Minutes of the Lehigh County Retirement Board Meeting

Lehigh County Government Center Public Hearing Room

Thursday, August 4, 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 David Bausch, Glenn Eckhart, Tom Muller, Brad Osborne and Tim Reeves.

Tom Creighton and Daniel McCarthy were not present.

Skip Cowen, Kevin Karpuk and Chris Lakatosh from Cornerstone also attended.

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

Tom Muller announced that Dan McCarthy who was an appointee from the County Executive is now a judge so he is no longer on the Retirement Board. He will be replaced in the near future but there is no replacement as of this meeting.

Tom Creighton was in the office but had an errand to run so he was not able to attend the meeting today.

OLD BUSINESS

Meeting minutes for approval from May 5, 2016

Tom Muller asked if there were any questions or corrections to the May 5, 2016 meeting minutes.

Tom Muller called for a motion for approval.

Brad Osborne made a motion to accept the May 5, 2016 Retirement Board minutes.

Tim Reeves seconded the motion.

Tom Muller called for a voice vote. All were in favor.

Minutes were approved unanimously.

Meeting minutes for approval from the May 25 Special Meeting

Tom Muller asked if there were any questions or corrections to the May 25, 2016 meeting minutes.

Tom Muller called for a motion for approval.

Tim Reeves made a motion to accept the May 25, 2016 Retirement Board minutes.

Brad Osborne seconded the motion.

Tom Muller called for a voice vote. All were in favor.

Minutes were approved unanimously.

NEW BUSINESS

Skip Cowen from Cornerstone Consulting gave an update on the second quarter 2016.

The portfolio is behaving beautifully right now. The second quarter through June 30 results were very strong.

Skip referred to the attached handout for the second quarter through June 30 results:

Page 1 – Performance Summary
Equity markets are showing a modestly positive rate of return. S&P was up about 2 ½%. International stocks have struggled a little bit. You see some negative numbers there. U.S. stocks have performed well and so has fixed income. Barclays Aggregate is up about 2.2%. July's numbers are very strong. We're up about 6% year-to-date which is getting us to an actuarial assumption of 7 ½% with several months to go. We're cautiously optimistic we can get there.

Page 2 – Net Portfolio Performance
Bottom line performance for the fund in the quarter ending June 30 exceeded expectations. We beat our blended benchmark. The portfolio is up 2.25% relative to a 2.12% benchmark. We're most excited about our peer group ranking is relative to other public plans across the country that are considered mid-size. That means they have between 100 million and a billion dollars in assets. Our return of 2.25% put us in the 7th percentile nationally. It was a top 10th performance for the quarter. The median pension plan was up at 1.84%. We had about 45 basis points of excess return.

Page 3 – Asset Allocation
Asset allocation has really not changed. We had a slight change in the manager matrix but our allocation is very similar to our last meeting – 55% in equities, 27% in fixed income, 16% in alternative investments and about 2% cash position.

Page 4 – Historical Cash Flow
This is a longer historical look at the portfolio. Since we've been tracking the fund in October 2010, we made about $163 million in the portfolio. $110 million of that has been appreciation or change in the market value. A meaningful portion of $52 million – even in this low interest rate environment – has been interest and dividends and cash flow that is credited to the portfolio.

Page 5 –Manager Performance
We changed one of our large account managers. We terminated a relationship with Philly Trust. We talked about that very briefly the last quarter. What you don't see on this page is the peer group rankings of some of the domestic equity managers. They have been doing a really nice job. Over the last one year Lomax has been in the top 6th percentile. Agincourt Core passive strategy has been in the top 10th percentile. Sustainable SGA our large cap growth manager has been in the top 2nd percentile of this peer group. This means they have been beating about 98% of the other managers that they compete with. The Vanguard small cap fund is in the 21th percentile. We like our asset allocation. It's prudent. It's a conservative allocation. We're getting some help now from the managers as to security selection which is really adding value to the portfolio.

Page 6 – System Update through the end of July
July was another good month for the portfolio. We're up about 2.75%. The index was up 2.66%. We had about 9 basis points relative to that. 2016 YTD performance - We were running a little bit behind benchmark in the first quarter. We now exceeded benchmark - up 6.06% YTD - with several months to go. We are trying to grind out to the 7.5% actuarial assumption that's very important to the fund.

Overall performance has been good.

No questions for Cornerstone.

