

RETIREMENT BOARD MINUTES
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF APRIL 11, 2018
(FROM CANCELLED MEETING MARCH 21, 2018)

TO: Retirement Board DATE: May 23, 2018

FROM: Joanne Phillips, Board Secretary and Controller

PRESENT: Board Chairman and Council President John P. McBlain; Councilwoman Colleen P. Morrone; 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 of RBC Wealth Management (RBC); Helen Hurilla and Dave Hill from Custodian Bank, Wells Fargo Bank; and Councilman Brian Zidek

- 1) Meeting was called to order at 11:55 AM.
- 2) Motion made by Mr. McBlain to approve the Minutes of January 24, 2018 meeting, seconded by Ms. Phillips, approved **(5-0 vote)**.
- 3) Motion made by Mr. McBlain to move the future meeting time to 2:00 p.m. for the rest of the year and to advertise that change in the newspaper, seconded by Ms. Phillips, approved **(5-0)**.
- 4) The Treasurer's Report – report submitted and received.
- 5) No public comments were received or submitted.
- 6) New Business:
 - a) **Update from RBC**
 - Mr. Courtney from RBC distributed the Market Update Report ending March 31, 2018. Rick stated that because of the last presidential election there is tremendous volatility in the market. The changes can be more than 1% a day. The global economy is expanding and RBC believes the market remains intact. Current inflation is the only concern and there are 2 more increases predicted, but Rick believes they would not increase rates if they believe the economy is soft.
 - Mr. Courtney said that S & P earnings are an important indicator because earnings are expanding. The forecast for the 2nd quarter looks like S&P will be good. All predictions for the year are above what was predicted for 2018. He discussed that many believe that the market is looking too rich, but if you analyze the average P/E valuations one can conclude that the recent correction was healthy. He further expressed that instead of getting out of the market, it may be time to invest a little more. The County investments are within acceptable ranges.
 - Mr. Courtney then discussed the investment performance review. At the beginning of the year market value of the fund was \$526,796,023.06. At end of March the total was \$521,801,578 and this is the first time the fund has had a loss for some time. All allocations are within range except real estate and Center Square is the only manager in this category for the Fund. REITs are not doing well at this time. Mr. Courtney discussed the international investments. They have kept up well with UBS as the investment manager. Bond managers are holding up. Also, the Swarthmore fund had considered selling its firm but

has since decided to remain intact and the fund is doing better. Mr. Zidek questioned whether performance numbers are gross or net of fees. Mr. Courtney confirmed that they are still being reported without netting out fees. Mr. McBlain said that hopefully RBC can present performance net of fees by May instead of gross numbers. It was noted that RBC was requested to include performance net of fees at the January meeting. Ms. Phillips stated that the Controller's office maintains a spreadsheet that tracks fees and would be able to share that information.

- RBC plans to review all the contracts from the investment managers. Mr. Catania said that he has copies of the existing agreements and will work on that as well. Ms. Hurilla mentioned that Wells Fargo could handle the invoices for each investment manager and they could be paid directly from Wells Fargo. The Board will consider this in the future.

b) Update on Brinker Simpson report from 2017:

- Ms. Phillips discussed that at the end of December 2017 a report was completed by Brinker Simpson on the Policies & Procedures of the Retirement Fund for years 2015 and 2016. This came to the attention of the new Controller in January and she met internally with Tom Burke and Diane Bradley to go over the report. She also met with Marianne Grace to better understand some of the issues. There were 6 findings and 9 recommendations. Some of the recommendations concerned discrepancies in numbers being reported and Tom Burke and Diane Bradley attributed this to the fact that the Controller's office had in the past delivered some of the numbers to our actuary, Korn Ferry, very early in the year. Since they were delivered early in the year, the numbers changed by the time the audit was done, resulting in a discrepancy. Korn Ferry will now get audited figures and this should correct the differences. Another concern was Brinker's conclusion that only 1 person calculates retirement benefits and there is a potential for fraud or error. However, upon meeting with staff, Ms. Phillips was advised that Korn Ferry double checks all benefit calculations. In response to the Brinker recommendation, Ms. Phillips also has implemented a procedure to require a random double check of calculations and secondary approval. The third main recommendation made by Brinker was that the County consider a third-party administrator, in part because of a conclusion that there is no backup for staff. Ms. Phillips said the Controller's office is planning to discuss this with Council later in the year. In the meantime, the secondary approval and processes are being implemented. Ms. Morrone asked if the audit was done for 2017. Ms. Phillips explained that it did not cover 2017 so it did not account for the changes in procedure that resulted from Wells Fargo taking over part of the retirement procedure in 2017. Colleen asked if we plan to have this audit done on a yearly basis. Ms. Phillips feels that it would be very good to have it done if we have money in the budget and it was discussed that this report was performed with payment coming from the Pension Fund. Ms. Morrone asked if we need to vote on having this audit done annually since the audit was a one-time engagement. Marianne Grace believed there was no agreement to do this audit with Brinker on a regular basis. The Board would have to decide to commission future work.

c) Helen Hurilla, Update Wells Fargo Bank Services:

- Ms. Hurilla reviewed Wells Fargo's Additional Administrative services. Ms. Hurilla feels that Delaware County has embraced electronic services through Wells Fargo. Wells Fargo started benefit payment for the Pension Department in 2017. In general, everything went well with that transition.
- Ms. Hurilla worked RBC to deal with several changes this past year.

