

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

December 2, 2013 – 9 A.M.

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

ROLL CALL PRESENT: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo

ABSENT: Shore

MINUTES

It was M/S Bolger/Given to approve the August 22, 2013 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo
NOES: None
ABSTAIN: None
ABSENT: Shore

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. OLD BUSINESS

1. Electronic Board Packets Project Update

Review status of project

Retirement Board Clerk Dale Barre provided an update on development of electronic board packets. Ms. Barre reviewed challenges dealt with by staff as a result of developing the electronic meeting packets. After successful testing of the current process, user acceptance testing is expected to begin in January.

Trustee Bolger requested that Board members be set up with Marin County email addresses so they could use the iPad as a communication tool.

It was M/S Bolger/Brenk to include electronic communications for Board members as a feature of the Electronic Board Packet Project.

AYES: Bartfeld, Bolger, Brenk
NOES: Given, Gladstern, Piombo
ABSTAIN: None
ABSENT: Shore

In view of interest expressed by several trustees in Ms. Bolger's motion, Mr. Wickman indicated that he would look into providing email capabilities on the iPad and assess how this may affect the process.

C. NEW BUSINESS

1. MCERA Administrative Expense (Action) – Graham Schmidt, Cheiron EFI
Review and consider methodologies for charging administrative expenses

Mr. Wickman introduced the topic of administrative expense methodologies again to clarify the issue and proposed solutions. This topic was originally raised at the October 2013 Strategic Workshop. Mr. Schmidt explained that there are two common approaches to pay administrative expenses for the Plan: 1) expected expense, or 2) net discount rate. MCERA, as with the majority of 1937 Act systems, has been using the net discount rate approach, where expenses are subtracted from the net investment return of the system at the end of the plan year.

According to Mr. Schmidt, the expected expense approach was originally used for public pension plans and is common in private pension plans. Ms. Dunning observed that section 31580 of the County Employees Retirement Law of 1937 (CERL, or '37 Act) governed most CERL systems decades ago when the systems were operated by the counties and administrative expenses were part of the County's cost of operation. Under that approach, the expected expense was paid for by the counties through a separate appropriation. She further stated that once CERL systems became more independent in their administration, they operated under section 31580.2, and the Fund bore the cost of administrative expenses. She noted that MCERA is to continue to operate under section 31580.2 now as provided by that statute.

Mr. Schmidt stated that it makes sense to use the expected expense approach in that it allows MCERA to use a consistent discount rate for both funding and financial reporting. He further noted that two 1937 Act systems have recently changed to the expected expense approach. Under this methodology, administrative expenses are allocated based on employers' and employees' share of overall contributions.

Counsel Ashley Dunning noted that she had previously confirmed with Actuary Schmidt that employees are still only paying a portion of the administrative expenses that are associated with the normal cost, and the employer is paying the rest of the normal cost's administrative expenses and the full administrative expenses that are associated with the

unfunded liability, such that the contribution split continues to comply with the funding allocation that has existed under section 31580.2.

In response to Trustee Given's inquiry about disclosing the new process, Mr. Schmidt said there will be a note that contribution rates have been loaded with administrative expenses. Chair Gladstern asked whether the new approach would affect volatility of contribution rates. Mr. Schmidt responded that he does not expect volatility due to the use of rolling averages to estimate administrative expenses. He also noted that employers pay a higher overall percentage of the total contribution cost as a result of only the employer paying the unfunded accrued liability. As proportional contribution costs change, the portion of administrative expense shared between the employer and employee would also adjust.

Mr. Schmidt advised retaining the current 7.5% discount rate which can be maintained by implementing the expected expense method for administrative expenses. Trustee Brenk expressed support for the expected expense approach in that it is more transparent.

It was M/S Given/Brenk to adopt the expected expense methodology for funding administrative expenses whereby administrative expenses are allocated based on employers' and employees' share of overall contributions.

The trustees discussed communicating the new methodology with employers and employees. Mr. Wickman indicated he has had initial conversations with Marin County and the City of San Rafael. He noted that he would have additional conversations with the employers based on today's action.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo
NOES: None
ABSTAIN: None
ABSENT: Shore

2. Administrative Budget FY 2013/14 Quarterly Review
Consider and review budget for quarter ending September 30, 2013

Mr. Wickman presented and reviewed the administrative budget for the quarter ending September 30, 2013. He discussed the notes on items outside of the 10% band. For example, the extra hire budget is at approximately 50% for the fiscal year as Helen Moody has remained to help with annual statements, 1099's and the transition of MCERA's hosting environment to CPAS. There was discussion about the audit expenses that are expected to be in line for the fiscal year. Mr. Wickman and Trustee Given discussed inter-fund charges that are over the approved expenditure limit. He also noted that it is likely that a higher benefit multiple will be required when building the new fiscal year budget.

3. Quarterly Checklist
Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman reviewed educational expenses and referred to new training requirements for trustees.

b. Continuing Trustee Education Log

Mr. Wickman reviewed the Continuing Trustee Education Log maintained internally that tracks education hours for each trustee on a quarterly basis. Events such as the semiannual SACRS conferences provide ample opportunity to meet the 24 hours required every two years, he said.

c. Other expenses per Checklist guidelines

Mr. Wickman reviewed non-administrative items such as retiree payroll. He stated that there was an additional expenditure to purchase service hours from CPAS for a number of required changes. The new CPAS hosting service charges will not occur until 2014.

Mr. Wickman reviewed legal expenses that are now delineated by subcategories. Litigation in support of MCERA's implementation of the PEPR legislation has resulted in higher-than-normal legal expenses according to Mr. Wickman. He noted that much of these expenses would be reimbursed by MCERA's Fiduciary Liability Insurance coverage.

Investment manager fees for large cap domestic equities are lower due to the move from active to passive management. Trustee Bolger requested an analysis of small cap manager fees that Mr. Wickman said will be provided in Callan Associate's analysis of investment manager fees in 2014.

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

See discussion above.

e. Reconciliation of MCERA administrative accounts

Staff is working with the County of Marin Finance Department to address this matter.

f. Vendor services provided to MCERA

Mr. Wickman's goal is to issue four Requests for Proposals (RFPs) for investment consultant, medical advisor, actuary, and auditor. The priority is investment consultant RFP then medical advisor. Because MCERA had an external audit of the actuary in 2013 there is less of a priority for this RFP right now. The RFP for the

annual financial statement auditor is challenging because of the small universe of auditing firms that may be available.

g. MCERA staffing status

No staffing changes to report.

h. Internal controls, compliance activities and capital calls

Mr. Wickman reported on capital calls and the transition of assets to adjust to new target asset allocations. In the next quarter some liquidation from custodian State Street for payroll will be reported, and capital calls are expected from private equity managers. Later this year, a cash flow analysis will be developed and presented to the committee.

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

No report.

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

Mr. Wickman noted that Gallina LLP. was hired to conduct a transition level audit of Woodmont Real Estate Services. This is an annual review that was previously conducted by Maher Accountancy. Gallina issued its report with very positive comments on the processes used by Woodmont. Woodmont was provided with a list of items to review and there is nothing of substance to report.

Chair Gladstern requested a report on the status of the County of Marin's new financial system.

There being no further business, Chair Gladstern adjourned the meeting at 11:25 A.M.

Maya Gladstern, Chair

Attest: Jeff Wickman, Retirement Administrator