

County of Lancaster

PENNSYLVANIA



The Lancaster County Employees' Retirement System
Financial Statement
December 31, 2016

Prepared by the Office of the Controller
Brian K. Hurter, Controller



Controller's Office

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Controller
Brian K. Hurter, CPA

The following report presents a summarization of the Lancaster County Employees' Retirement System ("Fund") for the year of 2016. This report provides a glimpse of the Lancaster County Employees' Retirement System as a whole. The Retirement Board is continually on watch to ensure the Fund is a solid and dependable source of income for the over 1,200 retirees of the County of Lancaster, and will continue to be a reliable source of income when the 1,700 active participants of the Fund decide to retire. Along with a professional group of Investment Managers, an Actuary, and a Consultant, the Retirement Board is constantly working to keep the cost of the Fund manageable for the County's budget. During 2016, the County contributed the required Actuarially Determined Contribution of \$4,580,199 to the Fund. Due to the diligence of the Retirement Board and the performance of the Fund, this is down from the contribution of \$5,228,813 that was made during 2015 and annual contributions of over \$7 million made from 2009 through 2013.

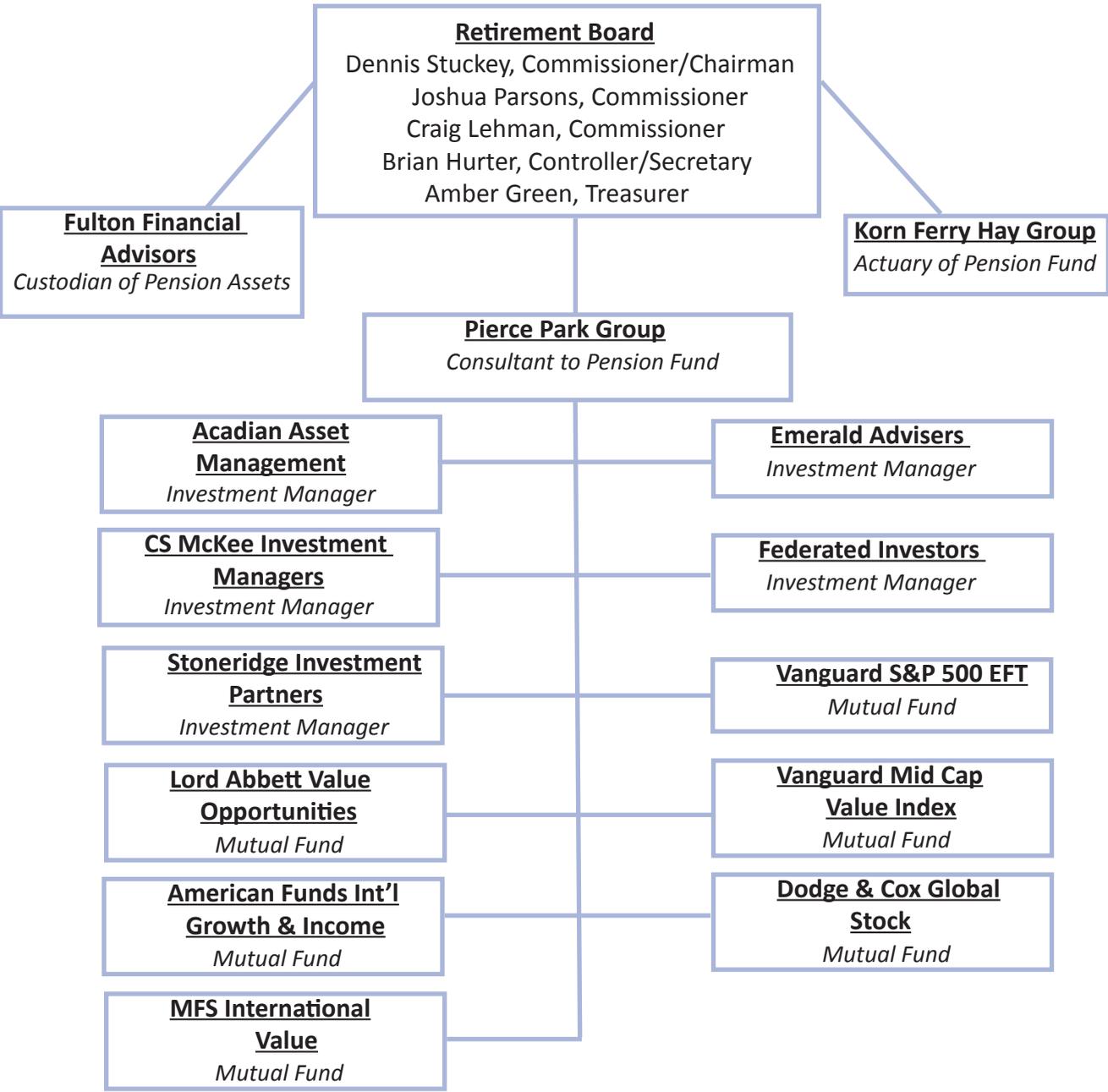
