

**MINUTES**

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

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

**April 11, 2012 - 9 A.M.**

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**EVENT CALENDER** 9 A.M. Regular Board Meeting

**CALL TO ORDER** Chair Gladstern called the meeting to order at 9:02 A.M.

**ROLL CALL** PRESENT: Bolger, Brenk, Cooper, Given, Gladstern, Haim, McFarland, Piombo (safety alternate), Richardson, Webb (retiree alternate)

ABSENT: Stevens

**MINUTES**

It was M/S Haim/Richardson to approve the March 14, 2012, Regular Board Meeting Minutes as amended. The motion was approved by a vote of 7-0-1, with Trustee Given abstaining.

**A. OPEN TIME FOR PUBLIC EXPRESSION**

Note: The public may also address the Board regarding any agenda item when the Board considers the item.

No public comment.

Chair Gladstern directed deliberations to **Agenda Item C.1.**

**C. BOARD OF RETIREMENT MATTERS**

1. Administrator's Report (Oral)
  - a. Administrator's update

Retirement Administrator Jeff Wickman reported on annual Form 700 submissions, commending Dale Barre, Clerk of the Board for her efforts in the collection, review and filing of the documents.

Administrator Wickman reported that he expected to issue a Request for Proposal to obtain a firm to conduct the actuarial audit soon after the Board's approval of the June 30, 2011 valuation.

Cornerstone notified MCERA that capital to fund the core real estate portfolio will be called at the end of the 2<sup>nd</sup> quarter. The assets redeemed from the termination of Clarion Partners will be managed through the Clifton overlay program until it is put to use with Cornerstone and UBS.

Mr. Wickman met with the County's Human Resources Director to discuss joint education sessions for County employees who may be impacted by a reduction in force.

The SACRS conference follows early May Board and Investment Committee meetings.

Chair Gladstern directed deliberations to **Agenda Item F.1.** at 9:12 A.M.

## **F. NEW BUSINESS**

### **1. Presentation on Governor's 12-Point Plan for Pension Reform (TIME CERTAIN: 9:10 A.M.)**

Staff presentation summarizing Governor's proposed pension reform measures

Mr. Wickman stated that the presentation was initially put together to address inquiries from employee and labor groups about the Governor's proposed pension reform plan. Staff and counsel briefed the Board on the initial plan from the Governor in the Fall of 2011. This presentation has been updated to include details provided in the proposed legislation. Mr. Wickman noted that of the twelve points the structure of any final hybrid plan is the most uncertain.

Counsel Ashley Dunning presented to the Board a summary of the 12-Point Pension Reform Plan ("the Plan") proposed by the Governor to the Legislature in January 2012. Currently a conference committee of state legislators, whose last hearing is Friday, April 13, is studying the issue.

The Plan would apply mostly to employees hired on and after July 1, 2013, in some cases to those hired on and after January 1, 2013, and in a few cases to current plan members who have not yet retired. If any sections of the Plan are deemed by a court of appeal to be unconstitutional, those sections can be "severed" so that the remaining provisions remain enforceable. The Plan is contingent upon approval by the voters of a state-wide ballot measure in November. In the event that the provisions of the Plan become law, there would be a new legal framework that would apply to all public pension systems in California.

Key elements of the Plan, among others are:

- Requires all employees to pay at least half of the annual normal cost of benefits
- Establishes a "hybrid" (defined benefit/defined contribution) pension plan for individuals first hired by a public employer on or after July 1, 2013
- For members first hired by a public employer on and after January 1, 2013:
  - Increases minimum age for service retirement

- Requires at least a three-year final compensation period
- Adds to exclusions from final compensation
- Limits post-retirement public employment for all active members
- Prohibits future retroactive pension increases for all active members
- Prohibits pension holidays
  - Normal cost contributions continue under overfunded conditions.
- Prohibits purchase of air time service prospectively
- Changes CalPERS pension board composition

Ms. Dunning responded to trustee inquiries on topics such as vested rights, allocation of employee contributions, and the potential for court challenges. Also discussed was the administrative cost of implementing the proposed changes.

Chair Gladstern recessed Open Session and directed deliberations to **Agenda Item B, Disabilities**, in Closed Session at 10:00 A.M.

