

County of Lancaster

P E N N S Y L V A N I A



The Lancaster County Employees' Retirement System
Financial Statement
December 31, 2018

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 2018. The Retirement Board continually monitors the Fund to ensure it is a solid and dependable source of income for the over 1,300 retirees of the County, and will continue to be a reliable source of income when the 1,752 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 2018, the County contributed the required Actuarially Determined Contribution of \$4,399,055 to the Fund. Due to the diligence of the Retirement Board and the performance of the Fund, this is down from the contribution of \$4,424,334 that was made during 2017 and annual contributions of over \$7 million made from 2009 through 2013.

During the first 3 quarters of 2018 the markets were performing well and posting strong returns; however, the markets had a very poor 4th quarter and as a result the Fund posted a market value rate of return of negative 4.70% for 2018. This resulted in a decrease in the value of the Fund during 2018. The Fund decreased \$21,299,994 during 2018 from \$291,030,517 at December 31, 2017 to \$269,730,523 at December 31, 2018. During 2018, 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 52 during 2018 to 1,333. The total benefits paid during 2018 increased \$1,220,611, from \$15,958,384 during 2017 to \$17,178,995 during 2018. 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 2018, the Retirement Board voted to make a couple of changes to the portfolio. The Board added a couple of global equity managers and shifted from funds devoted exclusively to domestic or international equities. The Board also voted to further diversify into real estate by upping the percentage invested in real estate from 5% to 7%. Both changes benefited the Fund during 2018 and helped to limit the losses experienced by the Fund. During 2018 there was a decrease in the total fees paid by the Fund as a result of the lower market value. The percentage of fees paid compared to the ending market value of the Fund decreased slightly to a very reasonable 0.41%. During 2018 the Retirement Board decided not to make any changes to the projected salary increase assumption or the rate of return assumption. The projected salary increase assumption is currently 4.00% and the rate of return assumption is currently 7.25%. The Board will continue to monitor these assumptions based on current and projected future market conditions. Due to the poor performance of the markets during 2018, the overall funded ratio of the Fund decreased from 91.4% at December 31, 2017 to 89.9% at December 31, 2018. The actuary for the Fund considers the Fund to be well funded and in good financial standing.

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

Retirement Board
 Joshua Parsons, Commissioner/Chairman
 Dennis Stuckey, Commissioner
 Craig Lehman, Commissioner
 Brian Hurter, Controller/Secretary
 Amber Martin, Treasurer

