

County of Lancaster

PENNSYLVANIA



The Lancaster County Employees' Retirement System
Financial Statement
December 31, 2017

Prepared by the Office of the Controller
Brian K. Hurter, Controller



Controller's Office

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Controller
Brian K. Hurter, CPA

The following report presents a summarization of the Lancaster County Employees' Retirement System ("Fund") for the year of 2017. This report provides a glimpse of the Lancaster County Employees' Retirement System as a whole. The Retirement Board is continually on watch to ensure the Fund is a solid and dependable source of income for the over 1,200 retirees of the County of Lancaster, and will continue to be a reliable source of income when the 1,700 active participants of the Fund decide to retire. Along with a professional group of Investment Managers, an Actuary, and a Consultant, the Retirement Board is constantly working to keep the cost of the Fund manageable for the County's budget. During 2017, the County contributed the required Actuarially Determined Contribution of \$4,424,334 to the Fund. Due to the diligence of the Retirement Board and the performance of the Fund, this is down from the contribution of \$4,580,199 that was made during 2016 and annual contributions of over \$7 million made from 2009 through 2013.

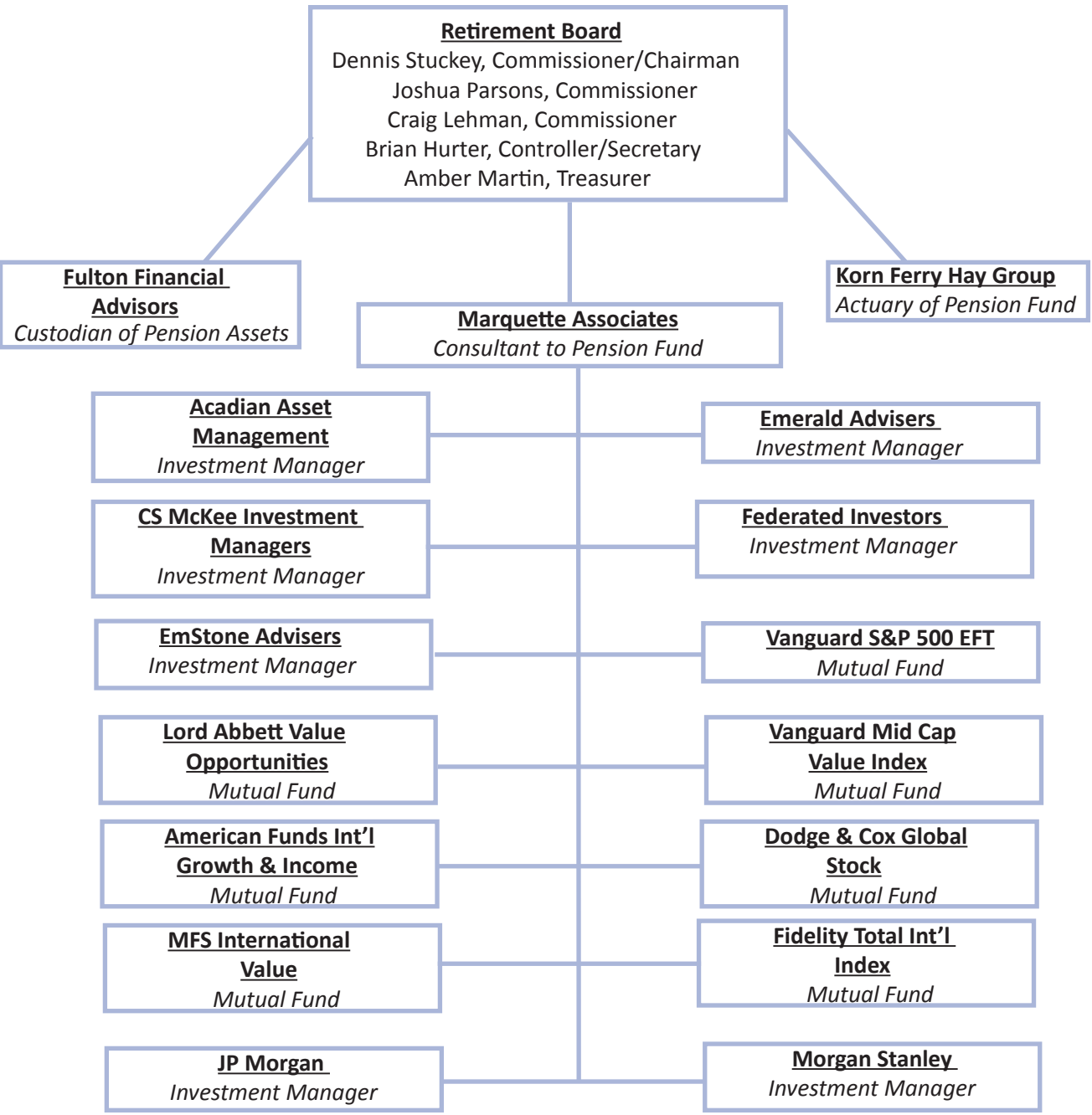
The markets had a strong year during 2017 and as a result the Fund had a market value rate of return of 15.62%. This resulted in a significant increase in the value of the Fund during 2017. The Fund increased \$33,141,334 during 2017 from \$257,889,183 at