

**TOWN OF ELSMERE
PENSION COMMITTEE MEETING MINUTES
NOVEMBER 8, 2017
COUNCIL CHAMBERS
6:30 p.m.**

Call to Order: Chairman Neal Strauss called the meeting to order at 6:30 p.m.

Pledge of Allegiance

Moment of Silent Prayer for Those Wishing to Do So

Roll Call:

CHAIRMAN	NEAL STRAUSS	PRESENT
SECRETARY	KEVIN MACDOWELL	ABSENT
MAYOR	ERIC THOMPSON	PRESENT
COUNCILMAN	BRIAN HURST	PRESENT
COMMITTEE MEMBER	STEVE BARONE	PRESENT
COMMITTEE MEMBER	KRISTA WRISTON	PRESENT
COMMITTEE MEMBER	HEATHER HEROLD	PRESENT

Town Manager, John Giles – Absent
Director of Finance, Joseph Schulcz – Present
Attorney, Tim Snyder – Present

Public Comment: None.

Approval of Minutes:

1. June 7, 2017 Pension Meeting Minutes

ACTION: A motion was made by Councilman Brian Hurst to approve the June 7, 2017 Pension Committee Meeting Minutes. The motion was seconded by Committee Member Heather Herold.

VOTE: 5-0 with 1 absent, 1 abstained Motion carried

Secretary Kevin MacDowell was absent
Mayor Eric Thompson abstained, due to his absence at the last meeting

Review of Financial Activity Occurring Since Last Committee Meeting:

1. Monthly statement of Accounts for June, July, August, September and October 2017.

Chairman Neal Strauss advised the committee that all reports are available for their review.

Finance Director Joseph Schulcz stated that October has not yet been received.

2. Monthly Payment Reports.

Finance Director Joseph Schulcz advised the committee that we receive a monthly report prior to payment disbursement. He added that this is verified monthly for accuracy.

Old Business:

1. Items for the Elsmere Police Pension Plan.

- a. The Committee will review plan performance over the last year with Wilmington Trust.

Anthony (Tony) Lunger and Mark Gerstenschlager from Wilmington Trust presented a pension fund review at the request of the Committee. At this time they provided all members with review booklets and presented an in-depth explanation of the pension fund investments since its inception.

Mayor Eric Thompson asked if there is a benchmark rate of return that Wilmington Trust is striving for.

Mark Gerstenschlager stated that they are striving to reach the Town of Elsmere's goal of 8%, which includes inflation at 3%. As of June 30th the net rate of return is 5.5%.

Chairman Neal Strauss asked if the 5.5% rate of return is due to investing conservatively. He added that where the money was previously invested the rate of return was greater, and considering the current market why are we not making 8% or more.

Mark Gerstenschlager stated that overall this is a conservative strategy as mandated by the committee. He also added that it does take some time to invest the cash into the marketplace, and reported it did take 4 months before it was fully invested.

Tony Lunger added that from July 1, 2016 to June 30, 2017 you can see that the equities did well as presented in the review. He is hopeful the discussion tonight will address asset allocation, as currently the majority of funds are invested in fixed assets, which are relatively flat. He stated that the short answer is to become more aggressive in fund allocation, while being aware of the overall risk.

Mark Gerstenschlager stated that the overall current allocation is about 40% in equity and 60% in fixed income or bonds. He went into a detailed explanation of the current allocations and how this ties into the 5.5% rate of return, in addition to benchmark values.

Chairman Neal Strauss asked for confirmation that the money wasn't fully invested until January 2017. So the rate of return of 5.5% is reflective of being fully invested since January through June 30, 2017. Wilmington Trust stated this is correct, however, in October/November 2016 the bulk of the money was invested, it finalized in January 2017.

Chairman Neal Strauss announced that Committee Member Kevin MacDowell arrived to the meeting at 6:40 PM.

Mark Gerstenschlager stated based on the Capital Market Forecast on a 1 year basis they are meeting their goal of 8%. He did add in order to obtain the 8% rate of return they do need to become more aggressive and invest in more equities or all equity. He reiterated that this is based on their Capital Market Forecast, it is not a proposal by any means.

Mayor Eric Thompson stated/questioned it would take all equities to meet the required rate of return of 8%.

Mark Gerstenschlager stated this is again based on the Capital Market Forecast. When using historical numbers over the last 5 years it would be around 12%.

Tony Lunger added that the asset management team is conservative by default when preparing the Capital Market Forecast.

Mark Gerstenschlager provided further explanation regarding predicted market forecast, the current market/yields and how it relates to the Town's portfolio.

Mayor Eric Thompson asked the Finance Director, Joseph Schulz if the Town is mandated to have a specific risk tolerance.

Finance Director, Joseph Schulz, stated he understood Wilmington Trust was to handle our asset allocations in conjunction with satisfying the goals of the plan.

Mark Gerstenschlager stated that there were some discussions about the risk profile portfolio. He added that performance in the portfolio today is good and they are hitting their goals, however, they are not sure they will be able to keep up. Hence, their recommendation is to evaluate the asset allocation and become more aggressive.

Chairman Neal Strauss stated that the Committees concern is the fact that it is not meeting the required rate of return and additionally there are greater fees associated with this plan. Therefore, the pension fund is no longer maintaining and is actually losing money. He also added the previous plan with the State had a greater return and lower cost.

Mark Gerstenschlager asked what the previous asset allocation consisted of?

Finance Director Joseph Schulcz stated that the State very rarely if ever disclosed their asset allocation information.

Mark Gerstenschlager asked if there are any guidelines, minimums/maximums regarding asset class exposure that the Pension has set in place?

Finance Director Joseph Schulcz stated that there is nothing set that he recalls, but would have to review his files.

Chairman Neal Strauss added that he doesn't think anything was given, other than the requirements as stated in the request for proposal regarding the 8% return; the proposals were received and each party expressed how they would obtain the 8% rate of return.

Mayor Eric Thompson asked if the 8% is net after all fees, costs, etc.?

Mark Gerstenschlager asked all to reference Tab 3/page 21 of 23; this is a 1 year number through September, and it is net.

Tony Lunger asked that all to reference Tab 3/page 3 of 23; this is the asset allocation that was discussed/agreed to last year prior to inception. He stated that due to risk parameters this is what was agreed upon. However, if now in hindsight it is believed to be too conservative, than this should be addressed during this meeting.

Mayor Eric Thompson asked if Tab 3/page 3 of 23 is where Wilmington Trust believes we should be at, or is this where we are at?

Mark Gerstenschlager stated this is the Investment Policy Statement and this is the acceptable ranges associated with the agreed upon strategy.

At this time Wilmington Trust provided an additional report for the committee titled: Five total return strategies for high-net-worth portfolios. This is the expected risk and return outlined by profile type; Tony Lunger and Mark Gerstenschlager provided further insight related to these strategies.

Finance Director Joseph Schulcz asked where Wilmington Trust recommends we rebalance our profile to.

Tony Lunger stated that we are currently using an Income and Growth profile, Mark Gerstenschlager provided a projection on what an all equity/aggressive profile would look like in terms of volatility. He stated that they are not recommending this, but perhaps moving from a 40/60 investment to a 60/40 investment. He added that they can follow-up with a portfolio proposal of what that would look like.

Mark Gerstenschlager and Tony Lunger provided some insight into how their investment team works and decides asset allocation.

Mark Gerstenschlager stated that he and Tony deal a lot with pensions, the concerns are typically the longevity and funding and didn't know if the Committee had considered annuitizing the account.

Chairman Neal Strauss stated he believed they cannot annuitize Governmental Pensions. Mark Gerstenschlager stated he was unsure of that, and could check with their pension retirement services department.

Attorney Tim Snyder asked about adding alternative investments/or is the portfolio too small for that.

Mark Gerstenschlager stated it typically starts around the \$7-7.5m range. These returns tend to be better since they are not invested in the public markets. He also went in to discuss hedging capabilities options.

Finance Director Joseph Schulcz stated that the actuarial present value of vested accumulated plan benefit is \$3,982,696, and the valuation for this year expressed a funded rate of 64.26%.

Tony Lunger stated that they will follow-up with portfolio proposals including risk analytics.

Attorney Tim Snyder asked if the Committee decided to re-balance the plan, how long would this take.

Tony Lunger stated that since assets are fully invested this would be able to happen within a few weeks.

Mayor Eric Thompson confirmed that they will still look into the annuity option.

Wilmington Trust confirmed they will send all information/proposals within the week.

Finance Director Joseph Schulcz stated that he noticed on the monthly activity reports that unrealized gains are remaining unchanged.

Tony Lunger stated that if something is sold then it will become a realized gain.

Mark Gerstenschlager stated that their investment philosophy is long term in nature, and typically the turn-over in portfolios' is roughly a 30% range, so it is not a lot. The market cycles tend to be long in duration so they like to participate in most of those. What he would anticipate is more selling of domestic stocks, most likely on the large capital side, and moving over to international markets.

Mayor Eric Thompson asked what they define long-term as.

Mark Gerstenschlager stated they define this as 3 years with a 30% turn-over.

Chairman Neal Strauss confirmed that the committee did not have any additional questions and thanked Wilmington Trust for their time.

New Business:

1. Items for the State of Delaware County / Municipal Police Pension Plan
 - a. Review the Schedule of Employer Allocations

Chairman Neal Strauss confirmed with Finance Director Joseph Schulcz that there is nothing that the Committee can do as it is set by the State; this is simply an advisement of how much is being contributed.

Finance Director Joseph Schulcz stated that for FY 2017 the contribution rate for the Town was 13.77% of the salary. For this year it is 11.42% and it is fully funded at this time.

2. Items for the Elsmere Police Secondary Pension Plan.
 - a. Discussion concerning an officer who has left the Town and the payout amount.

Chairman Neal Strauss stated we do not have this figure.

Finance Director Joseph Schulcz stated that he does not believe there is anything that is needed to be done. Officer Wingate has left to go to the State; he completed a withdraw form with Mass Mutual which was immediately processed.

Chief Laura Giles confirmed that Officer Wingate has received his payout.

3. Items for the Town of Elsmere Employee Retirement Plan.

None.

Review of Reports:

None.

Items Submitted By Committee Members:

None.

Public Comment:

None.

Adjournment:

Mayor Eric Thompson stated that he realizes we are still waiting for the proposals, but is it appropriate to address where the Committee stands?

Chairman Neal Strauss stated that it would be best to wait until the proposal is received to discuss further. He stated that as far as the Committee goes everyone would like to meet the 8% return with a decreased risk. He would like to review the proposal and submit to the Committee and plan another meeting to discuss further.

Councilman Brian Hurst asked where the rate of return was under the old plan/before Wilmington Trust.

Chairman Neal Strauss stated that prior to Wilmington Trust, when we were with the State, the account had better gains. Furthermore, we are currently paying higher account fees with Wilmington Trust, which is why he previously stated that we are almost in a 'lose-lose' situation since we are paying greater fees with a decreased overall return.

Councilman Brian Hurst asked if basically we are stuck at this point.

Chairman Neal Strauss stated that we are not stuck, we are able to make changes, or even change companies.

Committee Member Krista Wriston asked why the account had to be changed from the State to Wilmington Trust.

Chairman Neal Strauss explained that it was changed when it was realized the \$2.5m that was invested with the State was an asset of the Town, and if sued someone could potentially go after this money. He added there was discussion between the Town Manager and Finance Director if the money could be invested with the State but the Town would act as the Trustee and would issue the monthly automatic deposit. Either way if we cannot get the required rate of return from Wilmington Trust we may need to go with someone else.

Chief Laura Giles asked about the previously submitted proposals, specifically PNC Bank, and lower fees associated with this bank.

Finance Director Joseph Schulcz reported the best proposal came from Bryn Mawr Trust, however, they were not available the night of the meeting.

Chairman Neal Strauss added his concern with Wilmington Trust is the fact that they stated they are afraid they will not be able to keep up and it would be difficult. In past practice with the State they were able to reach the required rate of return. He reiterated that we are losing money.

Finance Director Joseph Schulcz added that the saving grace to the Pension Plan is that the Town is paying the fees. On an annual basis the fees are equivalent to roughly 5 monthly payments to all of the pensioners.

Chairman Neal Strauss stated it is a saving grace to the pensioners, however, the Town is incurring this cost.

Councilman Brian Hurst confirmed that any shortcomings will fall back on the Town.

Chairman Neal Strauss confirmed; as this is written, this is correct.

Committee Member Steven Barone asked if there is any way to figure out the States' allocations.

Attorney Tim Snyder stated he would guess they have a lot of alternative investments, private equity. Additionally, they are so large they have the ability to make high risk investments.

Chairman Neal Strauss stated the best plan would be to get the money back into the State, and somehow making it a Trust or a way that it cannot be touched. Additionally, the Town could save money by making the payments to the pensioners.

Attorney Tim Snyder stated that if the State was willing to accept the money from a Trustee. He added that he spoke with a small Trust company today that if the State was willing to accept the money from a Trustee, they would charge \$6,500 annually and \$2.55 /per check, which is pretty decent. The big 'if' is will the State accept the money from a Trustee. If not, they could consider the Town's liability insurance, therefore this would add more protection from the pension fund. However, there is always a risk that someone could be awarded a catastrophic amount that even insurance can't cover. It is a decision of how much risk you are willing to bear.

Mayor Eric Thompson asked if a phone call could be made to the State to inquire about investing with them.

Finance Director Joseph Schulcz stated that he has an e-mail out to the Director of the Delaware State Office of Pensions.

Attorney Tim Snyder added regarding expecting a better return from a private investor vs. the Government...he was at a meeting today for the trade pension their plan has \$160m in it, the actuary used an assumed rate of return of 7.25% and the investment consultant stated in the long term he doesn't see the plan reaching this. It seems to him that all investment advisors these days have a very bearish attitude toward the future rate of return from the stock market. He added that it may be the only way to get this level of a return is to go in with the State.

Finance Director Joseph Schulcz added he spoke with David Craig who is the Director of the Office of Pensions back in May, when he realized our earnings were not where they should be, he stated he was told at that time the unaudited rate was between 11-13%.

ACTION: A motion was made by Councilman Brian Hurst to adjourn. The motion was seconded by Mayor Eric Thompson.

VOTE: 7-0 All-in-favor Motion carried

These minutes summarize agenda and other issues discussed at this meeting. Votes are recorded accurately. The audio tape(s) of this meeting will be available at Town Hall for a period of two years from the date these minutes are approved. The audio tapes may be reviewed at Town Hall by appointment and in accordance with the Freedom of Information Act.

NEAL D. STRAUSS
CHAIRMAN

KEVIN MACDOWELL
SECRETARY

PENDING