**B. DISABILITIES (TIME CERTAIN: 10 A.M.)**

All disability applications are considered in Closed Session unless applicant specifically waives confidentiality and requests that his or her application be considered in Open Session. (Action)

<u>Applications to be Heard</u>	<u>Service/Non-Service Connected</u>	<u>Date of Application</u>	<u>Employer</u>
1. James Mathiesen Initial consideration of an application for service-connected survivor's death benefits filed by a Safety member's surviving spouse, Cynthia Mathiesen.	Service	10/24/11	Marin County Sheriff
2. John Cunningham Initial consideration of an application for service-connected disability retirement filed by a Miscellaneous member.	Service	4/21/10	Marin County IST
3. Timothy Horvath Initial consideration of an application for service-connected disability retirement filed by a Safety member.	Service	2/17/11	San Rafael Police
4. Carol McClendon Initial consideration of an application for service-connected disability retirement filed by a Miscellaneous member.	Service	6/23/09	Marin County Courts

Chair Gladstern recessed Closed Session, and directed deliberations to **Agenda Item F.2** in Open Session at 11:35 A.M.

**Agenda Item F, NEW BUSINESS, continued.**

2. Actuarial Valuation Report, FY 2010/11 – Graham Schmidt, EFI (TIME CERTAIN: 11:30 A.M.) (Action)

Consider and take possible action to adopt Actuarial Valuation report, FY 2010/11

Graham Schmidt of EFI Actuaries presented the Actuarial Valuation as of June 30, 2011. The report includes employer and member contribution rates for the fiscal year beginning July 1, 2012. The report includes an outline of Plan provisions, actuarial methods and assumptions, and actuarial computations for asset value, benefits, and accrued liability by agency. Funding ratios and normal costs are presented, along with an analysis of changes in data values from the prior year.

For the total Plan, valuation assets increased from the prior year, with the funded ratio based on the market value of assets changing from 61.8% to 73.6%. Employer contributions increased primarily due to demographic changes, prior investment losses that are still being recognized and economic assumption changes. A decline in the payroll base also contributes to an increase in employer contribution rates as a percent of payroll. Absent unexpected changes, pension costs are expected to increase next year, and then begin a multi-year decline.

Summaries of the valuation by plan sponsor were reviewed by Mr. Schmidt. The goal of the summaries is to provide readily accessible information about the current funded status of plan sponsors, key components of the financing plan including the economic assumptions and a new sensitivity analysis showing the effects if assumptions were used in the financing plan.

The sensitivity analysis was presented based on discussions and recommendations of the ad hoc SB 867 committee. The analysis shows the effect on plan costs and funding ratios if a variance of +/- 1% were used for the expected rate of investment return assumption. He also explained the effect of amortization of deferred investment gains and losses on contribution rates. The discussion included a review of the actuarial cost method, amortization method, asset valuation method, and actuarial economic assumptions for inflation, real rate of return, nominal rate of return (7.5%), projected salary increases, and cost of living adjustments.

Following the actuary's presentation, the Board invited public comment. David Brown, representing the Citizens for Sustainable Pensions, expressed concern about the degree of variation in Plan cost and funding presented in the sensitivity analysis. He also pointed to the increase in the inactive actuarial liability from \$775 million to \$871 million, and the imbalance in relative increases of employee and employer contribution rates.

The actuary responded to trustee inquiries on topics such as the impact on plan cost of demographic data and new entrants, the effect of a potential hybrid plan on the current plan, and employee contributions. Trustee Haim commended Mr. Schmidt for representing SACRS on the California Actuarial Advisory Panel.

It was M/S Haim/Brenk to adopt the Actuarial Valuation for FY 2010/11. Trustee Brenk reiterated his preference for a 4% real rate of return. The motion was approved by unanimous vote.

3. Summary Actuarial Valuation Report, FY 2010/11 – Graham Schmidt, EFI  
Consider and discuss summary valuation report

See Agenda Item F.2 above.

Chair Gladstern recessed Open Session for a working lunch and directed deliberations to **Agenda Item B, Disabilities**, in Closed Session at 12:24 P.M.

Chair Gladstern recessed Closed Session and reconvened the meeting in Open Session at 1:23 P.M.

Chair Gladstern reported that the Board voted 5-3 to remand the matter of James Mathiesen's application for service-connected survivor's death benefits filed by a Safety member's surviving spouse, Cynthia Mathiesen, to staff to request written briefing from counsel for both the applicant and the Association on the applicable legal standards as applied to the facts of this case. Trustees who dissented were Cooper, Given, and Richardson. Trustee Piombo recused himself from the discussion and vote because the applicant was in the same service and was a close friend, and Trustee Piombo determined there would be a conflict of interest if he participated in the matter.

Chair Gladstern reported that the Board voted 7-0-2 to grant John Cunningham's application for service-connected disability retirement. Trustees Bolger and Brenk abstained.

