**MINUTES**

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

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

**July 23, 2012 – 9 A.M.**

---

**CALL TO ORDER** Chair Brenk called the meeting to order at 9:01 A.M.

**ROLL CALL** PRESENT: Bolger, Brenk, Gladstern, Haim, McFarland, Piombo, Stevens, Webb

ABSENT: None

**MINUTES**

It was M/S Bolger/Haim to approve the April 17, 2012, Governance Committee Meeting Minutes as submitted. The motion was approved by unanimous vote.

**A. OPEN TIME FOR PUBLIC EXPRESSION**

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

Mr. Wickman noted that committee meetings are now recorded.

**B. OLD BUSINESS**

1. Contributions Collections Policy (**Action**)
Consider and possibly recommend to Board draft contributions collections policy

In April the Governance Committee directed Retirement Administrator Wickman to contact MCERA employers regarding the proposed policy establishing guidelines for the timing of required contribution payments. Based on input received from the employers Mr. Wickman recommended revising the Policy to accommodate the varying employer pay periods.

It was M/S McFarland/Gladstern to recommend that the Board adopt the Timing of Payment of Employer Required Contributions Policy as revised per discussions. The motion was approved by unanimous vote.

2. Policy Review Schedule
Review timing of policy reviews

Mr. Wickman presented the Policy Review Schedule to assess standard review periods for MCERA policies. He recommended assigning review periods to policies with non-specific review periods. These include the Investment Policy Statement (IPS), which upon consideration committee members agreed should be reviewed annually in addition to updating Statements of Objectives as needed. Also, the Procedures for Hearings on Non-Disability Retirement Related Matters was assigned the standard three-year review period.

## C. NEW BUSINESS

1. Actuarial Equivalence Determinations for Modified Retirement and Survivor Allowances
Consider and discuss optional form factors used to calculate modified retirement and survivor allowances

Mr. Wickman stated that a question arose at Contra Costa County Retirement Association about factors used to calculate optional survivor benefits, which members may choose to receive instead of receiving the unmodified retirement allowance. At the center of the issue is the question of whether a cost of living adjustment (COLA) assumption may, should or must be used to calculate modified optional retirement benefits. Optional form factors are used to calculate reduced member and survivor allowances. Because the topic has been widely discussed by administrators and CEOs of '37 Act systems, Mr. Wickman requested MCERA's actuary Graham Schmidt of EFI Actuaries to provide an educational session on optional form factors.

Mr. Schmidt introduced the concept of actuarial equivalence, which is achieved by using factors to equate the present values of optional retirement benefits with the present value of a straight life annuity equal to the member's unreduced benefit. He explained that the present value of future benefit payments is derived from assumptions such as the return assumption, mortality, the form of the benefit and when it will end or change over time.

Mr. Schmidt reviewed the four retirement benefits options based on the County Employees Retirement Law of 1937 (CERL). Most members (96%) select the unmodified benefit. The unmodified benefit automatically includes a 60% continuance provided to a survivor spouse or minor children, which includes the COLA for which the member was eligible. The remaining 4% choose one of the four optional benefits. Out of the 4%, 3.6% choose either Option 2 or Option 3, which involve beneficiaries that would be eligible for the member's COLA. Mr. Schmidt explained that because of the low number of MCERA members who select optional retirements, whether COLAs are factored in for these options does not impact plan funding, either favorably or unfavorably. The actuary also noted that because a high number of Option 2 retirees are also married and thus are eligible for the unmodified benefit, they have elected to receive a reduced benefit from MCERA that is expected, when combined with the survivor benefit, to be less costly to MCERA than had they received the unmodified benefit with the guaranteed 60% continuance.

Counsel Dunning advised that MCERA's current practice of not including COLAs in the determination of actuarial equivalence to calculate options is appropriate under the CERL, given the rules regarding how COLAs are to be funded under the CERL. She also stated that she did not believe it would be proper to include the COLA assumption in actuarial reduction calculation for optional benefits provided to members under CERL sections 31761-31764 because, under the CERL, the costs of the COLA increases to those allowances are to be funded by separate COLA contributions, not greater benefit reductions. She noted that if the system experiences an actuarial loss as a result of COLAs that are paid to survivors under the optional settlements, then the appropriate action under the CERL would be to adjust the employers' and employees' normal cost for the COLA. She also stated that optional form factors may be set by the Board in a policy that is separate from the Actuarial Economic Assumptions policy that is used for the annual valuation and other business operations.

