

NORTHAMPTON COUNTY RETIREMENT BOARD MINUTES

December 5, 2016

4:00 PM

1. **Call of the Roll.** The following members of the Retirement Board were present: Mrs. Margaret Ferraro, Mr. John Cusick, Mrs. Cindy Smith, Mr. John Brown, and Mr. Jim Hunter. ABSENT: Mr. Glenn Geissinger.

Others present:

Mr. Michael Shone, Investment Management Consultant - Peirce Park
Mr. Pat Wing, Investment Management Consultant – Peirce Park
Mr. David Ceraul, Assistant County Solicitor

2. **Courtesy of the Floor** – Nothing

3. **Approval of the September 12, 2016 Retirement Board Minutes.**

Mr. Brown made a motion to accept the Minutes, as presented.

Mr. Cusick made a motion to amend the September 12, 2016 minutes as follows:

Page 2, Bank of New York spelled incorrectly (Band of New York).
“Thornburg” spelled incorrectly.

The motion passed unanimously.

4. **Performance Reports – P. Wing, M. Shone.**

Mr. Wing gave a synopsis:

- The U.S. economy grew at 2.9% in Q3, its strongest growth in two years
- Labor Markets began to cool slightly
- Job Growth still healthy, new jobs 178k, unemployment rate down, at 4.6%
- Wage Growth beginning to pick up
- FED likely to raise interest rate within the next week

The Q2 BREXIT vote drove major Q3 fears; however, Europe remained steady. International Equities out performed US Equities, 6% to 4%. Emerging Markets lead the way and commodity prices gained. Fixed Income returns remained positive. Growth Stocks outperformed Value Stocks, and the Small Caps did very well overall.

November 2016 observations: October was a down month. Equities underperformed Fixed Income returns. US Stocks recouped losses in November, after the Election. Some

gains were made. Bonds continued to struggle some. Developing Markets outperformed Emerging Markets.

- US Stocks have retaken the lead
 - After a poor October, November was a much better month
 - Fixed Income Stocks were down and remained relatively flat
 - Strong Equities generated gains for the portfolio
- Pension Fund
- Market Value (September 30, 2016): \$355.7 million
 - Q3 Gain: +\$12.6 million
 - Q3 Return: 3.6% (Benchmark: 3.7%) Peer Group ranking: 38
 - 1 Year Gain: 33.9 million gain
 - 1 Year Return: 10.3% (Benchmark: 10.8%) Peer Group ranking: 19

5. Performance Updates – M. Shone

Year to date returns at 6.5% as expected. Mr. Shone discussed some of the changes made in Q3. Thornburg has been removed and replaced. Causeway was replaced by Schroder. The Bank of NY issues seem to have been solved since the implementation of their new team. Overall satisfaction is very high.

Mr. Shone discussed Pension Funding Policy requirements which are laid out by GASB 67 & 68. A Funding Policy is designed to ask and answer the question, “Are there enough assets available to cover liabilities?” Because the Fund pays the Actuarial Determined Contribution (ADC) each year, it is on track to being fully funded. A Funding Policy defines how the ADC is applied. Mr. Shone will provide a policy to Mr. Ceraul for review and then consideration of the Board at the next meeting.

Peirce Park has created and maintains the PA Counties Retirement Fund Database, which compiles data from 48 of the 67 PA Counties. Some Counties have changed (lowered) their Rate of Return Assumptions, in order to address expected lower long term rate of returns. Northampton County has not currently made this change. Northampton County’s returns have consistently been above average. Only two PA Counties gave COLA increases in 2015.

Mr. Cusick asked a question about the impact of the FED interest rates and its impact on the real estate portion of our Portfolio. Mr. Shone explained there is both good and bad associated with the change. First it signals a good economy, where rents usually increase, cash flow increases and returns will also trend up. On the down side, capitalization rate increases could drive valuations down. Because funds used for the real estate purchases were transferred from Fixed Income, rising interest rates likely will have less of an impact than it would on the fixed income portfolio.

6. Benefit Class Consideration – Board, M. Shone

The discussion was tabled from the September meeting. Mr. Cusick had inquired into ramifications of making changes to the Benefit Classifications to new hires.

Mr. Shone had previously provided projections on the impact of a benefit class change for new employees. The focus became the difference between the 1/60 Classification and a 1/80 Classification. Current County employees are Classified as:

1/60: $(1.67\%) * (\text{years of service}) * (3\text{yr (highest) average salary})/12 = \text{monthly annuity}$

Proposed change:

1/80: $(1.25\%) * (\text{years of service}) * (\text{final salary}) = \text{monthly annuity}$

Short-term, savings are minimal. However, in the long-term, the changes would be more substantial. If a change is implemented, it would only effect employees hired after implementation of the new Classification.

Mr. Brown made a point regarding defined pension plans as a coveted benefit to County employees. However, the cost to the tax base must be considered. A Class change to new hires only, moving forward would not have an effect on the current employee base. A change implemented for 1/1/2017 would first show up in the in the January 1, 2018 actuarial valuation report.

Mr. Hunter provided a breakdown of local County Classes:

Lehigh	1/60 changed to 1/70, January 2015
Berks	1/60 since 1986
Lancaster	1/120 changed to 1/100 changed to 1/80 (1977)
Chester	1/100 as of 2011
Montgomery	1/80 changed to 1/60
Monroe	1/80 as of 2011

Mr. Cusick feels a change to 1/80 or 1/70 Class seems reasonable.

Mr. Cusick and Mrs. Smith questioned the employee contribution rate if the Benefit Class changes. Mr. Shone explained they are two separate issues. If the Rate of Contribution changes, it effects the whole population, employees in either Class, equally.

Mr. Cusick made a motion to change the Northampton County Pension Benefit Class from 1/60 to 1/80 effective 01/01/2017. Mr. Hunter seconded the motion.

The motion passed unanimously.

Mr. Brown made a motion to keep the current Rate of Contribution the same for 2017 at 5%. Mr. Cusick seconded the motion.

The motion passed unanimously.

7. Cost-of-Living increase – Board

Retirees are eligible for a cost-of-living increase of .03%. Mr. Brown and Mr. Cusick are not in favor of the increase. The amount required to fund the increase payable to those members who retired in 2015 and prior years is \$549,428. There would be no change (increase) for those members who retired in 2016. The amount will be funded over ten years and will be reflected as an increase in the actuarially determined contribution (ADC) of \$80,044 starting with the 2017 contributions.

Mr. Brown made a motion to deny a cost-of-living increase for 2017. Mrs. Smith seconded the motion.

The motion passed unanimously.

With no further business, Mr. Cusick made motion to adjourn the meeting. Mr. Brown seconded the motion.

Meeting adjourned