

County of Lancaster

PENNSYLVANIA



The Lancaster County Employees' Retirement System
Financial Statement
December 31, 2017

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 2017. 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 2017, the County contributed the required Actuarially Determined Contribution of \$4,424,334 to the Fund. Due to the diligence of the Retirement Board and the performance of the Fund, this is down from the contribution of \$4,580,199 that was made during 2016 and annual contributions of over \$7 million made from 2009 through 2013.

The markets had a strong year during 2017 and as a result the Fund had a market value rate of return of 15.62%. This resulted in a significant increase in the value of the Fund during 2017. The Fund increased \$33,141,334 during 2017 from \$257,889,183 at December 31, 2016 to \$291,030,517 at December 31, 2017. During 2017, 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 24 during 2017 to 1,281. The total benefits paid during 2017 increased \$780,652, from \$15,177,732 during 2016 to \$15,958,384 during 2017. 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 initial investment in real estate investments occurred in January 2017 and the funding for these investments was pulled largely from fixed income investments. This proved to be a wise decision with the real estate investments yielding a return of 7.2% during 2017 compared to a return of 1.9% from the fixed income investments. During 2017 there was an increase in 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 decreased slightly to a very reasonable 0.42%. During 2017 the Retirement Board approved increasing the projected salary increase assumption from 3.75% to 4.00% and reducing the rate of return assumption from 7.35% to 7.25% based on projected future market conditions. Even with the change in these assumptions, the overall funded ratio of the Fund increased during 2017, from 90.6% at December 31, 2016 to 91.4% at December 31, 2017.

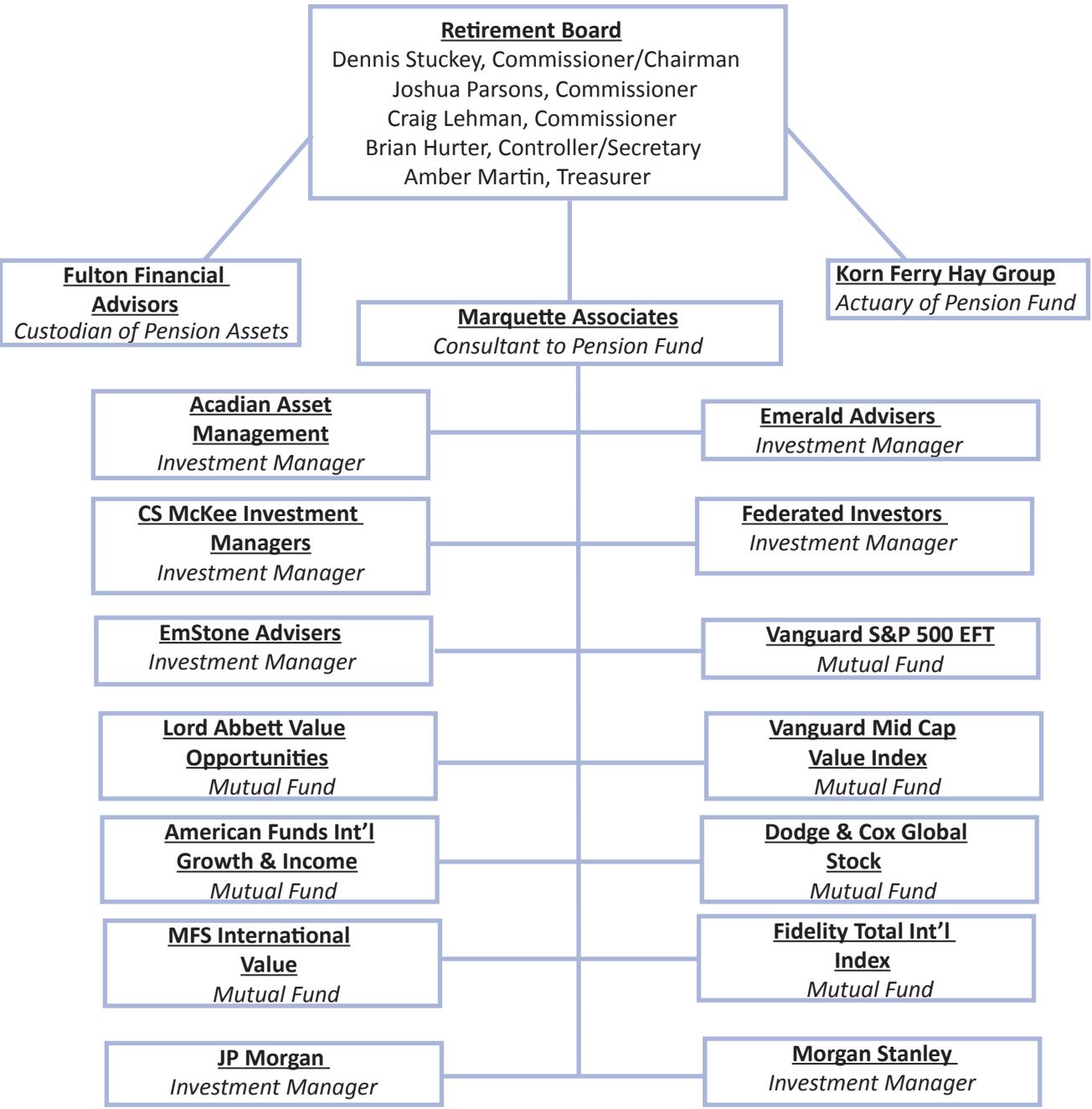
As a result of the devoted work of the Retirement Board, Consultants, Investment Managers, Actuary, and Custodian, the Lancaster County Employees' Retirement System continues to be a consistent source of income for the retirees of Lancaster County. I would like to acknowledge the dedicated efforts of 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

