

KENT COUNTY PENSION REVIEW COMMITTEE
Annual Appreciation Lunch Meeting Minutes
Thursday, May 18, 2017
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
Christopher S. Smith
Ronald D. Smith

Members Absent:

Timothy R. Horne

Others Present:

Allan Angel, Levy Court Commissioner
Allan Kujala, Personnel Director
Tanya Laytin, Segal Marco 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 19, 2017 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 19, 2017.

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 2017 Fund Performance Report.

Senior Analyst Tanya Laytin presented an “Analysis of Investment Performance” through March 31, 2017. The report showed the value of total pension assets was \$36,895,384 with a quarterly increase of +\$2,115,758 (+1,083,230 partial annual contribution, +\$1,631,567/investment gains, +\$46,401/income, -\$645,440/withdrawals). At quarter’s end 52.68 of the assets were invested in domestic equities, 8.88% in international equities, 10.04% in global tactical asset allocation (balanced), 27.82% in fixed income, and 0.57% in

cash. For the quarter, the County pension fund returned +4.84%, well above the +3.73% Policy index. For the one year period, the Total Fund outperformed the Policy Index +11.09% vs. +8.90%, and for the three year period it outperformed the Policy Index +6.20% versus +5.78%. Since inception, the Total Fund has returned +9.80% compared to +8.98% for the Policy Index.

INTECH (Large Cap Growth – 26.08%), which started December 1, 2003, outperformed for the quarter with a return of +10.08% compared to +8.91% for the Russell 1000 growth index. For the one year, INTECH returned +14.76% versus +15.76% for the comparative index, and maintains a +8.98% return rate compared to +8.76% for the index after 10 years.

Wedge Capital (Large Cap Value – 27.18%), which started October 1, 2004, outperformed for the quarter with a return of +4.10% compared to +3.27% for the Russell 1000 value index. The Wedge investment returns for the one year period are +18.43% compared to +19.22% for the index and maintains a +6.77% return rate compared to +5.93% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (International – 8.88%), which started on June 1, 2013, outperformed for the quarter with a return of +7.48% compared to +7.25% for the MSCI NET EAFE index. For the one year period, RCTS returned +11.33% compared to +11.67% for the index and for the three year period it outperformed the Policy Index +0.94% versus +0.50%.

Invesco Balanced-Risk Allocation (GTAA – 10.04%) was established May 1, 2014 and underperformed for the quarter with a return of +2.74% compared to +4.22% for the 60% MSCI World/40% Barclays Aggregate. The balanced risk investment returns were +12.93% compared to +9.26% for the policy index after 1 year.

Rogerscasey Target Solutions Core Fixed Income (Fixed Income – 27.82%), started on January 1, 2015, and underperformed the index for the quarter with a return of +0.78% compared to +0.82% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are +1.06% compared to +0.44% for the index and maintains a +6.71% return rate compared to +6.59% for the index since inception.

Ms. Laytin reported that equities continued to rally in the first quarter and noted that the Federal Reserve had increased the interest rate again in March. She pointed out that commodities declined due to depressed crude oil prices.

Ms. Layton presented a table representing a Projection of Current Asset Allocation as of 2017 as follows:

| <i>Kent County Pension: Current Asset Allocation and 2017 Return Projections</i> | |
|--|--------------|
| Equity | 55.0% |
| US Equity | 45.0% |
| International (Developed) | 10.0% |
| Fixed Income | 35.0% |
| US Core | 35.0% |
| Alternatives | 10.0% |
| GTAA | 10.0% |
| | |
| 20-Year Average Return | 7.0% |
| Standard Deviation | 11.0% |
| Sharpe Ratio | 0.36 |

Ms. Layton said that the portfolio ratios had been favorably impacted by the market rally and recommended rebalancing in conjunction with the pending transfer of the remaining annual contribution (\$1,083,230).

Mr. C. Smith agreed with the rebalancing recommendation, but asked if additional investment in GTAA was wise with Invesco’s current commodity exposure.

After some discussion, a motion was made by Mr. C. Smith, seconded by Ms. Durham and carried unanimously to rebalance the portfolio to target ratios without any additional allocation to the GTAA Composite fund.

Finally, Ms. Layton pointed out that the overall asset total had grown such that additional diversification should be considered. She asked if the Committee would like her to conduct a fund manager search and make a recommendation at the next meeting.

