PENSION FUND COMMITTEE

Minutes of Meeting

January 27, 2011

The Sussex County Pension Fund Committee met on January 27, 2011, at 1:30 p.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Susan Webb (Finance Director), Councilwoman Joan Deaver, as well as David Baker (County Administrator) and Jeff James (Director of Engineering Accounting). Ms. Wootten, Assistant Director of Personnel and member of the Committee, was unable to attend. Also in attendance was Gina Jennings, Director of Accounting. On January 20, 2011, the Agenda for today's meeting was posted in the County's locked bulletin board located in the lobby of the County Administrative Office Building.

Ms. Webb distributed handouts and started the meeting by presenting a brief update on the OPEB Fund. She noted that the County had recently closed their account with the State and was in the process of moving that money into new investments.

Discussion was held regarding the need for a custodian for the OPEB Fund. The County's Consultant, Peirce Park Group, has recommended that Wilmington Trust act as custodian who would be responsible for purchasing the OPEB investments. A fee of four basis points (.04) would be charged by the custodian for their services. Wilmington Trust would waive the normal set-up fee based on their past relationship with the County. If the Committee recommends that the County enter into a custodial agreement with Wilmington Trust for the OPEB Fund, which would allow for the purchase of the selected investments, Mr. Baker stated that approval by the County Council would need to be obtained.

Discussion and Approval of Fixed Income Investments

Ms. Webb reported that she had not received a determination from Everett Moore, County Attorney, regarding the use of the Wilmington Trust Company as Fixed Asset Investment Manager for the OPEB Fund without the need for a Request for

Proposal (RFP). The attorney was also sent information as to the County's rationale for rejection of the proposals received for fixed income investments.

At their December 7, 2010 meeting, Council was informed that the Pension Committee had made a recommendation for the fixed income portion of the OPEB Fund (40 percent), but Ms. Webb requested to defer action on this portion until January to consider investment options.

Discussion took place regarding the impact of the recent announcement by M & T Bank regarding their buyout of the Wilmington Trust Company. Ms. Webb stated that Peirce Park Group – based on their past history with M & T Bank – felt M & T was just as strong as Wilmington Trust in regard to the management of bonds. She also noted that the County had been pleased with Wilmington Trust's previous work for the County. Overall, Peirce Park Group felt that the buyout by M & T would not be an issue. Mr. Baker stated that in speaking with M & T officials, they had indicated they were going to retain Wilmington Trust's advisors for fixed income management. M & T felt that this service was a strength of Wilmington Trust and would complement their bank.

Peirce Park Group Options for Service

Ms. Webb explained that Peirce Park Group had presented 4 options regarding future pension consultant services, which included:

- **Option 1**

  Annual review of the Pension and OPEB Funds including:

  - Calculation of returns for each manager and total fund
  - Performance report reflecting performance of each manager and the total fund
  - Observations and recommendations
  - Recommendations for allocation of the 2011 contributions

  Fee: $17,500 per fund = total $35,000

- **Option 2**

  Same as Option 1, along with a mid-year report (3/31 and 9/30)

  Fee: total for both funds $40,000

- **Option 3**

  Same as Option 2, but with quarterly reports (12/31, 3/31, 6/30, 9/30)

  Fee: total for both funds $45,000

➢ **<u>Option 4</u>**

Consulting Plus – The overall expense ratio for the pension fund is 0.86 percent. For the OPEB fund, the expense ratio is 0.79 percent and 0.69 percent with Wilmington Trust as fixed income manager. With 'Consulting Plus', the County will be provided with a full-service, ongoing consulting process that includes:

- Manager selection
- Manager changes
- Determine allocation among managers
- Rebalancing
- Performance reporting
- Education
- Asset allocation

Current expenses:	Pension	= .86 percent
	OPEB	= .79 percent (based on fund line-up decided at December meeting)
	With 'Consulting Plus'	= .62 percent

Based on these percentages:

Total Current Fees	$386,500 + $173,700	=	$560,200
Proposed	$281,250 = $137,500	=	<u>$418,750</u>
Savings*			**$141,450**

***Assumes all pension assets overseen by Peirce Park Group. If County retains all or some with State, savings would be reduced.