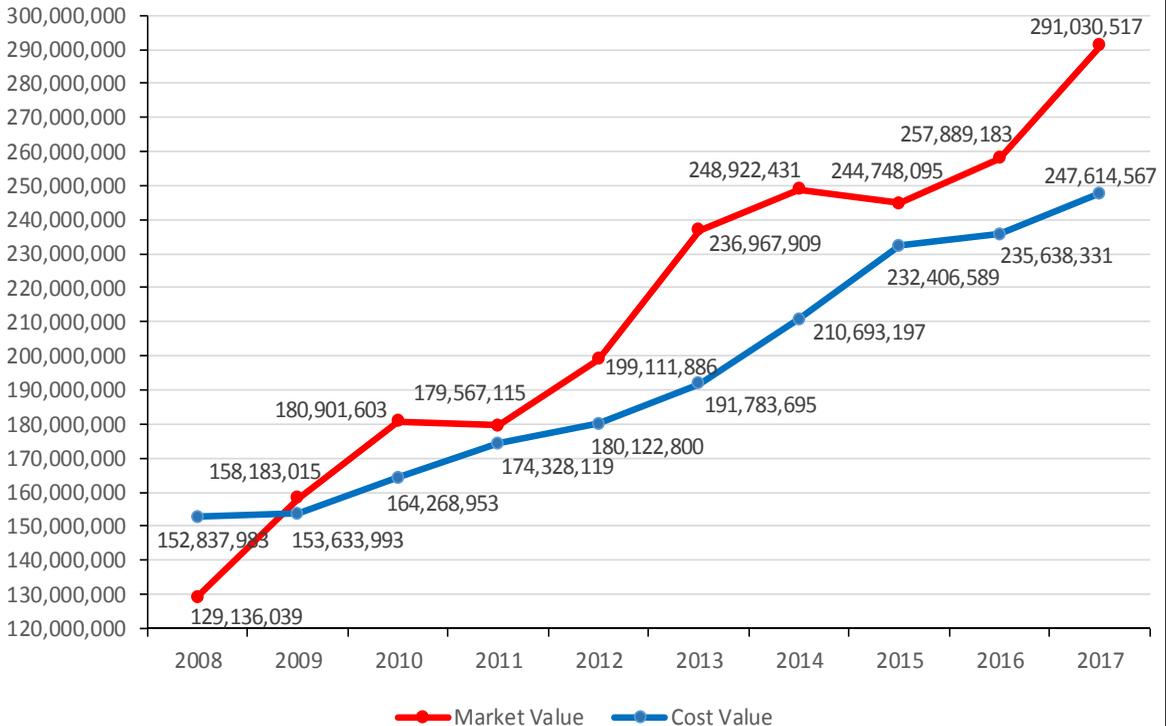
Structure of the Plan Management



**The Lancaster County Employees' Retirement System
Statement of Plan Assets as of December 31, 2017**

<u>Assets</u>	<u>Market Value</u>	<u>Cost Value</u>
Investments:		
Common Stock	\$77,339,301	\$62,210,547
International Equities	58,165,624	50,046,863
Mortgage Obligations	2,620,341	2,687,929
Corporate Bonds	29,702,473	29,740,017
Exchange Traded Index Funds	55,984,990	42,503,860
Fixed Income Mutual Funds	4,025,707	3,785,287
Government Securities	22,899,301	23,142,341
Certificates of Deposit	1,709,332	1,713,418
Real Estate Funds	13,653,774	13,319,774
Global Mutual Funds	18,000,330	11,546,623
Money Market & Cash Equivalents	6,772,089	6,760,653
Receivables	157,255	157,255
Net Assets Held for Pension Benefits at December 31, 2017	<u>\$291,030,517</u>	<u>\$247,614,567</u>