December 31, 2016 to \$291,030,517 at December 31, 2017. During 2017, there was an increase in the number of retirees and the total benefits paid to them from the Fund. The number of retirees increased by 24 during 2017 to 1,281. The total benefits paid during 2017 increased \$780,652, from \$15,177,732 during 2016 to \$15,958,384 during 2017. The Retirement Board, along with the Consultant, constantly reviews the asset allocation, performance, and expenses of the investments to ensure that we have a well-diversified Fund available for the benefit of Lancaster County retirees. During 2016, the Retirement Board voted to further diversify the Fund by investing in two real estate investments. The initial investment in real estate investments occurred in January 2017 and the funding for these investments was pulled largely from fixed income investments. This proved to be a wise decision with the real estate investments yielding a return of 7.2% during 2017 compared to a return of 1.9% from the fixed income investments. During 2017 there was an increase in fees paid by the Fund as a result of the higher market value; however, the percentage of fees paid compared to the ending market value of the Fund decreased slightly to a very reasonable 0.42%. During 2017 the Retirement Board approved increasing the projected salary increase assumption from 3.75% to 4.00% and reducing the rate of return assumption from 7.35% to 7.25% based on projected future market conditions. Even with the change in these assumptions, the overall funded ratio of the Fund increased during 2017, from 90.6% at December 31, 2016 to 91.4% at December 31, 2017.

As a result of the devoted work of the Retirement Board, Consultants, Investment Managers, Actuary, and Custodian, the Lancaster County Employees' Retirement System continues to be a consistent source of income for the retirees of Lancaster County. I would like to acknowledge the dedicated efforts of my staff who process all of the payments, handle your daily inquiries, and review all transactions of the Fund. Should you have any questions, please direct them to the Controller's Office at (717) 299-8262 and we will be glad to assist you.

Brian K. Hurter, CPA
Retirement Fund Secretary



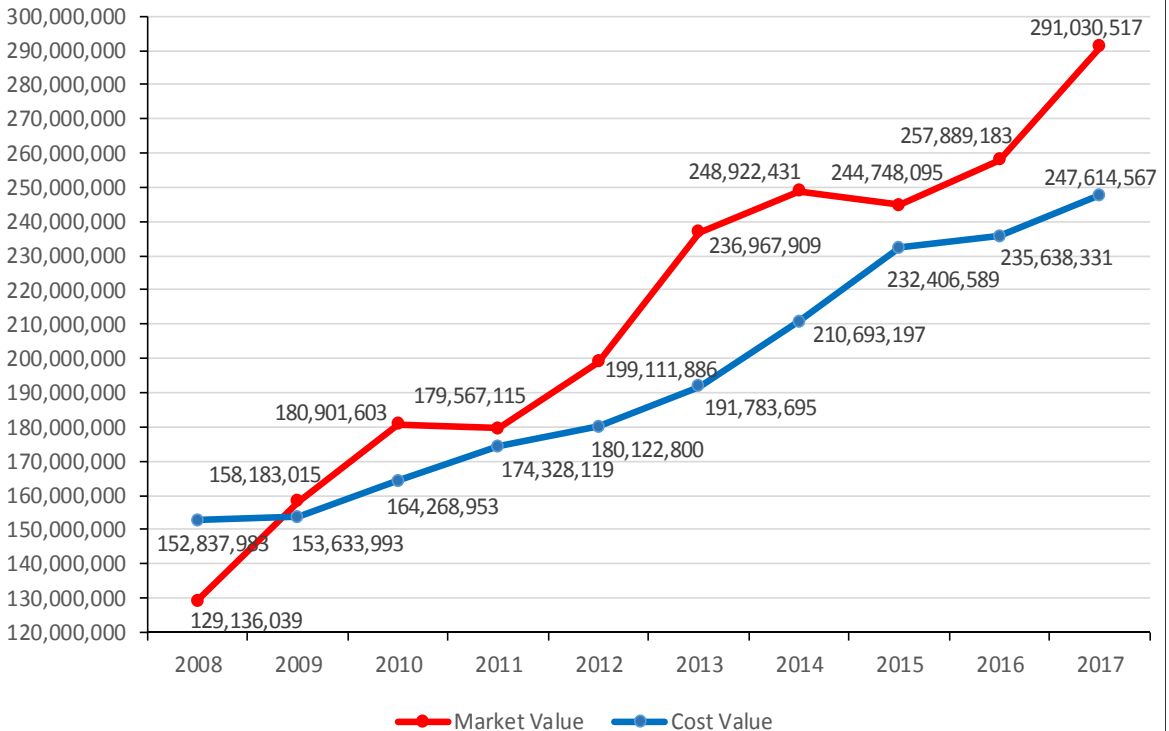
The Lancaster County Employees' Retirement System Structure of the Plan Management



**The Lancaster County Employees' Retirement System
Statement of Plan Assets as of December 31, 2017**

| <u>Assets</u> | <u>Market Value</u> | <u>Cost Value</u> |
|--|-----------------------------|-----------------------------|
| Investments: | | |
| Common Stock | \$77,339,301 | \$62,210,547 |
| International Equities | 58,165,624 | 50,046,863 |
| Mortgage Obligations | 2,620,341 | 2,687,929 |
| Corporate Bonds | 29,702,473 | 29,740,017 |
| Exchange Traded Index Funds | 55,984,990 | 42,503,860 |
| Fixed Income Mutual Funds | 4,025,707 | 3,785,287 |
| Government Securities | 22,899,301 | 23,142,341 |
| Certificates of Deposit | 1,709,332 | 1,713,418 |
| Real Estate Funds | 13,653,774 | 13,319,774 |
| Global Mutual Funds | 18,000,330 | 11,546,623 |
| Money Market & Cash Equivalents | 6,772,089 | 6,760,653 |
| Receivables | 157,255 | 157,255 |
| Net Assets Held for Pension Benefits at December 31, 2017 | <u>\$291,030,517</u> | <u>\$247,614,567</u> |

