Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, January 28, 2016

9:30 A.M.

A meeting of the Lehigh County Employees' Retirement Board was held at 9:30 A.M. in the Public Hearing Room of the Lehigh County Government Center. Members present were Tom Creighton, Glenn Eckhart, Daniel McCarthy, Thomas Muller, Brad Osborne, and Tim Reeves.

David Bausch was not present.

Kevin Karpuk and Chris Lakatosh from Cornerstone also attended.

Thomas Muller, County Executive, called the meeting to order at 9:33 A.M.

OLD BUSINESS

Tom Muller called for a motion to accept the meeting minutes.

Glenn Eckhart made a motion to accept the August 6, 2015, November 5, 2015 and December 29, 2015 Retirement Board minutes.

Brad Osborne seconded the motion.

Thomas Muller called for a voice vote for approval of the minutes from the August 6, 2015, November 5, 2015 and December 29, 2015 Retirement Board Meetings.

All were in favor.

Minutes were approved unanimously.

NEW BUSINESS

Tom Muller stated there is one point of New Business. It is our job by the end of January to establish an interest rate for the employees' contributions for the year 2016. That is the purpose of this meeting. He asked for any discussion/thoughts.

Glenn Eckhart said the Board has spent a lot of time on the pension rate of return for 2016. This issue has come up several times over the last few years. It is his view that we should set a policy that makes the rate go up and down so everybody can understand it and knows what the rules are. We have yet to come to an agreement on policy. But, there has been some discussions based on last year being a very rare year that the portfolio lost money. Last year was the first time since 2008 that the fund lost money.

A year ago when we voted 5.5% we let the number where it was stand we still haven't agreed on a policy. That 5.5% that the employees got was for last year in which we didn't make any money. We're kicking around this continued policy for us all of us to agree on. But, that isn't working. I'd like Tim to state where he's at and I'll state where I'm at after we make this motion. Since we don't have a policy, I'm going to make a motion at this point that we reduce the interest rate of return for 2016 to 5.0%. That is based on last year we had a loss in the fund and this year in the first quarter we're down 5%. It doesn't look like this year is going to be a very good year moving forward so I made the motion that we reduce it to 5.0% for this year. Information has been provided to you showing the counties where I was able to get data where they have rates set is an average of those counties is 4.71%. I'm making a motion that we do 5.0% which is still higher than other county averages. That same piece of paper also shows the percentage funding that we have. The monthly flash report shows at the bottom what we did for 2015. You can see we didn't make any money. The employees were credited for 5.5% on your money last year but the county fund got zero. We made no money but you were still awarded the 5.5%. I think the trend on some rate of return continues to go down.

Tom Muller called for a second on the motion.

Brad Osborne seconded the motion.

Tom Muller opened for conversation among the Board.

Tim Reeves – As the employee rep, the two main objectives I see as my role on this Board are:

1. To provide for the employees a fair rate of return or be the spokesperson for the employees on this Board as it votes on this decision.
2. And more importantly… To preserve the longevity of this fund.

I think anyone can understand that if you're not doing well in a particular year or for a number of years, it doesn't make sense to continue to pay out the highest rate of returns. I agree with Glenn that there has to be policy that we can all agree on. If we want to make that some mathematical equation where it takes out the personal interest or the discussion as it relates to that. That's how I view my role. I support a 5% payout this year based on the activity. I could not at this point support anything lower than that because there has been a history of fair returns. I think based on where we're at, we do need to look at this going forward because I don't know what the future holds. We could throw out all kinds of statistics – Glenn has done a fair job of that – but there's allot more we could share what we discussed but at the end of the day, I think that 5% is a fair rate of return for this year with the potential to look at it going forward. That's why I support this motion today of 5%.

