MINUTES
PENSION REVIEW COMMITTEE
Wednesday, March 8, 2023
Room 113 County-City Building, 555 South 10th Street
3:00 p.m.

Present: David Derbin, Chief Administrative Officer; Dan Zieg, Deputy County Attorney; Matt Hansen, County Clerk; Kevin Nelson, County Clerk Accounting Operations Manager; Kerry Eagan, Retired County Employee and Current Plan Participant; and Kerin Peterson, Facilities and Properties Director

Other Participants: Julie Klassen, Empower Vice President, Key Accounts; Robb Craddock, Empower Vice President, Investment Strategy; Frank Picarelli, Senior Vice President, Segal Marco; Cyril Tuason, Senior Client Services Manager, Empower; Cory Callahan, Retirement Counselor

Absent: Sean Flowerday, County Commissioner; Dennis Meyer, Budget and Fiscal Officer; Kristy Bauer, Deputy Chief Administrative Officer

No action was taken at this meeting due to lack of quorum.

1. Fourth Quarter 2022 Investment Review

A copy of Prudential's Lancaster County Plan Summary as of December 31, 2022, is included with these minutes as ***Exhibit A.***

Economic Review

Craddock noted that returns looked good, although all performance numbers were negative. The Fed would raise rates at the next meeting as well as the meeting after that. In December, the Fed raised 50 basis points, which was less than usual (usual was 75 basis points), 25 basis points in January, and another 25 basis points coming. Growth and inflation points were coming in higher, which was the reason for rising rates.

US Markets

On page 31, Craddock noted that bonds usually prop up returns, but that did not happen last year. Both equity and bonds were negative for the third time since 1926. The Bloomberg aggregate bond had a worse year, down 13%.

US Economy

On page 32, Craddock mentioned that the first and second quarters of 2022 had negative GDP growth, but it was not officially a recession as it had to be proclaimed by a certain board. Growth bounced in the third and fourth quarters. J. Powell was willing to sacrifice growth to get inflation under control. The CPI showed high inflation, although it was showing that it was going down, much higher than the Fed wanted.

On page 33, Craddock stated that not as many jobs were created, but still positive. On page 36, it was mentioned that energy oil prices spiked with Covid and were hovering at $80/barrel for a while. Russia/Ukraine was not helping. Energy was one of the only places skyrocketing in a positive way.

On page 37, the dark blue line showed where they were a year ago, gradually upward sloping. Rates went up 4.5% in one year. The inverted yield curve historically indicated that a recession was coming. The market was pricing in the dotted line, and the market thinks in a couple of years, the Fed will have to lower rates again. On page 39, it was mentioned that 2022 was a strange year. A 60/40 portfolio (60% equities, 40% fixed income) has been a consistent performer, but it could have a negative return. On page 41, the right-hand side of the S&P showed everything negative but energy. Technology drove returns for a decade, and the biggest companies in the world were in Information Technology. They are now negative, and many are laying off workers. The left-hand side showed that most were good in the fourth quarter.

On page 43, 2022 was a hard year, coming off 13 years positive. Contrast the top of the page to the bottom. On page 44, the 3- and 5-year growth was outperforming value.

Plan Changes Review

Craddock reviewed changes made at the last meeting. On page 52, the fund looks strong and meets performance criteria. On page 56, Vanguard moved from 4 basis points to 3.5. On page 52, Picarelli chimed in, and Craddock agreed that many funds in the frozen middle column shouldn't say "no" for meeting performance criteria. It should state N/A as there is no good comparison to those products.

On April 1, many expense ratios will go down, and participants will pay less. Derbin asked how Brown was doing. Craddock said their year was 13% compared to small growth funds. On page 62, Core Plus Bond/PGIM took more risk in the past but were rewarded. In the last couple of years, as interest rates rose and risk was shunned, they did worse, and their 2022 year made the 3- and 5-year numbers look bad. One of their portfolio managers is retiring in 2024.

During the meeting, it was noted that the EuroPacific growth portfolio was not meeting growth expectations, although it had a stellar long-term track record. It was revealed that the portfolio had 20-25% investment in emerging markets, which had lagged in the past few years.

There was a question raised by Eagan regarding American Funds on page 52. Craddock responded by stating that there was nothing happening with American Funds, and that they have a small product suite with very few products compared to Vanguard's 260 funds. However, the funds they did have were enormous and had a larger market cap than average. Picarelli chimed in and stated that they liked American Funds because they have a team of specialists.

Nelson then asked if we needed to start looking for other options since EuroPacific was not doing well because of emerging markets. Craddock responded by saying that emerging markets were not a reason to look elsewhere since the market was about 25% emerging markets, and it depended on what was used for internal comparison. EuroPacific had chosen to compare themselves with others that had emerging markets.

2. Plan Demographics

Klassen began reviewing the Plan Demographics (pages 137-166). Contributions were the highest in history last year; however, distributions were also more, and the cash flow was negative. The percentage of Asset Allocations was also at their highest. Klassen said this is not alarming but something to keep an eye on. Additional options will be coming to let participants know the benefits of staying on the plan. More than half of the participants are over 50 years old, and over 64% of participants in Goal Maker are in the default plan. The retirement income calculator shows that income replacement is at 68%, which is good. Distribution statistics were reviewed as well as participation transaction statistics which show the participants are engaged. The participants have well diversified assets.

3. Retirement Counselor and Appointments

Callahan reviewed Counselor Activity (pages 231 and 232). Callahan stated he has held 11 different webinars and 2 in-person meetings to meet or exceed the Service Level Agreement (SLA). Many people who were not able to attend the meetings reached out; but it was challenge for Corrections for individual meetings due to not being able to take a break on shift. In February, he set up booths on six different days and gained traction with Corrections. He plans to continue with what he is doing and increase the monthly webinars in the future.

Derbin inquired about our approach to communicating with participants who are terminating or rolling over their accounts, emphasizing that it's crucial to remind them that they have the flexibility to move their investments and that just because they are moving on doesn't mean their investments have to stay behind.

Klassen stated they've done a few campaigns, and, in the future, there will be targeted campaigns as well as direct call outs from Callahan and the group if someone is terminated.

4. Migration

Klassen discussed the migration overview (pages 235 and 236) noting that there is an anticipated quiet period, targeted for August 18 and 19, where plan participants should have view capabilities to their accounts but not transaction availability. 15-20 days prior to the migration, participants will have communications about the migration. They will also have the opportunity to re-register their login credentials postmigration.
Nelson said from payroll perception he is worried about any changes that need made.

Klassen said pre-migration no changes will need made. As for post migration, changes may be needed depending on system capabilities.

GoalMaker Update

Klassen reviewed GoalMaker (pages 238-240). The tool will have enhanced reporting features at the participant level. Individuals will move through vintage to and through retirement. GoalMaker model will flatten at retirement instead of taking through. Will be based in 5-year increments.
IncomeFlex is no longer going to be integrated into GoalMaker. In the next version of GoalMaker, IncomeFlex will not take new dollars; however, you can keep dollars in there.

5. SECURE 2.0 Act

Klassen provided a thorough overview of the latest updates on SECURE 2.0, specifically highlighting important changes such as the adjustment of the stopping notices age from 72 to 73, and the required rothification on catch up after 2023. Additionally, she noted that higher catch-up limits will be implemented.

6. Adjournment

The meeting was adjourned at 4:25 p.m.

Exhibit A:

Lancaster County

As Of: December 31, 2022

Report contains information up through the last business day of end period.

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EMPOWER