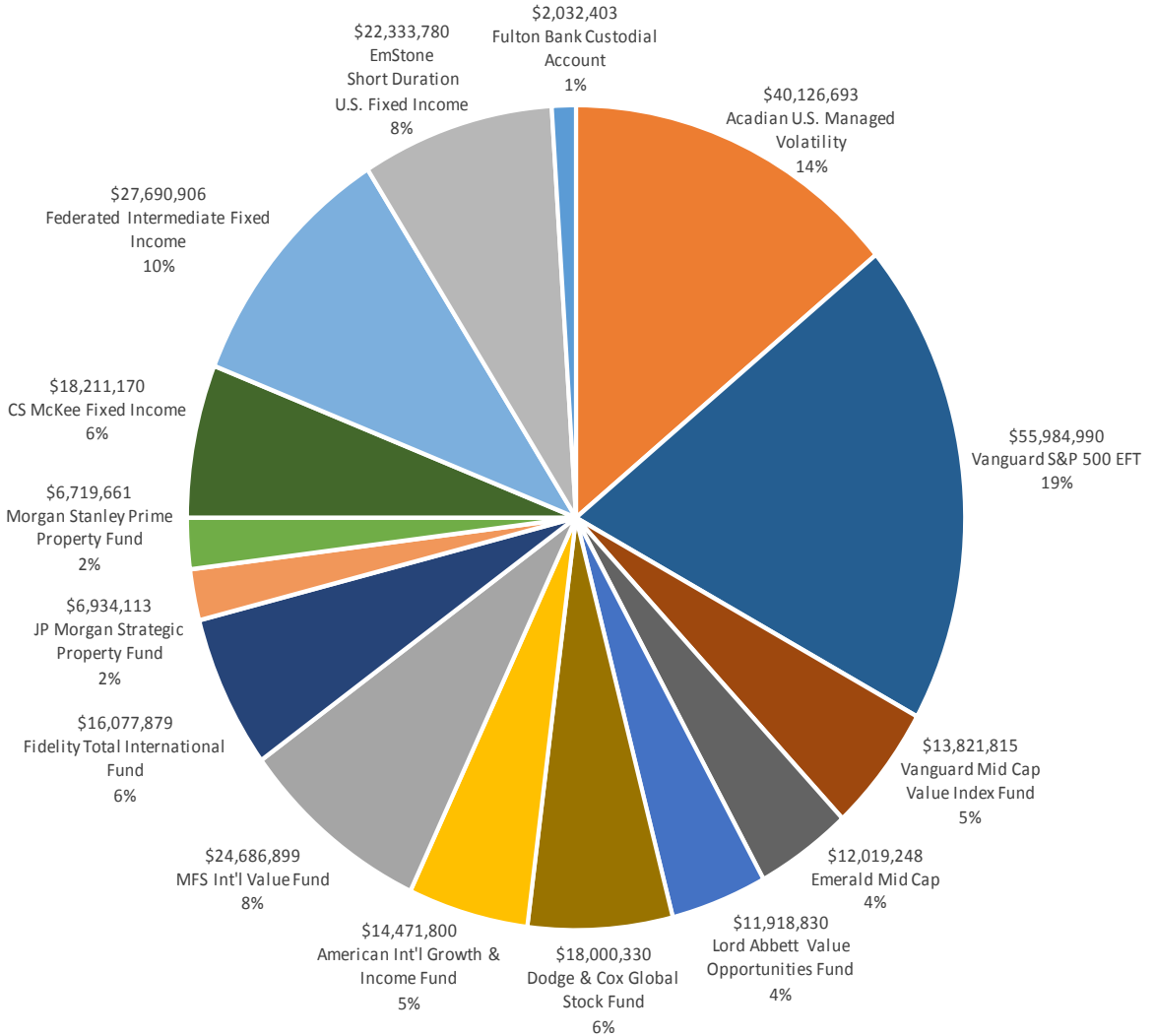
Asset Valuation - Market vs Cost Basis



The Lancaster County Employees' Retirement System

% Of Portfolio By Manager

As Of 12/31/17



- | | |
|--------------------------------------|--|
| Acadian U.S. Managed Volatility | Vanguard S&P 500 EFT |
| Vanguard Mid Cap Value Index Fund | Emerald Mid Cap |
| Lord Abbett Value Opportunities Fund | Dodge & Cox Global Stock Fund |
| American Int'l Growth & Income Fund | MFS Int'l Value Fund |
| Fidelity Total International Fund | JP Morgan Strategic Property Fund |
| Morgan Stanley Prime Property Fund | CS McKee Fixed Income |
| Federated Intermediate Fixed Income | EmStone Short Duration U.S. Fixed Income |
| Fulton Bank Custodial Account | |