Brad Osborne – I would like to hear input from the public if the Chairman would allow that before we take a vote. I would like also to comment and affirm the words of our Fiscal Officer. It is imperative that we maintain the health of the pension fund. It is actually, in my opinion, the most important ingredient. Without health there, it's not going to benefit anyone long term. We have to be fair to the taxpayers, we have to be fair to the employees and we have to be fair to ourselves here as a Board as overseers and officers on the pension board. Our decision today and more importantly in the future is going to set precedent and will be used as a basis for precedent and we have to be careful what we do. I seconded the motion because I want to hear the discussion. I also would like to hear why 5% is the number versus 4.5% or 4% or even 5.5%. It wasn't just two years ago when we had a discussion like this where 4% was brought up and the members of the Board at the time that brought that up were vilified. Here we are two years later and we're talking about the same subject – lowering the crediting rate, possibly – and yet it seems reasonable. When we get to the motions part of this agenda, I will make a motion at that time. It will along the lines of setting a policy so we're not making these decisions on-the-fly with no perspective and no advance plan going forward. I do think it's appropriate to have this discussion today. I'm comfortable with the 5.0% if we have positive input from the audience. But I'm also open to anything other than what we're talking about.

Tom Creighton – I'd like to say we're at historical low interest rates. Allot of times interest rates are based on risk. There's very little risk for the employees to get that percentage. We are bound by the Law of 1971 that restricts the interest rate from 4% to 5.5%. That's not reality. If you are in the corporate world, things can fluctuate allot more. You should have the option to invest in different things than you can invest.

Brad Osborne – I meant to mention two other figures. It does put a little bit of perspective and reasoning for the figure we're talking about. As you'll see on the graph provided, the 10 year average given performance of this fund is 5.3%, the 15 year average is 4.9% and the 20 year average is 6.8%. You can see over a 20 year span we're talking about a return of interest higher than the 5.0% we're talking about this morning. However the 10 and 15 year span is less than 5.5%. So there's some reason and justification for having this discussion and possibly making a move. That's my last point on this.

Daniel McCarthy – I'll separate myself a little bit from the conversation. There is a tendency if you're in a time of feast you think it will last forever and if you're in a time of famine you think it will last forever. We have to keep our eye on the ball and realize that this is long term money. This is funds that will be earning returns in many cases 20-30 years. I don't think we should necessarily be motivated by the situation at-hand. I think we should look at it in the long term and realize that we are at historically low interest rates but we've also had historically high interest rates. Things can swing around rather quickly. I'm a little hesitant about setting policy in a situation where there's fluidity. It looks like there will be fluidity in the market in the years ahead. I'm more inclined to look at this every year and make a decision every year. I'm going to say something here that the two members of the Board of Commissioners might not like. That is, the employees are required by law to pay their contribution with every paycheck. The county on the other hand makes a contribution based upon what the actuaries tell us to make. There have been years when I was on the Board – and I'm guilty of this – when we were told you don't need to any contribution and so we didn't. We could have made $250,000 or $500,000 or a million. The return would be better. But human nature being what it is, there wasn't even a suggestion of doing that. I think some consideration should be made that if the employees' contribution is reduced, consideration should be made by the Board of Commissioners to increase the county's contribution over the minimum mandated by the actuaries. Taxpayers ultimately benefit by a healthy fund making good returns and not by, in my opinion, just doing the bare minimum required. Especially if you ask employees to cut back who are required by law to make contributions to have their funds reduced in terms of the income. Having said that and in this situation and not getting caught up in the policy of it, 5%, to me, is reasonable and appropriate under the current situation. But we do have the right to look at it again next year. As the Controller points out funds down 5% in the month of January, it just could finish up 5% at the end of the year. We just don't know. Because we are imperfect and at times fallible, we make decisions best we can. I go along with the 5%.

Glenn Eckhart – I've been a critic of the seven years that no money was put in and I'd like to see this Board make a policy that if we ever do get to 100% again, that we do take a percentage of the county money and contribute it. I've talked to Tim this and we think this should have been done. You're right. If there had been a little extra money in there, we would have made money on that. The fund is currently at $446 million which is more than the county budget. We're talking about a very large amount of money and you basically meet four meetings a year to discuss it. I don't think over historic time periods there was enough emphasis on managing this. I think over the last 3-4 years we have. We adjusted a Buy-back policy, funded a position out of the fund and created another tier for future employees that will save money for years to come. The whole host of issues that I think we need to look at and, that's again, one of the areas. I think if the county does adopt a policy to contribute some money, it won't put us at these lows. I understand why they didn't put the money in because half of that money is floats back through money that you can't get back from the State or federal government. Although no money was put in, no money was needed as the fund was 100% funded. If we put money in, we wouldn't get any money back.

