Retirement Board Meeting
August 15, 2016

Present:	Commissioner	Thomas Chernisky William "BJ" Smith Mark Wissinger
	Controller	Ed Cernic, Jr. Kristine Segear Dana Descavish
	Treasurer	Lisa Kozorosky

Commissioner Chernisky called the meeting to order at 10:15 a.m.

Motion was made by William Smith to approve the minutes from the Retirement Board meeting held on June 23, 2016. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0. July's meeting was cancelled.

Ed Cernic reviewed the attached Retirement Summary. As of August 12, 2016, there are 1,080 retirees. Retirement payroll for May, June and July are all over $1 million. The retirees are detailed on the top portion of the report. The hospitalization administration fees paid out of the general fund for August were $219,607.14.

Diana Karpen presented the Ameriserv report. The market value as of Friday, August 12, 2016 was $182,069,766.71. Cash balances for the individual managers are at or below the 3% threshold except for C.S. McKee. The reason they are over is due to a transfer of $770,000.00 that is done everything month for retirement payroll. Motion was made by William Smith to accept AmeriServ's report. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Frank Burnette reported to the board that the financial markets are turning up. The current year to date investment return of the fund is at 7%. The fund's 4.4% allocation to energy midstream MLP's have been impacted by lower energy prices but a significant recovery has occurred over the last ninety days. Frank advised that the original investment into the MLPs was $7.5 million and then $2.5 million was added at a later date. The $2.5 million has appreciated and had a healthy gain. The fund will continue to improve but Frank's recommendation would be to lighten the load and move up to $2.5 million from Miller Howard into domestic stocks. Frank is asking the board to allow him and Ed at any time between now and the next quarterly meeting to make the move. This will eliminate Frank having to get an approval from each board member when he would need to make the transaction quickly. Ed Cernic stated he is a little uncomfortable being in that positon but understands that if something has to move quickly, this leeway will allow it to happen.

- Motion was made by William Smith to give Frank and Ed the leeway at any time to sell off $2.5 million from Miller Howard and reinvest into domestic stocks with the notification of the board. Motion seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

In May, the Ironsides Co-Investment fund issued a net distribution to the county in the amount of $619,873.70. These funds were transferred to the County's liquidity manager, CS McKee fixed income account. The foreign tax issue has been further researched and will be monitored on an annual basis to determine if the taxes become more material. Ameriserv will begin reporting foreign taxes paid every January. Last year we paid approximately $1,000.00 but the cost to recover that would be more. If the taxes paid get anywhere close to $5,000.00, we will see what options are available to recover the monies. The two fixed income managers have been rebalanced to keep the same amount in each which allows the county to keep the attractive fee of 25 basis points with CS McKee provided that the assets under management exceed $20 million. Both managers, CS McKee and FNB now have approximately $24 million. Three managers, Twin, Integrity and Emerald have trailed the benchmark over the last year to the point where it is material. Frank noted that these three managers have performed very well since their inception, so all of them have a positive variation to their benchmark over time. Ed referred the board to page 17 of the report which lists the rankings of each manager. Currently, Twin Capital is at the 75th percentile, Integrity is at the 100th percentile, and Emerald is at 71$^{st.}$ percentile. When you take into consideration those three managers, they have approximately $30 million of the fund. They will not be put on watch at this time, but Frank will be monitoring them closely and they have all been contacted to provide their explanation in their analysis.