Ms. Webb stated that consultant services provided by Peirce Park in 2010 for the County's regular Pension Plan included a calculated rate of return and performance reports for each investment manager. The cost for these services, along with observations and recommendations for the 2011 contributions, totaled $17,500 and allowed for a year of communication (phone calls and emails) with Peirce Park. Now that the County has an OPEB Fund and an investment policy, the question before the Committee is whether Peirce Park Group would provide consultant services for that fund as well.

In discussing the four options proposed by Peirce Park for the County's OPEB Fund, Ms. Webb reported that the cost to provide the same services currently performed for the County's regular pension fund – return performance, reports, observations and recommendations – was included under Option 1 for a total cost of $35,000 for both plans. Option 2 would be the same as Option 1, except reports would be done semi-annually. Option 3 would provide four quarterly reports, which she felt would be excessive. With Option 4, or Consulting Plus, Peirce Park would manage the assets completely – making investment selections and needed changes – and then report back to the County. Under Option 4, the County would lose significant control over both plans, and Ms. Webb was not sure if the County was ready for this type of oversight/management. She noted that Option 4 was only included as one part of Peirce Park's proposal. With Consulting Plus, Peirce Park believes the County would save money because they would have a wider variety of investments to choose from and the price ratios are known. Ms. Webb stated that a decision regarding Consulting Plus did not need to be done at the present time, especially assuming that the Committee was pleased with Peirce Park's annual return.

Ms. Webb explained that the RFP process for the OPEB fund was very expensive – $35,000 – and very time-consuming. The County was only able to work with specific selections due to constraints of the law. Of the 25 proposals received, there were 2 or 3 the consultant wanted to include due to successful returns with other municipalities, but were disqualified as a result of not meeting deadline requirements. It was noted that the other two counties have specific wording contained in their pension ordinances which exempts them from general purchasing procedures. Ms. Webb also relayed that the other two counties allow their consultant to select their investments. Mr. Baker explained that changes could be made to County Code, but the County is not exempt from State Code.

If Option 1 is found to be the Committee's preference, which includes an annual review of both pension plans, Ms. Webb explained that she would continue monitoring both accounts on a monthly basis once statements are received. This close monitoring would allow for more frequent in-house reporting on the value of the pension funds. She reiterated that she would like the Pension Committee to meet more often, possibly on a quarterly basis. Mr. James stated his preference for Option 1, with the addition of a mid-year in-house report.

It was the consensus of the Committee that having an outside independent consultant to report on both pension plans was very beneficial.

A Motion was made by Ms. Deaver, seconded by Ms. Webb, to select Option 1 for Peirce Park Group's annual review of both the County's regular Pension Plan and OPEB Fund at a cost of $35,000.

Motion Adopted: 2 Yea.

Vote by Roll Call: Ms. Deaver, Yea. Ms. Webb, Yea.

<u>Discussion of Pension Ordinances & New Member Discussion</u>

Committee members received copies of three pension ordinances for Chapters 26 and 27 of the County Code. Ms. Webb noted the possible establishment of a working committee that would allow the pension ordinances to be updated within the next 3 to 6 months, as well as make final recommendations to the Committee, without having to bring each item to the Committee. She also recommended that the composition of the board needed to be more clearly defined, including voting and non-voting members. Below is the information presented for the pension committees of Kent and New Castle counties:

- <u>Kent County</u> (hires pension advisor/consultant)

  Voting Members: Finance Director, employee representatives and 3 outside appointees by Levy Court
  Nonvoting: past employee and the Personnel Director

- <u>New Castle County</u> (has pension consultant/advisor)

  Voting members: 6 union members, 3 outside appointees by Council, 1 retiree, Personnel Director, and Finance Director

  All board members must take an investment class.

Ms. Webb reviewed the differences between the pension committees of Kent and New Castle counties versus Sussex, which includes:

- three outside representatives who are experienced in the field of investing – accountant, investor, or consultant – and who are appointed by the County Council; these outside representatives have voting rights
- inclusion of a retiree
- inclusion of union representatives for New Castle County, which is not the case for Sussex or Kent
- In New Castle County, members of their pension board are required to take 3 or 4 days of investment classes

It was also noted that both counties use an advisor and a consultant, which is identical to what the Sussex has been doing for the last couple of years.

