

**RETIREMENT BOARD MINUTES
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF SEPTEMBER 26, 2018 (Approved)**

TO: Retirement Board

DATE: November 20, 2018

FROM: Joanne Phillips, Board Secretary and Controller

PRESENT: Board Chairman and Council President John P. McBlain; Councilman Michael F. Culp; Board Secretary and Controller Joanne Phillips; Treasurer Jack Dowd; Board Solicitor Francis J. Catania; Executive Director Marianne Grace; Pension Consultant Rick Courtney and Bruce Besecker of RBC Wealth Management (RBC); Helen Hurilla from Wells Fargo Bank; Hank Stiehl and David Reichert from Korn Ferry; and Councilman Brian Zidek

ABSENT: Councilwoman Colleen P. Morrone

- 1) Meeting was called to order at 2:05 PM
- 2) Motion made by Mr. McBlain to go back and review his notes before the minutes of the September 26, 2018 meeting before they are approved. Michael Culp made the motion and Jack Dowd seconded the motion. **(4-0 vote)**
- 3) The Treasurer's Report – report submitted and to be delivered to the County Clerk by Jack Dowd.
- 4) No public comments were received or submitted.
- 5) New Business:
 - a) Litigation report/update
 - Mr. Catania updated the Board on the Cyan suit. Outside counsel, Mr. John Grant and Ms. Laura Stein called into the meeting to discuss the settlement on the Cyan matter. It is an unusual case in that it was a state court case in California. The case is based on facts that Cyan misrepresented printed financial projections that were not true. Ms. Stein requested Board approval for the Cyan settlement. The case was settled for \$15 million but there are multiple counties that are included in the settlement. The loss of the investment for Delaware County was approximately \$45,000. Mr. Grant does not have a solid number for the Delaware County portion of the settlement yet since other investors still have time to file a claim for their allocation. After all claims are reported the payment can be allocated. Mr. Catania went on the record for recommending the settlement and thanking John and Laura for their representation. Motion to approve the settlement was made by Mr. Dowd, seconded by Ms. Phillips. The Board approved the settlement. **(4-0 vote)**.
 - b) RBC report – Rick Courtney & Bruce Besecker
 - Mr. Courtney went through his report. Equities are positive and fixed income investments are in negative territory. The federal reserve has raised interest rates for the fourth time and Mr. Courtney predicts rates could continue to be raised again this year. RBC is keeping a close eye on fixed income investments and they may want to pull back on equity exposures in the event there are indications of an upcoming recession. There has been a \$25 million

gain this year for the retirement fund. A copy of the report will be filed with the Controller's office.

- Mr. Courtney presented a more in-depth review of the performance of the investment companies supporting the retirement fund. He felt that they were doing well considering the current market. The emerging market/international funds are not doing as well due to the tariff issues that have recently emerged. He does not foresee a change in the tariff policy in the near future and this will continue to be a concern.
- Mr. Zidek was interested to know what factors must occur for RBC to make a decision to eliminate an investment company. Mr. Courtney said that all companies have their ups and downs and that RBC typically monitors the firm and the market for at least 4-5 years before he eliminates a manager from the program. Mr. McBlain expressed his view that we would not want to be the last one to release a company that is not doing what we expect.
- Members of the Board expressed some concern about Swarthmore Group. Mr. Courtney said they are a fixed income manager and that he spends a lot of time with Glen Becker, the Director of Swarthmore Group, discussing their investments. He is hopeful that Swarthmore will get back on track but overall is performing within expectations.

c) Hank Stiehl from Korn Ferry

- Mr. Hank Stiehl from Korn Ferry, the County's actuarial firm, spoke about the retirement fund's rate of return for this past year and the "ARC" or ("ARD", the actuarially determined contribution – the amount required to be contributed to the fund by the County). The Controller had discussed the ARC with Korn Ferry recently and Korn Ferry advised that if there are no changes made to investment assumptions, the ARC will come in at \$3.8 million for 2017. The fund is currently assuming an investment return of 7.5% and 3.5% as the salary assumption, which is typical for many counties. Considering the strength of the fund currently, Korn Ferry recommended the Board consider changing the investment assumptions. Korn Ferry also recommended a change to the asset valuation method currently used which has followed PA Act 44 since 2009. Mr. Stiehl explained why they recommend a change from Act 44 at this time and a change in the investment return to 7%. Using the Act 44 method, the fund is 109% funded so it is a good time to make a change from Act 44. Marianne Grace questioned why we would change and take a chance that the interest return could drop. Hank explained that it is important to try to position the fund in line with what is actually happening and a more traditional "smoothing" method would be appropriate. Mr. Catania questioned whether any changes would affect the employee payouts. Mr. Stiehl said it would not. Mr. McBlain asked if RBC could give their opinion on the near future returns. Bruce Besecker said that Hank seemed to be on track with what he is predicting. Hank feels that if we change our plan we will not be so affected if the market did take a downward turn. The Board discussed considering a 7% rate and Mr. McBlain believes that it makes sense to make this change. Ms. Phillips also believes that it would make sense to make the change and she noted that some counties had decreased the assumption to 6.5%. Mr. McBlain asked for a motion to change from the Act 44 smoothing method to a traditional 5-year gain/loss method and to lower the investment assumption to 7.0%. Michael Culp made a motion and it was seconded by Joanne Phillips. The motion was approved. **(4-0 vote)**.

