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Sussex County

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PENSION FUND COMMITTEE

Minutes of Meeting

November 21, 2024

The Sussex County Pension Fund Committee met on November 21, 2024, at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Gina Jennings, Todd Lawson, Karen Brewington, Kathy Roth, Lance Rogers, Robin Griffith, and Kathleen Ryan. Also in attendance were Pat Wing of Marquette Associates, the County's Pension Investment Consultant; Janet Cranna, Brett Warren, and Ryan Benitez of Cheiron, the County's Actuary.

Ms. Jennings called the meeting to order.

1. **Approval of Minutes**

The minutes of the August 15, 2024, meeting were approved by consent.

2. **Public Comment**

There was no public comment.

3. **Performance Reports of the Pension and OPEB Funds**

Mr. Wing distributed copies of a report entitled, "Sussex County Quarterly Performance Report as of September 30, 2024". The Investment Performance Report includes information regarding the market environment for the third quarter of 2024, as well as quarterly and annual performance of the Pension and OPEB Plans. The report should be referenced for a detailed analysis.

Mr. Wing referred members to the U.S. Economy and gave an overview of the economic and market environment. U.S. economic remained strong in Q3 with real GDP increasing at an annual rate of 2.8%.

Mr. Wing reviewed the Global Asset Class Performance Q3 and the U.S. Equity Markets.



Mr. Wing then directed members to the Pension Fund Performance Report.

Observations as of September 30, 2024, included:

- The Pension Plan market value was \$173.5 million. Q3-24 net investment change of \$8.9 million, returning 5.4% (net), vs. policy index of 5.2%.
- Positive attribution for the quarter resulted from U.S. and Global equity structure as well as the outperformance by JP Morgan IIF.
- Negative attribution for the quarter resulted from China underweight in non-U.S. equities and underperformance by Wilmington Trust.

Allocations were within the committee and Council's approved ranges.

Ms. Ryan expressed concern regarding the DFA Emerging Markets Core Equity Fund and the possibility of the new administration imposing substantial tariffs on China. She asked if we should be rethinking that position given its exposure to China equities, if DFA is going to change positioning, or if it made sense to look for a different manager or exit that position all together. Mr. Wing explained that DFA is underweight China relative to the emerging markets benchmark, though China is one of the cheapest markets in the world and generally over the long term what is cheap tends to do better and vice versa. Marquette feels that DFA is a good manager in the space. Ms. Ryan questioned if Marquette would make a change across the board or if the decision is made to do that would Marquette need to bring it up in the February meeting for action. Mr. Wing stated that Marquette would make any change, as appropriate, and, if a change were made, it would be reviewed with the Committee at a subsequent meeting.

Mr. Wing directed members to the OPEB Fund Performance Report.

The market value as of September 30, 2024, was \$70.7 million. Q3-24 net investment change of \$3.6 million, returning 5.4% (net), vs policy index of 5.2%. Positive attribution for the quarter resulted from U.S. and Global equity structure and outperformance by JP Morgan IIF. Negative attribution for the quarter resulted from China underweight in non-U.S. equities and underperformance by Wilmington Trust.

4. **Annual Actuarial Report**

At the request of the County, Cheiron, the County's actuary, performed their annual actuarial valuation of the Sussex County Employee Pension Plan, as well as the Sussex County Postemployment Benefit Plan. Committee members were provided with a report entitled "Actuarial Valuation Report as of July 1, 2024", as well as a PowerPoint presentation. The report also included GASB 67/68/74/75.

For the Pension Plan, the valuation included a historical review, identification and assessment of risk, valuation results, and projections.

The actuarial valuation for the Pension Plan includes investment earnings of \$19.0 million, employer and employee contributions of \$4.6 million and \$0.5 million respectively, with benefits of \$6.4 million and expenses of \$0.2 million. Participation rates (the ratio of active members to inactive members) over the last several years have remained relatively level.

Retirees, along with Terminated Vested Participants (terminated but not received benefits), have been increasing. The County's Pension Plan is currently 97.9 percent funded and it was noted that the County is one of Cheiron's best funded pension plans, primarily due to the County making significantly high pension contributions. The County's current discount rate is 6.75 percent.

Ms. Ryan questioned whether it was Cheiron's recommendation to continue with the 6.75 percent assumed rate of return this year based on what is going on with the economy and interest rates. Ms. Cranna stated that most plans are keeping where they are right now, that the 6.75 is lower than what most public plans are at right now, most are at 7%; because there is still an inflationary environment Cheiron would recommend staying at 6.75%. as it can be supported based on the asset allocations. Ms. Cranna also stated that Cheiron will be doing an experience study, looking at all the assumptions that are used in the evaluation including the investment rate of returns, and reviewing the other assumptions including salary scale.

The actuarially determined contribution (ADC) increased from \$3.7 million to \$4.1 million; the unfunded actuarial liability (UAL) increased from \$2.3 million to \$3.5 million; the actuarial experienced an asset gain of \$1.3 million; the actuarial experience liability loss was \$3.4 million primarily driven by salary increases greater than expected; and there was a decrease in the funded ratio from 98.5 percent to 97.9 percent. The amortization payment is a closed amortization period. – which means every year it goes down by one. The plan is currently at 11 years, which is pretty low for most public sector plans. As the plan gets lower, if there is downturn in the economy, or significant asset loss or liability loss your contributions go up significantly because we are amortizing the unfunded liability over a much smaller period. Cheiron's recommendation is to not let that go below 10 years or you will see very volatile contributions. After the experience study is complete, Cheiron will bring some alternatives – such as a 10-year layered amortization where it is kept at 10 years and every year amortize it over 10 years. There is also a rolling 10-year amortization, where every year take whatever, the unfunded liability is and amortize it over 10 years. Ms. Cranna then reviewed the projected outlook.

Cheiron continued their PowerPoint presentation for the OPEB Plan, which included a historical review, valuation results and projects.

The OPEB Plan is currently 101.8 percent funded (an actuarial value), with the County making additional contributions above the recommended actuarial determined contribution. Total participants increased from 743 to 777; there was a decrease in the actuarial liability couple that with the increase in assets the unfunded liability has a negative number of 1.1 million. Project Outlook – Baseline information included assumptions of a 6.75 percent discount, ADC contributions, and a 24-year closed amortization.

Mrs. Jennings asked for a timeline as to when Cheiron would be working on the experience study. Ms. Cranna stated they would start working on it now. It was requested to have the information before the budget process starts in April. Cherion stated that they should have the information by the February meeting.

5. **2025 Meeting Dates**

Following are the meetings for 2025:

February 20, 2025
May 15, 2025
August 21, 2025
November 20, 2025

All meetings begin at 10:00 a.m. and will be held virtually, except for the November meeting, which will be held in the Sussex County Council Chambers, Administrative Office Building, Georgetown, Delaware. Calendar invitations will be sent to each member.

6. **Additional Business**

No Additional Business.

7. **Adjourn**

At 11:13 a.m., a Motion was made by Ms. Roth, seconded by Mr. Lawson, to adjourn. Motion Adopted by Voice Vote.

Respectfully submitted,

Bobbi L. Albright
Executive Administrative Assistant