

MINUTES

FINANCE AND RISK MANAGEMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

February 21, 2013 – 9 A.M.

CALL TO ORDER Chair Brenk called the meeting to order at 9:00 A.M.

ROLL CALL PRESENT: Bolger, Brenk, Given, Gladstern, Piombo, Richardson, Smith, Stevens

ABSENT: None

MINUTES

It was M/S Bolger/Gladstern to approve the November 29, 2012, Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved 6-0-1, with Trustee Smith abstaining and Trustee Given absent.

Trustee Given joined the meeting at 9:05 A.M.

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Administrative Budget FY 2012/13 Quarterly Review
Consider and review budget for quarter ending December 31, 2012

Retirement Administrator Jeff Wickman provided a detailed review of the current fiscal year's administrative budget for the quarter ending December 31, 2012. In his review, Mr. Wickman explained variances from budgeted amounts, such as charges for MCERA's portion of medical benefit costs. Mr. Wickman explained that benefit expenditures are ahead of the fiscal year budget due to an increase in total health benefit costs that occurred mid-year. A discussion of the effect of increasing health care costs on the budget followed.

Mr. Wickman noted that overtime needed to process benefit estimates during the open window for application to the County's Voluntary Separation Incentive Program has been minimal. Costs for processing disability applications have risen due in part to increasingly complex cases, according to Mr. Wickman.

Mr. Wickman responded to inquiries from Committee members on adjusting the budget based on increased benefit costs and the budget for extra hire. He noted that it may be necessary to ask the Board for an adjustment to the expenditures for salaries and benefit based on the current run rate.

Mr. Wickman reviewed non-administrative items, stating that retiree payroll will increase as a result of the April cost of living adjustment (COLA). He attributed the legal expenses to two areas: the work necessary to analyze and implement the Public Employees' Pension Reform Act (PEPRA) and the work being done by tax counsel on MCERA's determination letter application with the Internal Revenue Service (IRS). In response to Trustee Bolger's inquiry, Mr. Wickman gave assurance that he is reviewing legal expenses for current cases.

Trustee Bolger requested an update on the status of the Plan Document. Mr. Wickman stated that the Determination Letter application remains open but conversations between MCERA's tax counsel, Ice Miller, and the IRS are progressing at a good pace.

Investment manager fees will be reduced with the termination of two equity managers, according to Mr. Wickman. Based on Chair Brenk's request, further details on investment fees will be provided in the budget.

A discussion of system risk analysis followed, with Trustee Gladstern expressing interest in a related presentation at a CalAPRS Trustee Roundtable. Trustee Smith questioned the value of the system risk reports in managing the Fund and expressed a preference for relying on Callan Associates to manage risk through asset allocation. According to Trustees Bolger and Richardson, the risk analysis provided by SF Sentry assists the trustees in monitoring the portfolios. Chair Brenk agreed that having more opportunities to consider new investment concepts is a good idea.

2. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Educational expenses for the quarter included the SACRS Fall Conference, staff training at courses provided by CalAPRS, and the Board's Strategic Workshop.

b. Other expenses per Checklist guidelines

Credit card statements that include items such as financial publications for trustees and publication of the quarterly MCERA newsletter were reviewed. Upon discussion the Committee agreed to continue reviewing these items, although there are no concerns since internal controls for the use of credit cards are in place.

c. Variances in the MCERA administrative budget in excess of 10%

See above.

d. Reconciliation of MCERA administrative accounts

Meetings with the County Finance Department on reconciling administrative accounts have begun again a brief delay due to the PEPRA implementation.

e. Vendor services provided to MCERA

There are no new vendor services since the last meeting. Expenses include attendance by professional advisors including actuary Graham Schmidt at educational sessions with plan sponsors and citizens seeking information that is of value to the system, according to Mr. Wickman.

f. MCERA staffing status

One job reclassification remains to be completed.

g. Internal controls, compliance activities and capital calls

Both private equity managers have issued capital calls, according to Mr. Wickman. In response to Trustee Smith's inquiry about cash flow, Senior Accountant Lisa Jackson explained that currently there is cash available from terminated managers, and at other times Clifton provides liquidity.

h. Audits, examinations, investigations or inquiries from governmental agencies

None.

i. Other items from the Retirement Administrator related to risk and finance

Mr. Wickman reported a trip and fall incident at One McInnis Parkway resulting in a claim that MCERA referred to the insurance provider.

C. NEW BUSINESS

1. Draft Administrative Budget FY 2013/14

Consider and discuss proposed budget for the next fiscal year

Mr. Wickman presented the proposed budget for the fiscal year ending June 30, 2014. The total increase in expenditures is due mainly to the 8% increase in health benefits to 61% of payroll, according to Mr. Wickman. A discussion of how the benefit costs are structured followed.

It was M/S Smith/Given to recommend that the Board adopt the Administrative Budget for the 2013-14 Fiscal Year as submitted.

Discussion included plans to follow best business practices by the issuance of requests for proposals (RFP's) for various services in the new fiscal year.

The motion was approved by unanimous vote.

2. Pathway Subscription Agreements Update

Discussion of agreement provisions relative to model agreement

Mr. Wickman stated that the model side letter was presented to Pathway, Abbott, and AEW as part of new commitments made by the Board. The final version contained modifications that were negotiated between MCERA and the manager with the assistance of Manatt. One of the areas of slight modification was in the model fiduciary acknowledgement language. In response to Chair Brenk's inquiry, Ms. Dunning explained that the fiduciary acknowledgement requires a fiduciary level of care and includes a more particularized statement on fiduciary duty of loyalty. Modifications also occurred in some of the agreements regarding dispute resolution provisions. Mr. Wickman indicated that none of the areas that were addressed represented a surprise to staff or counsel.

3. Electronic Board Packets Project Update on Security, Cost, and Policy

Consider and discuss security, cost, and policy for electronic board packets

Mr. Wickman presented an overview and update on the electronic board packet project, including security provisions, a cost analysis, and a policy for the use of electronic devices. The goal is for trustees to have a comfort level with the overall project approach before moving forward with the commitment of dollars. Mr. Wickman introduced Principal Systems Analyst Alex Levin to review security features for the project.

Mr. Levin stated that security is the top priority for the project in order to protect the confidential information that is included in the packets. As a result, the project team has focused on using processes that following existing Marin County security mechanisms. Mr. Levin described the process of encrypting packets and making them available on the secure County servers. He also discussed process for delivering and downloading the packets to the Trustees iPads. Security provisions for the iPad include password protection and remote wipe capability.

Discussions included Chair Brenk's suggestion to set additional features that would eliminate notifications older than a certain date. In response to Trustee Smith's inquiry, Mr. Levin explained that because the data is encrypted and password protected it would take significant effort to access the reports. Nevertheless, limiting use to WiFi at home or at MCERA where it is secure is recommended.

In summary, Mr. Wickman stated that other CERL systems have reported favorably on their use of electronic board packets. Mr. Wickman referred to the cost analysis developed by Board Clerk Dale Barre that shows savings in staff time by allowing staff

to devote more time to high priority matters. Mr. Wickman requested direction from the Committee on the project.

Trustee Richardson asked whether there were members of the Committee who were uncomfortable moving forward with electronic board packets as presented and no members responded. Chair Brenk spoke to the fiduciary duty of understanding the risk associated with the project. Based on discussions there was general acceptance by the Committee for the project.

There being no further business, Chair Brenk adjourned the meeting at 11:45 A.M.

Gregory Brenk, Chair

Attest: Jeff Wickman, Retirement Administrator