Chair Gladstern reported that the Board voted 8-0 to grant service-connected disability retirement to Timothy Horvath. Trustee Piombo recused himself from the discussion and vote because the applicant was in the same service and same department as he, and Trustee Piombo determined given his personal knowledge of the applicant there would be a conflict of interest if he participated in the matter.

Chair Gladstern reported that the disability matter relating to Carol McClendon was continued to the May Board meeting.

Chair Gladstern directed deliberations to **Agenda Item C.1.b.**

- b. Business Objectives for FY 2011/12 Quarterly Review

New Software Benefits Program

Mr. Wickman reported that the new benefit management system is fully implemented and performing well. He commended staff for how quickly they have adapted to using the new system for daily business. A number of significant business events including the April 1<sup>st</sup> COLA have been successfully tested. Future activities will be posting of quarterly taxes and members' annual statements. Mr. Wickman is confident that the system will continue to perform as expected.

Performance Management

A primary goal is to reduce the gap between the members' final paycheck and their first retirement check. Other goals include providing timely benefit estimates and

providing service credit purchase information when a new member joins MCERA. With the new system in place progress toward these goals is being made. Workload statistics and analysis will be presented to the Member Services and Communications Committee at each meeting.

In response to Chair Gladstern's inquiry, Mr. Wickman stated that members may expect their annual statements no later than August. In response to Trustee Brenk's question about unanticipated issues in data, Mr. Wickman stated that the majority of data issues are known and being actively addressed. He also noted that the new benefit system provides the ability to keep inaccurate data from coming into the database through active member payroll.

#### Human Resource Management

One staff position reallocation remains to be completed. Supervisors are also working on getting evaluations up to date. Mr. Wickman is also encouraging staff to participate in CalAPRS round tables and other available training to expand staff expertise in the pension administration.

#### Management of Investments

The Retirement Administrator plans to complete one formal investment manager course.

#### Communication and Education

Mr. Wickman reports that considerable effort to provide education to MCERA members, retirees, sponsors and the public have improved the overall understanding of pension issues. He along with the Assistant Retirement Administrator will continue outreach to various groups as the opportunities arise.

Staff have also created numerous new publications and expanded the information that is available through MCERA's web site. Recent accomplishments include completion of summary valuations to provide more accessible information to plan sponsors and the public. Staff is in the final stages of completing the new Member Handbook, and a Popular Annual Financial Report (PAFR) is planned.

#### Financial Goal

The publication of the PAFR will be a significant accomplishment by staff. This work will be used as a springboard to developing a Comprehensive Annual Financial Report (CAFR). Trustee Given observed the CAFR is an extensive report that will be a long-term project.

c. Staffing update

No report.

d. Facility Use Report

No facility use.

- e. Future meetings
  - April 17 Governance Committee
  - May 2 Regular Board

2. Committee Reports

a. Communications and Member Services Committee

1. Public Information Team

Discussion deferred to the next Committee meeting.

2. Workload Analysis

Discussion of workload indicators

Committee Chair McFarland reported that Assistant Retirement Administrator Michelle Hardesty developed workflow statistics to analyze the status of different customer service activities. Mr. Wickman expressed confidence that the report will show progress toward improving customer service by bringing a more qualitative approach to the process. Trustee Webb commended staff for initiating the workflow report.

3. Spring MCERA newsletter (Action)

Consider and take possible action to approve Spring newsletter copy

Based on the action of the Governance Committee, Committee Chair McFarland recommended that the Board approve the Spring newsletter copy as submitted. The motion was approved by unanimous vote.

4. Communication Priorities

Report on upcoming communication priorities

Staff is currently developing the Member Handbook. Staff are also looking at ways to provide more opportunities for same-day counseling sessions with seminar attendees.

5. CPAS

Project Status Update

The new pension management system is performing well.

6. MCERA Website

Presentation on new design features

3. Trustee Comments

Trustee Haim referred to an appeals court matter between the City of San Jose and members regarding reduced pension benefits of safety members. Counsel Dunning will keep the Board apprised of legal actions that affect MCERA.

The fiduciary forum presented by Ms. Dunning's firm, Manatt, Phelps, & Phillips, was attended by several trustees. Mr. Haim found the seminar to be professional and informative, and he offered related materials to fellow Board members.

Comments on the recent public pension forum by Trustee Brenk included his ideas to identify acceptable ranges for the various costs of pension benefits as a percent of payroll, and compare public and private employers' total compensation.

Ms. Dunning will keep the Board apprised of matters relating to the exclusive benefit priority. She referred to a number of '37 Act cases relating to breach of fiduciary duty with regard to management of pension funds.