Mr. Craik asked her to proceed.

5. OPEB Pool – 1st Quarter 2017 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 +4.3% compared to +4.1% for the Russell 3000 policy index, and was +9.7% for the one year period compared to +9.5% for the index. The State Pension fund performance was reported as +3.6% for the quarter compared to +4.2% for the DPERS Policy Benchmark and +10.1% compared to +10.1% for the one year period.

The unaudited OPEB quarterly report showed a market balance of \$14,903,916.06 with a quarterly increase of +245,545.20. From January 1, 2017 through March 31, 2017, the County’s portion of the fund (4.31%) increased by +1.67% (-\$368,305.45 partial withdrawal for retiree healthcare expenses, +\$36,052.02 interest, +\$35,770.75 dividends, +\$1,046.60 net change/accrued income, +\$542,260.04 unrealized gain/loss change, -\$78.24 custodian fees, and -\$1,200.52 investment manager/advisory fees).

6. Staff – Levy Court action on OPEB Interest Rate Study Report/Recommendation.

Mr. Kujala reported that on February 28, 2017, Levy Court considered and approved the Committee’s recommendation that per Nyhart’s OPEB Interest Rate Study Report, 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 with gradual 0.25% discount rate reductions in subsequent biennial valuations until achieving 7%.

In addition, he noted that the Levy Court motion requested the Pension Review Committee to develop specific recommendations to stabilize or reduce program liabilities.

7. Staff – OPEB Valuation Report (July 1, 2016).

Mr. Kujala advised that the actuary incorporated the revised discount rate approved by Levy Court and finalized the biennial OPEB valuation report as of July 1, 2016 for budgeting purposes with an actuarially determined contribution of \$1,366,633 for Fiscal Year 2018, which amounts to an increase of \$581,522 over the prior biennial valuation.

8. Staff – Levy Court action Pension Plan Experience Study Report/Recommendation.

Mr. Kujala reported that on February 28, 2017, Levy Court considered and approved the Committee's recommendation that per Nyhart's Pension Plan Experience Study Report that: 1) the practice of granting cost of living adjustments to pension recipients 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, he noted that the Levy Court motion requested the Pension Review Committee to develop specific recommendations to stabilize or reduce program liabilities.

9. Staff – Pension Valuation Report (January 1, 2017).

Mr. Kujala advised that the actuary incorporated the revised assumptions approved by Levy Court and finalized the annual Pension valuation report as of January 1, 2017 for budgeting purposes with an actuarially determined contribution of \$2,743,160 for Fiscal Year 2018, which amounts to an increase of \$576,700 over the prior annual valuation.

10. Staff – FY2018 Budgeted Pension & OPEB Contributions update.

Mr. Kujala reported that the Levy Court adopted the Fiscal Year 2018 budget on May 9, 2017 with the full actuarially determined contributions of \$2,743,160 for the pension plan and \$1,366,633 for OPEB budgeted.

11. Staff – Pension & OPEB Benchmarking/Cost Containment Study estimate.

Mr. Kujala reported that with the adoption of Pension & OPEB assumption changes, the Levy Court requested the Committee develop specific recommendations to stabilize or reduce program liabilities for both programs. In response, he asked Nyhart to prepare an estimate to benchmark and develop cost savings strategies for consideration by the Committee. The Plan Design Analysis Fee Proposal submitted by Plan Actuary Carter Angell is as follows:

Objectives: Reduce, slow down, or eliminate increasing expenses related to the pension fund and the retiree benefits program. Any options are available to meet this objective, including but not limited to impacting benefits for current employees, future employees, and/or current retirees.

Please note, we understand the proposed OPEB and pension changes described below are significant benefit reductions but ultimately necessary in order to meet the County's objectives.

OPEB Design and Projections

We are proposing to prepare the following information for the Levy's consideration in evaluating designs and goals.