Regarding Kent and New Castle counties, Mr. James noted his concern regarding the number of outside representatives serving on their committees. With Kent having three outside appointees and only two County members (Finance Director and an employee representative), his concern is based on the fact that more control is given to the nonCounty members. To avoid this scenario for Sussex, it was suggested that outside members could serve without voting rights, or only have one outside representative sit on the Committee.

Mr. Baker noted the benefit of having the Committee make recommendations to County Council, including additional board member appointees. He also stated that the County's labor attorneys have been working on ordinance revisions regarding disability issues, as well as closing various loopholes. Ms. Webb stated the possibility of the labor attorney and the new personnel director serving on the working group.

Discussion was held as to the actual committee membership, voting versus nonvoting members, total number of members, etc. Mr. James felt that all members – if sitting on the Committee and having input – should have voting rights. He, again, raised concern that control of the Committee not be given to outside representatives. Committee members felt that there would be great benefit in the experience and expertise received from having an outside member serve on the Committee, and would be a valuable addition to the County's advisor (Aon) and consultant (Peirce Park Group).

It was the consensus of the Committee that the possible composition of the Pension Committee should include: County Administrator, Finance Director, Personnel Director, County Council representative; 1 employee representative; 1 retiree; and 1 outside representative for a total of 7 members.

Mr. Baker reiterated that any suggested changes to the Pension Ordinance would have to be brought before the Committee who would then review and make recommendation to the County Council.

Ms. Webb requested that members review the ordinances and forward their comments to her. The two main objectives hoping to be accomplished by revising the pension ordinances include: better define Committee membership and how the County can purchase investments for the regular Pension and OPEB funds.

Other Business

Ms. Webb inquired as to the Committee's thoughts in paying pension expenses from the Pension Fund checking account now that the County has the ability to pay consultant fees. Previously, the County did not have a consultant, and pension fund and actuary costs were contained within the annual budget. The actuary fee for both the regular Pension and the OPEB funds is $26,000. This decision will be made during the annual budget process.

In recently speaking with the County's new actuary representative, Ms. Webb took the opportunity to briefly discuss the County's defined benefit pension plan versus a 403(b) program.

Mr. Baker inquired to the Committee's opinion regarding offering new hires the 'voluntary' option of choosing between the current defined benefit pension plan or a 403(b) plan. Currently, the County contributes approximately 8 percent annually to maintain its pension plan. For employers who do not have defined plans, the employer, at best, may contribute 3 to 4 percent. If this money is not invested wisely, an employee will have limited funds when they retire; far less than what is promised with a defined benefit pension plan. The Committee discussed the advantages and disadvantages of a 403(b) plan:

<u>Advantages of a 403(b)</u>:

- cost savings to the County (8 percent for defined benefit vs. 3 or 4 percent)
- attract younger employees who may not want to make the County their long-term employer; they would not have to stay 8 years to become vested and could take whatever funds they accumulated with them
- beneficial to older persons who may be working for the County after retirement from another company – they also may not want to work 8 years to become vested
- ability to access funds in the case of an emergency

<u>Disadvantages of a 403(b)</u>:

- may not have the pension they would have if they stayed with the current defined benefit pension plan
- does not have the benefit of a large sum of money that would grow more rapidly nor have the expertise of a board or a consultant; an employee would be left to make their own investment decisions that might not always be to their benefit

Another option mentioned by Ms. Webb included employees contributing to the existing pension plan thereby lowering the County contribution.

Ms. Webb explained that when the County makes a pension contribution for an employee and if the employee leaves before they become vested, the contribution remains in the pension plan to grow and to be distributed. If that same employee is part of a 403(b), they would take the County's contribution with them.

Mr. James expressed concern for County employees making $25,000 or $30,000 and their ability to make contributions to a 403(b). Ms. Webb felt that with the County's lower salaries, the current defined pension benefit plan helps to retain employees, which also allows less disruption and less retraining of new employees.

Mr. James stated that he felt the County had been managing the defined benefit pension plan very well through some extremely difficult economic times. With the pension plan 92 percent funded – in combination with the County's low property tax rate – he noted that this enabled the County not to overburden its residents, which is not the situation in many cities that have huge pension contributions and obligations that, many times, cannot be met.

At 2:35 p.m., the meeting was adjourned.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary