CLAYTON COUNTY PENSION BOARD

Regular Pension Board Meeting

November 8, 2018

8:30 A.M.

MINUTES

PRESENT:	Terry Hicks, Chairman; Pamela Ambles, Vice-Chairman; Ramona Bivins, Secretary/Treasury
ALSO PRESENT:	Chad Smith, Morgan Stanley; Jonathan Breth, And Co Consulting; Chief Landry D. Merkison, Fire Department; Kerri Hathaway, Lucianna Farmer, Debbie Decker, Dennis Johnson, and Angela Daniel, Finance Department

1. Chairman Terry Hicks called the regularly scheduled pension meeting to order. Motion to adopt the agenda by Ms. Ramona Bivins; second by Ms. Pamela Ambles; Vote unanimous.

2. Ms. Pamela Ambles made the motion to approve the minutes of August 9, 2018 and the Special Called Meeting on July 11, 2018; second by Ms. Ramona Bivins; Vote unanimous.

3. Mr. David Kershner introduced himself as being new to the Clayton County team at Buck He stated that he has being with Buck for 4 ½ years, working with Kevin Spanier. Mr. Kershner presented the annual Pension Actuarial Valuation, stating that the purpose of an annual valuation of the Plan is to compare assets, liabilities, and contribution rates for the upcoming fiscal year, as of July 1, 2018. He noted the historical chart to show how the funded status of the plan has evolved over the last several years. Due to the Board's request to perform a study considering potential changes and assumptions, he stated that there are a couple of scenarios, including some 5-year forecasts, he would like to present which reflects the potential effects of the changes on required contributions.

   Mr. Kershner explained the Valuation process, citing four categories included in the process: Census Data, Assets, Plan Provisions, and Assumptions and Methods. He noted that the valuation was based on a snapshot measurement of assets and liabilities as of July 1, 2018. They measure the benefit obligations compared to the asset balance and determine the contribution requirements for the upcoming year based on the funding policy. They must ensure the funding is compliance with Georgia Minimum Funding Standards and check for warning signals or events that are occurring that might warrant considering changes in assumptions or funding policy. The ultimate goal is to make sure enough assets are in the plan to pay the benefits that have been promised. Mr. Kershner stated that they do not reflect the impact of future participates, but do anticipate future hires coming in to replace people that are expected to exit the plan. They also do not recognize any future Plan changes, but only the Plan provisions as of the date of the valuation.

   Mr. Kershner continued by explaining the concept of gains and losses. Gains are factors during the year that are favorable to the plan, and losses are occurrences that are not favorable. He gave an example of the assumed rate of return. If the plan earned 10% rate of return, over and above the current assumed rate of 8%, the plan would experience a gain because the rate would be favorable to the plan.

Conversely, if assets only earned 5%, a loss would occur because we expected to earn 8%. In that case, the loss would need to be made up over time. They analyze gains and losses every year to identify trends. If trends change, we may need to reset the assumptions.

The most important thing to remember is that over the life of the plan, the contributions that goes into the plan plus the investment return generated assets must equal the amount that has been paid out, which are benefits payments and any expenses that are paid from the Trust. We try to determine a pattern and timing of those contributions ("pay me now, or pay me later"), but they do not determine the actual cost of the plan. The actual cost of the plan is determined by four factors: (1) how long benefits will be paid, (2) amount of contributions, (3) earnings on the assets, and (4) amount of expenses. The valuation is not to determine what the cost will be but to determine how to allocate contributions for the anticipating cost.

Mr. Kershner provided high-level comments on the results of the July 2018 valuation, stating they compared what actually happened during the fiscal year ending June 2018 versus what is expected to happen in the future year. Since the rate of return during the year was 7.8%, the Plan did not earn what was expected, resulting in a slight loss. The Plan must make up that loss with additional contributions going forward. Due to market volatility, the goal is to provide stability in contributions going forward, so the valuation reflects an Actuarial Value of Assets, smoothed over a five-year period. In comparing assets to liabilities, the report reflects two funding ratios – one based on the Market Value of Assets and one based on the Actuarial Value of Assets.

Mr. Kershner stated that they expect the Unfunded Liability to increase every year due to interest on the liability each year. The normal course of operation should have caused the liability to increase about $3.5 million, but the actual increase was just under $14 million. The unexpected increase causes a loss to the plan, which results in higher contribution requirements in the upcoming fiscal year to satisfy Georgia Minimum Funding Standards. The Actuarial Accrued Liability increased by approximately $32 million from the previous fiscal year. Market Value of Assets increased from $412 million to $430 million. The Normal Cost increased from $13 million to $13.5 million. The Minimum Required Contribution increased from 14.0% in 2017 to 14.3% this year. Mr. Kershner explained that the increase in the Market Value of Assets resulted in an investment return of about 7.8%, just below the 8% assumed return. He explained how the Actuarial Value of Assets was calculated, smoothing the assets over a five year period. Smoothing the assets essentially defers a portion of the gains or losses to the following years in order to minimize the volatility of asset values.

Mr. Kershner continued with the discussion of the Present Value of Plan Benefits, which is defined as the expectation of active employees' future earnings. The total Present Value as of July 1, 2018 was $739 million. The largest piece is made up of Actuarial Value of Assets in the amount of $435.7 million. The Unfunded Liability was $191 million. Future Normal Costs (funded by members) was $67 million, and those costs (funded by the County) was $45 million.

Mr. Kershner then presented the historical comparison of Assets and Liabilities in the last six years. On 7/1/13, there was an Unfunded Liability of a $130 million, and that amount has grown to a little over $190 million today. The increase is due to a combination of how the assets and liabilities grew versus the expectation of their growth.

Mr. Kershner provided statistics related to plan membership. Since 2014, Terminated Vested and active employees Earning Benefits have remained steady over time. People Receiving Benefits have been increasing steadily from 1,124 in 2014 to 1,350 in 2018.

Average pay stayed constant in 2014 – 2015 but has been steadily increasing year after year since 2015 to $47,108 in 2017 and $48,751 in 2018, an increase of 3.5%. Total Active member average pay includes all active members at the valuation date, including terminated employees and new hires. Continuing active members' salaries increased on average at 6.6%,. New members totaled 367, increasing salaries by $13.7 million. Retirees or terminated employees totaled 325, decreasing salaries by $15 million. The net salary change was an increase of $4.3 million. Average monthly pensions paid in each of the last five years has gradually increased due to salary increases during that time.

Ms. Ambles raised the question regarding the significant impact of sick leave credit.

Ms. Decker explained that many people have a year or two years sick leave credit allowing them to retire much earlier than is assumed.

Mr. Hicks expounded that, due to sick leave credit, a retiree would receive additional service that was not funded by the employee or the employer.

Mr. Kershner added that the Plan would have to pay benefits for an extra year that was not anticipated, so there is a liability associated with that.

Ms. Decker stated that, "sick leave credit is a big deal."

Mr. Kershner stated that Buck would like to consider taking this credit into account so Buck can estimate funding for it over time rather than it cause a loss every year.

Ms. Decker mentioned that another factor that increases benefits is annual leave payoff. She asked if Buck considered that as well. Annual leave is paid on the final paycheck prior to retirement.

Mr. Kershner answered that if it is in the plan definition of pensionable earnings, it will be included.

Mr. Kershner transitioned his presentation to the Assumption change study requested by the Pension Board. He noted that the Assumption under the microscope was the 8% investment return. The rate we use to forecast earnings over the long term in equity and bonds are lower and have decreased over the last several years due to the nature of the changing economy. The investment return assumption should not be a "kneejerk" reaction. The funding of the plan is based upon long-term expectations, and assumptions for investment returns, salary increases, and inflation and retirement rates should be the best estimate of long-term expectations. The recent changes in actual investment returns suggests that maybe Buck's long-term expectations need to come down a little bit. Currently, Buck is using an 8% discount rate which is expected for the Plan to earn over long term, recognizing that some years may be more than or less than 8%. Because of the changing expectations, many public retirement plans have been reducing their assumptions. Buck is not recommending a change, but it is the Board's decision based on what the expectations are based on investment and asset allocation strategies. He suggested that the Board consider reducing the 8% discount rate if the long-term expectations no longer support the 8%. Buck does not recommend that the discount rate change in isolation since several of the economic assumptions are interrelated. A component of the investment return is inflation. If inflation is higher, then the investment return is higher. If the Board decides to change the investment return assumption, they should also consider changing the inflation and salary increase assumptions, so internally there will be consistency between the three assumptions. Mr. Kershner presented a model that reflected a potential decrease of 25 basis points in the discount rate of 8 to 7.75 for illustrative purposes. To be consistent, the inflation rate also decreased from 3% to 2.75%, so the same 25 basis points deceased in the discount rate.

Application of the assumption changes resulted in an increase of the Accrued Liability from $626.6 million to $642 million. The reason for the increase is that when the investment return assumptions decrease, it is expected that assets will grow at a slower rate. This decrease results in a higher liability to meet future benefit payments. When investments go down, liability goes up. When liabilities goes up, funded ratios come down slightly. The Normal Cost, which is the cost of benefits accruing in the current year, goes up again because it is affected by the investment return assumption and the salary increase change. Because the Actuarial Accrued Liability increased by $16 million, the period to amortize the $16 million, based on 13.9% contribution, increased. As of 7/01/2018, the period was just under 33 years, using current assumptions. After the assumption changes were applied, the period increased to 45 years. The Georgia Minimum Funding Standards states that the period cannot be more than 30 years.

To assist the Board in making a decision, Buck prepared a five-year forecast based on preliminary conversations. The three scenarios are as follows:

(1) No changes in assumptions, and County/Water Authority continues to make contributions based on the greater of 13.9% of payroll or amount required to meet minimums under Georgia law;
(2) No changes in assumptions and the County/Water Authority make an additional contribution of $1 million annually above the greater of 13.9% of payroll and the amount required to meet minimums under Georgia law; and
(3) Alternative assumptions are changed as of 7/1/18.

Each of the scenarios reflects the Employer Contribution for the next five years, the funded ratio, and the Unfunded Liability projected for the next five years. As is reflected in the chart, scenario number two is more efficient. Mr. Kershner reminded the Board that assumptions are estimates. If the assumption is to earn 8%, and the fund only earns 5% every year, then none of these numbers will be accurate.

He suggested to the Board that if they wanted to be more conservative and change the assumed rate by 25 basis points, the required contribution over the next five years is going to increase considerable.

Ms. Decker asked if the assumptions in scenario two remained the same, each employer contributed an extra million per year, but the return fell short of 8%, would the employers be required to contribute over and above the extra million.

Mr. Kershner answered affirmatively to her question.

Mr. Hicks stated that, with the lower assumptions on scenario three, there would be more opportunity to hit that assumption percentage, or even go above it a little bit.

Mr. Kershner agreed that with lowering the assumption, there is less risk of falling short of the return assumption. He stated that this is all about managing and trying to minimize the risk and managing contributions and budgets.

Ms. Ambles stated that Mr. Kershner has done an excellent job in explaining the Annual Pension Actuarial Valuation. Ms. Ambles asked if it was generally a good strategy to have a lower assumption rate. She also asked Mr. Kershner his thoughts on leaving the assumed rate as is.

Mr. Kershner answered that lowering assumptions helps to manage the downside risk. Lowering it results in pre-funding those potential losses or protecting the Plan from future risk of not earning the assumed returns.

Mr. Kershner mentioned that one thing that had not been discussed was to potentially increase employee contributions from the current rate of 7 ½ % to 8%. This action would help funding, and it might be something to consider sharing the burden of the increased cost of the Plan.

Ms. Decker asked that if the Board decided not to change the 8% assumed rate of return, would there ever be a time that the State would require the County to lower the assumption?

Mr. Kershner replied that he did not believe the State had the jurisdiction to require the County to do that as long as the minimum funding laws were met.

Ms. Decker asked if the Actuarial Certification included in the biennial state audit was the document that the State considers.

Mr. Kershner replied that a reasonable set of assumptions is also important.

4. **Mr. Jon Breth with AndCo Consulting provided information on the 3rd quarter review and performance report. He noted that the report includes two documents, both of which are entitled Investment Performance Review. The first report is the Plan review and the second is the Managers' Review. He stated that the title of the Manager's Review may be changed since it is an in-depth report of the managers' portfolio and performance. He also mentioned a third report entitled "Initial Portfolio Review," which provided some of his thoughts on assets allocations and managers. He had also drafted a potential update to the investment policy statement. The new draft does not make any wholesale changes but implements some of the guidelines that AndCo utilizes with our client base. He continued that it does not make any changes to assets allocation targets at this time.**

He began his presentation discussing the Market Environment, recapping the quarter that we just ended 6/30/18. He continued that US stocks, up 7.7%, are measured by the S&P 500. It was once again led by the performance of large cap stocks of 7 ½%. Mid cap did pretty well but not as well as large cap, up 5%. Then small caps, after a strong performance the first half of the year, lagged a little bit this quarter – up only have 3½%. Obviously, domestic stock continues to outpace the returns for international equity. This is on the heels of 2017, which was a year where international did extremely well. Another factor is that the US dollar has continued to appreciate in value throughout 2018. When the US dollar gets more expensive, it brings down those foreign returns. Fixed income is affected by the 2018 interest rates, continuing to rise with another 25 basis point hike in September. Higher risk grade corporate bonds were up about 1%, while government bonds down by 60 basis points for the quarter.

Mr. Breth noted that included in the Clayton County portfolio are two large cap core managers, two value and two growth. Together, these managers are growth biased, which has been very good for plan performance.

He stated that they were still getting all the portfolio data from the underlying managers. He noted that Transamerica was the custodian, but they also had collaborated with State Street. As a result, there is not adequate visibility in the portfolio access to those managed accounts. They have to take an extra step in getting underlying portfolio information from the managers. We were able to get information from September 30, but were not able to get it for June 30. Going forward, AndCO will be able to reflect more historical information for each manager in order to look at things like attribution return drivers on a go-forward basis.

He noted that the return assumptions are certainly higher than they expect to see next year. That is

because the stock market has done so well. Details on the overall asset allocation is not surprising because of the stock market has been so strong from June to September. He mentioned the significant gain in domestic equity, up from 58.9% of assets to 61%. International right around 11%, domestic income around 21%, and then global fixed-income at 6%.
Mr. Breth explained that much of the data was provided by Morgan Stanley through September 30. AndCo began the process of calculating returns and generating reports with the month of October. They can provide monthly reports, but Ms. Decker mentioned that historically the Board has not received monthly performance reports.

He continued with a discussion of the performance. Historically, the returns have been calculated net of fees, so AndCo will continue with that practice. They will track relative to the current policy benchmark, as well as relative to Public plan returns. These are returns across their clients, as well as five or six other consultant firms. The plan has done extremely well both relative to its policy index and its peer group over the long term. It is where it should be, above the median. For the quarter, the return was 3.7%, beating the policy index of 3%. They will begin to look at some of the underlying returns. Unfortunately, when in the transition from Morgan Stanley, they were able to provide the historical total funded information and individual manager information, but they was not able to provide total equality, total domestic, total fixed income. As a result, AndCo began tracking those items effective July 1.

Mr. Breth reviewed the returns of all the investment managers. He noted that Templeton historically has had volatile returns since they tend to be biased towards emerging markets. He stated that Templeton would be the best hedge the fund has against rising interest rates in the portfolio. He predicted that interest rates should begin to level off in 2019. The expectation is one more increase in December and two in mid-year. He recommended consolidating the Core Plus Bond managers into some actively managed investment grade strategies with managers who will be more aggressive in managing duration as well as sector rotation. The most important consideration is to pay a little more attention to the credit risk taken.

He discussed the use of Transamerica as the custodian. They make benefit payments and provide a retiree website, but the goal is to perform potential retirement calculations. They are still not fully on-board. Some of that is due to technology changes the County is making, as well as their inability to provide consistent programming personnel. He stated that this is one area in 2019 that AndCo will evaluate. The Plan is paying out a lot of money to the custodian, and the benefit side is not receiving what had been promised at the offset. Mr. Breth recommended that they evaluate what Transamerica is really providing versus what they are charging.

Mr. Breth also mentioned the Policy. As the policy reads, the core fixed income reflects a range from 25% -30% but actually as of 9:30 this morning, the allocation has fallen below the range, right around 21%. He would like to focus on rebalancing to bring it back in line too at least 25% minimum. He stated that, going forward, he would probably envision a Core Index allocation being a better long term result for the Plan as opposed to maintain the actively managed allocation. He encouraged the Board to consider adding a dedicated allocation for Emerging Markets. He plans to present some potential allocation changes at the next meeting.

Mr. Hicks stated that the Board was looking for a Consultant with new and different ideas and concepts. His statement is no reflection on the previous Consultant, but he encouraged Mr. Breth to continue to bring new ideas and concepts. He added that the costs of the Plan had been a concern to the Board in the past.

Mr. Breth asked if the Board would prefer to interview potential Investment Managers or review a list of Managers recommended by AndCo.

Mr. Hicks replied that, in the past, the consultant recommended potential new Managers.

Mr. Breth suggested that, with several potential changes in the future such as Real Estate, the Board might want to interview those Managers to get a better understanding of the concept.

He suggested that he would compile the Board's initial feedback and provide some recommendations at the next meeting regarding the Investment Policy Statement, including Asset Allocation. He noted some changes that he would suggest involving Georgia law.

5. Ms. Debbie Decker made the request for approval of benefits. Motion made to approve benefits by Ms. Ramona Bivins; second by Pamela Ambles; vote unanimous.

November 8, 2018

	Years of Service	Age	Form	Amount	Department
Normal Retirements					
S. David Bramlett	34.17	53	5CC	2,693.24	Transportation & Development
Larry B. Eason	32.08	57	50JS	4,121.32	Water Authority
Linda A. Erholm	16.25	65	50JS	1,012.11	Police
Jeffrey N. Foster	33.75	56	100JS	4,374.87	Information Technology
Linda J. Icard	18.67	73	5CC	1,061.31	Juvenile Court
John P. Johnson, III	30.33	56	75JS	5,307.40	Juvenile Court
Alvin L. Jones	10.58	71	50JS	799.73	Buildings & Maintenance
Thuc T. Le	8.42	61	50JS	958.81	Information Technology
Betty Mixson	7.58	62	5CC	529.14	Police
Bennett C. Moncrief	19.17	63	50JS	1,683.51	Buildings & Maintenance
John M. Picklesimer	13.58	60	5CC	795.71	Refuse Control
Joe R. Roberts	13.67	62	5CC	1,676.87	Finance
Carolyn A. Smith	32.17	61	5CC	3,855.45	Water Authority
Susan Soto	17.00	62	100JS	1,337.97	Superior/Magistrate Court
Gregory D. Watkins	31.08	57	100JS	2,624.54	Transportation & Development
Debra L. Wells	10.00	61	5CC	558.86	Senior Services / Aging
Charles K. Wood, Jr.	8.25	60	100JS	532.69	District Attorney
Timothy K. Worn	12.83	62	50JS	943.35	Buildings & Maintenance
Early Retirement					
Peter A. Babb	22.58	63	5CC	1,143.13	Transportation & Development
Warren S. Baggarly	30.25	52	100JS	3,300.86	Police

