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

May 20, 2015 – 9 a.m.

CALL TO ORDER Chair Piombo called the meeting to order at 9:03 a.m.

ROLL CALL PRESENT: Bolger, Given, Piombo, Shore, Webb

ABSENT: None

MINUTES
It was M/S Webb/Given to approve the February 25, 2015 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES:	Bolger, Given, Piombo, Shore, Webb
NOES:	None
ABSTAIN:	None
ABSENT:	None

A. OPEN TIME FOR PUBLIC EXPRESSION

No public comment.

B. NEW BUSINESS

1. Administrative Budget FY 2015/16 (**Action**)
   Consider and possibly recommend adoption of administrative budget for the next fiscal year

   Retirement Administrator Jeff Wickman presented the proposed Administrative Budget for Fiscal Year 2015/16 for the Finance and Risk Management Committee's (Committee) consideration. The Administrator stated that his goal in preparing the budget was to propose a relatively flat budget from the current year with changes only in salaries and benefits, and adjustments up or down in certain expenditure categories based on current year trends. Mr. Wickman set forth assumptions, goals and objectives for the upcoming year in his memo accompanying the proposed budget.

   Mr. Wickman stated that personnel costs comprise 63% of the total administrative budget. He stated that salaries were budgeted based on all positions being at the top step.

From a practical standpoint the majority of MCERA employees are already at the top step, according to the Administrator. Exceptions are the Retirement Administrator, Assistant Retirement Administrator and the Chief Financial Officer which he stated were budgeted at Step 3 of the salary scale. In response to Trustee Bolger's inquiry, Mr. Wickman discussed the salary range for senior executives. Upon discussion, the Committee directed that for budget purposes the Retirement Administrator and Assistant Retirement Administrator will be budgeted at their next step in the salary scale and the new Chief Financial Officer will be budgeted at Step 4.

Mr. Wickman explained that benefits were budgeted at 66% of salary. For the current fiscal year benefits were budgeted at 65% of salary. Mr. Wickman proposed budgeting benefits at a slightly higher amount in anticipation that current collective bargaining between the County and its employees may result in a Cost of Living Adjustment (COLA) and improvements to medical benefit subsidies. Upon discussion the Committee found the budget for benefits and salaries to be reasonable.

Customer Service Goals include identifying a workflow management tool for benefit administration, enhancement of customer service points of contact and improved communications sent to members when financial transactions are being conducted on member accounts, for example initial benefit payment, refund of contributions and purchase of service payments.

Communication Goals are to launch a redesigned website with expanded staff contacts, revise and publish the Retiree Handbook, and develop a Domestic Relations Order Handbook.

Financial Goals are to complete the hiring of the Chief Financial Officer (CFO), complete MCERA's first Comprehensive Annual Financial Report (CAFR), and evaluate financial business processes to identify potential efficiencies. Mr. Wickman reported that a revised salary band for the CFO was approved by the Board of Supervisors yesterday. He expects to re-open the position in late May and review potential candidates in June.

Finally, Mr. Wickman outlined Management Goals. The first goal is to complete an Information Technology Risk Assessment Plan. This item came out of MCERA's 2014 annual financial audit conducted by Brown Armstrong. The next goal is to create an Employer Audit Plan to comply with PEPRA. In response to Trustee Shore's inquiry, Mr. Wickman explained that these processes would include the determination of which employees should be reported as members, what is being reported for compensation, and how employees are being transitioned to retirement. For staff, additional internal and external cross training opportunities will be explored. The final Management Goal is to issue a Request for Proposal (RFP) for a company to conduct annual financial audits, as a matter of standard practice. Brown Armstrong is providing good financial auditing services for MCERA, according to the Administrator.

In conclusion, Mr. Wickman reviewed changes in Services and Supplies for fiduciary liability insurance, professional services, and disability medical transcription. Other

Department Charges represent the cost of interdepartmental County services including Human Resources, Finance and Information Technology.