Chair Gladstern noted the County's plan to establish a trust fund for the OPEB liability over fifteen years.

Chair Gladstern attended a recent MCARE lunch, which she encouraged the trustees to attend in the future.

At the April Council of Institutional Investors meeting in Washington, Ms. Gladstern joined a group to meet with Senate and the House of Representatives on issues including credit rating agencies and the *Morrison* decisions on transnational securities issues. Fees associated with fund-of-fund private investments were a topic of discussion. Speakers included notable leaders, and she recommended future meetings to the trustees.

**D. LEGAL MATTERS**

None

**E. OLD BUSINESS**

None

**NEW BUSINESS, continued**

4. Voting Instructions to MCERA Delegate to SACRS Business Meeting, May 11, 2012
  - a. Election of SACRS Board of Directors (**Action**)

Chair Gladstern reported that the previous President of SACRS retired.

It was M/S Richardson/Given to approve the SACRS Board of Directors. The motion was approved by unanimous vote.

- b. Copy of meeting agenda

No discussion.

5. Future Meetings  
Consider and discuss agenda items for future meetings

**G. INVESTMENT INFORMATION**

“X” indicates report distributed; \* indicates report distributed electronically

**PERIODIC REPORTS**

1. Equities and Fixed Income

	Abbott Capital	-Private Equities Fund	
*	Artisan Funds, Inc.	-International Equities Fund	
*	The Clifton Group	-Futures Overlay Program	
*	Columbus Circle Investors	-Small Cap Growth Portfolio	
*	Dimensional Fund Advisors	-Small Cap Value Fund	
*	Dodge & Cox	-Large Cap Value Portfolio	
*	Eaton Vance	-Emerging Markets	
*	Morgan Stanley	-International Equities Fund	
	Pathway Capital	-Private Equities Fund	
*	Pyramis Global Advisors	-International Small Cap Equity Fund	
*	RCM	-Large Cap Growth Equities Portfolio	
*	State Street Global Advisors	-S&P 500 Flagship Non-Lending	
*	Wellington Management	-Core Domestic Fixed Income Portfolio	
*	Western Asset Management	-Core Plus Domestic Fixed Income Portfolio	

2. Real Estate

*	Woodmont Realty Advisors	-Direct ownership – Monthly report	
*	AEW Capital Management	-Value Added Portfolio	Quarter
	Clarion Partners	-Core	Quarter
*	RREEF	-Value Added Portfolio	Quarter
	Woodmont Realty Advisors	-Direct Ownership	Quarter

3. Other

**H. OTHER INFORMATION**

1. Trustee Training Calendar (**Action**)  
No discussion.
2. *Keeping in Touch* – April Issue, Retired Employees Association newsletter

**I. CONSENT CALENDAR (Action)**

It was M/S Haim/McFarland to approve the Consent Calendar as submitted. The motion was approved by unanimous vote.

CONSENT CALENDAR for  
MCERA MEETING, WEDNESDAY, APRIL 11, 2012

CONSENT CALENDAR  
March 2012

RETURN OF CONTRIBUTIONS

W. Hochman	Courts	56,188.02
	TOTAL	56,188.02

BUYBACK

Astrid Jansson		County of Marin
Margaret Moster		County of Marin
Joe Vasco		City of San Rafael

NEW RETIREES

Ronald Alves	Fire	County of Marin
James Evans	HR	County of Marin
Patrick Faulkner	County Counsel	County of Marin
Mary Donovan	HHS	County of Marin
Bruce Garganus	HHS	County of Marin
Betty Jackson	Probation	County of Marin
Katherine Rael	DOF	County of Marin
Kevin Shavers	Sheriff	County of Marin
Karen Wofford	Sheriff	County of Marin
Ruth Coleman Byrd		Courts
Tina Hannon		Courts

RESCINDED RETIREMENTS

DECEASED RETIREES

Harold Brown	Board of Supervisors	County of Marin
Betty Hodgson	Assessor-Recorder	County of Marin
June Siem	H&HS	County of Marin
Kendall Holyome		Novato Fire

CONFERENCES/SEMINARS

CalAPRS General Assembly  
Trustees Bolger, Gladstern, McFarland, Richardson  
Retirement Administrator Wickman  
Manatt Fiduciary Forum  
Gladstern, Haim, McFarland, Stevens  
Retirement Administrator Wickman  
CalAPRS Pension Management - Stanford  
Trustees Cooper, Piombo, Stevens

There being no further business, Chair Gladstern adjourned the meeting at 2:49 P.M.

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Maya Gladstern, Chair

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Gregory Brenk, Secretary