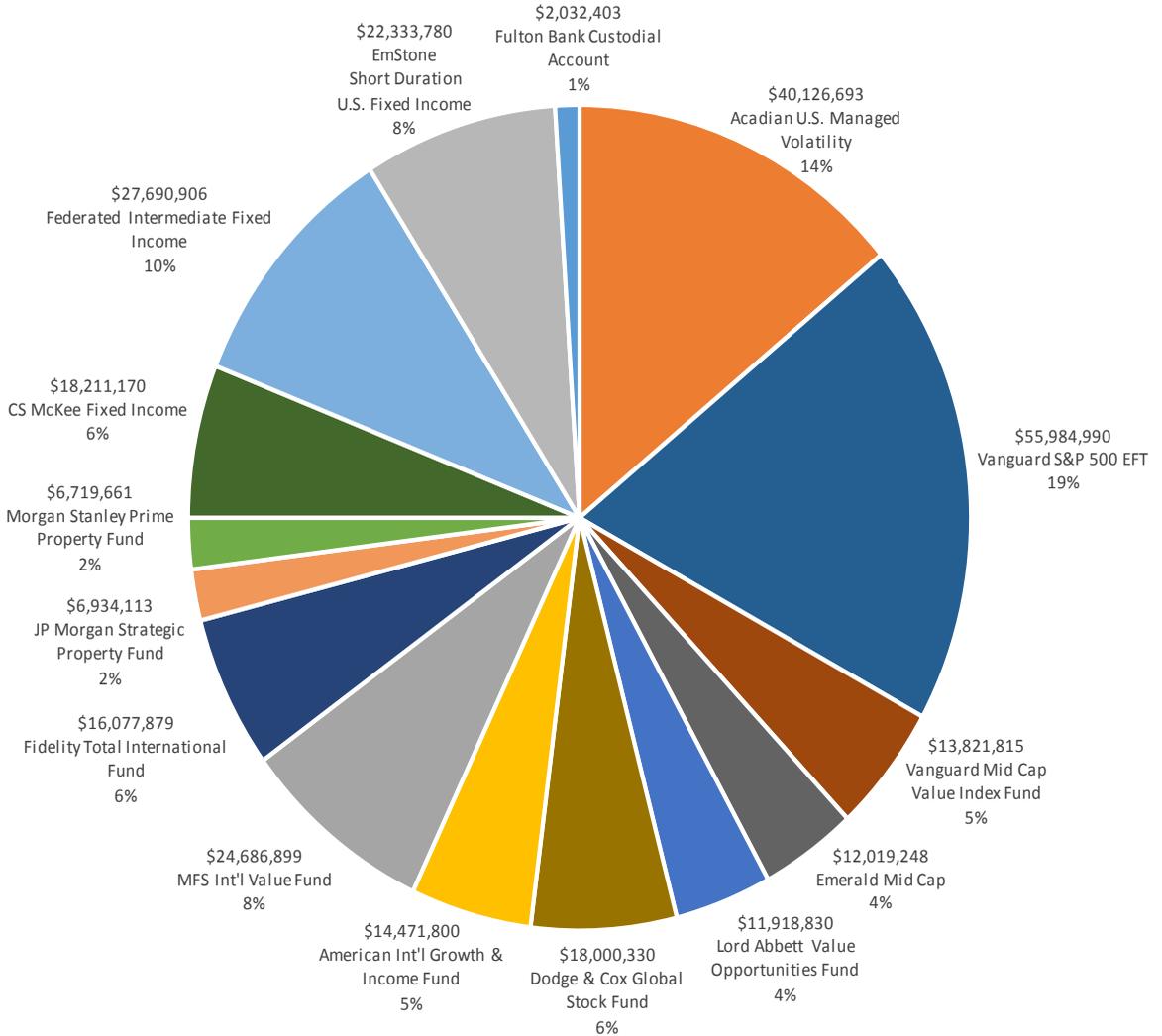
Asset Valuation - Market vs Cost Basis



The Lancaster County Employees' Retirement System

% Of Portfolio By Manager

As Of 12/31/17



- | | |
|--------------------------------------|--|
| Acadian U.S. Managed Volatility | Vanguard S&P 500 EFT |
| Vanguard Mid Cap Value Index Fund | Emerald Mid Cap |
| Lord Abbett Value Opportunities Fund | Dodge & Cox Global Stock Fund |
| American Int'l Growth & Income Fund | MFS Int'l Value Fund |
| Fidelity Total International Fund | JP Morgan Strategic Property Fund |
| Morgan Stanley Prime Property Fund | CS McKee Fixed Income |
| Federated Intermediate Fixed Income | EmStone Short Duration U.S. Fixed Income |
| Fulton Bank Custodial Account | |

**Lancaster County Employees' Retirement System
Estimated Management And Administrative Fees for 2017**

	12/31/17 Market Value	Estimated Annual Fees
Fulton Bank Custodial Account	\$2,032,403	\$ -
Acadian Asset Management	40,126,693	120,380
Emerald Advisers	12,019,248	72,115
CS McKee Investment Managers	18,211,170	45,528
Federated Investors	27,690,906	69,227
EmStone Advisers	22,333,780	69,771
Vanguard S&P 500 EFT	55,984,990	22,394
Vanguard Mid Cap Value Index	13,821,815	9,675
Lord Abbett Value Opportunity Fund	11,918,830	94,159
Dodge & Cox Global Stock Fund	18,000,330	113,402
American Int'l Growth & Income Fund	14,471,800	83,936
MFS International Value Fund	24,686,899	170,340
Fidelity Total International	16,077,879	12,862
JP Morgan	6,934,113	69,341
Morgan Stanley	6,719,661	81,629
Fulton Financial Advisors (Custodian)	-	44,930
Korn Ferry Haygroup (Actuary)	-	39,234
Marquette Associates (Consultant)	-	92,000
	<u>\$291,030,517</u>	<u>\$1,210,923</u>