**Lancaster County Employees' Retirement System
Estimated Management And Administrative Fees for 2017**

| | 12/31/17 Market Value | Estimated Annual Fees |
|---------------------------------------|-----------------------------|-----------------------------|
| Fulton Bank Custodial Account | \$2,032,403 | \$ - |
| Acadian Asset Management | 40,126,693 | 120,380 |
| Emerald Advisers | 12,019,248 | 72,115 |
| CS McKee Investment Managers | 18,211,170 | 45,528 |
| Federated Investors | 27,690,906 | 69,227 |
| EmStone Advisers | 22,333,780 | 69,771 |
| Vanguard S&P 500 EFT | 55,984,990 | 22,394 |
| Vanguard Mid Cap Value Index | 13,821,815 | 9,675 |
| Lord Abbett Value Opportunity Fund | 11,918,830 | 94,159 |
| Dodge & Cox Global Stock Fund | 18,000,330 | 113,402 |
| American Int'l Growth & Income Fund | 14,471,800 | 83,936 |
| MFS International Value Fund | 24,686,899 | 170,340 |
| Fidelity Total International | 16,077,879 | 12,862 |
| JP Morgan | 6,934,113 | 69,341 |
| Morgan Stanley | 6,719,661 | 81,629 |
| Fulton Financial Advisors (Custodian) | - | 44,930 |
| Korn Ferry Haygroup (Actuary) | - | 39,234 |
| Marquette Associates (Consultant) | - | 92,000 |
| | <u>\$291,030,517</u> | <u>\$1,210,923</u> |

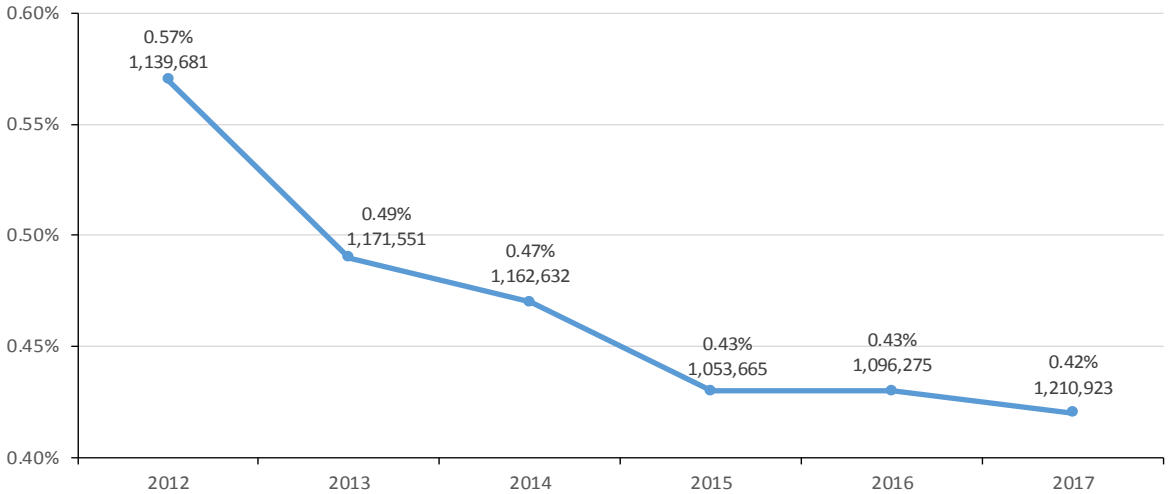
Percentage of Market Value 0.42%

Schedule Of Lancaster County Contributions and Returns

| Year | Actuarially Determined Contribution* | County Contribution | Market Value Rate of Return |
|-------------|---|--------------------------------|--|
| 2017 | \$4,424,334 | \$4,424,334 | 15.62% |
| 2016 | 4,580,199 | 4,580,199 | 7.95 |
| 2015 | 5,228,813 | 5,228,813 | (0.12) |
| 2014 | 5,962,997 | 5,962,997 | 6.22 |
| 2013 | 7,001,128 | 7,001,128 | 19.50 |
| 2012 | 7,142,834 | 7,142,834 | 11.68 |
| 2011 | 7,304,873 | 7,554,873 | 0.54 |
| 2010 | 7,216,063 | 8,000,000 | 12.17 |
| 2009 | 7,171,189 | 7,421,189 | 20.56 |
| 2008 | 3,333,575 | 4,000,000 | (25.02) |