Geraldine N. Gardiner	20.75	55	5CC	2,448.89	Sheriff
Marc A. Jordan	30.50	52	50JS	3,160.76	Police
Rodney M. Myers	26.58	53	100JS	3,540.42	Fire
Brenda Thomas	18.00	58	5CC	1,097.44	Sheriff
Disability Retirement					
John T. Lively	22.42	45	100JS	2,370.66	Police
Beneficiary Benefit					
Lynne C. Garrard				3,683.89	
Nancy R. Rose				625.69	
Vested Termination					
Brian Caron	18.50	51	5CC	2,196.42	Water Authority
Lawrence E. Corbett	7.00	42	5CC	703.72	Police
Sherrie E. Crisp	16.17	47	5CC	1,268.94	Human Resources
Patrick D. Fluellen	12.17	39	5CC	1,213.12	Sheriff
Michael S. Hensley	24.00	47	5CC	3,831.25	Sheriff
William S. Kite	12.42	39	5CC	1,248.74	Water Authority
Keith B. McLaughlin	23.50	45	5CC	4,342.59	Sheriff
Shayla J. Nealy	9.67	40	5CC	1,619.52	Water Authority
Timothy B. Owens	12.42	58	5CC	1,165.77	Police
Tamara W. Patridge	8.83	51	5CC	1,238.02	Economic Development
David R. Shriver	12.83	33	5CC	1,484.59	Fire
Michelle K. Shivers	15.83	46	5CC	1,403.29	Juvenile Court
Melody A. Smith	13.50	56	5CC	972.63	Probate Court
Myra R. Suarez	11.50	39	5CC	1,479.02	Information Technology
Rebecca E. Thompson	22.50	44	5CC	3,647.84	Sheriff
Jayson L. Wright	21.67	45	5CC	1,968.10	Transportation & Development
Refund - in - Lieu					
Dexter O. Anderson	10.08	48	R-I-L	30,600.67	Corrections / Prison
Laicia S. Lee	11.00	49	R-I-L	26,116.74	Probate Court
Jonathan W. Norman	16.58	40	R-I-L	38,212.82	Transportation & Development - Fl
Anthony L. Thomas	12.00	37	R-I-L	41,235.69	Police

6. Motion made to go into Executive Session on the matter concerning compensation and benefits of personnel by Ms. Pamela Ambles; second by Ms. Ramona Bivins; vote unanimous.

7. Motion made to go back into Regular Session by Ms. Ramona Bivins; second by Ms. Pamela Ambles; vote unanimous.

8. Mr. Terry Hicks requested a motion for the consideration of the request from Chief Landry Merkison at the August 2018 meeting.

   Ms. Pamela Ambles made the motion to deny as requested; second by Ramona Bivins; vote unanimous.

   Mr. Hicks informed Chief Merkison that, since the motion was denied, he could file a formal Appeal of the decision. He should contact Ms. Debbie Decker, and she would explain the formal Appeal Process. Mr. Hicks advised him that he has 60 days to make that formal appeal, and the Board has 60 days to respond, unless more time was needed up to 120 days. Mr. Hicks explained to Chief Merkison that each case comes to the Board differently. The Board must consider how a decision might affect the future.

   Chief Merkison acknowledged

9. In other business, Mr. Hicks requested the recording in the minutes of the Board members attending the GAPPT conference as follows: Terry Hicks and Katherine Dodson both attended the conference in September 2018.

10. Ms. Ramona Bivins made the motion to adjourn; second Ms. Pamela Ambles; vote unanimous.

Clayton County Pension Board:

Terry R. Hicks 2/14/19
Terry Hicks, Chairman Date

Ramona Bivins 2/14/19
Ramona Bivins, Secretary Date