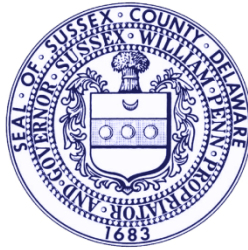


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PENSION FUND COMMITTEE

Minutes of Meeting

November 19, 2020

The Sussex County Pension Fund Committee met on November 19, 2020, at 10:00 a.m. by teleconference. Those ‘in attendance’ included members: Gina Jennings, Todd Lawson, Karen Brewington, Kathy Roth, David Baker, Kathleen Ryan, and Mitchell Rogers. Also in attendance were Michael Shone and Pat Wing of Marquette Associates, the County’s Pension Investment Consultant; and Janet Cranna, Brett Warren, and Margaret Tempkin of Cheiron, the County’s Actuary.

On November 10, 2020, the Agenda for today’s meeting was posted in the County’s locked bulletin board located in the lobby of the County Administrative Offices, as well as posted on the County’s website.

Ms. Jennings called the meeting to order at 10:10 a.m. and welcomed everyone to the virtual Pension Committee meeting. The decision to hold a virtual meeting was due to a recent uptick in COVID-19 infections nationwide and presenters having to travel from out-of-state. Pension Committee members and attendees were connected by phone and/or internet and participating in real-time. Members of the public were able to listen and view this meeting using the regular Pension Committee’s broadcast found on the County’s website, as well as view all meeting materials.

1. **Approval of Minutes**

The minutes of the August 20, 2020 meeting were approved by consent.

2. **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 “2020 Actuarial Valuations”, as well as a PowerPoint presentation. Their 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 \$3.8 million, employer and employee contributions of \$9.8 million and \$0.2 million respectively, with benefits of \$4.8 million and expenses of \$0.1 million. The



valuations reported are as of July 1, 2020 and do not reflect the gains the stock market has realized since July 1.

Participation rates (the ratio of active members to inactive members) over the last 10 years have remained relatively level. Retirees, along with Terminated Vested Participants (terminated but not receiving benefits), have been slowly increasing over the same time period. The actuarial valuation is what the actuary uses to determine contributions, which smooths the investment gains and losses over five years. The County's Pension Plan is currently 101.1 percent funded and it was noted that this was primarily due to the County making significantly higher pension contributions above the recommended actuarial determined contribution (ADC) over the last 3 years. The County's current discount rate is 7 percent, a one percent decrease since 2014. The amortization payment is currently nonexistent as a result of a funding ratio over 100 percent. During the discussion regarding the identification and assessment of risk, items reviewed included: investment risk (20-year history), interest rate risk, longevity and other demographic risk, and assumption change risk.

The ADC decreased from \$3.0 million to \$2.7 million primarily due to \$6.8 million in excess contributions paid in FY 2020; the unfunded actuarial liability (UAL) decreased from \$3.4 million to a surplus of \$1.3 million; there was an actuarial experience asset loss of \$1.3 million due to a market rate of return of 3.3 percent (compared to a 7.0 percent assumption). On an actuarial value basis, the return was 5.9 percent (assumes phase-in of 5-year asset smoothing). Although there was an actuarial experience liability loss of \$1.0 million due to salaries, the funded ratio nonetheless increased from 97 percent to 101 percent. The number of active participants decreased from 507 to 506; total salaries as of July 1, 2020 were \$25,943,699, or 2.7 higher than the previous year; the number of retirees are 285, with a benefit of \$5.1 million. The number of terminated vested participants (no longer working, but not presently receiving benefits) increased 2 percent to 104 as of July 1, 2020.

The actuarial liability increased to \$121.8 million, with a market value of assets of \$123.2 million, and a surplus of \$1.3 million. The total County contribution has decreased from \$3 million to \$2.7 million, which is 10.49 percent of payroll. Projections were also reviewed.

Discussion was held regarding the recommendation for employees hired after December 31, 2020 to begin paying a 5 percent contribution (after the first \$6,000 of salary) toward their pension. Currently, employees hired after December 31, 2013 are paying 3 percent. Ms. Jennings stated it would take multiple years for the County to realize a benefit and that this specific recommendation was not a requirement of the IRS. The possibility of reducing the 7 percent return assumption was also discussed, as well as the amortization period.

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

The OPEB Plan is currently 82 percent funded (\$60 million in liabilities and assets of \$50 million), with the County making contributions in excess of the recommended ADC. It was noted that the County is in the 75th percentile of funded plans. The

OPEB has 480 active participants, with total participants of slightly less than 700 (either currently in the plan or who will be eligible once they retire), which is similar to the previous year. The ADC increased from \$1.8 million to \$1.9 million primarily due to the assumption in the discount rate. Projected Outlook – Baseline information includes assumptions of a 7.0 percent discount rate, ADC contributions (7.9 percent of payroll – the County budgets 9.5 percent), and a 28-year closed amortization. Using these assumptions, the OPEB Plan will be 95 percent funded over the next 20 years. It was noted that it was very rare to see OPEB Plans being 82 percent funded, as is the County’s current funding ratio.

Discussion was held regarding possibility of a high number of employees retiring within a close timeframe and the impact to the Pension and OPEB Plans. It was noted that an experience study is performed every five years that tracks the County’s assumptions and projections.

The Committee thanked Ms. Cranna, Mr. Warren and Ms. Tempkin for their presentation.

