



## **PENSION FUND COMMITTEE**

### ***Minutes of Meeting***

**February 21, 2019**

The Sussex County Pension Fund Committee met on February 21, 2019 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, Hugh Leahy and Kathleen Ryan. Also in attendance were Patrick Wing of Marquette Associates, the County's Pension Investment Consultant, as well as Janet Cranna and Margaret Tempkin of Cheiron, the County's Actuary. Committee member David Baker was unable to attend.

On February 13, 2019, 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.

1. **Approval of Minutes**

The minutes of November 15, 2018 were approved by consent.

2. **Actuary - Experience Study**

Ms. Jennings explained that an Experience Study is performed every 5 years to review the assumptions used in the annual actuarial report. Ms. Cranna and Ms. Tempkin, of Cheiron, were in attendance to present the assumptions used and to offer recommendations; Ms. Cranna presented for the Pension Plan and Ms. Tempkin presented for the OPEB Plan. The last Experience Study was performed in 2013, which covered the period January 1, 2008 through the end of 2012. A report entitled, "Experience Study July 1, 2015 through June 30, 2018" was distributed to members. Topics of discussion included an overview, demographic assumptions (mortality rates, retirement rates, termination rates and marriage assumptions), economic assumptions (salary increases, inflation rate, cost-of-living adjustment, and investment return), and the cost impact of the recommended changes to both the Pension and OPEB Plans.

As of July 1, 2018, the baseline estimated actuarial liability for the Pension Plan was \$110.8 million (85.4 percent funded), with an actuarial determined contribution of \$3.79 million. The net effect/liability to the Pension Plan – taking into consideration the recommended changes (mortality, retirement, termination, percent married, salary,



COLA, and discount rate) – would result in a \$1.1 million decrease in the actuarial liability, with a slight increase in the actuarial contribution of approximately \$167,000. If the recommended changes are implemented, it would result in total liability of \$109.6 million, with an 86.3 percent funding ratio and an actuarial contribution of \$3.961 million.

Ms. Jennings confirmed that the County’s contribution will again exceed the actuary’s recommended contribution.

As of July 1, 2018, the baseline estimated actuarial liability for the OPEB Plan was \$53.2 million. With the demographic changes (mortality, termination, and retirement assumption), it would result in an actuarial liability of \$53.6 million. Taking into consideration a discount rate assumption of 7 percent, the actuarial liability would increase to \$55.4 million, with an increase in the unfunded liability from approximately \$10 million to \$12.3 million, an increase of \$2.3 million. The actuarial determined contributions as of June 30, 2019: employer normal costs - increase from a baseline of \$925,000 to \$1.17 million; the unfunded amortization payment – increase from \$532,000 to \$634,000; and the actuarial determined contribution would increase to \$1.9 million versus a previous contribution of \$1.5 million, or a change of \$370,000.

A Motion was made by Ms. Roth, seconded by Mr. Lawson, that the Sussex County Pension Committee recommend that Sussex County Council change the following assumptions used during the Pension and OPEB annual actuarial studies, where applicable: 1. update the Mortality Improvement Scale to MP-2018, 2. update the retirement assumption for paramedics and dispatchers, 3. update the termination assumption to a service-based table, 4. change the COLA assumption to 1 percent, 5. change the salary scale assumption to be service based, 6. change the discount rate to 7 percent, and 7. change the marriage assumption to 65 percent of all members assumed to be married.

Motion Adopted: 6 Yeas.

Vote by Roll Call: Ms. Brewington, Yea; Ms. Roth, Yea;  
Mr. Leahy, Yea; Ms. Ryan, Yea;  
Mr. Lawson, Yea; Ms. Jennings, Yea

Ms. Jennings and the Committee thanked Ms. Cranna and Ms. Tempkin for their presentation.

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

Mr. Wing distributed hard copies of a booklet entitled, “Sussex County Quarterly Performance Report as of December 31, 2018” (copies were emailed to members prior to today’s meeting).

The Quarterly Performance Report includes information regarding the market environment for 2018, as well as quarterly performances of the Pension and OPEB Plans. The report should be referenced for a detailed analysis.

Mr. Wing directed members to a handout regarding Marquette Associates, specifically their firm ownership update regarding their equity structure, as well as restructuring within the firm; there will be no change in client services.

Mr. Wing referred members to Exhibit II – Market Environment. Information included: U. S. Economy, Global Economy, Global Asset Class Performance, U.S. Markets, and Global Index Returns. Mr. Wing noted that although economic activity decelerated, the labor market continues to be strong; unemployment rates remain at approximately 4 percent, increase in salaries and wage growth, and a strong labor market. A change in Federal Reserve policy (fewer interest increases) resulted in markets responding positively and market gains. Asset class returns reflect equity markets not performing well during the fourth quarter of 2018. Mr. Wing reported that the State Pool did extremely well in the fourth quarter and, in all of 2018, they outperformed their benchmarks by appropriately 2 percentage points.

Mr. Wing directed members to Exhibit III – Sussex County Employee Pension Plan.

#### Observations

- As of December 31, 2018, the Pension Plan Market Value was \$100.8 million
- The return for the quarter was -7.2 percent (ahead of the policy index of -8.50 percent)
- For the year, the portfolio was -2.7 percent (ahead of the policy index of -4.7 percent)
- Positive attribution for the quarter resulted from: active global equity managers and the State of Delaware Pool
- Negative attribution for the quarter from: U.S. mid-cap tilt
- Strong peer group rankings

#### Looking Ahead

- No recommended changes at this time
- Explore ways to get end of quarter asset values and returns for Delaware State Pool, if possible

Mr. Wing reviewed asset allocations vs. targets, peer rankings, manager returns, investment management fees (34 basis points), and common holdings.

Discussion was held regarding overlapping, or common holdings between portfolio managers; Marquette will present an overlapping analysis at May's meeting.

Mr. Wing referred members to Exhibit IV - Sussex Post-Employment Benefit Plan. It was noted that the OPEB Plan does not have an allocation with the State.

#### Observations

- As of December 31, 2018, the OPEB Fund Market Value was \$41.0 million

- The return for the quarter was -8.2 percent (net of investment fees), ahead of the policy index of -8.3 percent
- 2018 portfolio return: -4.9 percent (net of investment fees), slightly lagging the policy index of -4.5 percent
- Positive attribution for the quarter from: MFS Low Volatility Global Equity
- Negative attribution for the quarter from:
  - U.S. equity overweight and corresponding fixed income underweight
  - U.S. mid-cap tilt

#### Looking Ahead

- No recommended changes at this time

Mr. Wing reviewed peer rankings, manager returns, investment management fees (22 basis points), as well as common holdings; Marquette's overlapping analysis will include the OPEB fund.

Mr. Wing directed members to a separate handout for the January 31, 2019 portfolio update; the Pension Fund realized a gain of \$5.6 million and was up 5.6 percent (net of fees). The beginning market value for the OPEB was \$41 million with an investment gain of \$2.2 million, resulting in an ending market value of \$43.2 million as of January 31, 2019.

When questioned, Mr. Wing stated that the Pension Plan policy index does not reflect investment fees.

#### 4. **Additional Business**

Ms. Jennings introduced and welcomed Councilman John Rieley who was in attendance.

#### 5. **Adjourn**

At 11:24 a.m., a Motion was made by Ms. Ryan, seconded by Ms. Roth, to adjourn. Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for May 16, 2019, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey  
Administrative Secretary