Al Winters and Heather Linn from CBIZ presented to the Annual Actuarial Review to the board. Al summarized the plan benefits. A superannuation retirement is age 60 <u>or</u> age 55 with 20 years of service, an early voluntary retirement voluntary is upon completion of 20 years of service and an involuntary is upon completion of 8 years of service. The salary average is the three highest years of employment and the county benefit is currently at a class basis of 1/60 and has been at that class since 1972 as far as determining someone's benefit. Employee contributions can purchase additional pension benefits or be paid as a lump sum at retirement. Al provided the board a snapshot of the plan demographic profile as of January 1 for the last four years. As of January 1, 2016 there were 671 active participants in the plan, 1,053 retired participants, and 150 vested participants. The average age of male active employees is 46.31 and the average age of female active employees is 46.76. The valuation is a financial model which calculates emerging liabilities, develops actuarial contributions and prepares financial statement disclosure amounts. The inputs used for the valuation include plan demographics, plan benefits, and assets. The total plan costs equal the total plan benefits less investment earnings. The following changes were made to the actuarial assumptions. The investment rate of return was changed to 7.25% from 7.50% to better reflect the current investment climate. This is a long term assumption over the life of the plan and is used to discount expected benefit payments to determine actuarial liability. The salary scale was changed to 3.50% from 4.50% to better reflect the current inflationary environment, The retirement rates stayed the same with retirement ranging from age 55-80 with the average age being 63. There was a change to the life expectancy calculation due to the fact that people are living longer. The RP-2000 mortality table is still used but the generational improvement with scale AA has been added. Scale AA reflects longer life expectancies pending the upcoming release of Society of Actuaries governmental pension mortality study which will be released in 2017. As a result of the valuation, the total unfunded liability of the plan is $40,777,551.00. The accrued funded percentage is 88.51%, which is in our target range of 85%-100% to maintain the 10% of payroll contribution. On the total liability basis which takes into account further salary growth the fund is at 81.42%. From an actuarial perspective the focus is more on the accrued funded percentage. The total liability percentage is used by GASB (Government Accounting Standards Board). The unfunded liability amount shows up on the county's balance sheet as the County Net Pension Liability. To show how sensitive the assumption is to the rate of the return by changing the rate of return to 6.24% the unfunded liability would increase to $60,329,042.00 and if you would change it to 8.25% the unfunded would decrease to 24,336,779.00. The assumption changes themselves added $7.8 million to the liability in addition to the fact that the asset return last year was less than the expected 7.5% which also increased the liability by $16.1 million increase the unfunded liability. The current funding policy is for 10% of payroll for future years as long as the plan remains between 85%-110% funded on an accrued basis. The 10% contribution is sustainable only if the plan maintains a 7.25% rate of return. Act 63 – COLA was passed in November 2015. The act states that the cost of living increase shall be reviewed at least once every three years by the board. Previously the act stated that if you were to give a COLA, you had to make it retro to the last time a COLA was given. The Act now removes that requirement and states the COLA would be effective January 1, following the Boards approval. The Act also states that the plan must be at 80% or more funded on an Entry Age Normal basis after the COLA adoption. If a 0.6% COLA was given the plan's fund percentage would remaining slightly above 80%. But the plan's ability to maintain above 80% funded is predicated on earning 7.25%. Given the uncertainty of future investment returns, CBIZ advises against a COLA increase. Al then discussed the Retiree Medical Valuation Other Post Employee Benefits (OPEB). The valuation is completed once every other year and the last full valuation was competed in FY 2015. The post-65 premiums represent almost 80% of the OPEB liability. The total liability for FY2015 is $48,831,013.00. This liability does not go on the balance sheet yet but will be required with the new GASB 75 accounting standards which will be effective for fiscal year on or after June 15, 2017. Al provided a brief review of the GASB 75 new accounting standards and concluded his report.

Frank Burnette continued his report. The funds current Investment Policy statement has been reviewed and updated for the Board's review and consideration. The new policy includes updates for REIT's, Energy MLP's and actuarial funding.

Motion was made by Ed Cernic to accept Frank Burnette's and CBIZ's reports. Motion was seconded by Mark Wissinger. Motion carried. Vote unanimous 5-0.

Old Business:

1. Miller Howard – Frank Burnette informed the board that Miller Howard has had a nice recovery as the industry has. The investment has not missed a beat from the underlying financial performance that the investment was predicated.

New Business:

1. Motion was made by Ed Cernic to ratify the action taken by the Commissioner's office at the recommendation of the Controller's office on the following July and August: Frances Borlie, Holly Taranto, Susan Cymbor, Mary Lou Ardini, Carmello Conway, Sharon Wurth, Marion Orsargos, Larry Morris, Thomas Balsinger and Carol Burkhart. Motion was seconded by Lisa Kozorosky. Motion carried. Vote unanimous 5-0.

The next scheduled Retirement Board Meeting is Thursday, September 22, 2016 immediately following the 10:00 a.m. Commissioner's meeting in the Commissioner's Meeting Room, 3rd Floor.

Motion was made to adjourn the meeting by William Smith. Meeting adjourned at 11:21 a.m.

____

Ed Cernic, Jr.