

**MINUTES**

**REGULAR BOARD MEETING  
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**One McInnis Parkway, 1<sup>st</sup> Floor  
Retirement Board Chambers  
San Rafael, CA**

**August 12, 2009, 9:00 A.M.**

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**EVENT CALENDAR**

9:00 A.M. Retirement Board Meeting  
11:00 A.M. Recess for Investment Committee

**CALL TO ORDER**

Chair Phillips called the meeting to order at 9:06 A.M.

**ROLL CALL**

Present: Arrigoni, Bolger, Given, Gladstern, Haim, Phillips,  
Richardson, Sweet, Webb (non-voting), Wofford  
Absent: Hufford, Smith

**MINUTES**

July 8, 2009 Regular Meeting, revised

The Administrator presented a revised version of the July 8 minutes, explaining that counsel had not been available to review the initial draft. Trustee Bolger requested that approval be deferred to the September meeting.

Chair Phillips polled board members with regard to commencing Open Time for Public Expression out of agenda order. Hearing no objection, the board moved to consider item B.

**OPEN TIME FOR PUBLIC EXPRESSION**

Retiree Tom Hendricks spoke and introduced Alexis McBride as an audience member. He requested that representatives of the Administrator's office and the Board meet with the retirees to discuss the possibility of distributing their newsletter, "Keeping In Touch," after MCERA assumes payroll processing from the ACO's office in March 2010. Currently, he explained, the retiree newsletter is distributed along with retiree payroll checks and deposit advice. Chair Phillips said he thought that was reasonable and referred the matter to the Member Services Committee.

**A. BOARD OF RETIREMENT MATTERS**

1. Administrator's Report (Oral)

Administrator Benner reported that items A.1.d and F.1. had been removed from the agenda.

a. Grand Jury Report update

The Administrator stated that the Member Services and Governance Committees have reviewed proposed responses and the Finance and Risk Management Committee will consider the proposed responses at their August 13<sup>th</sup> meeting. Final Committee recommendations will be presented at the September Board meeting.

b. Update on legislative process re: administrative budgets

Benner said that AB609 had been introduced. This bill would link administrative budgets to 18bp of plan liabilities rather than plan assets, which would provide a more stable basis for the budget. She noted that SEIU was actively opposing the measure.

c. 6/30/09 plan asset balance update

Administrator Benner reported that due to a mispricing of futures contracts by the custodian, plan assets were over reported as down 1.7% when they were actually down approximately 17%. She noted that performance was still very strong vs. other 1937 Act systems, CalPERS and CalSTRS for the same period. Chair Phillips agreed the performance was good in relative terms, pointing out that PERS and STRS were down approximately 25%.

d. Facilitator report on staff teambuilding activities (Mary McGovern)

Removed

e. Other

Administrator Benner appeared before the Board of Supervisors recently, to update them on MCERA key accomplishments for the year. Key accomplishments included: 1) Disability processing time has decreased significantly over the last two years, which is in sharp contrast to an article published recently by the Marin IJ, 2) BenCal is now current and up to date, 3) the FY08 audit is complete and the FY09 audit has begun, 4) the FY08 valuation report will be presented in September and the FY09 valuation has begun, and FY09 benefits statements will be mailed before the end of the month. Benner expressed her appreciation for the hard work of the MCERA staff during the year to get every annual business process back on its normal cycle after the devastating impact of the SAP implementation.

Benner also reported that the calculation log reflects 945 requests received since February 2008, with approximately 150 requests outstanding, which is a sustainable level. She noted that the number of retirement applications was unseasonably high and that disability retirement applications had also increased.

She expressed concern about workflow increases stemming from the County's planned voluntary retirement incentive program, indicating that she had been working with the County Administrator's office on the program.

The Chair and several trustees voiced concern over the lack of press coverage of these significant accomplishments, noting in particular the proactive efforts of the Board and the Administrator to keep the press well informed.

The Administrator advised the Board that one or more special meetings may be necessary prior to year end to hear the disability applications that are currently being prepared for presentation.

Chair Phillips reported that he had also updated the Supervisors on progress against areas identified by the Grand Jury, such as the formation of standing Committees. Benner directed the Board to the proposed change from one to two days of meetings commencing in January, noting that Investment Committee and other Committee meetings would be moved from Wednesday to Thursday in 2010.