- 1. +20-year baseline projection of the current plan as it exists today; the projection will include annual funding contributions, actuarial liability, assets, benefit payments and funded status*
- 2. Design 1: increase retiree monthly contributions to 30% for single coverage and 50% for the incremental spousal cost of insurance; this would apply to existing actives who have not retired by 2020 and all employees hired after 2017*
- 3. Design 2: replace the County's "% of premium" subsidy with a fixed dollar stipend equal to the 2020 subsidy for new retirements after 2020 and all employees hired after 2017*
- 4. Design 3: combination of (a) no coverage/no subsidy for employees hired after 2017 and (b) switch to a stipend approach (design #2) for new retirements after 2020.*
- 5. Design 4: eliminate OPEB benefits completely for new hires after 2020 (no access, no subsidies)*

Designs 1-3 will effectively create an indirect retirement incentive (i.e. "I need to retire now to receive the current OPEB subsidy"). We recommend the projections include recognition of higher retirement than normal prior to 2020 to model this likely outcome. The County's input and approval will be needed for this retirement recognition.

Pension Design and Projections

- 1. +20-year baseline projection of the current plan as it exists today; the projection will include annual funding contributions, actuarial liability, assets, benefit payments and funded status*

2. *Design 1: add an early retirement reduction factor to the pension formula for any retirements prior to reaching the plan's normal retirement definition; which is age 62 and 5 years of service for pre June 30, 2010 hires and age 65 and 8 years of service for hires after June 29, 2010. This would apply to current and new employees.*
3. *Design 2: reduce the pension multiplier from 2.00%/1.85 to 1.5%* for service earned after 2020. This would apply to current and new employees.*
4. *Design 3: eliminate pension benefits completely for new hires after 2020 and offer them a defined contribution retirement alternative*
5. *Design 4: Designs 1&2 for current employees and Design 3 for new employees*

**The final accrual rate will depend on input from Kent County and results of the benchmarking*

We would also provide expected impact to current employee benefits for suggested plan designs, where appropriate. We would use our Pension Design Manager that highlights how much a participant's benefit is reduced for a given change.

As with the OPEB proposed designs, we expect the pension changes to create an indirect retirement incentive due to the delayed effect of the pension changes. Our projections will recognize the impact of the higher anticipated retirements.

Benchmarking

We recommend the project include benchmarking of key financial, OPEB and pension metrics so the County understands the competitiveness of its pension and OPEB programs. The County will need to work with Nyhart to identify the appropriate peer group for the benchmarking. A peer group of 10 or fewer entities would be sufficient. Our project fees include benchmarking services.

Timeline

1. *Benchmarking to be done in conjunction with item #2 (baseline projections), as the findings may alter the County's or Nyhart's thinking on the proposed design changes*
 - a. *Review findings with County staff and evaluate objectives and proposed changes*
2. *Prepare baseline projections for pension and OPEB for the current plans, including investment return sensitivity analysis*
 - a. *Review findings with County staff and make recommendation to end project, continue with proposed alternative designs, or propose new alternative designs*
3. *Prepare projections for designs 1-4 for pension and OPEB changes*
 - a. *Review finding with County staff*
4. *Completion of project with an onsite presentation to the Levy Court*

Project Fees

We would bill based on time and materials at our current hourly rates with a not-to-exceed maximum fee of \$30,000. Our internal estimates for total billed charges is \$27,000 (roughly

\$14,000 for pension and \$13,000 for OPEB and benchmarking). These fees include travel costs.

After much discussion about the potential negative impacts of some of the design ideas preliminarily presented, a motion was made by Mr. Craik, seconded by Mr. R. Smith, and carried to proceed with the benchmarking and cost containment study as proposed by the actuary.

12. Staff – Annual Report to Levy Court update.

Mr. Kujala reported that the Committee’s 2016 Annual Report to Levy Court had been finalized to include updated OPEB performance information and submitted to the Levy Court in late February/early March.