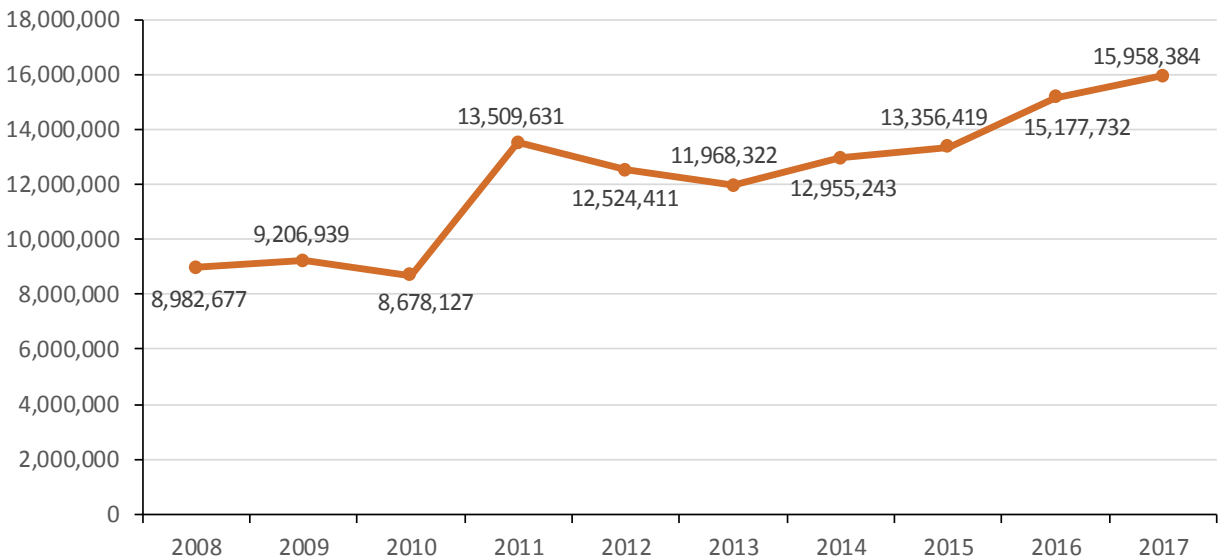
*Prior to 2014, contribution was described as Annual Required Contribution (ARC).

The Lancaster County Employees' Retirement System Estimated Management and Investment Fees



Note: The percentage shown is the estimated annual fees compared to that year's ending market value.

Member Benefit Payments & Refunds



**The Lancaster County Employees' Retirement System
Statement Of Change In Plan Net Assets For The Year Ended December 31, 2017**

Total Assets (Cost Value) – January 1, 2017 \$235,638,331

Additions

| | | |
|---------------------------------|-------------|--------------|
| Member Contributions | \$5,384,008 | |
| Member Contributions Receivable | 17,669 | |
| Member Purchase Of County Share | 64,971 | |
| County Contribution | 4,424,334 | |
| Net Investment Income: | | |
| Interest/Dividends | 7,140,498 | |
| Realized Capital Gain/(Loss) | 11,445,212 | |
| Accrued Investment Income | 18,162 | |
| Miscellaneous | — | |
| Total Additions | | \$28,494,854 |

Deductions

| | | |
|-------------------------------|---------------|---------------------|
| Member Contributions Refunded | \$1,086,291 | |
| Member Contributions Payable | - | |
| Retirement Allowances Paid | 13,245,869 | |
| Death Benefits | 1,626,224 | |
| Accrued Investment Expense | - | |
| Administrative Expenses | 47,599 | |
| Investment Expenses | 494,219 | |
| Miscellaneous | <u>18,416</u> | |
| Total Deductions | | <u>\$16,518,618</u> |