During 2016, there was an increase in the number of retirees and the total benefits paid to them from the Fund. The number of retirees increased by 36 during 2016 to 1,257. The member benefit payments and refunds increased significantly during 2016. The total benefits paid during 2016 increased \$1,821,313 from \$13,356,419 during 2015 to \$15,177,732 during 2016. The markets had a strong year during 2016 and as a result the Fund had a market value rate of return of 7.95%. This resulted in the market value of the Fund increasing \$13,141,088 during 2016 from \$244,748,095 at December 31, 2015 to \$257,889,183 at December 31, 2016. The Retirement Board, along with the Consultant, constantly reviews the asset allocation, performance, and expenses of the investments to ensure that we have a well-diversified Fund available for the benefit of Lancaster County retirees. During 2016, the Retirement Board voted to further diversify the Fund by investing in two real estate investments. The funding for these investments was pulled largely from the fixed income investments. The first amount will be invested in real estate during January 2017 which is the reason for the large cash balance on December 31, 2016. During 2016 there was an increase in the fees paid by the Fund as a result of the higher market value; however, the percentage of fees paid compared to the ending market value of the Fund remained the same at a very reasonable 0.43%. During 2016 the Retirement Board approved reducing the rate of return assumption for the Fund from 7.5% to 7.35% based on projected future market conditions. Even with the change in the return assumption the overall funded ratio of the Fund increased during 2016, from 89.9% at December 31, 2015 to 90.6% at December 31, 2016.