Tom Muller discussed that at a prior meeting earlier in the year, we agreed to form a subcommittee to look at a number of issues. The listed expanded a little based on a review of a lot of our documents and some things need to be formalized. Tom particularly thanked Dyanne VanHorn for her involvement in the subcommittee and Tom Cunningham, who was not present, for his participation in the meetings and the fair amount of time he put in. The rest of committee was Glenn Eckhart, Dan McCarthy and Tim Reeves. Tom commended the committee on the good work they did. He purposely stayed out of it so he would not be an influence in any way. The committee came up with a list of seven recommendations (see attached).

Glenn gave a summary of the subcommittee. We were created in February of this year. The Executive appointed Tim Reeves, myself, Dan McCarthy, Tom Cunningham, Jr., and Dyanne VanHorn. We met six times. We had 100% attendance at all six meetings that we formally met. Catharine Roseberry from the Department of Law sat in each meeting. Tim Benyo and Judy Johnston attended one of the meetings to discuss the election process. The election process is one of the items we wanted to cover. We didn't provide any minutes for these meetings. It wasn't a quorum, it wasn't a legal function so I wanted everybody to feel free to discuss everything. We met on March 6, March 31, April 13, April 27, May 25 and June 15. In between those meetings, we corresponded by email reviewing as these recommendations were recommended. The reviews were only between the five of us. The final draft was given at the June 15 meeting. Everyone seemed to be pretty happy with it. The final email came back from Hay Group, which is our actuarial, saying that one of the items needed to be tweaked to follow with federal law. Catharine reviewed it and agreed. I asked Catharine to rewrite it. It was reviewed.

Glenn asked if anyone had any questions about the process. No questions.

The seven recommendations are as follows:

1. **How do we set a crediting interest rate for that year policy and when should it be voted on?**

   It came down to a 15 or 20 year which we debated several different ways. We recommended a 20-year rate because the longer period of time seemed to make the most sense. We agreed setting the 20-year rate which will be on December 31, 2016. We have a special meeting in January where we set the crediting rate for the employees' portion of their money. We will use that 20 year number – if this passes – at the January meeting to set that rate. If it falls between 4 percent and 5 ½ percent, that is the rate we will set. By law – Act 96 - it can't go below 4 percent or above 5 ½ percent if the number falls on either side of that that is what we wioll set rate at. This is something that I personally have been working on since Bill Hansell was County Executive. This way the interest is decided by math rather than which way the wind is blowing.

   Tom Muller asked Glenn Eckhart to elaborate on what he means by 20 year rate makes the more sense than 15 year rate.

   Glenn asked Tim Reeves to answer as Tim being the Fiscal Officer was the "driver".

   Tim Reeves explained the interest rate is voted on every year. The Retirement Board can only vote between 4% and 5½%. The concept of making this more of a mathematical equation just made sense. Then it became a matter of what point and reference do you use to come up with that equation so we added the 10 year, 15 year and 20 year. Ultimately, the 20-year ended up being the consensus of the group based on the fact that the typical retiree from Lehigh County's retirement system that is pulling money out of the system averages about 22 years of service. We felt as if that 20 year reflected the time they were here putting money into the system and therefore that's the timespan that this should indicate.

   Tom Muller asked if there were any questions from the Retirement Board.

   Brad Osborne thanked and congratulated the subcommittee for the time and effort that they put into this and there is some logic as you heard. I advocated for a policy to be set so we're not sitting here as a Board and as Board members change, arbitrarily setting this rate as practices have been in the past. However, I disagree with the conclusion that the subcommittee came up with. I think
   in order for this fund to be more responsive to market conditions, that timeframe should be less. There's going to be years, I'm certain, in a very short amount of time – the next 5 years -- where there will be movement - if this policy is followed - that will be unrecognizable to the participants in the plan. What I mean is, as we may be successful - as we heard Cornerstone had a successful month for sure in leading up to a successful year – we may find that the interest rate credited to the employees is actually decreasing at a time when the county is enjoying the benefit of market

success. That may cause some angst to the employees. I think the chances of that happening are reduced when the time period is less than 20 years. Also, this is just a policy – it's not binding - so any future Boards can make a decision outside what this policy recommends. I just want to explain my vote before we take the vote.

David Bausch commented that he thought the 20-year rate was reasonable.

Tom Muller asked for any comments.

No comments.

Tom Muller called for a motion to accept the recommendation.

Dave Bausch made the motion.

Tim Reeves second the motion.

Tom Muller called for a vote to accept the recommendation.

Four votes for it.

Commissioner Osborne voted against it.

Recommendation was passed.

2. **When should a Cost of Living Increase be given and when should it be voted on?**

Glenn Explained - According to Act 96, we're supposed to take this vote once every three years. The Board thought it was better if we vote on it every year. This way we don't lose track of when we should be voting on it. So we decided to make this part of the recommendation. Also as part of the recommendation, we used the trigger of when the retirement fund was funded at 104%, we then believe that a cost of living for our retirees should take place. We've taken politics out of it…Commissioners, County Executive, Controller, etc., can't just decide that we want to get some votes this election so we will give a cost of living increase to retirees. We believe this happened in the past so we're now using a mathematical formula which is reviewed by Hay Group. Hay Group comes back in July and tells us what our rate of funding is. This rate gets voted on at the November. We came to the 104% amount because you can't give away money if you're not 100% funded. We need a little cushion until we feel our retirees deserve the overage that was left in the fund. We debated between 101% and 105% and ended up with 104%.

Tom Muller asked if there were any comments or questions from the Retirement Board.

No comments or questions from the Board

Tom Muller asked for any comments from the employees.

Carol Barrett from Human Services – When you say the fund needs to be 104% funded before our retirees *DESERVE* a cost of living, did you mean that then you could *AFFORD* to give retirees an increase?

Glenn Eckhart – Yes. We believe at that point the fund is successful. Its 100% funded, which means all our obligations are taken care of. Thus the people who mandatory paid into the fund now deserve to have some of the money that is left over that is above the 100%. Does that make more sense?

Carol Barrett – As a worker, I hear things a little differently. In my mind, retirees… great!! Give them a raise. However, we can't afford it. It makes sense what you're saying. It's about being able to AFFORD it … it's not about what they do or don't deserve because they deserve all kinds of good stuff. Being able to afford to give it to them makes a lot of sense.

Glenn Eckhart – You're exactly right. We're preserving the fund. There's no sense in taking principle out of the fund when you're under 100% because that principle is what's going to earn more interest to get the fund to 100%. We felt that under 100% we shouldn't even be considering a cost of living. We believe that at 104% there is no reason why we shouldn't give a cost of living. Does that help?

Tom Muller clarified that this means the Board can consider a cost of living …. the Board can vote yes or no.

Gus Liadis from Human Services – What percent are we at now?

Tom Muller – We're at 88.2%.

Gus Liadis – When was the last time we were at 100%?

Glenn Eckhart – 2007 but we were still under 104%. We were at 88.4% last year and we're at 88.2% this year. Last year was a bad year. Since Cornerstone is here, I'll thank them for doing a great job in making sure we didn't have a huge loss. That's a HUGE accomplishment. In a down year that we didn't hit our 7.5% assumption, that's still only lost 0.2% of our funding status.

Karen Kelly from Human Services – When was the last year a COLA was given?

Glenn Eckhart – I believe it was 2001 and at that point we were well over 100%.

Tom Muller asked if there were any questions or comments.

No questions or comments.

Tom Muller called for a motion to approve.

Tim Reeves made the motion.

David Bausch seconded the motion.

Tom Muller called for a vote.

All in favor.

Recommendation passed unanimously.

3. Election Process - who should run it and how should it be run?

Tim Reeves – A question was raised as to the validity of the way we handled the last election. We looked into the process and what was ascertained from that was we were doing a great job in the way we were running the election. We're going to continue to run the elections the way we have run them. Judy and her group in Human Resources will continue to do those with our full support. There's a couple changes we made to the timing as to when things will be sent out. One of the concerns was the retirees were not getting the info timely or they didn't have an opportunity to response in the appropriate timing. Some of the highlights and what we decided are: Notification of Election should be sent out to the retirees to members of the retirement system with an election date set within 45 days with that notification. A ten business day window opens to respond to Human Resources if they wish to be a candidate and how to do it. The notification cannot be sent out later than day 44. On this notification withdraw as a candidate process which starts at day 30 allowing someone to withdraw from the election. The first notification must include the date and time of all polling places that will be open or closed. The first notification to active members can be posted to bulletin boards and also given by email. Retired members must receive a letter to be sent out no later than day 44 in the U.S. mail. On day 25 a list of candidates is sent out to the voting membership reminding them of the election in 25 days and a notice is given that if anyone interested in an absentee ballot to contact Human Resources by phone, email or letter. Again, current employees' notification can be bulletin boards and email but retired members must receive a letter and should be sent out no later than day 24. Absentee ballots are available on day 20 and must be returned to Human Resources by day 5. Absentee ballots can be mailed, faxed, or hand delivered. Also date and times and locations should be provided on this second notice.