Tim, I'm sure is looking into this for the future. There is $246 million dollars in the fund. The actual amount of money that has been contributed by employees in Lehigh County is under $200 million. $246 million dollars has been gained in interest from the management of this fund. Which is quite impressive. We are really close now to being equal. Currently the employees have put in about 55% of the money, to date, and the county has put in 45%. In the beginning –the first ten years the employees put in all the money. On the back side the county is putting the bigger portion in. That gap is narrowing. Within two years we're going to be at 50-50 as far as the actual investment money. You need to have money invested into the fund to make that interest rate. I thought that's an interesting number – to look at more half this money has been earned in interest.

Tom Muller complimented Cornerstone on a marvelous job. I'm disappointed on where we ended up the year – as anybody would be with their money. I was talking with one of their competitors. They had allot of municipal funds as well and said on average were down 2% or a little bit more for the year. So we did accomplish our objective which was buffer us a little bit on the downside and recognize we won't always reach the full peak on the upside. You have professional management on the $446 million.

I do support the 5%. Although I recognize it's a little bit arbitrary as to where you land between 4% and 5.5%. I do think we should come off 5.5%. Commissioner Osborne was correct in that two years ago our two commissioner candidates were really pushing for 4%. We had a little bit of an ugly meeting on that one. My position was I couldn't support going to 4% when we had just made 16% on your money. I didn't think that was proper and that's why that battle took place. What most people don't know is a couple months later I hadn't given up on that. I thought they made a valid point. We should be looking at what happens when the market goes down. I did send a proposal to them for consideration -- just a target to start conversation. They chose not to respond to me at all. So the subject sat until fairly recently and we've all been having side conversations as to what do you do. I was leaning towards the 10-year average. There's some in favor of the 20 year but that 20 year is going to get a little ugly very shortly because some big years are going to start to drop off. I think Dan McCarthy makes a very good point of looking at it on a year-to-year basis but then how do you do it other than going with what feels good. I think we start out chairing this Board, as we were going to do that this year, so when we get here next year, you'll understand a more solid rationale. I hope you will then all feel good about 5%. I also hope we can get a policy that does not allow the County itself to go to 0% at any time. I honestly don't think its right for the County to put in anything less than what the employees do. It was a great run for seven years from a County budgeting standpoint. As former Director of Administration and current County Exec, what a wonderful thing to have happen in your budget as opposed to putting in $11 million. But in the long run, its wrong. We'd be in better shape had we put in just some money and had we matched the employees' money, we'd be in very good shape this year. We chose not to and you all understand budgeting and keeping taxes down.

Glenn Eckhart – In defense of the County Executive, it was through the 1990's – it wasn't recent when that stretch had gone on.

For educational purposes, again, sometimes a lot of this stuff isn't clear. Tom mentioned that we have some pretty big numbers that will be rolling off here. If you look at the sheet that says Cornerstone and has the graphs on it, look at 1996, 1997, 1998 and 1999. If you were to go with the 20-year plan, those numbers need to be replaced with those same exact numbers to keep it at 6.8%. Basically what happens when you look at the 15-year plan, those numbers have already rolled off. Now you're showing 4.9% rate of return. I've been with the 15-year plan because the average employee works for the County for 15 years. That is actuarially information that is given to us. Again, I think the 5% is right in the ballpark of the 15-year plan as well.

Brad Osborne – I just want to respond very briefly on some of the comments that you made. I want to compliment you as Chair and this Board in general for having this conversation. The problem a couple years ago was there wasn't enough conversation and having input. It's a compliment that we're actually considering this and possibly doing something about it. I just want to make it clear that in my opinion it's an improvement on the performance of the Board.