As a result of the devoted work of the Retirement Board, Consultants, Investment Managers, Actuary, and Custodian, the Lancaster County Employees' Retirement System continues to be a consistent source of income for the retirees of Lancaster County. I would like to acknowledge the dedicated efforts of my staff who process all of the payments, handle your daily inquiries, and review all transactions of the Fund. Should you have any questions, please direct them to the Controller's Office at (717) 299-8262 and we will be glad to assist you.

Brian K. Hurter, CPA
Retirement Fund Secretary

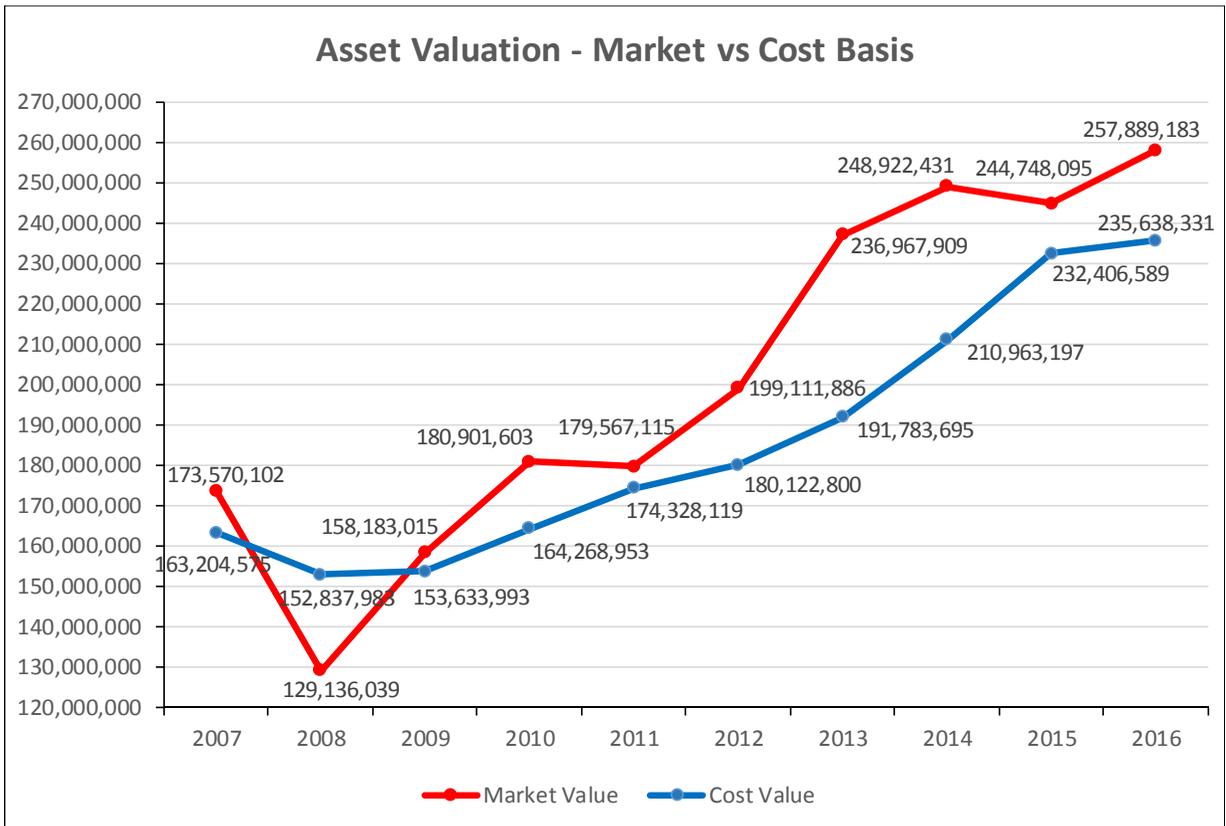


The Lancaster County Employees' Retirement System
Structure of the Plan Management