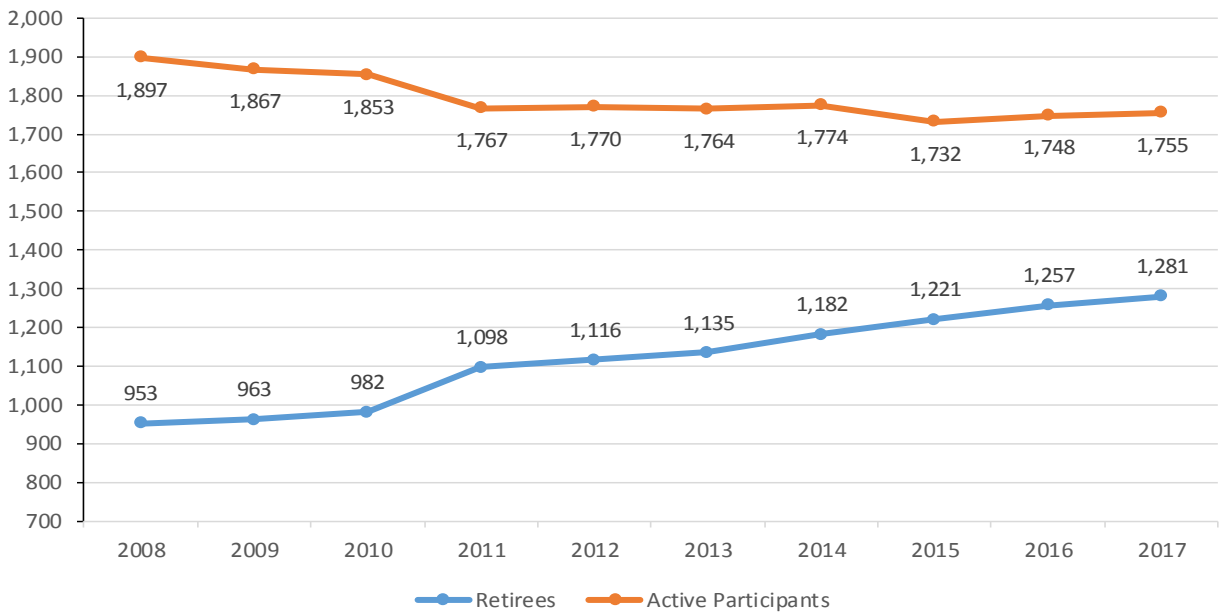
Total Increase/(Decrease) 11,976,236

Total Assets (Cost Value) December 31, 2017 247,614,567

Unrealized Appreciation/(Depreciation) 43,415,950

Total Assets (Market Value) December 31, 2017 \$291,030,517

The Lancaster County Employees' Retirement System Number of Retirees vs Active Participants at Year End



Schedule Of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|---|---------------------|--------------|-----------------|---|
| 12/31/2008 | \$159,134,908 | \$199,653,516 | \$40,518,608 | 79.7% | \$78,717,769 | 51.5% |
| 12/31/2009 | 158,074,015 | 213,374,965 | 55,300,950 | 74.1 | 79,444,845 | 69.6 |
| 12/31/2010 | 169,788,390 | 221,658,694 | 51,870,304 | 76.6 | 78,838,153 | 65.8 |
| 12/31/2011 | 189,541,657 | 239,432,154 | 49,890,497 | 79.2 | 76,433,494 | 65.3 |
| 12/31/2012 | 194,240,337 | 241,101,765 | 46,861,428 | 80.6 | 76,305,642 | 61.4 |
| 12/31/2013 | 216,918,969 | 253,533,460 | 36,614,491 | 85.6 | 77,867,605 | 47.0 |
| 12/31/2014 | 236,547,831 | 265,716,928 | 29,169,097 | 89.0 | 79,478,159 | 36.7 |
| 12/31/2015 | 250,584,482 | 278,638,967 | 28,054,485 | 89.9 | 81,355,686 | 34.5 |
| 12/31/2016 | 264,742,298 | 292,274,553 | 27,532,264 | 90.6 | 80,039,687 | 34.4 |
| 12/31/2017 | 281,656,365 | 308,081,325 | 26,424,960 | 91.4 | 82,059,110 | 32.2 |

Actuarial Assumptions:

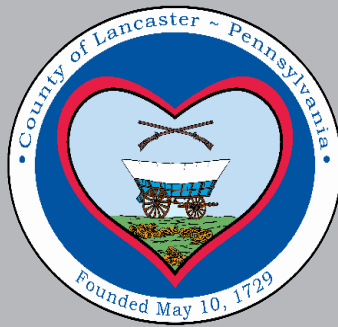
Investment Rate of Return - 7.25% for 2017, 7.35% for 2016, 7.5% from 2008-2015
 Projected Salary Increases - 4% for 2017, 3.75% from 2012-2016, 4.5% from 2008-2011
 Inflation Assumption - 3% from 2008-2017