There were many investor changes in 2017, which made handling the accounts more difficult. The last change came in January 2018 when Pacer Advisors was terminated. That money was moved to a Vanguard index fund and part to pay benefits.

- Mr. Zidek asked why Wells Fargo is handling some asset managers while others are independent. Mr. Courtney answered that some accounts have arrangements with their advisor subsidiaries where trading and custody involves international companies. This includes Wells Fargo Advisors and UBS. Mr. Zidek inquired as to whether their fees are higher. Mr. Courtney stated that when these arrangements are being negotiated he pushes back very hard to keep fees down.
- Ms. Hurilla spoke about the next generation of pensioners and what is ahead for millennials. About 50% of all millennials are saving for a much more realistic picture of what they will need for retirement compared to baby boomers. Ms. Hurilla said that research reveals that 59% are saving for retirement.
- Ms. Hurilla spoke about the Wells Fargo Retirement Service Center which allows retirees to change their address, direct deposit information, and address other issues. Pensioners can call to get help directly from Wells Fargo. Wells Fargo did not advertise this feature when the County switched over to Wells Fargo so as to not overwhelm retirees with too much change. Wells Fargo would be glad to attach an insert with checks and advices at a later date to let them know they can call Wells Fargo directly. Ms. Grace wanted to know if we receive a lot of calls addressing problems. Ms. Phillips said that we do receive a fair amount of calls that are directed to Diane Bradley. The Board asked about the cost to have WF take over the distribution of advices. Ms. Phillips pointed out that not all retirees have direct deposit either but the Controller's office would like to move that way.

d) Dave Hill from Wells Fargo - Presentation on Additional Defined Benefit and Administrative Services:

- Mr. Hill offered a presentation on how administration of retirement benefits could be handled by Wells Fargo. This could aid people in planning for retirement. Services are available on-demand online. Dave also pointed out that Wells Fargo can handle all the administration details in cooperation with Korn Ferry. One feature is that payments could be stopped right away upon death, where now it could go on without being stopped for months if the County is not notified. The Controller's office now engages a service to check for deaths. If Wells Fargo took over calculating retirement benefits, retirees would be able to go online to make plans for retirement.
- Mr. McBlain said that there seems to be many services available at a cost, and the Board may have many questions to advance our plans. The Board asked that Jack Dowd, Ms. Phillips, Mr. Catania and Ms. Grace to act as a sub-committee to discuss what is available and to present anything that is useful or desired in the future.
- Ms. Phillips explained that there is a custodial fee that currently is coming out of the retirement fund for services that Wells Fargo is performing.

7) Old Business:

- a) Mr. Catania reported that we received a check for a settlement in a class action filed by Robbins Geller for the Imperva suit in the amount of \$10,999. There are no other class action payouts. The Cyan case is pending in California state court. We recently received a class action notice from Citi Group. Frank wanted to know if Ms. Hurilla was familiar with this. She was not, but felt that maybe it was a suit that Wells Fargo could not handle.

- b) RBC has been reviewing contracts to negotiate fees to reduce the fees paid. We will have to amend the contracts. Mr. Catania will discuss this issue with Ms. Phillips and Rick.
- c) At the last meeting the Board discussed consideration of a COLA adjustment. It has been 13 years since the last COLA increase, so it may be something to consider. A COLA is not required. Frank explained that we need an evaluation from Korn Ferry to estimate an increase so that we could know the effect an increase would have and how many people it would affect. Ms. Phillips expressed that the County is in the middle of the audit for 2017 of County financial statements and the Board agreed to hold consideration of this until after the audit is completed.
- d) Ms. Phillips noted that there are some counties looking at modifying their investment assumptions. Our investment assumption is a 7.5% return. Mr. Catania noted that a year or two ago Korn Ferry advised us to increase our assumptions. Ms. Phillips said that several other counties have been advised to lower the assumption which would increase the ARC. Mr. Zidek commented that the investment assumption seems to be contradicted by the return reported in the CAFR. Mr. Courtney explained that the numbers are not exactly reflective of real return because it does not allow for inflation. Ms. Phillips explained that the ARC number comes from Korn Ferry and they will provide that figure soon. Mr. McBlain said that since the end of last year he believes we are achieving the assumed rate of returns. Ms. Phillips expressed concern that the actuaries are predicting that we are coming out of the bull market and we are not going to be able to expect the same rate of return. Mr. McBlain said that overall we do not want to yoyo the ARC year to year. Ms. Phillips said that some of the counties believe that this may be a good year to make changes because the market has done well and funds are well funded now. The Board will continue to monitor the situation.

Meeting adjourned at 1:25 PM.