RETIREMENT BOARD MINUTES

February 9, 2023
4:00 p.m.

1. **Call to Order**: Mr. Lamont McClure called the meeting to order at 4:00 p.m.

2. **Call of the Roll**: The following appointees to the Retirement Board were present: Mr. Lamont McClure, County Executive; Mr. Kerry Myers, Council President; Ms. Lori Vargo Heffner, Council Member; Mr. Gerald Seyfried, Retiree Member (arrived late); Mr. Thomas Guth, active employee Member of Northampton County Retirement system; Mr. Stephen Barron, Director of Fiscal Affairs (arrived late)

   The following appointees to the Retirement Board were absent: Mr. Ronald Heckman, Council Vice President

   Others Present – Mr. John Spagnola, PFM; Mr. Bryce Meyers, Fiscal Affairs; Ms. Mary Lou Kaboly, Board Secretary; Ms. Danielle Mutarelli, Human Resources; Ms. Stephanie Hann, Human Resources.

3. **Courtesy of the Floor** – Mr. Guth provided a letter to the board from an active employee, which Mr. McClure requested to attach to the minutes should the board wish to discuss it as an agenda item.

4. **Approval of the October 27, 2022 Retirement Board minutes.** Mr. Barron made a Motion to approve the minutes of the October 27, 2022 board meeting. Mr. Myers seconded the Motion. The vote to approve was unanimous.

5. **Letter from Current Retiree Re: Retiree Medical Eligibility** Mr. McClure informed the board that they received a letter from a retiree regarding potential eligibility for retiree medical benefits. According to the law, she is entitled to due process, which requires notice and opportunity to be heard. This does not mean reading her letter in front of the board, but instead involves a future hearing with a court reporter, sworn witnesses, and the possibility of cross-examination to make a determination. Staff will reach out regarding availability for a hearing.

6. **Performance Updates – PFM, John Spagnola.** Mr. Spagnola gave the presentation of the fund's performance in the 4th quarter of 2022.

   Pension Fund market value as of December 31, 2022 = $438,943,582
   As of December 31, 2022:

Q4 gain:	6.95 percent
Gain since inception:	5.56 percent (inception date is 9/1/2017)
YTD gain:	-16.41 percent
1-year gain:	-16.41 percent
3-year gain:	3.09 percent
5-year gain:	4.74 percent

   Mr. Spagnola noted that 2022 was a difficult year for the market, but the fourth quarter's performance bounced back enough to mitigate losses for the full year. Inflation is improving from its highest point at nine percent last year and the Federal Reserve is slowing rate hikes, but still wants to lower inflation to two percent. The economy is experiencing rolling recessions in tech layoffs and a drop in housing prices; prices and energy are still on the higher side, and there is contraction in manufacturing due to raising rates.

Mr. Spagnola stated that PFM is interested in Japan in the Non-U.S. Equities Developed Markets sector. Mr. McClure asked whether PFM believes there are fundamentals in Japan's economy that suggest it could turn a corner from its 30-year deflation, and whether this is a buying opportunity. Mr. Spagnola confirmed that PFM may be investing in Japan moving forward because they have low interest rates and have not had the inflationary pressures seen in the United States.

Mr. Spagnola stated that the fund missed the benchmark for the year due to underperformance by WCM Focused International, but the Morgan Stanley fund helped and provided a 10.2 percent year-to-date return. Mr. McClure asked whether PFM reviewed WCM Focused International's underperformance. Mr. Spagnola responded that PFM believes this was a difficult year for a good manager, which is overweighted in the technology and consumer services sectors that did not perform well. Despite the manager's 12 percent miss for the year, they have outperformed their benchmark of 1.46 percent over the longer term and yielded a 5.5 percent positive return since they were added to the portfolio in 2019. PFM reduced their holdings to 2 percent of the total portfolio, but they still have a high degree of confidence in their ability to manage and expect them to outperform moving forward.