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/17 At Market Value**

| | Cash Equivalants | Government & Agencies | Corporate | Mutual Funds | Equities | Real Estate | Int'l | Total |
|---|---------------------|--------------------------|---------------------|----------------------|---------------------|---------------------|--------------------|----------------------|
| Fulton Bank Custodial Account | \$2,032,403 | | | | | | | \$2,032,403 |
| Acadian U.S. Managed Volatility | 193,559 | | | | 39,933,134 | | | 40,126,693 |
| Vanguard S&P 500 ETF | | | | 55,984,990 | | | | 55,984,990 |
| Vanguard Mid Cap Value Index | | | | 13,821,815 | | | | 13,821,815 |
| Emerald Mid Cap | 303,898 | | | | 11,715,350 | | | 12,019,248 |
| Lord Abbett Value Opportunities Fund | | | | 11,918,830 | | | | 11,918,830 |
| Dodge & Cox Global Stock Fund | | | | 18,000,330 | | | | 18,000,330 |
| American Int'l Growth & Income Fund | | | | 14,471,800 | | | | 14,471,800 |
| MFS Int'l Value Fund | | | | 24,686,899 | | | | 24,686,899 |
| Fidelity Total Int'l Index Fund | | | | 16,077,879 | | | | 16,077,879 |
| JP Morgan Strategic Property Fund | | | | | 6,934,113 | | | 6,934,113 |
| Morgan Stanley Prime Property Fund | | | | | 6,719,661 | | | 6,719,661 |
| CS McKee Fixed Income | 236,881 | 6,586,274 | 9,328,553 | | 1,568,957 | | 490,505 | 18,211,170 |
| Federated Intermediate Fixed Income | 1,164,955 | 13,808,590 | 10,215,459 | 577,125 | 1,071,456 | | 853,321 | 27,690,906 |
| EmStone Short Duration U.S. Fixed Income | 2,608,431 | 2,572,609 | 12,101,329 | 3,451,441 | | | 1,599,970 | 22,333,780 |
| Total | \$6,540,127 | \$22,967,473 | \$31,645,341 | \$158,991,109 | \$51,648,484 | \$16,294,187 | \$2,943,796 | \$291,030,517 |

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/17 At Cost Value**

| | Cash Equivalents | Government & Agencies | Corporate | Mutual Funds | Equities | Real Estate | Int'l | Total |
|---|---------------------|--------------------------|---------------------|----------------------|---------------------|--------------------|--------------------|----------------------|
| Fulton Bank Custodial Account | \$2,032,403 | | | | | | | \$2,032,403 |
| Acadian U.S. Managed Volatility | 193,559 | | | | 32,361,834 | | | 32,555,393 |
| Vanguard S&P 500 ETF | | | 42,503,860 | | | | | 42,503,860 |
| Vanguard Mid Cap Value Index | | | 10,952,209 | | | | | 10,952,209 |
| Emerald Mid Cap | 303,898 | | | | 9,578,363 | | | 9,882,261 |
| Lord Abbett Value Opportunities Fund | | | 9,367,970 | | | | | 9,367,970 |
| Dodge & Cox Global Stock Fund | | | 11,546,623 | | | | | 11,546,623 |
| American Int'l Growth & Income Fund | | | 11,977,455 | | | | | 11,977,455 |
| MFS Int'l Value Fund | | | 19,206,979 | | | | | 19,206,979 |
| Fidelity Total Int'l Index Fund | | | 15,902,023 | | | | | 15,902,023 |
| JP Morgan Strategic Property Fund | | | 6,722,821 | | | | | 6,722,821 |
| Morgan Stanley Prime Property Fund | | | 6,596,953 | | | | | 6,596,953 |
| CS McKee Fixed Income | 236,881 | 6,648,865 | 9,394,628 | | | 1,641,089 | 489,687 | 18,411,150 |
| Federated Intermediate Fixed Income | 1,164,955 | 13,964,554 | 10,156,755 | 649,347 | | 1,066,912 | 873,177 | 27,875,700 |
| EmStone Short Duration U.S. Fixed Income | 2,596,995 | 2,597,092 | 12,135,589 | 3,138,799 | | | 1,612,292 | 22,080,767 |
| Total | \$6,528,691 | \$23,210,511 | \$31,686,972 | \$138,565,039 | \$41,940,197 | \$2,708,001 | \$2,975,156 | \$247,614,567 |



County of Lancaster Controller's Office
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