Glenn Eckhart – That was exactly my reasoning two years ago - how do we cut the interest rate to 4% when we made 15%. How do I look at you and tell you we made 15% on your money last year and we should lower your rate to 4%. I can look at you this year and say we're going to lower your rate to 5% because we didn't make any money at all. That's the difference. I was on the Board at that time. I was opposed to lowering it to 4% because we got lucky and I won't do that. But this time, there's been enough math and people looking at this. I look at this all the time. I put in allot of time on this subject – not only interest rates but the COLA, policies that could change, the funding formula. There's been some changes and I thank this Board for allowing me to dig into this stuff more than we had done in previous time periods.

CITIZENS' INPUT

Tom Muller asked for comments and questions from the public.

Dave Hemerly (Human Services) – I don't know that there's anybody in this room who will disagree or argue with anything that's been said. It just makes fiscal sense. That's the bottom line. I challenge anybody in this room to take their money and get 5%. Just to compare, I'm on the Board of Directors for the Credit Union we have a common denominator. Our members are county employees and we have retirees. What we're doing with the Credit Union is every quarter we ask if we're going to raise our interest rates or keep them the same. It just makes sense.

Mr. Eckhart you did a great job – not to overshadow anyone else - but you did spend allot of time on this.

Tom Muller – I'd like to echo that last comment. He's done allot of work on this in pulling together the data for us to be able to have some of the conversations we're able to have right now.

Tom Cunningham (Retiree) – Percentages are nice 4%, 5%, 10%. What is the actual dollar amount between 5% and 5.5%? What are the physical dollars we're talking about?

Tim Reeves answered – Last year the total amount the 5.5% represented was roughly $5 million. It basically depends on the employees' overall money that's there. We've had some folks that retired so it's dropped a little bit. To give you a short answer 5.5% represents a half million dollars.

Glenn Eckhart – The other part of that is if you look at 5.5% versus 4% - Hay Group looked into this the other year and actuarially the difference is $155,000 a year for the actual budget impact. This isn't going to impact the budget that much. The difference between 5.5% and 5% is actuarially going to bring next year's budget number down $50,000. It's not budgetarily going to make a big impact as far as health of the fund.It's a small amount based on one year.

Tim Reeves summarized – There's approximately a $50,000 impact to the potential required contribution that the County will have to make next year based on that contribution. I think the 5% is fair. The other point is you have the ability to increase your contributions to make up for the slight difference in interest. If you have a desired number that you want to get to in order to retire, you can still achieve that regardless of the interest that's being contributed by simply increasing your contribution. I'm not recommending that. I'm just want to point that out as an option that we all lose sight of. This fund as it relates to is ultimately for the benefit of your piece of the retirement pie. You control that in a couple different ways – by the interest and by what you contribute. As the market potentially goes down and the interest may not be what it always has been, you can compensate for that by increasing your contributions to still get to where you want to be.

Dyanne VanHorn (Human Services) – I just want to comment on the difference between today and two years ago. Part of the problem two years ago was the intent behind WHY they wanted it lowered to 4%. I don't think the intention was to vilify people but how do you sit there and say we made three times that amount in interest and we want to cut you to 4% because we can or because we want to save as much money as possible. We don't accept that well as employees. I don't think that we should. Today is different – we're reasonable people. We made no money. We can understand that.

Glenn Eckhart – That means a lot to everybody up here.

Tom Muller – We appreciate it.

Dave Hemerly (Human Services) – I want to thank all of you, too, for doing your best.

Tom Muller – Thank you.

Tom Muller called for a voice vote to cut the interest rate to 5%.

All were in favor.

Vote was unanimous.

It was approved that 5% is the interest rate for 2016.

Tim Boyer (Human Services) – The retirement calculator is down. How long will that be down?

Tim Reeves answered – It should be back up. I don't know the exact time. I have to talk with IT. Until we do our year-end stuff they have to take that down. If anyone needs a quote in the meantime, you can see me directly.

Tom Muller asked for any motions.

Bran Osborne made a motion that the Chair appoint a committee to study and make recommendations for the following subjects:

1. Crediting rate – So what we've done here today falls into the context of a policy going forward.

2. COLA – It's something this Board will face as recent as the end of this year. It's something that we need to have a policy on.