Fulton Financial Advisors
Custodian of Pension Assets

Korn Ferry Hay Group
Actuary of Pension Fund

Marquette Associates
Consultant to Pension Fund

Vanguard S&P 500 EFT
Mutual Fund

Fidelity 500 Index
Mutual Fund

Vanguard Mid Cap Value Index
Mutual Fund

Aristotle Sm/Mid Cap Value Index
Comingled Investment Trust

Dodge & Cox Global Stock
Mutual Fund

Artisan Global
Comingled Investment Trust

Acadian Global
Comingled Investment Trust

MFS International Value
Mutual Fund

Fidelity Total Int'l Index
Mutual Fund

JP Morgan
Comingled Investment Trust

Morgan Stanley
Comingled Investment Trust

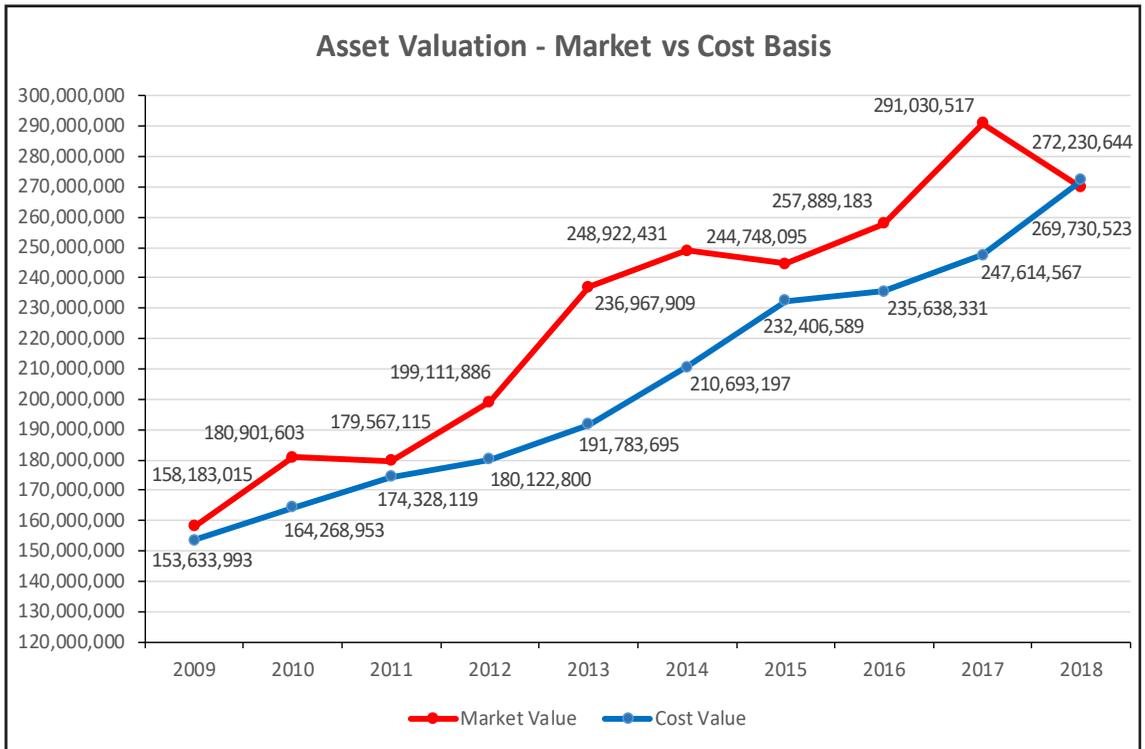
CS McKee Investment Managers
Investment Manager