With adjustments to total expenditures to subtract investment management related costs and retiree health care staff time, the total proposed administrative budget for fiscal year 2015/16 is $3,724,740, or 0.17% of the Actuarial Accrued Liability as of June 30, 2014. Mr. Wickman stated that proposed budget is approximately $900,000 under the County Employees Retirement Law of 1937 (CERL) administrative budget cap of 21 basis points (0.21%) of the Actuarial Accrued Liability.

It was M/S Given/Shore to recommend that the Board adopt the Administrative Budget for Fiscal Year 2015-16 as amended per discussions.

AYES:	Bolger, Given, Piombo, Shore, Webb
NOES:	None
ABSTAIN:	None
ABSENT:	None

2. Educational Presentation on Plan Funding Analytics – *Graham Schmidt, Cheiron*
Introduction and discussion of risk dashboard concept

Mr. Wickman stated that actuarial valuations have included projections of the Plan's contribution rates over time. Today's educational session looks at other measures developed by Cheiron. Graham Schmidt, actuary with Cheiron, explained that risk measures look at the long-term funding for the Plan over time. Risk elements include short and long term investment risk, discount rate risk, and inflation risk. The risk associated with demographic factors such as mortality can also be measured.

Mr. Schmidt discussed measures of short-term investment risk. Asset-to-payroll ratio shows how cost is affected by investment returns. The bigger the ratio, the more potential for cost changes, he explained; for example, a one standard deviation change in Fund assets in one year will affect contribution rates differently for employers with different asset-to-payroll ratios. He discussed similar measures related to interest on the unfunded liability payment and amortization payment.

Mr. Schmidt welcomed comments and suggestions on the tools. Trustee Shore indicated the word "risk" could be replaced by "factor" because changes in the identified variables could be either positive or negative, and "risk" suggests only negative results. Mr. Shore also suggested the use of scatter grams for a visual depiction on the measurement's results. Trustee Given observed that direct statistical comparison with other '37 Act systems may not be useful in that the data is not necessarily comparable; for example, the standard deviation for the Plan's investment return as compared with the average for all '37 Act systems.

Mr. Schmidt presented multiple year projections of the Plan's funded status and contribution rates as percentage of pay to show underlying trends. The actuary explained that the funding ratio has a steady floor due to constant contributions. Projected reductions in contribution rates are based on the realization of investment gains, he explained.

Mr. Schmidt reviewed Discount Rate Risk showing the effect on contribution rates of changes in the discount rate. As an example, the distribution of returns was presented and reviewed for changes of plus/minus1% in the discount rate. Results show there would be a larger impact on contribution rates over time, but less so in the near term over five years because of smoothing. The Inflation Risk measure shows that the contribution rate for Marin County would go up by 2% of payroll if the inflation assumption were reduced from 2.75% to 2.5%.

An assessment of Plan Dynamics shows that the Plan is maturing as is to be expected. For mature plans, recovering from investment losses becomes more difficult according to Mr. Schmidt.

Mr. Schmidt welcomed feedback and responded to trustee inquiries. In response to Trustee Shore's inquiry, Mr. Schmidt presented projections of funding status and contribution rates with a lower standard deviation. Results, as would be expected, show higher projected contributions over time. In summary, Mr. Wickman stated the information was presented to the Committee as education and follow-up to the annual actuarial valuation.

Chair Piombo recessed the meeting for a break at 10:45 a.m., reconvening at 10.52 a.m.

3. Administrative Budget FY 2014/15 Review
   Consider and review budget for quarter ending March 31, 2015

   Mr. Wickman reported on the current fiscal year budget as of March 31, 2015. The Administrator reviewed budget categories, noting the Salaries and Benefits category was higher than usual as a result of having three pay periods instead of two in January 2015. In Services and Supplies Professional Fees include retiree payroll and 1099R processing by ASI. Utility expense includes MCERA's owner allocation for One McInnis Parkway. Membership and Dues includes the annual CalAPRS membership. Expenses for Travel and Mileage include the fall SACRS conference, CalAPRS roundtables and the CalAPRS General Assembly. Document Reproduction Costs include the letter sent to retirees regarding the annual Cost of Living Adjustment (COLA) and the newsletter.