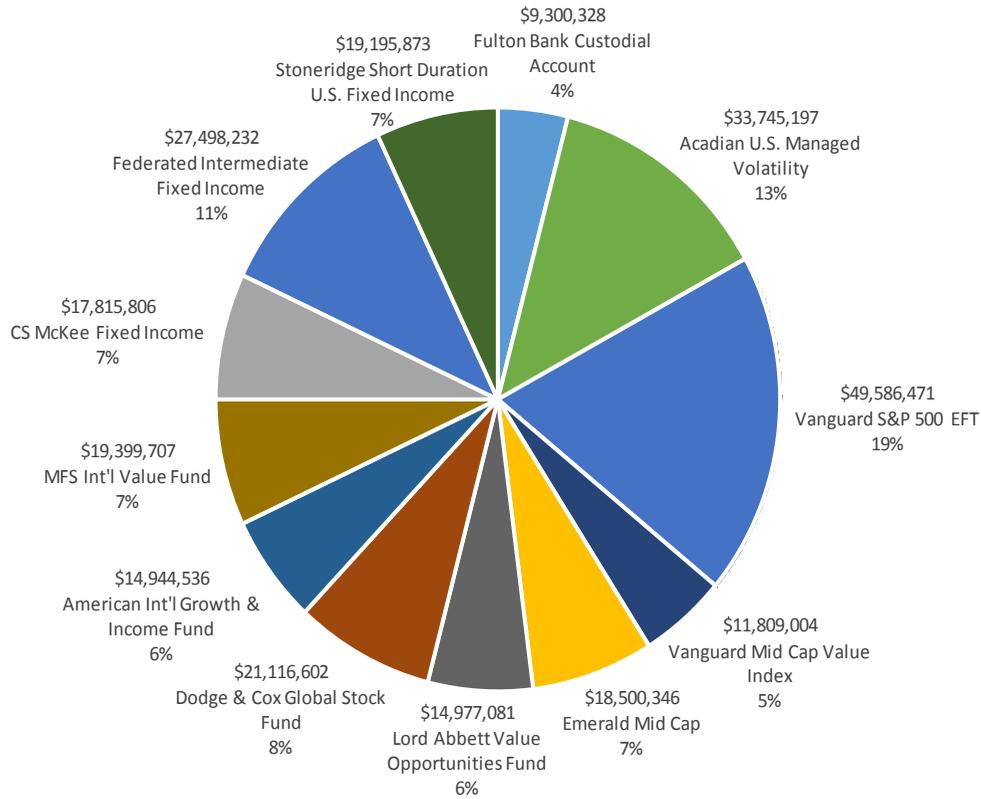


**The Lancaster County Employees' Retirement System
Statement of Plan Assets as of December 31, 2016**

<u>Assets</u>	<u>Market Value</u>	<u>Cost Value</u>
Investments:		
Common Stock	\$78,090,657	\$66,546,323
International Equities	57,045,641	50,237,642
Real Estate	2,050,676	2,089,309
Corporate Bonds	25,215,532	25,346,949
Exchange Traded Index Funds	49,586,471	45,080,571
Fixed Income Mutual Funds	4,193,598	4,067,215
Government Securities	24,615,840	25,192,464
Certificates of Deposit	1,556,505	1,543,892
Money Market & Cash Equivalents	14,869,746	14,869,449
Receivables	664,517	664,517
Net Assets Held for Pension Benefits at December 31, 2016	<u>\$257,889,183</u>	<u>\$235,638,331</u>



The Lancaster County Employees' Retirement System
% Of Portfolio By Manager
As Of 12/31/16



- Fulton Bank Custodial Account
- Vanguard S&P 500 EFT
- Emerald Mid Cap
- Dodge & Cox Global Stock Fund
- MFS Int'l Value Fund
- Federated Intermediate Fixed Income
- Acadian U.S. Managed Volatility
- Vanguard Mid Cap Value Index
- Lord Abbett Value Opportunities Fund
- American Int'l Growth & Income Fund
- CS McKee Fixed Income
- Stoneridge Short Duration U.S. Fixed Income

**Lancaster County Employees' Retirement System
Estimated Management And Administrative Fees for 2016**

	12/31/16 Market Value	Estimated Annual Fees
Fulton Bank Custodial Account	\$9,300,328	\$ -
Acadian Asset Management	33,745,197	101,236
Emerald Advisers	18,500,346	109,252
CS McKee Investment Managers	17,815,806	44,450
Federated Investors	27,498,232	68,746
Stoneridge Investment Partners	19,195,873	65,957
Vanguard S&P 500 EFT	49,586,471	24,793
Vanguard Mid Cap Value Index	11,809,004	9,447
Lord Abbett Value Opportunity Fund	14,977,081	119,817
Dodge & Cox Global Stock Fund	21,116,602	133,035
American Int'l Growth & Income Fund	14,944,536	86,678
MFS International Value Fund	19,399,707	133,858
Fulton Financial Advisors (Custodian)	-	43,412
Korn Ferry Haygroup (Actuary)	-	38,504
Peirce Park Group (Consultant)	-	117,000
	<u>\$257,889,183</u>	<u>\$1,096,275</u>