Mr. Spagnola stated the total value of the Pension fund was $465 million as of February 7. He stated that PFM admits the performance for 2022 was a mess despite outperforming the benchmark for the last three years, and they are aware of the things that caused the portfolio's underperformance and are working hard to ensure they can make up for it moving forward. Ms. Vargo Heffner asked whether the fund's 2019 performance pre-Covid was an anomaly, and whether the fund will see that level of performance again. Mr. Spagnola indicated that the 20 percent return from that year against the expectation of a 7 or 8 percent return was phenomenal. The fund had three years with very good performance, followed by a brutally bad year, and PFM would prefer to avoid that kind of volatility. Bonds are now yielding between a 5 and 8 percent return, which represents a good portion of the portfolio and therefore means we can expect a more reasonable overall return of 8 to 9 percent moving forward.

Mr. Myers asked Mr. Spagnola to explain the portfolio's increase in the international equities sector. Mr. Spagnola responded that although Non-U.S. stocks have not outperformed U.S. stocks in 20 years, PFM likes non-U.S. stocks under these circumstances. It previously cost $1.25 to purchase a euro, but last year the dollar reached parity with the euro and the cost of a euro was a dollar. Now if the dollar weakens and you own a non-U.S. security, you receive a positive return.

7. **Pension Updates – Ms. Mutarelli**
   Ms. Mutarelli prepared a summary sheet showing the individuals who retired during the fourth quarter and the amount of their pension benefits. Each member present received the summary sheet.

   Approval of 4th quarter Pensions: Mr. Seyfried made a Motion to approve the list of retirees submitted by Ms. Mutarelli. Ms. Vargo Heffner seconded the Motion. The vote to approve was unanimous.

8. **Adjournment** – Mr. Seyfried made a Motion to adjourn the meeting. The Retirement Board meeting adjourned at 4:28 p.m.

To: Retirement Board Members

From: Paul Breaux, ENP

Date: 01/20/2023

Re: Change in retirement policies

Hello Esteemed Board Members,

I would like to propose a change in the retirement program for specific groups within the county. The Northampton County 911 Center and I am sure the other groups I am proposing this change for are affected by a shortage of employees or a retention of employees, while having a pension is a great benefit for employees that is a very long term goal for a lot of new starting young employees that goal is very far off. Let's use the example of an eighteen year old starting at the 911 Center today of this year 2023, that same person will have to put in thirty seven years in the county under the current pension requirements and retire at age fifty five, while this may not be an issue for less stressful positions in this position this is almost impossible for goal for someone to reach.

The proposal that follows would be for the following groups; Corrections, Youth Detention Center, Sheriff, Emergency Management, and Gracedale Nurses. These groups deal with stress on a daily basis and it is inconceivable that we would require them to reach the current ages in the retirement policy while still being competent in their positions. My first proposal is twenty years of service and no age requirement for these departments; I know there is a lot that would go into this cost projections for the pension for current and future employees. There could be a formula that takes in account for life expectancy versus county pension payout per month. So the example of that eighteen year old retiring at age thirty eight would receive a lower monthly pension amount due to the number of years to reach nominal life expectancy. I don't know if this would be even feasible but, with the current staffing issues I'm trying to look at all sides to bring in new blood to our workforce so some drastic changes have to be made. The second proposal is a long shot even more than the pension change; the current health care for those eligible for it in retirement is worse odds than winning the lottery for current employees at the 911 Center. Let's change it to reflect the changing of the pension requirements of twenty years and done, allow retired employees to pay into the county health care at the same percentage or a higher percentage or a higher deductible than when they were working for the county. Then when they reach the age to be able to receive Medicare the county insurance can become a secondary insurance for them.

Example 1: Pension

John Doe (18 years) starts and works to adjusted retirement years of service, retires at age 38, he will receive ½ the amount of the pension each month based on how old he was at retirement. If John Does was (35 years) when he started and retires at (55 years) then he would receive his full amount of monthly pension each month due to being closer to the nominal life expectancy

Example 2: Health Insurance

John Doe (38 years) retires with the county and he as paying at the time 5% into health care; he would continue to pay 5% and his deductible could be raised to let's say $1,000 and allow him to pay into "FSA" or "HAS" if legal. When John Doe reaches (65 years) his county insurance would become a secondary insurance with the same percentage to be paid and his deductible.