Federated Investors
Investment Manager

EmStone Advisers
Investment Manager

**The Lancaster County Employees' Retirement System
Statement of Plan Assets as of December 31, 2018**

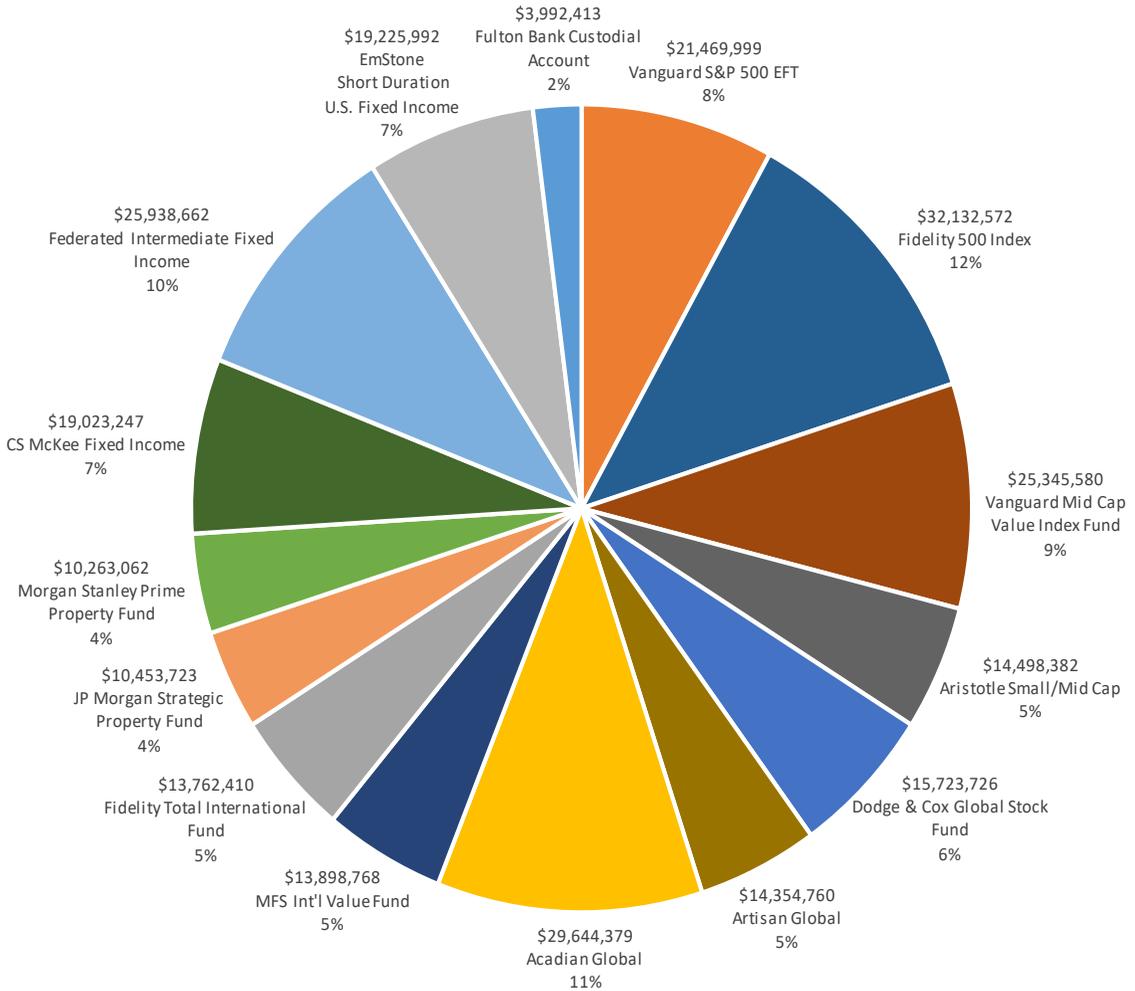
<u>Assets</u>	<u>Market Value</u>	<u>Cost Value</u>
Investments:		
Common Stock	\$72,512,654	\$72,948,898
International Equities	30,580,983	32,086,474
Mortgage Obligations	2,997,827	3,083,949
Corporate Bonds	22,033,904	22,484,538
Exchange Traded Index Funds	21,469,999	20,966,694
Fixed Income Mutual Funds	4,044,053	3,785,287
Government Securities	23,658,276	23,901,439
Certificates of Deposit	2,864,667	2,850,406
Real Estate Funds	20,716,785	19,827,516
Global Mutual Funds	59,722,864	61,163,930
Money Market & Cash Equivalents	8,837,900	8,840,902
Receivables	<u>290,611</u>	<u>290,611</u>
Net Assets Held for Pension Benefits at December 31, 2018	<u>\$269,730,523</u>	<u>\$272,230,644</u>



The Lancaster County Employees' Retirement System

% Of Portfolio By Manager

As Of 12/31/18



- Vanguard S&P 500 EFT
- Vanguard Mid Cap Value Index Fund
- Dodge & Cox Global Stock Fund
- Acadian Global
- Fidelity Total International Fund
- Morgan Stanley Prime Property Fund
- Federated Intermediate Fixed Income
- Fulton Bank Custodial Account
- Fidelity 500 Index
- Aristotle Small/Mid Cap
- Artisan Global
- MFS Int'l Value Fund
- JP Morgan Strategic Property Fund
- CS McKee Fixed Income
- EmStone Short Duration U.S. Fixed Income