   In response to Chair Piombo's inquiry, Mr. Wickman said there will be a number of initial disability applications in the next three or four months. In conclusion, Mr. Wickman stated that overall administrative expenditures are projected to be within budget at the end of the current fiscal year on June 30, 2015.

4. Non-budgeted Expenses
   Consider and review non-budgeted expenses for the quarter

   Mr. Wickman noted that the impact of the annual Cost of Living Adjustment (COLA) for retirees will be reflected in the final quarter of the fiscal year. For the current quarter, CPAS expenditures included the annual hosting fee, maintenance fee and cost of configuring new tiers for Southern Marin Fire. Legal costs were presented, reflecting the transition from Manatt to Nossaman as of January 15, 2015.

5. Quarterly Checklist
   Consider, review and updates on the following:
   a. MCERA educational and event-related expenses

      Expenses for trustee and staff education and training were presented that include conference fees.

   b. Continuing Trustee Education Log

      The Trustee Continuing Education Log was presented showing trustees are keeping up with education requirements of 24 hours every 2 years.

   c. Other expenses per Checklist guidelines

      Other expenses for credit card expenditures were presented with no discussion.

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

      See above.

   e. Reconciliation of MCERA administrative accounts

      The Administrator reported that staff has made some progress and continues to work with the Department of Finance on this item.

   f. Vendor services provided to MCERA

      No new services to report.

   g. MCERA staffing status

      See Chief Financial Officer discussion above.

   h. Internal controls, compliance activities and capital calls

      Capital calls were presented with no discussion. See Item k. below for discussion of Placement Agent disclosures.

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

Nothing to report.

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

The Administrator recommended establishing an Ad Hoc Committee to discuss the One McInnis Parkway property once all other directly held properties have been sold. The Board Chair will consider the composition of the new Ad Hoc One McInnis Committee and report its members at the June Board meeting.

Mr. Wickman discussed his recent experience of opening new accounts in different countries as requested by MCERA's custodian, State Street. This same process would be necessary if MCERA decides to move international portfolios, Artisan and Morgan Stanley, to separate accounts. He expressed his concern about the highly detailed and time-intensive process. Trustee Bolger agreed, noting that in her experience it is a complicated process and as a result a different approach may be in order. This topic will be addressed at the June 11 Investment Committee meeting.

Mr. Wickman reported that a partner for Oak Investments, a venture capital firm that has invested in Abbott's ACE VI, removed for cause one of its partners after an internal investigation based on accusation of insider trading. Mr. Wickman has discussed the matter with the Investment Committee Chair, Callan Associates and Abbott Capital.

k. Form 700 summary submittal

The Administrator introduced a summary of the annual Placement Agent disclosures for the Committee's consideration. Counsel Dunning, who prepared the summary, explained in response to Trustee Bolger's inquiry that someone employed by an investment manager who does not spend more than 1/3 of their time managing investments, and who meets other aspects of the definition of a placement agent under California law, would be considered a placement agent for purposes of the required disclosures. Placement Agents, as defined, must register as lobbyist under California law. In comparing managers' disclosures staff identified inconsistencies in how certain managers reported gifts when compared to what was reported on Form 700 by trustees and others. Mr. Wickman and Ms. Dunning developed a letter that was sent to MCERA's managers summarizing the findings of their review and reminding them of their reporting and related obligations.

Ms. Dunning also presented the annual Form 700 Summary, noting that a new lower limit for gifts of $250 per manager per year is now part of MCERA's model investment manager agreement. Upon discussion, there was consensus to continue to use the Fair Political Practices Commission (FPPC) reporting limit ($460 for 2015) for the Committee's Form 700 summarizing purposes.

6. Annual Audit of Financial Statements Update
   Update on annual audit process

   The Administrator reported that there is a contract with Brown Armstrong to conduct the regular annual financial audit that will begin in July.

7. Key Service Providers Review
   Annual administrative review of key service providers

   Mr. Wickman reported that key service providers are diligent in providing services and complying with rules.

8. Future Meetings
   Consider possible agenda topics for future meetings

   No discussion.

There being no further business, Chair Piombo adjourned the meeting at12:01p.m.

Alan Piombo
Chairperson

Jeff Wickman
Retirement Administrator