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

Committee members were sent copies of a report entitled, “Sussex County Quarterly Performance Report as of September 30, 2020”. The Investment Performance Report includes information regarding the market environment for the third quarter of 2020, as well as quarterly and annual performances of the Pension and OPEB Plans. Although the report should be referenced for a more detailed analysis, discussion highlights include:

Mr. Wing referred members to the Market Environment (Exhibit II).

Mr. Wing noted an historical rebounding of economic activity in the third quarter with real Gross Domestic Product (GDP) growth at an unheard of 33.1 percent. The strong growth in consumer spending, business investment and housing were impacted by the government’s fiscal package (the CARES Act) that provided expanded unemployment benefits and stimulus checks) due to the current pandemic. Without another fiscal package, the economic growth is not expected to be as encouraging in the future. Global asset class performance included: U.S. equities: up 9.2 percent for the quarter; international equities: up 5.6 percent; emerging markets: up 9.6 percent; U.S. Bonds: up 0.6 percent; and high yield bonds up 4.6 percent. Growth stocks continued to outperform value stocks by more than 35 percentage points. It was noted that only 5 stocks have driven the gains in growth stocks, Facebook, Amazon, Apple, Microsoft, and Google, returning a cumulative 41 percent year-to-date through September, while the remaining 495 stocks of the S&P 500 remain in the red through the same time period.

Mr. Wing directed members to the Pension Fund Performance Report (Exhibit III).

Observations as of September 30, 2020 included:

- Market Value was \$127 million; the portfolio realized a third quarter gain of \$6.3 million, returning 5.3 percent (net of investment fees) versus a policy index of 5.8 percent
- Positive attribution for the quarter resulted from outperformance by non-U.S. equities and fixed income
- Negative attribution for the quarter resulted from more defensive active equity managers and value tilt within U.S. equities
- Third Quarter changes – equity manager changes in July
- Looking Ahead: Continue Private Infrastructure discussion

It was noted that all asset allocations (U.S. Equity, Global Equity, Non-U.S. Equity, Estate, U.S. Fixed Income, and Cash) were all within the target ranges contained in the Pension Plan’s Investment Policy Statement. Discussion was also held regarding the realized returns of the various asset classes versus the policy indexes. When questioned, Mr. Wing noted that changes may want to be considered within the global equity space (Vontobel).

Mr. Wing directed members to the OPEB Fund Performance Report (Exhibit IV)

The beginning market value was \$47.8 million, with an ending value of \$50.2 million. The portfolio realized a third quarter gain of 5.2 percent versus a policy index of 5.8 percent. Again, all asset allocations were all within the target ranges contained in the OPEB’s Investment Policy Statement. During the review of the Plan’s Total Equity Composite and managers, it was noted that having an allocation to high yield bonds proved beneficial relative to the fixed income policy.

Mr. Wing directed members to separate Portfolio Updates (as of October 31, 2020) for both the Pension and OPEB Plans. For the Pension Plan, the total fund composite realized a third quarter return of -1.6 percent versus a policy index of -1.5; and 0.9 percent return versus a policy index of 2.5 percent for year-to-date, with an end market value of \$124.9 million. Through November, the Pension Fund realized a return of 6.6 percent, bringing the year-to-date (4 months) return to 7.6 percent. For the OPEB Plan, the total fund composite realized a third quarter return of -1.5 percent, which was in line with the policy index; and 0.7 percent year-to-date versus a policy index of 2.5 percent, with an ending market value of \$49.5 million. Through November, the OPEB Fund realized a return of 6.7 percent, bringing the year-to-date (4 months) return to 7.5 percent.

Mr. Lawson left the meeting.

4. **Private Infrastructure Investment – Continued Discussion**

At the August meeting, members were presented with a report entitled, “Private Infrastructure – Sussex County, August 2020”. The minutes from the August meeting can be referenced regarding the discussion held. At that time, it was the consensus of the committee to wait until after the Presidential election to make a decision regarding the possible addition of a Private Infrastructure asset class to the County’s portfolio and to have further discussion at the November meeting. The Committee continued

their discussion and reviewed the current asset allocation targets, as well as the two options provided by Marquette Associates.

A Motion was made by Mr. Rogers, seconded by Ms. Ryan, for the Pension Committee to recommend to the County Council to revise the Investment Policy Statements for the Pension and OPEB funds to decrease U.S. Equities by 1 percent, non-U.S. Equities by 1 percent, U.S. Fixed Income by 3 percent, and add a new asset classification of Private Infrastructure at 5 percent.

Motion Adopted: 6 Yeas.

Vote by Roll Call: Mr. Baker, Yea; Ms. Ryan, Yea; Mr. Rogers, Yea;
Ms. Roth, Yea; Ms. Brewington, Yea; Ms. Jennings, Yea

Ms. Jennings noted that the Committee's recommendations will be brought before Council during December 2020.

5. **2021 Meeting Dates**

Following are the meetings for 2021:

February 18, 2021
May 20, 2021
August 19, 2021
November 18, 2021

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

6. **Additional Information**

Ms. Jennings announced the retirement of County Administrative Office staff member, Nancy Cordrey, who has served as secretary of the Pension Committee, effective January 2021.

7. **Adjourn**

At 12:10 p.m., a Motion was made by Ms. Ryan, seconded by Mr. Rogers, to adjourn. Motion Adopted by Voice Vote.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary