The Minutes of the
Meeting of the
Lancaster County Retirement Board
April 17, 2020

The meeting was called to order by Commissioner Joshua Parsons at 9:00 a.m. The meeting was conducted remotely due to the COVID-19 Pandemic State of Emergency Declaration and was livestreamed for the public.

Members Present: Commissioner Joshua Parsons (left at 9:58 a.m. and returned at 10:08 a.m.), Commissioner Ray D'Agostino, Commissioner Craig Lehman, Controller Brian Hurter, and Treasurer Amber Martin.

Others Present: Lee Martin, Marquette Associates; Kris Seets, Korn Ferry (left at 10:25 a.m.); Lawrence George; and Kathy Kunkel.

Commissioner D'Agostino moved to approve the February 14, 2020 Retirement Board minutes as circulated. Commissioner Parsons seconded. The motion carried unanimously.

Kris Seets, Senior Principal Korn Ferry, presented a report on the Actuarially Determined Contribution (ADC) for 2020 Reflecting Potential Changes in Assumptions and Methods. Mr. Seets noted that using the current assumptions, with no changes, the ADC is currently projected at $4,976,000 with a funded ratio of 90.5%. Mr. Seets discussed some changes that would impact the calculation of the 2020 ADC:

Change #1 - Revised Life Expectancy: This change reflects a change from the Plan’s current life expectancy assumptions to the newly published study by the Society of Actuaries on life expectancies for general public sector employees. This change affects the length of time benefits are expected to be paid. This change would update the mortality tables from the current RP13 tables to the Society of Actuaries PS 2010 tables. Mr. Seets noted that if the change in mortality tables is implemented, it will increase liabilities and cause the ADC to increase. With this change the ADC is projected to be $6,955,000 with a funded ratio of 86.3%.

Change #2 - Revised Method for Member Deductions: Currently the Plan accounts member contributions in the year received. The revised method projects the expected future member contributions to each individual’s retirement and adjusts the value to reflect the difference between the interest credited on the member balances and the expected investment returns on the fund. Mr. Seets stated that changing the method for calculating the member reserve liability would lower the liability and ADC. He stated that the combination of this change, along with the revised life expectancy noted in Change #1, would lower liabilities and the ADC. With the revised life expectancy assumptions and a change in the method used to account for member balances, the projected ADC is $3,899,000 with a funded ratio of 90.6%.
Change #3 - Reduced Investment Return Assumption: The Plan currently uses a return assumption of 7.25%. This change would reduce the return assumption from 7.25% to 7.00%. Mr. Seets noted that if this change in return assumption is implemented, it will increase liabilities and cause the ADC to increase. He stated that the combination of this change, along with the revised life expectancy noted in Change #1 and the revised method for member deductions noted in Change #2, the projected ADC would be $4,919,000 with a funded ratio of 88.1%.

Mr. Seets reviewed a chart of the National Association of State Retirement Administrators (NASRA) Survey on the Distribution of Public Pension Investment Return Assumptions. This chart reflects the investment return assumptions for retirement systems over the past twenty years. The chart shows a clear trend toward lower return assumptions being adopted by the pension plans. The chart shows the median return assumption rate dropping from 8.00% in 2001 to 7.25% in 2020. Mr. Seets noted that he feels the return assumption rate will continue on the downward trend.

Mr. Seets also presented two graphs. The graphs showed the projected ADC and funded ratio under the different scenarios presented over the next 10 years.

Controller Hurter reported the County’s 2020 budget includes approximately $5,500,000 for the ADC. He noted that the 2020 ADC would be approximately $4,976,000 if none of the changes were made and approximately $4,919,000 if all three of the changes were made, and both amounts would be under the amount included in the 2020 budget. Controller Hurter noted that through the end of March 2020 the Plan had recognized a 14% loss. Controller Hurter asked Mr. Seets what the 2021 ADC would be if the Plan recognized a 14% loss at the end of 2020 and all three of the changes were made. Mr. Seets projected an ADC of $5,900,000 for 2021 if the Plan recognized a 14% loss and all three of the changes were made. Mr. Seets noted that the 2021 ADC would be over $6,000,000 if the Plan recognized a 14% loss and none of the changes were made.

Mr. Seets suggested that the market returns over the next 10 years are expected to be below the current actuarial assumed return (AAR) which could cause the ADC to increase. He noted that just lowering the investment return assumption from 7.25% to 7.00%, and not making the other two changes, the current ADC of approximately $4,976,000 would increase to approximately $5,700,000.

Following a question on how this would impact the participants of the Plan, Mr. Seets noted that the change being discussed is at the plan level and not at the participant level. He noted that there would need to be further action taken for these changes to impact participant calculations. Controller Hurter stated that when the mortality tables were changed the last time, the majority of participants benefited from the change due to an increase in life expectancy and how that impacted the present value amount of the calculation. He noted that the participants who experienced a decrease in their benefit,
had that decrease because of how the participants’ accumulated deductions impacted the calculation and not because of the County’s contribution. He also noted that those participants quickly regained that difference and saw increased benefits compared to what they would have received. Controller Hurter stated that he expected a similar impact to the participants with these changes due to the increase in the liability as a result of the change in mortality tables.

