

MINUTES

BOARD GOVERNANCE COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

January 27, 2011 - 9 A.M.

CALL TO ORDER

Chair Brenk called the meeting to order at 9:05 A.M.

ROLL CALL

PRESENT: Bolger, Brenk, Haim, McFarland, Walsh, Webb

ABSENT: None

MINUTES

It was M/S to approve the October 21, 2010, Governance Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

None.

C. NEW BUSINESS

1. Interest Crediting and Unrestricted Earnings Policies (Action)

Consider and make possible recommendation to Board regarding amendments to policies

Retirement Administrator Wickman said that Interest Crediting Policy revisions clarify the statutory requirements regarding the establishment of a non-valuation contingency reserve. There is also a technical change regarding the administrative budget. The revised Unrestricted Earnings Policy provides that "excess earnings" as defined in County Employees Retirement Law (CERL) can be used to grant an ad hoc COLA to retirees who have lost over 20% of their purchasing power. The revised Unrestricted Earnings Policy introduces a funding ratio threshold that would only allow the granting of an ad hoc Cost of Living Adjustment (COLA) if MCERA's overall funding exceeded the policy target.

Trustee Walsh sought details on the Board's discretion for granting an ad hoc COLA. Counsel Dunning said that the standard COLA provided under 31870, 31870.1 and 31874.2 of the CERL are granted by the plan sponsors. She noted that granting the supplemental ad hoc COLA provided under 31874.3 of the CERL is left to the discretion of the Board. The ad hoc COLA may be provided for those retirees who have lost 20% or more of their purchasing power. Mr. Walsh suggested that plan sponsors should be part of a decision to grant such benefits, and in the event they are not part of that decision, the plan should be fully funded before dispersing funds for supplemental benefits.

Administrator Wickman said that revisions to the Unrestricted Earnings Policy provide for an 80% funding level, but that he recommends adjusting that level to 100%. Mr. Wickman reasoned that the system's liabilities should be fully funded prior to providing additional benefits that are beyond those that are being funded through contributions to the system. Chair Brenk asked if supplemental ad hoc COLAs are built into actuarial funding models, and Counsel stated the actuary had reported that they were not at this time.

Trustee Walsh questioned whether the Board should have the discretion defined in the Unrestricted Earnings Policy. Ms. Dunning said that the Unrestricted Earnings Policy addresses discretionary decisions by the Board once all parameters are fulfilled, and that proposed amendments such as funding-level thresholds add to those parameters.

Administrator Wickman said that the policies provide a framework for the process of establishing ad hoc COLAs, one of which is to avoid creating additional liabilities that the plan cannot fund.

It was M/S Bolger/Walsh to recommend that the Board adopt amendments to the Interest Crediting Policy as submitted. The motion was approved by unanimous vote.

Discussions continued on amendments to the Unrestricted Earnings Policy. As proposed, the term "ancillary" is removed. Trustee Haim preferred retaining the term "ancillary" to protect the right of the Board to provide other benefits. Administrator Wickman maintained that clarity will address concerns that the Board would disperse "excess earnings" for other purposes that are not intended at this time. If the Board wished to use "excess earnings" for other benefits this should be done through separate policies.

Funding-level thresholds of 80% versus 100% before supplemental ad hoc COLA could be granted were considered. Trustee Walsh made a motion to approve the proposed Policy, amended to require 100% funding instead of 80%. Trustee Bolger concurred with the 100% funding level, advising that the original intent of granting supplemental ad hoc COLAs was only under circumstances of full funding, and thus is the appropriate and reasonable measure.

Careful consideration was given to Policy wording based on guidance by counsel to allow for future Board's actions based on prudence and loyalty.

The Committee agreed to end debate and Chair Brenk called for a vote.

It was M/S Walsh/Bolger to recommend that the Board adopt the Unrestricted Earnings Policy as amended.

AYES: Bolger, Brenk, McFarland, Walsh

NOES: Haim, Webb

ABSTAIN: None

ABSENT: None

Chair Brenk recessed the meeting for a break at 10:29 A.M., reconvening at 10:34 A.M.

2. Placement Agent Payment Disclosure Policy (Action)

Consider and make possible recommendation to Board regarding amendments to policy

Counsel Dunning reviewed recent legislative actions which define certain in-house staff of investment managers as placement agents who are thus subject to the Placement Agent Payment Disclosure Policy provisions. The proposed amendments align the Policy with those requirements and provide for an annual filing of the Representation re Placement Agents. Ms. Dunning recommended that placement agent disclosures be submitted in concurrently with the annual Form 700.

Administrator Wickman advised that new investment managers are aware of the Policy as Appendix D to the Investment Policy Statement.

It was M/S Haim/McFarland to recommend that the Board adopt amendments to the Placement Agent Policy as submitted. The motion was approved by unanimous vote.

3. Economic Assumptions Policy (Action)

Consider and make possible recommendation to Board regarding amendments to same including discussion of SB 867

Proposed amendments to the Economic Assumptions Policy provide additional detail on the process of determining actuarial economic assumptions, such as the actuary's tri-annual experience study. Policy revisions also formalize the timing of presentation of the valuation reports to the Board.

The Committee considered and discussed Policy provisions, which Trustee Haim referred to as good practice. Trustee Walsh approved of basing actuarial assumptions on the experience study, adding that he also favored considering provisions of Government Accounting Standards Board (GASB) 54 for the Policy. Trustee Bolger presented two additional options regarding adoption of assumptions: considering additional data, and reconsidering assumptions in stress-test scenarios. Administrator Wickman responded by explaining that the data from the experience study will provide the Board with data regarding the appropriateness of the economic assumptions. This work will take place in summer 2011 and will be combined with the new capital market projections to give the Board data by which to make any future assumption changes.

Other factors considered by the Committee included concern about potential impacts to assumptions based on plan sponsor staff reductions. Chair Brenk posed the possibility of considering factors such as the opinion of noted investment luminaries on the capital markets.

Trustee Haim observed that the Board must rely on its experts such as the actuary and retain the process for the long-term. He expressed confidence in the Policy as presented, adding that the experience studies will pick up needed changes to economic assumptions.

It was M/S Bolger/Walsh to recommend that the Board adopt amendments to the Actuarial Economic Assumptions Policy as amended. A discussion of Senate Bill (SB) 867 followed the motion.

Administrator Wickman provided a summary of SB 867 so that the Committee could consider whether to adopt provisions of the State legislation, which calls for, among other items, a study of the effects of using alternative rates of return on investments.

After discussing the legislation and its history, several Trustees expressed an interest in creating a sub-committee to review the provisions of SB 867 and determine which would be applicable for inclusion in future MCERA actuarial reports.

Chair Brenk called for a vote on the motion.

The motion was approved by unanimous vote.

4. Budget Policy (Action)

Consider and make recommendation to Board regarding amendments to Policy pursuant to AB 609

Administrator Wickman reviewed amendments to the Budget Policy which comply with Assembly Bill (AB) 609. Mr. Wickman explained that the budget base will be calculated on total accrued liability instead of total assets, with an increase from 18 to 21 basis points. Computer hardware and software items are exceptions to the budget cap. The Policy also modifies the monitored budget variances from 5 to 10%.

The Committee agreed that further discussion of proposed amendments to the Budget Policy will take place at the February Board meeting.

5. Develop New Trustee Orientation Checklist

No discussion.

6. Next Committee meeting

The next Governance Committee meeting is April 21, 2011.

There being no further business, Chair Brenk adjourned the meeting at 11:48 A.M.

Greg Brenk, Chair

Attest: Jeff Wickman, Retirement Administrator