3. Election Process – This was brought up previously this year.

My motion is for the Chair to appoint a committee to study those three things.

Glenn Eckhart – May I add one more thing?

Brad Osborne – Absolutely.

Glenn Eckhart – We make a policy that in the "up" years we take a percentage and fund the account actuarially.

Tom Muller – Sure. I support it.

Glenn Eckhart seconded the motion.

Tom Muller asked for discussion.

No opposition.

Tom Muller called for a voice vote.

All were in favor.

Vote was unanimous for the Chair to appoint a committee to study and make recommendations for the above four subjects.

There was no further business or Citizen's Input.

Tom Muller called for a motion to adjourn.

Glenn Eckhart made the motion to adjourn.

Daniel McCarthy seconded the motion.

Meeting was adjourned at 10:10 A.M.

Glenn Eckhart, Secretary

Lehigh County Employees' Retirement Plan
Monthly Flash Report

		Monthly Return December-2015	Market Value Beginning of Period	Market Value End of Period
Lomax		**-1.93%**	**$25,444,059**	**$24,952,823**
Russell 1000 Value		-2.15%		
Vanguard Institutional Index		**-1.58%**	**$43,916,745**	**$43,223,846**
S&P 500		-1.59%		
Philadelphia Trust		**-1.39%**	**$44,228,698**	**$43,613,193**
S&P 500		-1.59%		
Sustainable Growth Advisors		**-1.32%**	**$29,188,599**	**$28,804,621**
Russell 1000 Growth		-1.47%		
Vanguard SCV Index		**-4.90%**	**$19,415,205**	**$18,464,816**
Russell 2000 Value		-5.27%		
Emerald		**-3.57%**	**$8,977,519**	**$8,657,395**
Russell Mid-Cap Growth		-2.26%		
Emerald Advisors		**-5.38%**	**$10,717,374**	**$10,141,084**
Russell 2000 Growth		-4.77%		
American Funds EuroPac		**-2.34%**	**$27,636,969**	**$26,990,664**
MSCI ACWI ex US		-1.88%		
Vanguard Developed Mkt Idx I		**-1.80%**	**$23,469,155**	**$23,047,327**
MSCI EAFE		-2.06%		
CSMcKee		**-0.44%**	**$58,966,663**	**$58,704,518**
Barclays Capital Aggregate		-0.32%		
Agincourt		**-0.51%**	**$54,311,506**	**$54,034,484**
Barclays Capital Aggregate		-0.32%		
CBRE Clarion		**1.35%**	**$11,857,539**	**$12,017,904**
Dow Jones US Total Market REIT Index		1.09%		
Liquid Alternatives		**-1.08%**	**$46,746,853**	**$56,243,676**
Blended Alternatives Benchmark		-1.23%		
Vanguard ST Investment Grade		**-0.36%**	**$6,434,815**	**$6,411,164**
Barclays US Corp 1-3 YR		-0.21%		
Cash Account		**0.00%**	**$8,892,613**	**$7,641,713**
30 Day MM Yield		0.00%		
Weighted	Portfolio	**-1.43%**	**$420,204,312**	**$422,949,230**
Rate of Return	Index	-1.41%		

Assets Not Valued Daily

	Market Value Beginning of Period	Market Value End of Period
Mondrian Intl	**$23,991,872**	**$23,251,289**
Grand Total	**$444,196,184**	**$446,200,519**

2015 YTD Performance

Portfolio	**0.22%**
Net Portfolio	**-0.13%**
Index	-1.00%

The values on this report are collected from electronic interfaces and released before an audit function can occur. These values are not final. Differences may include, but are not limited to, pending trades, accruals, mispricing, or custodian error.