Glenn Eckhart – Since these are elections that require Human Resources and Voter Registration resources, all expenses incurred from Human Services or Voter Registration in conducting Retirement Board Elections shall be paid back out of the pension fund since this is an expense of the pension system.

Tom Muller asked the Board for questions/comments.

Brad Osborne – I like this one. One of the reasons I like it is the thought/seed for this came from a retiree themself. That's one of the benefits of a public meeting – to have input like this and especially if there's an opportunity to act on it in a positive way. This is an example of it. A position on the pension board is an important one. David Bausch has done a great job for the retirees and this sets a procedure for making sure a process is in place that's correspondent and equivalent to the responsibility of the pension board. It's one of the most important benefits to the employees, in this case retirees. It's something that should be preserved and analyzed and taken seriously.

Tom Muller asked for any other questions/comments.

Glenn Eckhart - When our committee reviewed what Judy Johnston and Human Resources were doing, it was impressive the details that were covered, such as, how they kept track that folks couldn't vote twice, the polling locations, etc. There were several areas that were so much more in-depth than anyone up here realized. We were very impressed and saw no need to change anything. The numbers and dates to replace an elected official in Lehigh County is 45 days according to the Home Rule Charter that was the reason for the 45 day to hold elections for the pension board.

Tom Muller asked for further comments/questions.

No further questions.

Tom Muller called for a motion to approve.

Tim Reeves made the motion.

David Bausch seconded the motion.

Tom Muller called for a voice vote.

All in favor.

Recommendation passed unanimously.

Recommendations 4 and 5 were combined as they relate to each other.

4. **When should Oath of Offices be given and how often to be in compliance with Act 96?**

   Glenn Eckhart – Per Act 96, everyone on the pension board is supposed to take an oath of office. . We hadn't realized that there was no firm structure on that so we're taking an oath at our first meeting in January. Subsequently, if someone is appointed or elected to a position in the middle of the year, the first meeting in January they will take the oath.

   Tom Muller asked for questions/comments.

   No questions/comments.

5. **How does the Board operate? Who is the Chair and Secretary?**

   Tim Reeves – This is based on the Board and basically who is the chair and who is the secretary. In our IRS Determination Letter, one of the things we realized in that process is we never officially voted on a chairperson and a secretary. This does that. We will physically be voting To elect a chairperson and a secretary. The chairperson is to run the meetings and the secretary is to work with the members of the Retirement Board to build the agendas, keep minutes of the meetings, as well as, conduct board meetings in absences of the Chair.

Glenn Eckhart – We will vote on these positions in the first January meeting – reorganizational, as well as, take our oaths and inform everyone what the interest rate will be. These three items are now built into the first January meeting agenda.

Tom Muller asked for questions/comments.

No questions/comments.

Tom Muller called for a motion to accept Recommendations 4 and 5.

David Bausch made the motion.

Time Reeves seconded.

Tom Muller called for a voice vote.

All in favor.

Recommendations 4 and 5 passed unanimously.

6. **What should county contribution to the Retirement Fund be?**

Glenn Eckhart – This was actually Tim Reeve's idea and was something I thought should be done when I realized the County had not put money into the pension system for seven years. Anyone who does investing knows that you can't go seven years without putting money into your fund. The only money that went into the fund was the employee money. The county money did not go into the fund. What this will do is - it takes one-third of whatever the county employees make in contributions and the county should put that amount in as well. Example: Right now the county employees are putting in about $6 million. If the fund ever gets funded at 100%, the county should put $2 million into the pension fund.

Tim Reeves – There are years and there have been years where there has not been a required contribution on the county's part. The recognition is that the pension fund is both an employee and county responsibility to maintain some level of funding stream. The alternative to this would have been let's take what was contributed over the past 20 years -- if we would have just put an equal amount in every year, we'd be at the same point. I don't know that was an option people could gravitate towards so we looked at it as - if there's a time when we have a really good year and there is no requirement on the county to fund part of this (we believe that because it is employee/county shared responsibility there should always be some requirement) this is a way to do that. Employees are currently putting in about $6 million a year and that will grow as employees continue to put more money into the system. This is just a way of equalizing that if we have a phenomenal year and there's no required contribution on the county's portion, the county would put in at least one-third of what the employees put in as a good faith way of saying it's both responsibilities to maintain that funding stream.