Haim suggested the Board consider making the Communications Committee a standing committee. The Chair requested this item be agendaized for the next Board meeting. Trustees Gladstern and Sweet asked that the possibility of moving the Board's meetings to the third Wednesday be agendaized in addition.

SACRS Vision Plan. The Administrator requested that consideration of a request by SACRS for direction by the Board on whether to continue to pursue a retiree vision plan be added to the agenda as an urgency item. She explained that the proposed plan would feature a \$20 deductible, and that glasses and lenses could be prescribed annually. She noted that a similar plan offered by CalPERS opened with 30% participation, which has grown quickly to 50%. All costs will be borne by the retirees. Benner indicated that the request for input had been received less than 24 hours earlier.

Counsel Dunning cautioned that the matter had not been agendaized and could not be acted upon unless the Board made the requisite findings required by the Brown Act. Discussion was deferred until such findings were made.

(Trustee Arrigoni was excused from the meeting at 9:48 a.m.)

The Chair directed discussion to Agenda Item A.2.b due to the absence of the Finance and Risk Management Committee Chair.

2. Committee Reports  
b. Governance Committee

1. Review of discussion at last Committee meeting

Gladstern reported that at their August 7 meeting a decision was made to defer discussion of the investment code of conduct until the Legislature completed discussion of the item. Discussion was held as to whether an MCERA Whistleblower Policy should be developed, which will continue at a future meeting. The Committee recommended changes to the Record Retention Policy indicating that audio recordings of meeting are to be destroyed once the minutes have been approved. Gladstern stated that the Committee proposed responses to the Grand Jury would be submitted at the September meeting and that discussions on tax issues related to use of the One McInnis facility by outside groups would continue.

(Trustee Arrigoni rejoined the meeting in session at 10:14 a.m.)

Chair Phillips redirected the Board to return to the regular agenda.

2. Committee Reports  
a. Finance and Risk Management Committee

1. Recommend action on administrative budget for FY 2009-2010 (Action)

Chair Arrigoni reported that a revised budget format is being developed in conjunction with John Maher, CPA, and that Trustee Given continued to express concern over the outstanding issues with reconciling the County's cash position statement with MCERA's due to ongoing problems with SAP. Given stated that other county departments and special districts were also having similar problems.

The Chair redirected the Board to the SACRS Vision Plan, Agenda Item A.1.e.

Counsel Dunning stated that an item may be added to the agenda with the approval of 2/3 of the Board, and in addition the Board must make the following 2 findings: 1) there is a need to take immediate action, and 2) the need came to the attention of MCERA subsequent to posting of the agenda.

It was M/S Haim/Gladstern to approve adding the SACRS Vision Plan to the agenda and to make the findings that there is a need to take immediate action because SACRS needed direction before the next Board meeting, and that the need to take action came to the attention of MCERA subsequent to posting of the agenda.

AYES: Arrigoni, Bolger, Given, Gladstern, Haim, Phillips,  
Richardson, Sweet  
NOES: none

ABSTAIN: none  
ABSENT: Hufford, Smith, Wofford

Benner stated that the administrative burden of the plan on MCERA would be minimal, since Strategic Local Government Services (SLGS) would act as third party administrator, and that MCERA's role would be limited to withholding the premium from retiree paychecks. Benner noted that retiree vision care was not currently offered, and that the expected premium would be \$10 or 11 per month. Trustee Gladstern requested removal of social security numbers be included in negotiations.

It was M/S Haim/Gladstern to authorize the Administrator to communicate that the Board wished SACRS to continue to investigate options regarding a Retiree Vision Plan.

AYES: Arrigoni, Bolger, Given, Gladstern, Haim, Phillips, Richardson, Sweet  
NOES: none  
ABSTAIN: none  
ABSENT: Hufford, Smith, Wofford

The Chair redirected the Board to the regular agenda order and directed discussion to Item A.2.c, the Member Services Committee report.

2. Committee Reports

c. Member Services Committee

1. Review of discussion at last Committee meeting

Chair Wofford reported productive discussions, including review of new form letters submitted by the Administrator which should improve communications. She noted that fewer complaints were being received, and was glad to see that overall response times were getting shorter. The Administrator reviewed the various form letters with the Board. Trustees Haim and Given voiced their approval of the letters, and Benner agreed setting expectations is critical.