County Retirement Plan Comparisons
2015 Data

	Interest Pai	Benefit Clas:	# Retiree	Assets in Millions	Funded Ratio	
Adams	5.50%		236	$ 47,534,655.20	102.70%	
Allegheny						
Armstrong	4.50%	1/50 Retro	272	$ 60,403.24	87.80%	1/70 begginning 1/
Beaver						
Berks	4.50%	1/60	1,122	$ 413,013,535.00	106.80%	
Blair						
Bucks						
Butler						
Cambria	4.75%	1/60	1,056	$ 176,000.00	91.44%	
Carbon	5.50%	1/60	338	$ 75,000,000.00	103.90%	
Centre						
Chester						
Clearfield						
Cumberland	4.00%	1/70	571	$ 183,157,662.00	94.90%	
Dauphin						
Delaware	4.00%	1/80	1,599	463,400,00	108.90%	
Erie	4.00%	1/60	656	$ 236,454,616.00	94.10%	
Fayette						
Franklin						
Greene						
Lackawana	5.50%	1/70	689	$ 153,684,625.00	79.70%	

Lancaster						
Lawrence						
Lebanon						
Lehigh	5.50%	1/60-1/70	1,505	$ 446,200,519.00	88.40%	1/70 for a
Luzerne	4.00%	1/70	1,194	$ 215,479,404.00	80.00%	
Lycoming	4.00%	1/70	322	$ 102,903,545.00	91.50%	
McKean						
Mercer						
Monroe	5.50%	1/80	270	$ 76,325,637.00	87.90%	
Montgomery						
Northampton						
Northumberland						
Philadelphia						
Schuylkill						
Washington						
Westmoreland						
York						
Total	4.71%				93.70%	

1/14 on new hires

ıll new employeees after January 1 of 2015.

Historical Returns

Net of Fee Returns for Periods Ended December 31, 2015

	Last 10 Years	Last 15 Years	Last 20 Years
Lehigh County	5.3	4.9	6.8

Net of Fee Returns for Periods Ended December 31, 2014

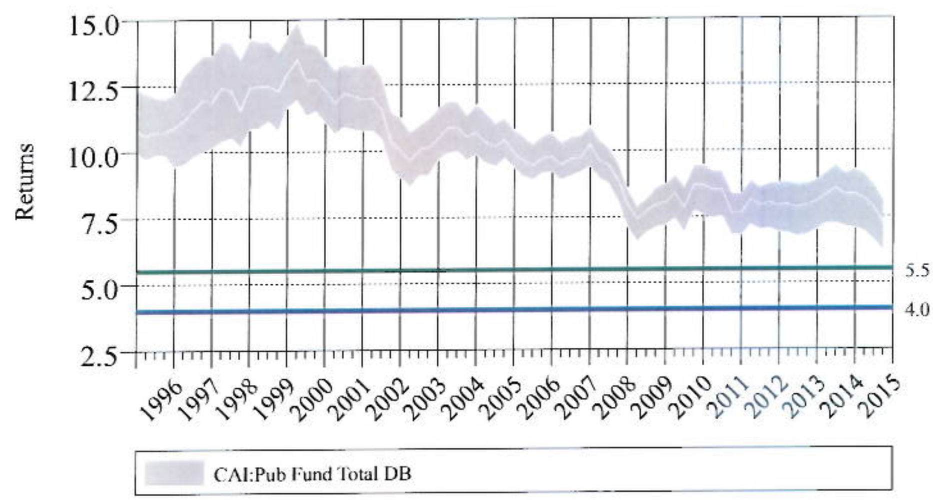
	10 Years Ending December 31, 2014	15 Years Ending December 31, 2014	20 Years Ending December 31, 2014
Lehigh County	5.9	4.8	7.8

Lehigh County Net of Fee Returns for ending December 31, 2015

	Returns*
2015	(0.2)
2014	6.1
2013	15.6
2012	10.1
2011	1.2
2010	10.7
2009	16.9
2008	(22.9)
2007	7.5
2006	***14.1***
2005	6.3
2004	9.3
2003	20.0
2002	(9.3)
2001	***(3.3)***
2000	(0.8)
1999	14.7
1998	15.6
1997	20.1
1996	***15.2***
1995	19.5

*Bold and italicized returns indicate years to be rolled off in current year for 10 year, 15 year and 20 year measurements.

Rolling 80 Quarter Returns for 20 Years Ended December 31, 2015



Rolling 60 Quarter Returns for 20 Years Ended December 31, 2015