Glenn Eckhart – I want to give praise to former County Executive David Bausch and former Controller Robert Flemming for putting money into the fund in the years where there was zero contribution required. Some years it may only have been $500,000. One year it was $1 million. Of course that was in the late 1980's, early 1990's. That money in the pension fund (although not mandatory) earned interest over the years and has helped the fund long-term. If we would have done that the other seven years, we would be much better off. So **THANK YOU, DAVE !!!!**

Tom Muller asked for questions/comments.

Dave Hemerly (Human Services) – This motion passed twenty years too late. From 1996-2002 the county did not contribute. If this was passed twenty years ago, we'd be in a lot better shape.

Glenn Eckhart – My speculation based on the rule of 72 – If $1 million was contributed over those seven years, we'd have 21 million more additional dollars in the pension fund. In other words, if $1 million was contributed each year for those seven years, we'd now have $21 million more in the fund. We can't continue to act like this is an election to contribute. This is a long-term pension system and it should be funded the way it should be funded not for some political gain down the road. This is a structure for us hoping that won't happen again in the future. By voting for this we're putting the onus on the Executive to fund it. Of course the Executive can say no. We as a subcommittee want to send a signal that this isn't about the day-to-day operations of the County. This is about the long-term health of the pension fund.

Tim Reeves – Dave, ultimately your point is correct. The other side of this is - If you now look at where we're at with employee contributions to county contributions, this is the year that they now equalize because the County has over the last several years been putting in 10, 12, 13 million dollars. What this would do is – From now going forward in the years where it's not required they would still put in $2 million or something like that. Overall it will come to the same pay-me-now, pay-me-later type scenario. We felt this was the right time to do it because we're now at a point where both the employees and the county have contributed equally over the last twenty years to the fund. This now sets a standard going forward that will keep that balance a little closer so it doesn't get skewed so much from year to year.

Dave Hemerly (Human Services) – I was looking through my notes and I believe I saw a study from the Hay Group back in 2011 or 2012 that showed the past 22 years of County contribution and employee contribution.. Six out of those 22 years it said was County seeded and seven of those years it was zero. Is there any way Hay Group can get us an updated study? Your predecessor, Brian Kahler, was working with somebody on that.

Glenn Eckhart – We have that. It's in the book. We can provide that.

Tom Muller – Tim Reeves has that.

Tim Reeves – Hay Group does a tracking but I do a tracking as well.

Glenn Eckhart - That's where Tim came up with the concept that the county employees should pay one-third, the County should pay one-third, and interest should be another third. Again, I thank Tim for his cooperativeness on sharing that and educating us on it.

Tom Muller called for a motion to approve.

David Bausch made the motion.

Brad Osborne seconded the motion.

Tom Muller called for a voice vote.

All in favor.

Recommendation #6 passed unanimously.

7. **How often should we do a "Request for Proposal" for our Investment Consultant?**

   Tim Reeves – This is regarding the "Request for Proposal (RFP)" hiring process for our investment consultants. We just recently did that. We made our standard to do it every four years and will continue to do that.

   Tom Muller asked for any questions/comments.

   No questions/comments.

   Tom Muller called for a motion to approve.

   Brad Osborne made the motion.

   David Bausch seconded the motion.

   Tom Muller called for a voice vote.

   All in favor.

   Recommendation #7 passed unanimously.

Tom Muller thanked the subcommittee for all their work -- Dyanne VanHorn; Tom Cunningham, Jr.; Glenn Eckhart; Tim Reeves and Daniel McCarthy.

Dyanne VanHorn – I want to thank the Board for the opportunity to participate on the subcommittee. I learned a lot.

Tom Muller asked for any employees' input.

Carol Barrett – In what amount of time will Dan's position be replaced?

Tom Muller – Soon. That's an appointment from the County Executive.

Carol Barrett – Can you give a timeline?

Tom Muller – Before the next meeting.

Glenn Eckhart – Our next meeting is November 10.

There was no further business or employee input.

Tom Muller called for a motion to adjourn.

Tim Reeves made the motion to adjourn.

Brad Osborne seconded the motion.

Tom Muller called for a voice vote.

All were in favor.

Meeting was adjourned at 10:17 A.M.

Glenn Eckhart, Secretary