13. Staff – Quarterly & Annual Pension Activity Report.

Mr. Kujala presented the Quarterly and Annual (2016) 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, 2017 | \$206,065.58 | 203 | +1 (P) |
| April 1, 2017 | \$205,847.62 | 202 | +1(R); -1(B) |
| March 1, 2017 | \$204,288.70 | 202 | +1(R) & Int. Adj (\$8.77) |
| February 1, 2017 | \$203,004.95 | 201 | +1 (R); -1 (P); +1 (B) |
| January 1, 2017 | \$200,867.97 | 200 | +3 (R) |
| December 1, 2016 | \$196,275.58 | 197 | +1 (P) |
| November 1, 2016 | \$196,079.70 | 196 | -1(P); +1 (B) |
| October 1, 2016 | \$196,379.14 | 196 | +5(P) |
| September 1, 2016 | \$193,611.54 | 191 | -1 (R) |
| August 1, 2016 | \$194,242.63 | 192 | +1(R); +1(P); -1(B) |
| July 1, 2016 (+1% cola) | \$193,619.76 | 191 (+1,917.03) | |
| June 1, 2016 | \$191,702.73 | 191 | +1(R); +1(P); -1(P); +1(B) |
| May 1, 2016 | \$186,901.13 | 189 | -1(R) |
| April 1, 2016 | \$187,514.87 | 190 | |
| March 1, 2016 | \$187,514.87 | 190 | +1 (R); -1(R) |
| February 1, 2016 | \$187,959.42 | 190 | |
| January 1, 2016 | \$187,959.42 | 190 | +1 (R) |
| Pending Pensions - Type | Effective Date | Service Years/Age | Estimated Benefit |
| Retiree | 09/01/17 | 17.9 yrs; 71 | \$1,662.28/mo. Life? |
| Retiree | 08/01/17 | 9 yrs; 66 | \$765.31/mo. Life? |
| Retiree | 06/01/17 | 17.2 yrs; 70 | \$1,183.60/mo. CA100% |
| Pensions started – Type | Effective Date | Service Years/Age | Monthly Benefit/Type |
| + (P) | 05/01/17* | 8 yrs; 62 | \$217.96/mo. CA100% (retro to 04/01/17) |
| - (B) | 04/01/17* | | \$-323.56/mo. Died 02/20/17 (retro to 03/01/17) |
| + (R) | 04/01/17 | 25.4 yrs; 69 | \$1,882.48/mo. CA100% |
| +(R) | 03/01/17 | 13.4 yrs; 62 | \$1,268.12/mo. CA100% |
| +(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=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

Annual Pension Activity Report (2016)

| Pension Payment Date | Gross \$ Paid | # Recipients | Comments |
|-------------------------|----------------|-------------------|---|
| December 1, 2016 | \$196,275.58 | 197 | +1 (P) |
| November 1, 2016 | \$196,079.70 | 196 | -1(P); +1 (B) |
| October 1, 2016 | \$196,379.14 | 196 | +5(P) |
| September 1, 2016 | \$193,611.54 | 191 | -1 (R) |
| August 1, 2016 | \$194,242.63 | 192 | +1(R); +1(P); -1(B) |
| July 1, 2016 (+1% cola) | \$193,619.76 | 191 (+1,917.03) | |
| June 1, 2016 | \$191,702.73 | 191 | +1(R); +1(P); -1(P); +1(B) |
| May 1, 2016 | \$186,901.13 | 189 | -1(R) |
| April 1, 2016 | \$187,514.87 | 190 | |
| March 1, 2016 | \$187,514.87 | 190 | +1 (R); -1(R) |
| February 1, 2016 | \$187,959.42 | 190 | |
| January 1, 2016 | \$187,959.42 | 190 | +1 (R) |
| | | | |
| Pensions started – Type | Effective Date | Service Years/Age | Monthly Benefit/Type |
| +(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=Retiree from active service; P= Pensioner, vested former employee; R/EO=Active Elected Official receiving pension
 B= Beneficiary of deceased participant; P70= Pensioner w/Rule of 70 benefits;
 Life=Life Annuity; CA=Contingent annuitant (beneficiary) & %; CC=Continuous & certain for # years

| CY2016 Summary | Retirees | Pensioners | Beneficiaries | TOTAL |
|----------------|----------|------------|---------------|-------|
| ADD | 4 | 8 | 2 | 14 |
| DELETE | 3 | 2 | 1 | 6 |
| | | | | |
| Net - 2016 | 1 | 6 | 1 | 8 |
| Net - 2015 | 3 | 4 | 1 | 8 |
| Net - 2014 | 2 | 0 | 2 | 4 |
| Net - 2013 | 6 | 0 | 0 | 6 |

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 had this past year in helping the pension plan and retiree benefits program meet their investment performance and funding goals.

15. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, August 17, 2017 at 2:00 p.m.

A motion was made by Mr. Petit de Mange, seconded by Mr. Connelly, 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