Following a lengthy discussion on the proposed changes, Treasurer Martin moved to implement all three changes to our current Plan as proposed by Korn Ferry. Commissioner D’Agostino seconded.

Voting Yes: Commissioner Parsons, Commissioner D’Agostino, Controller Hurter, Treasurer Martin.

Voting No: Commissioner Lehman

The motion carries 4 to 1.

Commissioner Lehman voted no, because if the update to the mortality tables is included in the motion to change the ADC budgeting calculation, it will also necessitate a change to the Pension Plan which will likely negatively impact some employee retirement benefits. As such, no change in the mortality tables should be made until there is an analysis on any resulting Plan change and a full understanding of the impact on employee retirement benefits.

Mr. Seets asked that Controller Hurter send him an email confirming the Board’s decision to accept the three changes as discussed and approved. Controller Hurter noted that Korn Ferry will be on the agenda for the May Board meeting to present a draft of the 2020 Actuarial Valuation Including Determination of County Actuarially Determined Contribution. The draft report will include a calculation for the ADC based on the three assumptions approved today.

Mr. Seets left the meeting at 10:25 a.m. and the Board thanked him for his presentation.

Mr. Martin presented the Retirement Fund’s performance update report for March 31, 2020. Due to the COVID-19 pandemic the overall stock market decreased as much as 33%. As of March 31, 2020, the Fund was valued at $269,119,824 with a first quarter net loss of 14.3%, compared to the policy index loss of 14.7%, with a net investment loss of $45,269,255. The first quarter 2020 Fund investment loss was in every sector except real estate and fixed income. Mr. Martin noted that the Fund has regained approximately $11,000,000 since March 31st.
Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He stated that the operating cash balance was approximately $1,600,000 as of March 31, 2020 which is $300,000 greater than the $1,300,000 the Board likes to have in operating cash. In April 2020, the County will begin making the 2020 ADC contributions of $1,000,000 per month to the Fund. Following today's Board approval, the ADC is expected to be approximately $4,919,000. These monthly transfers should cover the cash needs of the Fund through August. The Board can review and discuss the overall funding for the Fund's liquidity needs at the August Board meeting. If there are cash needs before the August Board meeting, any necessary funds can be pulled from the Emstone account.

Controller Hurter provided an update on the EmStone CIT investment. He noted that a third distribution of approximately $450,000 was completed for March 31, 2020. This brings the total received from the CIT to almost $1,900,000 out of approximately $3,500,000 that was in the CIT when the Board voted to terminate the CIT. The current market value of the CIT is approximately $1,500,000. Controller Hurter stated he would continue to watch the CIT investment as distributions are made.

Mr. Martin gave a presentation on various options for a rebalancing policy under the 52 Advantage Plan. After discussion on what percentages may be appropriate, the Board agreed to implement the following guidelines: if equities are over target by 2% they will rebalance back to the target; and if equities are under target by 2% they will buy back into the market at 50 basis points per week until the investments fall back within the targets. Controller Hurter moved to approved. Commissioner D'Agostino seconded. The motion carried unanimously.

As a follow-up to the question raised at the February Board meeting as to whether or not the Board wanted to add another security litigation firm, specifically Rigrodky & Long P.A., to monitor investments that are within the Fund, it was the consensus of the Board that there would be no changes to the two firms currently used for this service.

Controller Hurter stated that due to market conditions, the Board discussed not making an additional investment into the Morgan Stanley Prime Property at a County Sinking Fund meeting. During that discussion, the Board agreed to not make the previously agreed upon investment. Commissioner Lehman moved to ratify not to invest the additional amount into the Morgan Stanley Prime Property fund. Commissioner Parsons seconded. The motion carried unanimously.

Controller Hurter noted that when the Board approved an additional investment into the Morgan Stanley Prime Property fund, the Board had approved a revision to the Investment Policy Statement (IPS) contingent on the additional investment to real estate. Since there was no additional real estate investment made, the IPS will revert to the previous targets as stated in the IPS.
Mr. Martin presented a rebalancing proposal that reflects purchasing 50 basis points of equities to move closer to the approved targets. Mr. Martin noted that that this rebalancing is similar to the action approved with the 52 Advantage Plan rebalancing. Following discussion, Controller Hurter moved to approve the rebalancing and to move $1,400,000 from the Fidelity Intermediate Treasury Bond Index fund and invest $1,400,000 into the Dodge & Cox Global Equity fund. Treasurer Martin seconded. The motion carried unanimously.

Controller Hurter noted that due to time constraints, Marquette’s presentation on low volatility managers will be discussed at a future Board meeting.

In response to Commissioner Parson’s question if there were any questions from the public, Chief Clerk Larry George stated there were none.

Commissioner Lehman moved to adjourn the meeting at 11:00 a.m. Commissioner Parsons seconded. The motion carried unanimously. The next meeting is May 8, 2020 at 9:00 a.m.

Respectfully submitted,

[Signature]

Brian K. Hurter
Secretary