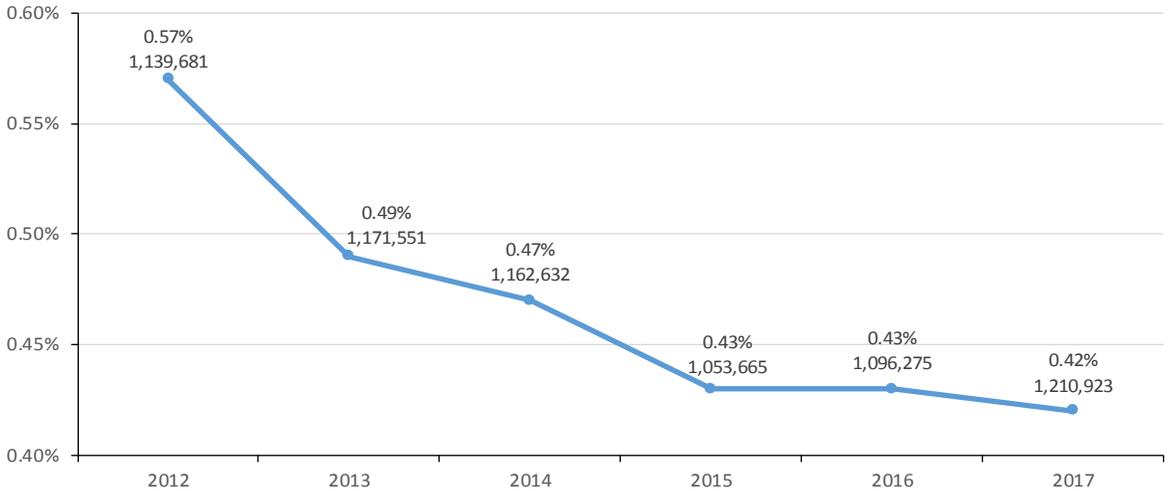
Percentage of Market Value 0.42%

Schedule Of Lancaster County Contributions and Returns

<u>Year</u>	<u>Actuarially Determined Contribution*</u>	<u>County Contribution</u>	<u>Market Value Rate of Return</u>
2017	\$4,424,334	\$4,424,334	15.62%
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)

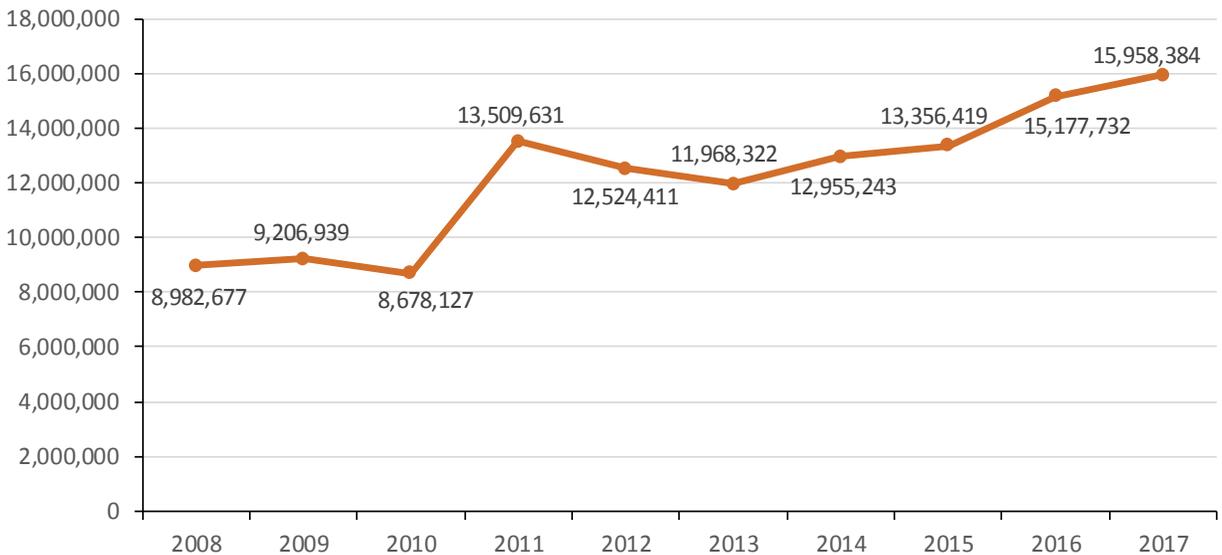
*Prior to 2014, contribution was described as Annual Required Contribution (ARC).