**Lancaster County Employees' Retirement System
Estimated Management And Administrative Fees for 2018**

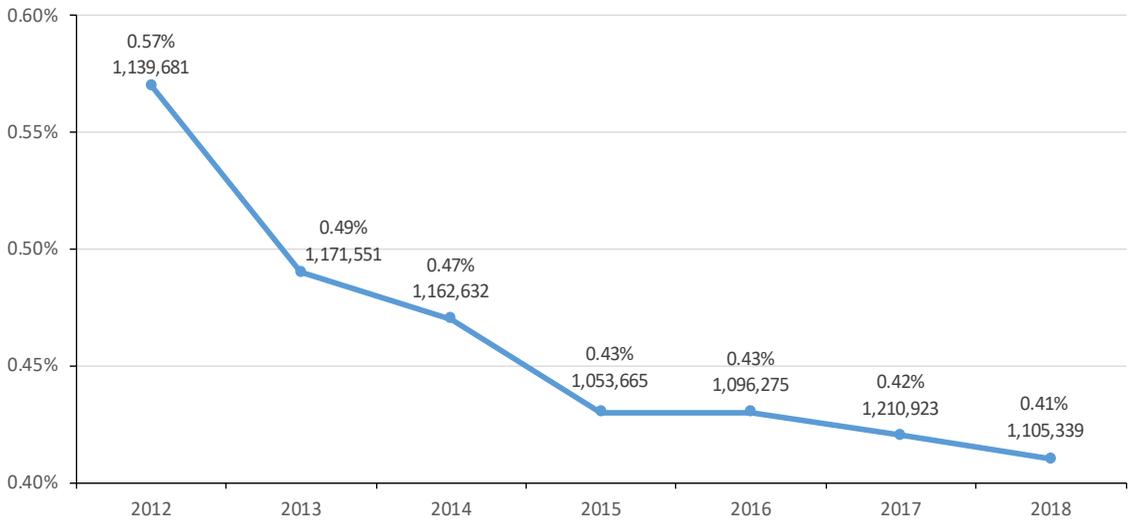
	12/31/18 Market Value	Estimated Annual Fees
Fulton Bank Custodial Account	\$3,992,413	\$ -
Vanguard S&P 500 EFT	21,469,999	8,588
Fidelity 500 Index	32,132,572	4,820
Vanguard Mid Cap Value Index	25,345,580	10,138
Aristotle Sm/Mid Cap Equity	14,498,381	85,540
Dodge & Cox Global Stock Fund	15,723,726	99,059
Artisan Global	14,354,760	122,015
Acadian Global	29,644,378	94,862
MFS International Value Fund	13,898,768	95,901
Fidelity Total International	13,762,410	8,257
JP Morgan	10,453,723	104,997
Morgan Stanley	10,263,062	123,830
CS McKee Investment Managers	19,023,247	47,558
Federated Investors	25,938,662	64,847
EmStone Advisers	19,225,992	61,023
Emerald Advisers	2,850	-
Fulton Financial Advisors (Custodian)	-	44,149
Korn Ferry Haygroup (Actuary)	-	37,755
Marquette Associates (Consultant)	-	92,000
	<u>\$269,730,523</u>	<u>\$1,105,339</u>

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>
2018	\$4,399,055	\$4,399,055	(4.70)%
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

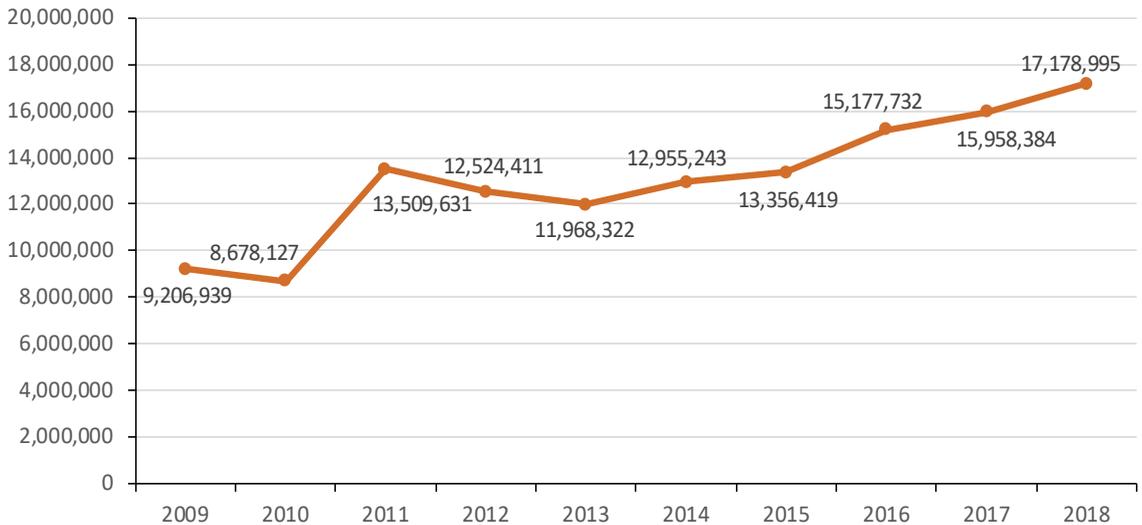
*Prior to 2014, contribution was described as Annual Required Contribution (ARC).

