

MINUTES

SPECIAL MEETING OF THE FINANCE AND RISK MANAGEMENT COMMITTEE MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Retirement Board Conference Room
One McInnis Parkway, 1st Floor
San Rafael, CA

September 3, 2009 2:00 P.M.

EVENT CALENDAR 2:00 P.M. Meeting Finance and Risk Management Committee

CALL TO ORDER Chair Arrigoni called the meeting to order at 2:06 P.M.

ROLL CALL PRESENT: Arrigoni, Bolger, Given, Richardson, Sweet

ABSENT: Phillips

MINUTES June 30, 2009 Finance and Risk Management Committee meeting
July 8, 2009 Finance and Risk Management Committee meeting
July 14, 2009 Finance and Risk Management Committee meeting
July 29, 2009 Finance and Risk Management Committee meeting
August 13, 2009 Finance and Risk Management Committee meeting

The Chair directed that consideration and approval of the minutes will be deferred until October.

A. **OLD BUSINESS**

1. **Supplemental Ad Hoc Cost of Living Increase (Action)**
Consider and make recommendation to Board regarding possible adoption of recommendation of Actuary regarding implementation of ad hoc supplemental COLA

Graham Schmidt of EFI Actuaries, Plan Actuary, explained the rationale for the recommendations in his firm's July 30, 2009 letter to the Board, which recommended that no Supplemental COLA be granted for the current year. Counsel Dunning discussed '37 Act provisions that authorize the provision of supplemental benefits under circumstances that are defined by law, so long as those actions are consistent with the Board's fiduciary duties of prudence and loyalty. Schmidt stated that because of the financial condition of the Plan, and because no assets had been set aside specifically to prefund an ad hoc COLA, his firm recommended that no ad hoc COLA be granted this year. He noted that funding for an ad hoc COLA, if granted, would reduce the funding ratio of the Plan. Counsel advised that in light of the Actuary's recommendation, the Board would have to identify specific fiduciarily acceptable reasons to justify granting an ad hoc COLA, and that those reasons must consider any potentially adverse impact of granting the benefit on the Plan.

The question arose as to whether a standard of need could be established to justify granting the ad hoc COLA only to certain most needy members. Counsel advised that no such

standard exists beyond the loss of 20% or more of purchasing power that defines the group of retired members who are eligible supplemental COLAs under Government Code section 31874.3(b). Trustee Bolger expressed concern over the resultant impact on employer contributions and suggested there should be communication with the employers prior to making a decision. Counsel noted that the Board's primary fiduciary obligation is to serve the overall best interest of its members and beneficiaries.

The Committee discussed the matter further. The Committee also considered comments provided by board member Allen Haim, who attended the meeting as a member of the public.

It as M/S Bolger/Richardson to adopt the Actuary's recommendation and to recommend to the full Board that it not grant an ad hoc supplemental COLA as of July 1, 2009.

AYES:	Arrigoni, Bolger, Given, Richardson, Sweet
NOES:	None
ABSTAIN:	None
ABSENT:	Phillips

The Chair directed discussion to Agenda Item B.2.

B. NEW BUSINESS

2. Establishment of Excess Reserve Account

Consider and discuss possible establishment of an excess reserve account

Actuary Schmidt stated that a reserve account may be established to hold excess earnings as non-valuation assets. Losses over the years may be offset by utilization of these reserves. Schmidt said there is discussion in the actuarial profession as to whether the concept of "excess earnings" makes actuarial sense, the reason being that over the long term there will be returns both over and under the assumed rate of return. He observed that establishment of a non-valuation excess earnings reserve could result in valuation return targets being reduced. The Actuary also clarified that establishment of a non-valuation reserve account by the Board did not guarantee that it would not be revoked or changed by a future Board.

Counsel explained that various provisions of the '37 Act are implicated in any reserving policy that the Board may consider adopting.

The Chair requested additional actuarial and legal analysis be provided to the Committee on this topic, and that examples of excess earnings policies that other '37 Act systems have adopted be presented to the Committee before it considers the matter further.