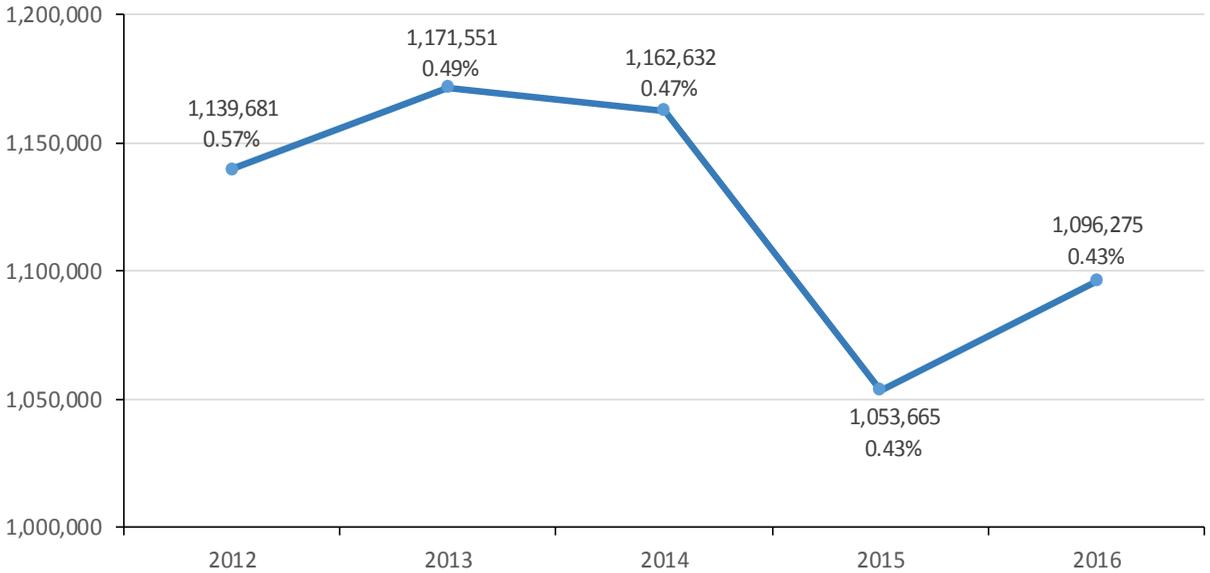
Percentage of Market Value 0.43%

Schedule Of Lancaster County Contributions and Returns

Year	Actuarially Determined Contribution*	County Contribution	Market Value Rate of Return
2016	\$4,580,199	\$4,580,199	7.95%
2015	5,228,813	5,228,813	(0.12)
2014	5,962,997	5,962,997	6.22
2013	7,001,128	7,001,128	19.50
2012	7,142,834	7,142,834	11.68
2011	7,304,873	7,554,873	0.54
2010	7,216,063	8,000,000	12.17
2009	7,171,189	7,421,189	20.56
2008	3,333,575	4,000,000	(25.02)
2007	4,859,915	4,859,915	7.01

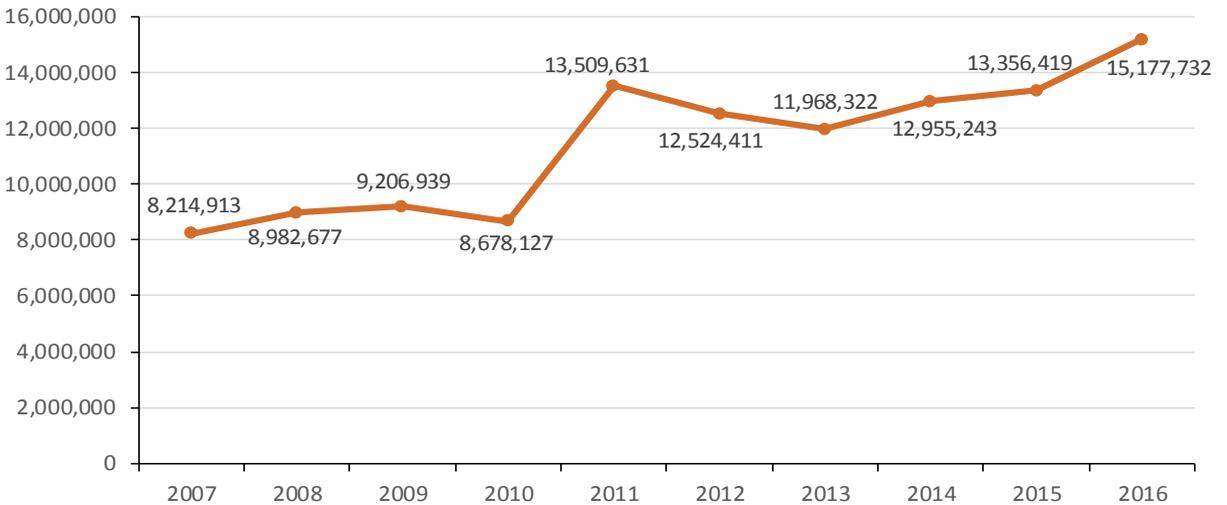
*Prior to 2014, contribution was described as Annual Required Contribution (ARC).