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, 2018**

Total Assets (Cost Value) – January 1, 2018 \$247,614,567

Additions

Member Contributions	\$5,575,480	
Member Contributions Receivable	22,404	
Member Purchase Of County Share	-	
County Contribution	4,399,055	
Net Investment Income:		
Interest/Dividends	7,340,209	
Realized Capital Gain/(Loss)	25,034,876	
Accrued Investment Income	36,464	
Miscellaneous	-	
Total Additions	-	\$42,408,488

Deductions

Member Contributions Refunded	\$1,038,097	
Member Contributions Payable	-	
Retirement Allowances Paid	15,772,785	
Death Benefits	368,113	
Accrued Investment Expense	-	
Administrative Expenses	48,413	
Investment Expenses	522,830	
Miscellaneous	<u>42,173</u>	
Total Deductions	-	<u>\$17,792,411</u>

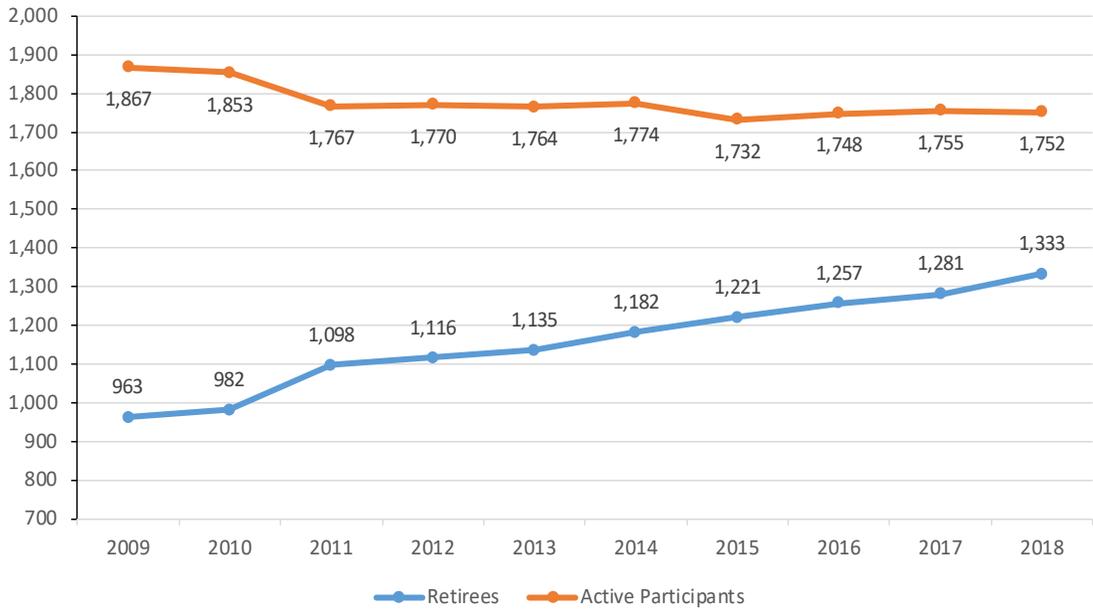
Total Increase/(Decrease) 24,616,077

Total Assets (Cost Value) December 31, 2018 272,230,644

Unrealized Appreciation/(Depreciation) (2,500,121)