The Chair redirected discussion to the normal agenda order, Agenda Section A, **OLD BUSINESS**, Item 2.

2. Discussion of Auditor's progress with account reconciliation

The Chair reported that he met with the auditor/controller and that he is satisfied that the 80151 account will never reconcile completely as there are other funds held within that account, including those of other special districts.

Trustee Given provided a handout showing six funds, including the 80151 account, for the years FY07 and 08. Given reported that the data through June 2008 looks very good, and that only a \$200k discrepancy remains. Given told the Committee that other agencies are experiencing similar reconciliation issues.

The Chair reiterated that he was prepared to accept the auditor/controller's explanation of the status of the account.

3. Administrative Budget FY09-10 (Action)

Consider and make recommendations to Board regarding adoption of Administrative Budget for FY 2009-2010

Accounting consultant John Maher said additional modifications to the draft budget should be made and recommended that no action be taken at this time. Open items include how to compute the 18bp administrative limit, as the '37 Act does not specify at what point assets are to be measured. Administrator Benner reported that normally MCERA has used the prior fiscal year's ending balance, since the budget is generally submitted in December. Maher suggested using an estimate of the expected value, noting that there was a material reduction in asset balance from last year to this year. Maher also questioned whether reimbursable expenses such as County Counsel fees should be included in the administrative budget. Maher provided the Committee with a list of questions to be resolved before completing review of the administrative budget, including those he had raised already. Discussion followed regarding the questions and possible responses to them. The Committee concluded that six of the questions raised legal issues that should be referred to counsel for review and a written response.

The Chair set October 7 at 11:00 a.m. for the next meeting with John Maher's attendance requested and the legal analysis to be provided in advance of the meeting.

4. Review of FY08-09 Grand Jury Report Findings (Action)

4:00 P.M.

Consider and make recommendations to Board regarding proposed responses to the Grand Jury report related to finance and risk management

It was M/S Richardson/Bolger to approve the Finance/Risk Management Committee's Recommended Responses to Grand Jury Report dated June 22, 2009.

AYES:	Arrigoni, Bolger, Given, Richardson, Sweet
NOES:	None
ABSTAIN:	None
ABSENT:	Phillips

The Chair directed discussion to Agenda Item B, **NEW BUSINESS**, Item 1.

1. Checklist of Documents for Quarterly Review (Action)

Consider and make recommendations to the Board regarding financial data to be reviewed by the Committee on a quarterly basis

The Administrator reviewed the provided checklist in detail and explained the process to provide the requested quarterly information.

Discussion ensued regarding the scope of Item 9. Counsel discussed the types of compliance and internal control issues that may be presented to the Committee in the future. One example discussed was to provide updates on pending discussions between MCERA and the County regarding eligibility for retiree health care benefits of MCERA members who rejoined an earlier tier as the result of a redeposit and may or may not be eligible for the benefit plan provided to members in the earlier tier.

Trustee Richardson was excused from the meeting in session at 4:21 p.m.

Items 10 and 11 were agreed on by the Committee.

Item 12 –Counsel advised that the issue should be addressed every three years, in accordance with the Committee’s charter. The Administrator stated that she would ask Woodmont to report on this topic as part of its regular requirements.

Item 12 was deleted by the Committee.

Discussion then turned to Item 8 on MCERA staffing status and needs. The Administrator provided current and proposed tables of organization to the Committee. She addressed the natural competition for resources that exists between operations and customer service which Scenario #1 addresses. The discussion revolved around the additional data needed to assess staffing, and Administrator Benner explained that the needed information is included in the budget that will be distributed to the Committee at the next meeting.

The Chair directed discussion to Agenda Item C.

C. OPEN TIME FOR PUBLIC EXPRESSION

No public comments were made.

There being no further business, the meeting was adjourned at 4:55 P.M.

Peter Arrigoni, Chair

Attest: Charnel Benner, Administrator