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, 2017**

Total Assets (Cost Value) – January 1, 2017 \$235,638,331

Additions

Member Contributions	\$5,384,008	
Member Contributions Receivable	17,669	
Member Purchase Of County Share	64,971	
County Contribution	4,424,334	
Net Investment Income:		
Interest/Dividends	7,140,498	
Realized Capital Gain/(Loss)	11,445,212	
Accrued Investment Income	18,162	
Miscellaneous	—	
Total Additions		\$28,494,854

Deductions

Member Contributions Refunded	\$1,086,291	
Member Contributions Payable	-	
Retirement Allowances Paid	13,245,869	
Death Benefits	1,626,224	
Accrued Investment Expense	-	
Administrative Expenses	47,599	
Investment Expenses	494,219	
Miscellaneous	<u>18,416</u>	
Total Deductions		<u>\$16,518,618</u>

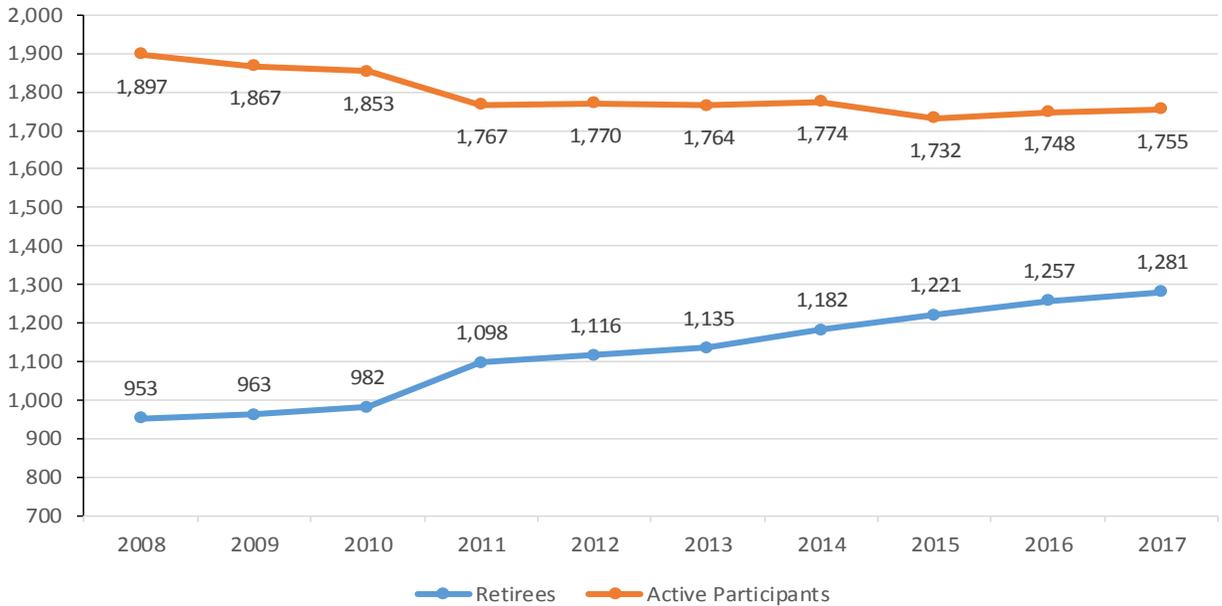
Total Increase/(Decrease) 11,976,236

Total Assets (Cost Value) December 31, 2017 247,614,567

Unrealized Appreciation/(Depreciation) 43,415,950

Total Assets (Market Value) December 31, 2017 \$291,030,517

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
12/31/2008	\$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
12/31/2017	281,656,365	308,081,325	26,424,960	91.4	82,059,110	32.2

