

MINUTES
REGULAR BOARD MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

March 8, 2017 – 9:00 a.m.

The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board meetings. If members of the public wish to speak on any agenda items, please alert the Retirement Administrator to that request prior to the matter being called.

EVENT CALENDAR 9 a.m. Regular Board Meeting

CALL TO ORDER

Chair Bolger called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Bolger, Cooper, Given, Gladstern, Jones (alternate retired), Murphy, Shaw (ex officio alternate), Shore, Silberstein, Stevens, Thomas

ABSENT: Piombo (alternate safety)

MINUTES

It was M/S Shore/Thomas to approve the February 8, 2017 Board Meeting Minutes as submitted.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas

NOES: None

ABSTAIN: None

ABSENT: None

A. OPEN TIME FOR PUBLIC EXPRESSION

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

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be

taken by the Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No public comment.

B. MATTERS OF GENERAL INTEREST

1. Actuarial Valuation Report, June 30, 2016 – Graham Schmidt, Cheiron (Action)
Consider and take possible action to adopt Actuarial Valuation Report for June 30, 2016

Mr. Wickman reminded the Board that the actuary conducts a valuation of the assets and liabilities of the Plan and presents the results to the Board in the annual actuarial valuation report. The valuation includes the updated employer and employee contributions for the upcoming fiscal year. The Board's action is to adopt the valuation report and the contribution rates for the fiscal year beginning July 1, 2017. Mr. Wickman introduced Actuaries Graham Schmidt and Bill Hallmark from Cheiron to present key findings from the June 30, 2016 Actuarial Valuation.

Mr. Schmidt presented an overview of the June 30, 2016 Actuarial Valuation Report addressing the questions of where are we today, how did we get here, and where are we going. He stated the purpose of the annual actuarial valuation is to identify and measure the assets and liabilities of the system, determine employer and employee contribution rates, and review past and future expectations for these measures. The actuary reported there were no changes in actuarial assumptions this year. There were some actuarial gains and losses that were not out of the ordinary. The recognition of prior gains offsets actuarial losses, such as the lower investment return. New benefit tiers reduce cost because PEPRA employees pay a bigger share of the Normal Cost.

As of June 30, 2016 MCERA's liabilities are \$2,575.8 million which is the funding target. The market value of assets is \$2.1 billion, resulting in a funded ratio of 81.5% and unfunded actuarial liability of \$477.1 million.

Trustee Gladstern joined the meeting at 9:08 a.m.

Mr. Schmidt explained that contribution rates consist of the Normal Cost of benefits earned this year by active members, a financing payment to pay down the unfunded liability over time, and administrative expenses. The Normal Cost is divided between employers and employees. For example, the average share of the Normal Cost is 12.67% for all MCERA employers and the active members' share is 10.71%. These ratios will even out over time as more PEPRA members enter the system. For employees the average contribution rate may decline as older members move out of active status or the system. The number of active members is up from last year, as are members in pay status. As baby boomers retire, the ratio of retired to active members is expected to continue to trend higher. The projected increase in payroll of 5% for the current fiscal year exceeded the 3% assumption which has the effect of reducing contribution rates.

Mr. Schmidt noted that for Marin County, and the Novato Fire Protection District, actuarial gains offset the actuarial loss of a lower investment return. This resulted in a

slightly lower employer contribution rate. The actuarial gains were attributed to an expected reduction in amortization payments, a contingency reserve drawdown for the county, demographic gains including a 30 basis point reduction in Normal Cost for the Plan due to the entry of new PEPRA members during the year, and a larger payroll base.

Mr. Schmidt presented dynamic charts projecting contribution rates, the funded status and liabilities for the Plan into the future. If assumptions are met the funded ratio stabilizes and recovers over time. Mr. Hallmark discussed expectations for the future. The overall contribution rate for MCERA is expected to remain relatively stable and then trend downward as the unfunded actuarial liability is paid off. Employer contribution rates for Marin County follow the same pattern, but are more volatile for the Novato Fire Protection District and the City of San Rafael due to the higher percentage of safety members.

The Valuation Report includes assets and liabilities of the pension system and actuarial liabilities by employer group and tier. The calculation of the unfunded actuarial liability payments for the Plan shows the initial unfunded actuarial liability balance as of June 30, 2013 and the extraordinary loss from 2009. Gains, losses and assumption changes from the prior fiscal year are added, resulting in the total outstanding balance of the unfunded actuarial liability as of June 30, 2016. Actuarial gains and losses are phased in and out over time. For example, the investment gain from 2014 is still being phased in and was the biggest factor in lowering contribution rates.

In conclusion, Mr. Hallmark pointed out that in aggregate the length of time required to amortize the overall unfunded actuarial liability is approximately 15 years. MCERA's funding method is typical for California pension systems and very conservative as compared with national public retirement systems, he said in response to Chair Bolger's inquiry. Mr. Schmidt added that MCERA is paying more than the interest on the unfunded actuarial liability. Responding to Trustee Gladstern's inquiry on the timing of the Valuation Report, Mr. Wickman indicated the goal is to have a preview of the demographic data file at an earlier date.

