budgeted annual OPEB contribution for FY2018&2019 is \$1,366,633, up from \$785,111 in the previous biennial valuation. He said that increase was largely due to an approved interest rate reduction from 8.00% to 7.75%. Another quarter percent discount rate reduction is planned for the FY2020&2021 valuation.

Mr. Kujala noted 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.

After more discussion about whether the Committee should make a formal recommendation to Levy Court about the issue or simply present the information collected in its present form, Mr. Craik requested that Mr. Kujala ask the actuary to determine the projected annual savings of a 15% cost share for retirees under age 65 and a 5% cost share for those Age 65 and over beginning on July 1, 2019. In addition, he requested the actuary also prepare a table depicting the projected annual cost increases if no changes are made to the retiree cost share.

9. Staff – Actuarial Consulting Services Agreement Recommendation Update.

Mr. Kujala reported that as recommended by the Committee, Levy Court approved on October 9, 2018 the extension of the current agreement for Actuarial Consulting Services with The Nyhart Company for a three-year term at the fees proposed including the interim GASB 75 reports

Actuarial Services	Pension Valuation	Pension Certificate	OPEB Valuation	Pension Statements	Add. Services
Nyhart	<i>Annually</i>	<i>Per Retiree</i>	<i>Biennially</i>	<i>Biennially</i>	<i>As needed</i>
CY2019-2021	\$13,750	\$275	\$7,000	\$2,750	\$415/hr
Interim GASB 75 reports	\$3,000				

10. 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
November 1, 2018	\$241,459.50	222	+1(R); -1(R);
October 1, 2018	\$241,254.93	222	+2(R); -1 (R)
September 1, 2018	\$239,556.36	221	+1(R); +2(P)
August 1, 2018	\$235,258.02	218	+1 (P); -1 (B)
July 1, 2018 (+1% cola)	\$234,443.42	218 (\$2,299.61)	+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)
October 1, 2017	\$211,077.81	204	-1(R)
September 1, 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)	01/01/19	8.3 yrs; 67	\$511.83/mo. Life?
+ (P)	01/01/19	27.2 yrs; 55	\$3,321.03/mo. Life?
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+ (R)	11/01/18	13 yrs; 65	\$1,330.89/mo. CA100%
- (R)	11/01/18		-\$1,126.32/mo. <i>Died 10/08/18</i>
+ (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)	10/01/18		-\$1,883.25/mo. <i>Died 09/06/18</i>
+ (P)	09/01/18	15.3 yrs; 60	\$836.67/mo. CA100%
+ (P)	09/01/18	15.1 yrs; 60	\$409.35/mo. CA50%
+ (R)	09/01/18	33.1 yrs; 66	\$3,052.32/mo. CA50%
- (B)	08/01/18*		-\$97.76/mo. <i>Died 06/18/18 (retro to 07/01/18)</i>
+ (P)	08/01/18*	14.1 yrs; 62	\$912.36/mo. Life w/QDRO (<i>retro to 02/01/18</i>)
+ (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 (<i>retro to 05/01/17</i>)
+ (R)	05/01/18	13 yrs; 63	\$1,125.73/mo. CA75%
- (R)	05/01/18		-\$2,375.14/mo. <i>Died 04/03/18 w/life benefit</i>
- (P)	05/01/18		-\$212.37/mo. <i>Died 04/09/18 w/life benefit</i>

+ (B)	04/01/18		\$1,083.66/mo.
- (R)	04/01/18		-\$2,429.01/mo. <i>Died 03/01/18 w/beneficiary</i>
- (B)	04/01/18*		-\$189.34/mo. <i>Died 06/24/17 (retro to 07/01/17)</i>
+ (R)	04/01/18*	15.5 yrs; 66	\$875.84/mo. Life CC10yrs <i>(retro to 03/01/18)</i>
+ (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. <i>Died 01/22/18 w/life (retro to 02/01/18)</i>
+ (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% <i>(retro to 01/01/18)</i>
+ (B)	02/01/18*		\$1,147.83/mo. Life <i>(retro to 01/01/18)</i>
+ (P)	02/01/18*	8.8 yrs; 62	\$977.13/mo. Life <i>(retro to 12/01/17)</i>

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*

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

None.

12. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, February 21, 2019 at 2:00 p.m. at the Kent County Administrative Complex.

A motion was made by Mr. Horne, seconded by Mr. R. Smith, and carried unanimously to adjourn the meeting at 2.50 p.m.

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