

**MINUTES**

**BOARD GOVERNANCE COMMITTEE MEETING  
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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

**November 17, 2009 - 2:00 P.M.**

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**CALL TO ORDER** Chair Gladstern called the meeting to order at 2:10 P.M.

**ROLL CALL** PRESENT: Bolger, Gladstern, Haim, Webb

ABSENT: None

**MINUTES** June 30, 2009 Governance Committee Meeting  
August 7, 2009 Governance Committee Meeting

It was M/S Webb/Haim to approve the June 30, 2009 Governance Committee Minutes as submitted. The motion passed unanimously.

It was M/S Webb/Haim to approve the August 7, 2009, Governance Committee Minutes as submitted.

AYES: Gladstern, Haim, Webb  
NOES: None  
ABSTAIN: Bolger  
ABSENT: None

**A. OPEN TIME FOR PUBLIC EXPRESSION**

**B. OLD BUSINESS**

1. Committee Organization and Procedures  
Discuss charter, meeting schedule, procedures, etc.

Retirement Administrator Charnel Benner explained that the Finance and Risk Management Committee requested that the Governance Committee address whether to adopt the county's capital asset policy or develop a new one. The Administrator recommended prioritizing the matter along with the reserve policy, as they are both time-sensitive issues.

Addressing another time-sensitive issue, the Administrator noted that the deadline for completion of the Plan Document is January of 2011. In order to define uniform IRS requirements, Administrator Benner reported that a SACRS committee is developing a Position Paper to recommend possible regulatory fixes. Following 37 Act agency review at the March SACRS symposium and IRS approval, the legislature will address the matter, she said.

## C. NEW BUSINESS

1. Consider and make recommendations to Board regarding communications to membership regarding Board agenda items

The Committee discussed formalizing a procedure to define notification requirements of Board action items. The issues discussed included what agencies should be notified and when, and what matters would necessitate notification. Based on the 37 Act language of providing “reasonable notice” and “opportunity to respond,” Counsel recommended that notice of at least 30 days be given to recognized retiree organizations when action is being taken on issues which would change retirement benefits offered by MCERA or the use of excess funds of MCERA, in accordance with Gov. Code section 31592.5. Chair Gladstern recommended that notification be based on a formal request by each organization, and proposed to compose a draft proposal with the assistance of Trustee Haim.

2. Investment Code of Conduct (Action)

Consider and make possible recommendations to Board regarding additions to Investment Code of Conduct (re: placement agents)

Counsel Dunning reported that development of additions to the Investment Code of Conduct regarding placement agents was in process, with a final proposal to be presented to the Board at the December meeting. She explained that the new California law requires policies to be in place by June 30, 2010. The Committee agreed that current Investment Managers should also sign and comply with the new policy. It was noted that while the SEC has a rule in process that may result in banning placement agents, under California law only disclosure is currently required. Trustee Bolger recommended investigating those instances in which placement agents are disclosed.

3. Discuss possible Funding Policies

Consider and make possible recommendations to Board regarding policy on interest crediting, excess earnings, funding goals, return assumption adjustments and rebalancing/adjusting current reserves

Actuaries Bob McCrory, Executive Vice President, and Graham Schmidt of EFI Actuaries, reviewed funding policy issues for the Committee. Mr. Schmidt emphasized that every funding decision has an effect on the security of plan assets as well as future contribution costs. Complicating issues which should be addressed according to Mr. Schmidt include: the funding objective; inter-generational equity; amortization of unfunded liabilities; smoothing of gains and losses; payroll base; the definition of “excess earnings.” A conservative reserve policy would be to establish a reserve fund which funds current retiree liabilities to 100%, he said. Schmidt stated that it would be reasonable to consider all related issues so that they converge into one comprehensive policy.

It was pointed out that currently there are no non-valuation contingency reserves available for funding purposes. The discussion moved to the intricacies of interest crediting, including the basis for calculating the interest, with Counsel Dunning offering to provide a draft proposal. Another issue to consider according to Counsel is the affect of the funding ratio on the provision of ad hoc benefits, as some systems set a minimum funding level prior to authorizing payment of certain ad hoc benefits. Chair Gladstern recommended prioritizing interest crediting and supplemental benefits, with Trustee Arrigoni

recommending convening at a dedicated workshop to address the issues. The Committee concurred and determined to do so at the Spring workshop. Actuary Bob McCrory confirmed the advisability of a workshop as he did not believe there was as yet any good comprehensive policy available to use as a model.