Total Assets (Market Value) December 31, 2018 \$269,730,523

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
12/31/2009	\$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
12/31/2018	287,876,891	320,067,540	32,190,649	89.9	83,892,412	38.4

Actuarial Assumptions:

- Investment Rate of Return - 7.25% for 2017-2018, 7.35% for 2016, 7.5% from 2008-2015
- Projected Salary Increases - 4% for 2017-2018, 3.75% from 2012-2016, 4.5% from 2008-2011
- Inflation Assumption - 3% from 2008-2018

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/18 At Market Value**

	Cash Equivalents	Government Securities	Corporate Bonds & CDs	Mutual Funds & Equities	Real Estate	Int'l Bonds	Total
Fulton Bank Custodial Account	\$3,992,413						\$3,992,413
Vanguard S&P 500 ETF			21,469,999				21,469,999
Fidelity 500 Index			32,132,572				32,132,572
Vanguard Mid Cap Value Index			25,345,580				25,345,580
Aristotle Sm/Mid Cap			14,498,381				14,498,381
Emerald Mid Cap	988		1,862				2,850
Dodge & Cox Global Stock Fund			15,723,726				15,723,726
Artisan Global			14,354,760				14,354,760
Acadian Global			29,644,378				29,644,378
MFS Int'l Value Fund			13,898,768				13,898,768
Fidelity Total Int'l Index Fund			13,762,410				13,762,410
JP Morgan Strategic Property Fund					10,453,723		10,453,723
Morgan Stanley Prime Property Fund					10,263,062		10,263,062
CS McKee Fixed Income	62,165	6,512,146	9,727,226		2,209,809	511,901	19,023,247
Federated Intermediate Fixed Income	530,206	13,537,900	9,270,464	1,067,284	807,427	725,381	25,938,662
EmStone Short Duration U.S. Fixed Income	4,210,318	3,700,393	6,099,441	3,516,446		1,699,394	19,225,992
Total	\$8,796,090	\$23,750,439	\$25,097,131	\$185,416,166	\$23,734,021	\$2,936,676	\$269,730,523

**The Lancaster County Employees' Retirement System
Portfolio As Of 12/31/18 At Cost Value**

	Cash Equivalents	Government Securities	Corporate Bonds & CDs	Mutual Funds & Equities	Real Estate	Int'l Bonds	Total
Fulton Bank Custodial Account	\$3,992,413						\$3,992,413
Vanguard S&P 500 ETF			20,966,694				20,966,694
Fidelity 500 Index			31,000,000				31,000,000
Vanguard Mid Cap Value Index			27,098,898				27,098,898
Aristotle Sm/Mid Cap			14,300,000				14,300,000
Emerald Mid Cap	988		1,862				2,850
Dodge & Cox Global Stock Fund			12,947,947				12,947,947
Artisan Global			16,915,983				16,915,983
Acadian Global			31,300,000				31,300,000
MFS Int'l Value Fund			12,905,982				12,905,982
Fidelity Total Int'l Index Fund			16,199,654				16,199,654
JP Morgan Strategic Property Fund					9,957,509		9,957,509
Morgan Stanley Prime Property Fund					9,870,007		9,870,007
CS McKee Fixed Income	62,165	6,500,754	9,837,743		2,290,369	518,358	19,209,389
Federated Intermediate Fixed Income	530,206	13,785,772	9,510,693	1,200,045	812,988	779,328	26,619,032
EmStone Short Duration U.S. Fixed Income	4,213,320	3,707,076	6,185,067	3,138,800		1,700,023	18,944,286
Total	\$8,799,092	\$23,993,602	\$25,533,503	\$187,975,865	\$22,930,873	\$2,997,709	\$272,230,644



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