The Minutes of the
Meeting of the
Lancaster County Retirement Board
May 8, 2020

The meeting was called to order by Commissioner Joshua Parsons at 9:05 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 10:20 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 10:40 a.m.); Lawrence George; and Kathy Kunkel.

Treasurer Martin moved to approve the April 17, 2020 Retirement Board minutes as circulated. Commissioner D'Agostino seconded. The motion carried unanimously.

Kris Seets, Senior Principal Korn Ferry, presented the Lancaster County Employees' Retirement System Report on the 2020 Actuarial Valuation Including Determination of the County's Actuarially Determined Contribution (ADC) for 2020. Mr. Seets reported that his former colleague Hank Stiehl, retired on April 30, 2020. He noted that Mr. Stiehl presented this report for many years and his service will be missed.

Mr. Seets noted that the approved changes at the April 17, 2020 Retirement Board meeting have been implemented: revised life expectancy (mortality table change), the revised method for member deductions (accrued deduction method change), and the decrease in the return assumption from 7.25% to 7.00%. The ADC is currently projected at $4,918,872 with a funded ratio of 88.1%. Mr. Seets reviewed a chart that reflected the impact of those changes on the calculation of the 2020 ADC. The ADC in 2019 was $5,048,537 with a funding ratio of 89.9%.

Mr. Seets reported that the Lancaster County Retirement Plan unfunded actuarial accrued liability (AAL) is up compared to the prior year and the funded ratio is down. As of January 1, 2019, the unfunded AAL was $32,190,649 and the actuarial funded ratio was 89.9%, and as of January 1, 2020, the unfunded AAL is $40,544,164 and the actuarial funded ratio was 88.1%. The increase in liability and decrease in funded ratio are due to the implementation of the changes noted. He noted an actuarial gain of $574,056 for the 2019 plan year. Mr. Seets noted that smoothing is part of the calculation of the actuarial value of assets which was valued at $300,818,281 at January 1, 2020. The market value of assets at January 1, 2020 was $317,312,323. He stated that Lancaster County has done a good job of investing funds, as well as containing costs.

Mr. Seets reviewed the Fund's ten-year history of rate of returns and noted the volatility in the return rates. The overall five-year (2015-2019) actuarial value rate of return average was 7.39% and the ten-year average (2010-2019) was 8.07%. The market value rate of return average for the same periods were 7.46% and 8.46%. He stated that these averages reflect a good overall return rate.

Mr. Seets discussed the importance of the Fund's accumulated assets to pay future benefits. He reviewed a chart reflecting the ratio of assets to payroll and the ratio of actuarial accrued liability to payroll with active employees per retirees. He noted that a change in the Fund assets of 1% will affect the ADC by $354,000. Accordingly, a loss of 10% of assets would affect the ADC by $3,540,000.

Mr. Seets reviewed the schedule of Employer Contributions for the last ten years (2010-2019) and noted that the County has always made at least the recommended contribution. Commissioner Lehman stated that since his time on the Board, the County contributed in excess of the recommended contribution in 2010 and 2011 to pay a higher amount to make up for earlier years when the recommended contributions were not made.

Mr. Seets left the meeting at 9:40 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 for private core real estate and treasuries. Mr. Martin noted that as of May 1, 2020, the Fund had regained approximately $16,493,000 since March 31st.

Mr. Martin reviewed the current market environment, the U.S. economy and U.S. markets, and the global economy and global asset class performance. He said that economic activity ground to a halt amid the global pandemic and economists expect a contraction in the second quarter, before a rebound in the second half of 2020.

Mr. Martin noted the following portfolio returns: 5 years - gained $49.8 million, 3.6% per year (net), 36th percentile and 7 years - gained $96.4 million, 5.5% per year (net), 26th percentile. Mr. Martin reviewed the annualized returns by manager as of March 31, 2020.

Controller Hurter reviewed the projected operating cash balance for the Retirement Fund. He stated that the operating cash balance was approximately $1,500,000 as of April 30, 2020 which is $200,000 greater than the $1,300,000 the Board likes to have in operating cash. In April 2020, the County started making the 2020 ADC contributions of

$1,000,000 per month to the Fund towards the 2020 ADC amount of $4,918,872. 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.

Mr. Martin presented the County of Lancaster Retirement Board Investment Policy Statement (IPS) last updated in February 2017. He suggested that as a result of the new rebalancing policy approved at last month's meeting, the Board approve an updated IPS that includes updated language and an attachment to reflect the updated rebalancing policy. Following discussion, Treasurer Martin moved to approve the new IPS as presented by Marquette Associates. Commissioner D'Agostino seconded. The motion carried unanimously. Mr. Martin stated that he will update the IPS with the approved changes and resend to the Board for signatures.

Treasurer Martin requested to provide an update and general discussion of the Other Post-Employment Benefits (OPEB) retiree healthcare liabilities, the current OPEB funding stream, and sustainability of current OPEB funding. She noted that Commissioner D'Agostino is new to the Board and wished to provide him with this information. Treasurer Martin noted that in April 2020, Korn Ferry prepared the OPEB plan for fiscal year ending December 31, 2019 and the GASB 75 accounting disclosure. Treasurer Martin stated it is the role of the Commissioners to approve the OPEB policy. She noted the Retirement Board approves the yearly ADC amount and the rebalancing of assets for the Pension Fund, and the Commissioners approve the budget for OPEB costs. Treasurer Martin also noted that the OPEB has been discussed by previous Retirement Board meetings. She noted that Commissioner D'Agostino is new to the Board and should understand how we budget and expense retiree healthcare costs. Treasurer Martin stated that we need focus on the Korn Ferry report and its impact on the County budget.

Controller Hurter stated the OPEB is included in the budget and we pay as we go during the year. As a result of GASB 75 the County needs to include the total liability on the financial statements which for 2018 was approximately $142,000,000, with a decrease to $134,000,000 in 2019. Controller Hurter noted that effective January 1, 2019, no new hires will be eligible to participate in the OPEB. With a positive earnings year for the Pension Plan and a reduction in the liability for the OPEB, Controller Hurter is hoping for a positive net financial position on the 2019 financial statements.

The Board discussed the option to set up a trust fund to possibly help mitigate the OPEB liability on the financial statements, with the understanding that we are budgeting actual healthcare expenses and paying the OPEB expenses we need to pay each year - 2019 was $2,300,000 and the 2020 budget is $2,500,000. The Board agreed that the County's legal requirements for the retirees' pension are different from OPEB benefits.

After further discussion, Commissioner D'Agostino agreed to schedule a meeting with Treasurer Martin to discuss and better understand our current process.

As requested at past Board meetings, Mr. Martin briefly discussed some options for diversification of the global low volatility investments. He suggested two managers with low volatility funds, Acadian and MFS. Following discussion, the Board requested that Mr. Martin bring information on low vol managers to discuss at the August meeting and if requested, the low vol managers could make presentations at the October meeting.

In response to Controller Hurter's question if there were any questions from the public, Chief Clerk Larry George stated there were none.

Treasurer Martin moved to adjourn the meeting at 10:55 a.m. Commissioner Lehman seconded. The motion carried unanimously. The next meeting is August 14, 2020 at 9:00 a.m.

Respectfully submitted,

Brian K. Hurter
Secretary