The Committee remains focused on transparency and responsiveness to the members, she stated.

Counsel Dunning suggested reviewing all Committees' Grand Jury responses at the September meeting and the Chair agreed.

The Administrator reviewed the calculation priority list with the Board, indicating that processing of retirements and retirement recalculations always took priority. Benner explained that retirement applications remain at unseasonably high levels.

Benner indicated that frustration with response time will always be an issue, since a thorough analysis is required and members do not fully understand the complexity of the process.

d. Ad Hoc Education Committee

1. Discussion of potential topics for Fall Board Strategic Workshop

Committee Chair Gladstern stated that the Strategic Workshop will be held on September 15<sup>th</sup>. The agenda will focus on board communication and team building, with Mary McGovern facilitating. The discussion will also include discussion of Mission, Vision and Values and identification of strategic initiatives. A presentation on securities lending will also be included if time permits.

**2. Trustee Comments**

Phillips reported on the ad hoc assistant administrator search Committee. He reported that the Administrator recommended consideration of installing two deputies rather than a single Assistant Administrator, the assumption being that one would be more senior, and responsible for calculations and QC, and the other responsible for customer service, administration and the accounting function. She stated that a natural tension existed between production and customer service and that separating the functions would help with competition for resources. Phillips said he wanted this agenda item for the next meeting of the ad hoc Committee for further discussion. Benner pointed out that the job classification of deputy administrator does not yet exist.

Trustee Richardson referred to the revised minutes and noted a difference in property value appraisals between July and now. Benner said she would follow up with Woodmont.

The Chair directed discussion to Item F.1., after which the regular agenda order would resume.

**F. NEW BUSINESS**

1. Supplemental Ad Hoc Cost of Living Increase (Action)

Consider and take possible action to adopt recommendations of Actuary regarding implementation of ad hoc supplemental COLA

Graham Schmidt, EFI Actuaries, explained that if a retiree's purchasing power has fallen below 80% of the level at retirement, the Board may approve, permanently or on an ad hoc basis, a cost of living adjustment to bring the retiree up to 80% of their purchasing power. A permanent increase in base benefit would cost \$2.2MM. A one time ad hoc increase would cost approximately \$300k. 118 retirees are eligible to receive an ad hoc cola, if granted. He stated the Board has no authority to grant a

permanent increase, as there is no reserve for excess earnings, and that it is unlikely that there would be excess earnings for the foreseeable future given recent market losses. Prior year ad hoc COLA awards have been paid through an increase in sponsor contributions.

Schmidt stated it is his recommendation not to grant the ad hoc COLA at this time for the following reasons:

- It would exacerbate anticipated contribution increases in the near future.
- Almost all other 37Act plans fund COLA's from excess reserves. MCERA does not have an excess reserve fund that is a non-valuation asset of the Plan.
- If ad hoc COLA's are granted with regularity, they may be deemed as permanent, and no longer ad hoc. While GASB does not have a rule on this at the present time, they are looking into this issue.
- If the ad hoc COLA were deemed to be permanent, it would increase overall plan liabilities.

In summary, Schmidt recommended that the board not grant the ad hoc COLA this year. Trustee Haim objected to the recommendation. Trustee Webb echoed Trustee Haim's concern.

(Wofford was excused from the meeting at 10:42 a.m.)

Trustee Gladstern stated that since there were legal concerns about granting the award and in light of the current economic climate, the decision not to grant was appropriate.

Counsel stated that there is no legal authority to fund a permanent increase under Government Code section 31874.3, subdivision (c), because MCERA has no reserves from which to fund such a benefit. The question is, she stated, whether providing the ad hoc benefit under subdivision (b) meets the fiduciary standard of serving the overall best interest of the members and beneficiaries under the circumstances described by the actuary; she further stated that the benefit should not be granted if doing so would, in the actuary's or staff's judgment, compromise the retirement security of the any of the members. She recommended that an in-depth discussion is appropriate on this issue, and that if the Board voted not to adopt the recommendation of the actuary, it would need to have a strong supporting rationale for its decision grounded in statutory authority and fiduciary principles, that considered, among other things, the issues raised by the system's actuary.