Actuarial Assumptions:

Investment Rate of Return - 7.25% for 2017, 7.35% for 2016, 7.5% from 2008-2015
 Projected Salary Increases - 4% for 2017, 3.75% from 2012-2016, 4.5% from 2008-2011
 Inflation Assumption - 3% from 2008-2017

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/17 At Market Value**

	Cash Equivalents	Government & Agencies	Corporate	Mutual Funds	Equities	Real Estate	Int'l	Total
Fulton Bank Custodial Account	\$2,032,403							\$2,032,403
Acadian U.S. Managed Volatility	193,559				39,933,134			40,126,693
Vanguard S&P 500 ETF				55,984,990				55,984,990
Vanguard Mid Cap Value Index				13,821,815				13,821,815
Emerald Mid Cap	303,898				11,715,350			12,019,248
Lord Abbett Value Opportunities Fund				11,918,830				11,918,830
Dodge & Cox Global Stock Fund				18,000,330				18,000,330
American Int'l Growth & Income Fund				14,471,800				14,471,800
MFS Int'l Value Fund				24,686,899				24,686,899
Fidelity Total Int'l Index Fund				16,077,879				16,077,879
JP Morgan Strategic Property Fund					6,934,113			6,934,113
Morgan Stanley Prime Property Fund					6,719,661			6,719,661
CS McKee Fixed Income	236,881	6,586,274	9,328,553		1,568,957		490,505	18,211,170
Federated Intermediate Fixed Income	1,164,955	13,808,590	10,215,459	577,125	1,071,456		853,321	27,690,906
EmStone Short Duration U.S. Fixed Income	2,608,431	2,572,609	12,101,329	3,451,441			1,599,970	22,333,780
Total	\$6,540,127	\$22,967,473	\$31,645,341	\$51,899,109	\$51,648,484	\$16,294,187	\$2,943,796	\$291,030,517

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/17 At Cost Value**

	Cash Equivalents	Government & Agencies	Corporate	Mutual Funds	Equities	Real Estate	Int'l	Total
Fulton Bank Custodial Account	\$2,032,403							\$2,032,403
Acadian U.S. Managed Volatility	193,559				32,361,834			32,555,393
Vanguard S&P 500 ETF			42,503,860					42,503,860
Vanguard Mid Cap Value Index			10,952,209					10,952,209
Emerald Mid Cap	303,898				9,578,363			9,882,261
Lord Abbett Value Opportunities Fund			9,367,970					9,367,970
Dodge & Cox Global Stock Fund			11,546,623					11,546,623
American Int'l Growth & Income Fund			11,977,455					11,977,455
MFS Int'l Value Fund			19,206,979					19,206,979
Fidelity Total Int'l Index Fund			15,902,023					15,902,023
JP Morgan Strategic Property Fund			6,722,821					6,722,821
Morgan Stanley Prime Property Fund			6,596,953					6,596,953
CS McKee Fixed Income	236,881	6,648,865	9,394,628			1,641,089	489,687	18,411,150
Federated Intermediate Fixed Income	1,164,955	13,964,554	10,156,755	649,347		1,066,912	873,177	27,875,700
EmStone Short Duration U.S. Fixed Income	2,596,995	2,597,092	12,135,589	3,138,799			1,612,292	22,080,767
Total	\$6,528,691	\$23,210,511	\$31,686,972	\$138,565,039	\$41,940,197	\$2,708,001	\$2,975,156	\$247,614,567



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