- Mr. Stiehl spoke on a third aspect of valuation. Korn Ferry recommended valuing the retiree's contributions to attribute value to the interest to be made on member contributions. Mr. McBlain asked if there were any objections to making this change in the program; there were no objections. With this change, the fund remains fully funded but takes into account the growth of contributions. Mr. McBlain asked for a motion to adopt the discounted valuation of retiree's accumulated deductions based on GASB 67 & 68. Mr. Dowd made a motion it was seconded by Mr. Culp. The motion was approved. **(4-0 vote)**.
- Mr. Stiehl also discussed inflation and how it is affecting salaries. The current salary increase assumption for the plan is 3.5%. However, in actuarial practice, salaries actually increase by more than that. If the County increased the salary assumption to 4%, or 4.5%, that would increase the fund liability. That change combined with the 7% interest assumption with a discounted accumulated deduction would generate an ARC of 3.3 million. Korn Ferry thinks this may be a good time to consider changing the salary assumption. It will impact this year's ARC so Mr. Stiehl felt we need to make a decision soon. Ms. Phillips suggested we postpone an official decision but rather allowed Korn Ferry to provide information about how the change would affect the ARC. Mr. Stiehl said he would provide that information. The board did not move forward to adopt this change.
- Mr. McBlain brought up the topic of a "COLA" - cost of living adjustment. There was no action taken on this subject over the summer. Mr. McBlain asked Korn Ferry for their outlook. Mr. Stiehl said they were working on a letter concerning a COLA to be done in October. The 2017 cost of living increase is 1.7% and last year it was 1.4%. A specific index is used to determine the increase. If there is a cost of living increase it will affect next year's ARC, not 2017 or any prior year. This decision may be considered at November's meeting since it would have an impact on the budget. Korn Ferry cannot give us an estimate for next year's contribution until we know this year's ARC calculation.

6) Old Business:

a) RBC Contract Renewal

- Ms. Phillips discussed a possible contract renewal with RBC and said that she would put this on the agenda for November since the contract expires at the end of 2018. Mr. Courtney agreed to continue for another year at the same cost RBC is currently charging. Ms. Phillips stated that she would feel comfortable continuing business with RBC because it is a stable part of the retirement program at this time. Mr. McBlain said that we should consider voting on this at the next retirement meeting. An addendum to extend the contract, originally entered in 2011, will be sent to the Controller's office.

b) Amendment of Contracts by Mr. Catania

- Ms. Phillips asked for follow up on documenting agreed upon fee reductions from investment managers. Out of ten managers that were solicited for a fee reduction, 5 of them agreed to a reduction. These reductions have been active for approx. 6 months. Marianne Grace asked about the five companies that did not agree to decrease fees. Mr. Courtney explained that the companies that did not decrease fees were already providing discounted fees or had other stipulations to their fees. Eileen Ricketts will send Mr. Catania a copy of the Cumberland contract and will copy RBC. Bruce Besecker will

assist Mr. Catania in adjusting Bryn Mawr's fees. The Controller's Office would still like the agreements for all companies in writing as soon as possible.

c) Additional Custodial Services from Wells Fargo/Helen Hurilla

- Ms. Phillips stated that the Controller's Office and Wells Fargo have been discussing a plan to encourage direct deposit and discontinuance of the use of paper advice regarding the retirement payments. Ms. Hurilla explained that retirees would no longer receive a monthly advice but they would still receive an advice in December so that it captures year-to-date activity and whenever there is a change so that the participant is aware of the change. If we do this, it will save the County about \$7,000 dollars per year. Ms. Phillips recommends this change. Ms. Phillips will review the form of letter to be used and Wells Fargo will send a letter to the recipients to announce any changes. Ms. Phillips made a motion to accept these changes, Mr. Culp seconded to approve. The motion passed **(4-0 vote)**.

d) Brinker Simpson Report

- Ms. Phillips suggested that a discussion of the Brinker Simpson audit be delayed until Ms. Morrone is present since she has been interested in this discussion. Brinker performed an agreed upon procedures review at the end of 2017 to review how the Controller's office calculates the benefits and processes the retirement fund benefits for retirees. There was an issue because this was done the year Wells Fargo began its role as the custodian. Ms. Phillips explained that this audit was strictly focused on procedures. Mr. Catania felt that the current County auditors are not giving opinions on how the internal controls on the retirement program are being operated and that is why it was recommended that we have an outside auditor come in. It was suggested that this be tabled until the next meeting to include Ms. Morrone. Mr. Catania noted that a full audit of the retirement fund might be in order.

e) Correspondence received

- Ms. Phillips stated that the Controller's office received several small checks for class actions settlements. Eileen Ricketts will send copies of the checks to Frank Catania for his records.

The next meeting is on November 28, 2018 at 2:00 p.m. The Board considered changing the next Retirement Meeting date for purposes of determining the ARC. If there is a change it will be advertised.

Motion to adjourn meeting was made by Ms. Phillips and seconded by Mr. Dowd. The meeting adjourned at 3:40 p.m.

Respectfully submitted by Joanne Phillips, Secretary