Chair Phillips recommended that the matter be referred to the Finance and Risk Management Committee for further discussion.

**D. LEGAL MATTERS**

None.

**E. OLD BUSINESS**

- 1. MCERA Participation Agreement for Funding Retiree Medical Trust 401(h) Account (Action)

Consider and take possible action regarding funding and operation by MCERA of a retiree medical trust fund organized under Section 401(h) of the Internal Revenue Code for the City of San Rafael

Removed from the agenda.

- 2. Annual Audit Report for Fiscal Year 07-08 (Action)

Review and possible acceptance of Annual Financial Report for period ending 6/30/08

Andrew Paulden of Brown Armstrong, MCERA’s external auditors, reviewed the June 30, 2008 audit report, which received an unqualified opinion, which is the highest opinion available. He congratulated MCERA on the audit results.

Paulden said his firm studies internal controls, investments and the earnings. Additionally, they conduct tests to determine if contribution and benefit payments are calculated correctly. The audit revealed no unusual issues or concerns. He noted that internal controls had been improved since the prior audit. He noted that the funded ratio for the Plan was 85% overall.

Paulden thanked the MCERA staff and said his firm appreciated the information received in order to accomplish the audit. The Chair expressed the Board’s appreciation for the firm’s audit effort.

Chair Phillips directed the Board to the regular agenda order.

**C. DISABILITIES**

All disability applications are heard in Closed Session unless applicant specifically waives confidentiality and requests that their application be heard in Open Session. Member records are confidential (Government Code Section 31532). (Action)

<u>Applications to be Heard</u>	<u>Service/Non-Service Connected</u>	<u>Date of Application</u>	<u>Employer</u>
1. Saul Alcantara	Service	5/22/08	San Rafael

Initial consideration of an application for disability retirement filed by a misc. member.

Chair Phillips announced that the Board unanimously approved the application.

The Chair recessed the regular session and convened the Investment Committee. Following that meeting, Chair Phillips reconvened the regular Board meeting at 1:30 p.m.

3. Approve Client Conferences and Other Educational Opportunities and Authorize Expenditures (Action)
  - a. NCPRS Public Safety Employees Pension & Benefits Oct. 11-14, 2009

It was M/S Haim/Gladstern to approve the client conferences and authorize expenditures for attendance.

AYES: Arrigoni, Bolger, Given, Gladstern, Haim, Phillips, Richardson,  
Sweet  
NOES: None  
ABSTAIN: None  
ABSENT: Hufford, Smith, Wofford

4. Public Employee Performance Evaluation pursuant to Section 54957.  
Title: Retirement Administrator (CLOSED SESSION)

The Chair stated that there was nothing to report.

**G. INVESTMENT INFORMATION**

Nothing to report.

**H. FINANCIAL INFORMATION**

1. Treasurer's Monthly Report  
Short Term Investments for period ending June 30, 2009

The Board accepted the Treasurer's Monthly Report on Short Term Investments for the period ending June 30, 2009.

**I. OTHER INFORMATION**

1. Approved Trustee Training Calendar
2. MCREA *Keeping in Touch Letter*, August 2009
3. ING Clarion – Quarterly Review, 2Q 2009
4. ING Clarion – Appointment of Sr. Vice President and CFO, July 2009
5. RREEF – America REIT III Performance Update, 2Q 2009
6. Numeric – Strategic Alpha Research Commentary, July 2009
7. Mazama – Quarterly Update, 2Q 2009
8. Artisan – Portfolio Manager Perspective, 2Q 2009
9. Pyramis – Commentary June 2009-08-06
10. FirstQuadrant – July 31, 2009 re team change
11. Callan Insights re RCM Laufersweiler promotion
12. Sustainable Investing – Arnerich Massena & Assoc.
13. SACRS Quarterly magazine – Summer 2009

14. UNEP-FI Report

**J. CONSENT CALENDAR (Action)**

It was M/S Haim/Gladstern to approve the Consent Calendar as submitted.

AYES:	Arrigoni, Bolger, Given, Gladstern, Haim, Phillips, Richardson, Sweet
NOES:	None
ABSTAIN:	None
ABSENT:	Hufford, Smith, Wofford

There being no further business, the meeting was adjourned at 5:14 P.M.

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James Phillips, Chair

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Michael Smith, Secretary