The Lancaster County Employees' Retirement System Estimated Management and Investment Fees



Note: The percentage shown is the estimated annual fees compared to that year's ending market value.

Member Benefit Payments & Refunds



**The Lancaster County Employees' Retirement System
Statement Of Change In Plan Net Assets For The Year Ended December 31, 2016**

Total Assets (Cost Value) – January 1, 2016 \$232,406,589

Additions

Member Contributions	\$5,074,940	
Member Contributions Receivable	35,738	
Member Purchase Of County Share	88,836	
County Contribution	4,580,199	
Net Investment Income:		
Interest/Dividends	6,135,540	
Realized Capital Gain/(Loss)	3,182,300	
Miscellaneous	—	
Total Additions		\$19,097,553

Deductions

Member Contributions Refunded	\$1,085,032	
Member Contributions Payable	-	
Retirement Allowances Paid	13,649,629	
Death Benefits	443,071	
Accrued Investment Expense	90,486	
Administrative Expenses	71,633	
Investment Expenses	501,032	
Miscellaneous	<u>24,928</u>	
Total Deductions		<u>\$15,865,811</u>

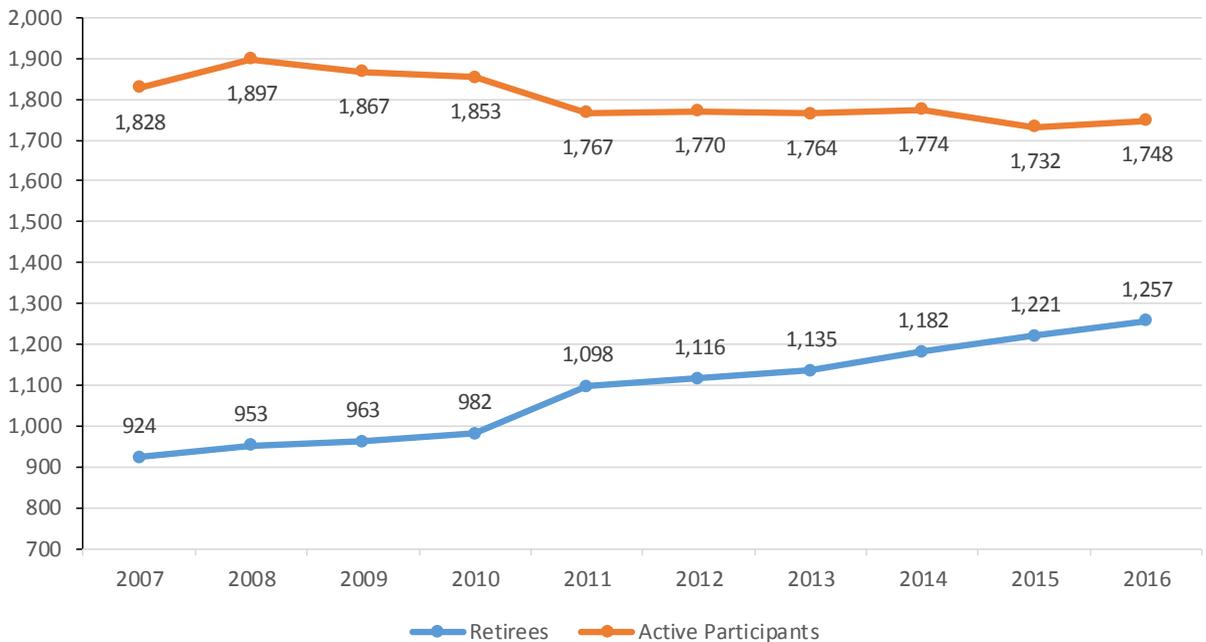
Total Increase/(Decrease) 3,231,742

Total Assets (Cost Value) December 31, 2016 235,638,331

Unrealized Appreciation/(Depreciation) 22,250,852

Total Assets (Market Value) December 31, 2016 \$257,889,183

The Lancaster County Employees' Retirement System Number of Retirees vs Active Participants at Year End



Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2007	\$175,412,278	\$185,818,519	\$10,406,241	94.4%	\$73,915,189	14.1%
12/31/2008	159,134,908	199,653,516	40,518,608	79.7	78,717,769	51.5
12/31/2009	158,074,015	213,374,965	55,300,950	74.1	79,444,845	69.6
12/31/2010	169,788,390	221,658,694	51,870,304	76.6	78,838,153	65.8
12/31/2011	189,541,657	239,432,154	49,890,497	79.2	76,433,494	65.3
12/31/2012	194,240,337	241,101,765	46,861,428	80.6	76,305,642	61.4
12/31/2013	216,918,969	253,533,460	36,614,491	85.6	77,867,605	47.0
12/31/2014	236,547,831	265,716,928	29,169,097	89.0	79,478,159	36.7
12/31/2015	250,584,482	278,638,967	28,054,485	89.9	81,355,686	34.5
12/31/2016	264,742,298	292,274,553	27,532,264	90.6	80,039,687	34.4

Actuarial Assumptions:

Investment Rate of Return - 7.35% for 2016, 7.50% from 2007-2015
 Projected Salary Increases - 3.75% from 2012-2016, 4.5% from 2007-2011
 Inflation Assumption - 3% from 2007-2016

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/16 At Market Value**

	Cash Equivalents	Government & Agencies	Corporate	Mutual Funds	Equities	Real Estate	Int'l	Total
Fulton Bank Custodial Account	\$9,300,328							\$9,300,328
CS McKee Large Cap Core	220,384	6,860,631	9,685,088			675,613	374,090	17,815,806
Acadian U.S. Managed Volatility	130,639				33,614,558			33,745,197
Vanguard S&P 500 ETF				49,586,471				49,586,471
Vanguard Mid Cap Value Index				11,809,004				11,809,004
Emerald Mid Cap	763,593				17,736,753			18,500,346
Lord Abbett Value Opportunities Fund				14,977,081				14,977,081
Dodge & Cox Global Stock Fund				21,116,602				21,116,602
American Int'l Growth & Income Fund				14,944,536				14,944,536
MFS Int'l Value Fund				19,399,707				19,399,707
Federated Intermediate Fixed Income	1,846,121	13,781,064	9,388,298	570,025		1,395,116	517,608	27,498,232
Stoneridge Short Duration U.S. Fixed Income	2,898,337	4,064,610	7,906,376	3,626,510			700,040	19,195,873
Total	\$15,159,402	\$24,706,305	\$26,979,762	\$136,029,936	\$51,351,311	\$2,070,729	\$1,591,738	\$257,889,183

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/16 At Cost Value**

	Cash Equivalents	Government & Agencies	Corporate	Mutual Funds	Equities	Real Estate	Int'l	Total
Fulton Bank Custodial Account	\$9,300,328							\$9,300,328
CS McKee Large Cap Core	220,384	6,974,564	9,823,757			730,208	373,329	18,122,242
Acadian U.S. Managed Volatility	130,639				29,148,965			29,279,604
Vanguard S&P 500 ETF				45,080,572				45,080,572
Vanguard Mid Cap Value Index				10,698,399				10,698,399
Emerald Mid Cap	763,593				15,737,686			16,501,279
Lord Abbett Value Opportunities Fund				11,008,011				11,008,011
Dodge & Cox Global Stock Fund				15,058,452				15,058,452
American Int'l Growth & Income Fund				15,065,820				15,065,820
MFS Int'l Value Fund				18,522,901				18,522,901
Federated Intermediate Fixed Income	1,846,122	14,206,427	9,375,831	649,425		1,379,154	523,819	27,980,778
Stoneridge Short Duration U.S. Fixed Income	2,898,040	4,101,938	7,898,977	3,420,727			700,263	19,019,945
Total	\$15,159,106	\$25,282,929	\$27,098,565	\$119,504,307	\$44,886,651	\$2,109,362	\$1,597,411	\$235,638,331



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