Actuary McCrory noted that the Board should consider benefit levels when developing its policy, advising that pension plans tend to fail when benefits are granted based on increased asset value. Trustee Haim agreed that increasing benefits may be detrimental to the soundness of the system. In light of this concern, Mr. McCrory encouraged the Committee to keep the scope of the policy broad and comprehensive, with initial drafts in outline form. Actuary Schmidt stated that there is a good chance there will be excess interest as of June 30, 2010, and therefore encouraged forward progress on an interest policy.

Trustee Haim was excused from the meeting at 3:10 p.m., returning at 3:12 p.m.

Chair Gladstern agreed to develop a draft policy on interest crediting and funding with Trustee Haim, the Actuary and Counsel. Trustee Webb commented to the Committee on the Board's fiduciary duty to retirees.

4. Review New Trustee Handbook Table of Contents

Nothing to report.

5. Consider Schedule to Review all Policies

Counsel explained that all policies should be reviewed in accordance with each of their designated schedules and agreed to provide a schedule.

6. Consider possible edits to Retirement Administrator evaluation policy

The Committee discussed the relative benefits of varying evaluation levels, agreeing to revisit the item at the next meeting.

7. Development of Additional Board Policies

Consider possible development of additional Board policies:

- Vendor evaluation process

Counsel noted there is an existing "Key Service Provider" policy available.

- Investment Committee charter  
Nothing to report.

- Communications Committee charter

Trustee Haim referred to the probability that issues addressed by the Communications Committee overlap with the Membership Committee. The Committee agreed that Counsel would draft a charter.

- Corporate governance

Chair Gladstern requested that the Council of Institutional Investors (CII) governance policy be included in the Trustee Handbook and the Committee agreed.

Trustee Bolger was excused from the meeting at 4:04 p.m. and returned at 4:07 p.m.

- Proxy voting  
Nothing to report.
- Mass media policy  
Nothing to report.
- Whistleblower policy

While the county has a whistleblower policy which could be used by MCERA, Counsel explained that there is a reporting line issue when employees go to Human Resources as it reports to the Board of Supervisors. The Committee agreed that Counsel should develop a policy for MCERA, with employees being given the choice to follow either policy in order to maintain their full rights.

- Confidentiality & privacy policy

Trustee Haim stated that as there are laws governing privacy and confidentiality, a separate policy does not need to be developed, but instead a statement of the law may be provided. The discussion included the privacy of retiree addresses and social security numbers, which may be used in part for member identification in computer systems. It was agreed to continue discussion of the issue.

- Building usage and security policy

The discussion included items such as the rates charged for building use; whether the building may be used by the County, and if so for what charge; and whether MCREA may use the facility. It was agreed to continue discussions at the next meeting.

- Due diligence policy

The Committee agreed to follow the policy in place which provides for the Retirement Administrator to set a schedule for site visits at the beginning of each year. Trustee Gladstern expressed concern that travel expenses may be prohibitive. The review of and/or composition of a checklist for site inspections was discussed.

- Securities litigation reporting & monitoring

Chair Gladstern recommended initiating annual reporting of securities litigation. The Committee agreed to defer discussion of the matter to a later meeting.

Trustee Bolger was excused from the meeting at 4:31 p.m.

- Other

8. Update on Plan document progress  
Nothing to report.

9. Discussion of Government Code section 31627 provisions

Counsel explained that Section 31627 provides for members to make additional contributions in order to secure additional benefits, but that the provision could be adopted only if it were also approved by the County. Counsel also noted that MCERA's tax counsel had advised that adoption of this statute may pose problems to MCERA from a tax perspective. The Chair requested that Counsel determine whether other '37 Act systems have adopted regulations as provided by the statute.

10. Agenda topics for next meeting

Chair Gladstern placed the issue of a possible negative COLA next Spring on the next Committee Agenda. It was suggested that the subcommittee meet the third week in January (January 19).

There being no further business, the meeting was adjourned at 4:39 p.m.

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Maya Gladstern, Chair

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Attest: Thomas C. Ford  
Acting Retirement Administrator