In response to the inquiries of Chair Brenk and Trustee Stevens, Mr. Schmidt provided examples to show that assumptions for optional form factors have negligible impact on plan funding. In conclusion, Mr. Schmidt stated it would be hard to argue that the plan is underfunded based on the current optional form factors.

The Committee directed staff and counsel to create a separate policy on optional form factors and upon completion bring that policy along with the Adoption of Actuarial Economic Assumptions policy to a future meeting for approval.

2. Actuarial Economic Assumptions Policy (**Action**)
Consider and possibly recommend to Board updates to Policy

Mr. Wickman stated that revisions to the Policy Regarding Adoption of Actuarial Assumptions address operational aspects of changes to actuarial economic assumptions. For example, the investment return assumption impacts interest crediting which is processed twice per year. Any new return assumption adopted by the Board would be implemented no later than July 1, the beginning of the next fiscal year.

It was M/S Webb/Piombo to recommend that the Board, at the September Board meeting in conjunction with a policy on optional form factors, adopt revisions to the Policy Regarding Adoption of Actuarial Economic Assumptions as submitted. The motion was approved by unanimous vote.

Chair Brenk recessed the meeting for a break at 10:54 A.M., reconvening at 11:03 A.M.

3. Code of Fiduciary Conduct, Ethics, and Governance (**Action**)
Conduct triennial policy review

Upon the standard review of the Code of Fiduciary Conduct, Ethics, and Governance, the Committee determined that no revisions were indicated.

It was M/S Bolger/Haim to recommend that the Board accept the review of the Code of Fiduciary Conduct, Ethics, and Governance. The motion was approved by unanimous vote.

4. Investment Manager Agreements (**Action**)
Consider and possibly recommend to the Board model investment management agreement

Mr. Wickman presented the proposed model Investment Management Agreement (IMA) that originated from discussions at the Finance and Risk Management Committee. Manatt, Phelps, & Phillips LLP developed the model for use with separate accounts based on the investment agreement with Wellington.

Areas of the agreement addressed by the Committee included the most favored nation concept, delegation of fiduciary duty, and Trustee Bolger's recommendation for side letters for private equity managers. Ms. Bolger also recommended revising soft dollar provisions according to SEC regulations and clarifying that MCERA no longer engages in directed brokerage. Trustee Webb inquired about the degree to which current investment managers would be asked to adhere to the new model agreement. Staff indicated that the focus would be to use the model agreement during the search process for new managers.

The Committee considered agreement provisions for reporting, term of agreement, and termination. Staff will research insurance amounts and provision for MCERA as additional insured in response to requests by Chair Brenk and Trustee Haim, respectively. Trustee Haim recommended that existing managers not be required to adhere to the proposed agreement.

It was M/S Bolger/Haim to recommend that the Board adopt the model Investment Management Agreement as revised per discussions. The motion was approved by unanimous vote.

5. Trustee Education Policy (**Action**)
Update to Policy in compliance with Assembly Bill No. 1519

New continuing education requirements for trustees were set by the California legislature through Assembly Bill No. 1519 effective January 1, 2013. Each trustee is to obtain a minimum of 24 hours of education on designated topics every two years. Examples of recent educational opportunities include the presentation by counsel on disability presumptions, according to Mr. Wickman. Counsel Dunning observed that the Education Policy provides sufficient guidance for purposes of the new requirement.

Trustee Gladstern commented that trustees regularly engage in meaningful learning experiences at conferences and educational seminars. She recommended reporting adherence to educational requirements to the Finance and Risk Management Committee which would provide an annual report to the Board.

It was M/S Webb/Haim to recommend that the Board adopt updates to the Trustee Education Policy in compliance with Assembly Bill No. 1519 as submitted. The motion was approved by unanimous vote.

6. Next Committee meeting
Consider possible agenda topics, including without limitation, proxy voting policies, and set date for next meeting.

The Governance Committee will hold its next meeting on October 22.

There being no further business, Chair Brenk adjourned the meeting at 12:07 P.M.

______________________________ ______________________________

Greg Brenk, Chair Attest: Jeff Wickman, Retirement Administrator