It was M/S Cooper/Gladstern to adopt the Actuarial Valuation Report as of June 30, 2016 and the employer and employee contribution rates set forth therein.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: None

C. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

a. Administrator's Update

Mr. Wickman attended the CalAPRS General Assembly which he said was a particularly strong program. Trustees Silberstein and Gladstern were there also.

As a result of the Board's commitment to Abbott Capital's AP 2016 fund MCERA was invited to sit on Abbott's Advisory Committee. Mr. Wickman participated in the most recent quarterly performance update provided to the Committee.

Based on the recent road and sidewalk construction in preparation for the SMART train, Mr. Wickman is anticipating a higher volume of foot and vehicle traffic around One McInnis. He has been in discussions with the property manager regarding what steps to take to address any new potential issues. Mr. Wickman stated that he would ask the Chair to reconvene the Ad Hoc One McInnis Committee to discuss potential actions to address the issues.

b. Staffing update

No items to report.

c. Facility Use Report

No items to report.

d. Future Meetings

- March 22, Investment Committee
- April 12, 2017 Board

2. Standing Committees

a. Finance and Risk Management Committee

1. Alternative Investment Fee Disclosures

Review and discuss new disclosure requirements under AB 2833

Finance and Risk Management Committee Chair Stevens reported that Counsel Yuliya Oryol of Nossaman reviewed new fee reporting requirements for alternative investments prescribed by Assembly Bill (AB) 2833. Ms. Oryol has been working to include language regarding compliance with AB 2833 in MCERA's side agreements. Staff is working with Nossaman to obtain the data, which will be reported to the Investment Committee and posted on MCERA's website annually beginning in July.

2. Cyber Risk Management (Action)

Consider and take possible action on recommendation of Finance and Risk Management Committee (Committee) regarding cyber security implementation, including without limitation potential solicitation of proposals for cyber insurance policies

Mr. Wickman discussed looking into additional cybersecurity insurance coverage. The direction of the Committee was for staff to discuss options with Marin County and CPAS and obtain information on the potential cost of a separate cybersecurity insurance policy. This information will be presented at the next Finance and Risk Management Committee meeting.

3. Administrative Budget Fiscal Year 2016/17 Quarterly Review

Consider and review budget for quarter ending December 31, 2016

The Administrative Budget review includes the first two quarters of the current fiscal year. Overall administrative expenditures are under 50% of the budgeted amount at mid-year. Additional detail on medical costs for disability cases will be part of the final budget proposal.

4. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Retirement payroll is the largest category not included in the administrative budget. Other items include CPAS hosting fees and legal expenses. County Counsel expenses increased due to the number and complexity of recent disability cases going to the Administrative Law Judge. Legal services for investments were higher as a result of recent private equity commitments.

5. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman noted that educational and event-related expenses were as expected. Agendas for staff training were presented for reference.

b. Continuing Trustee Education Log

The educational events log shows all trustees are on target to fulfill the 24 hours required every two years.

c. Other expenses per Checklist Guidelines

Credit card expenses and supporting documentation were presented with no discussion.

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

See above.

e. Reconciliation of MCERA administrative accounts

No discussion.

f. Vendor services provided to MCERA

No discussion.

g. MCERA staffing status

No discussion.

h. Internal controls, compliance activities and capital calls

The capital call report shows MCERA is receiving significant distributions from its original private equity investments and capital is being called for new private equity commitments.

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

No discussion.

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

No discussion.

6. Budget Priorities for Fiscal Year 2017-18 (Action)

Consider and take possible action on Finance and Risk Management Committee's recommendation to adopt budget priorities for Fiscal Year 2017-18.

The Committee reviewed the Administrator's key priorities for the next fiscal year's administrative budget. The final budget will be presented at the next Committee meeting. Mr. Wickman expects a relatively flat budget year over year, noting salaries and benefits are the biggest expense. Board Chair Bolger voiced approval of the budget priorities for the next fiscal year.

Chair Bolger recessed Open Session for a break at 10:03 a.m., reconvening in Closed Session at 10:10 a.m. and directing deliberations to **Agenda Items E and D**.

Trustee Shaw was excused from the meeting at 10:30 a.m.

Chair Bolger recessed Closed Session and reconvened the meeting in Open Session at 10:36 a.m.

E. CONSIDERATION OF AND ACTION ON NON-CONSENT AGENDA DISABILITY RETIREMENT APPLICATIONS (TIME CERTAIN: 10:00 a.m.) (CLOSED SESSION) (Action)

[Any non-Consent Agenda disability retirement application, whether pulled from the Disability Consent Agenda or originally agendized as a non-Consent agenda item, will be considered in Closed Session unless the applicant specifically waives confidentiality and requests that his or her application be considered in Open Session.]

1. Karen Ott Service-connected Marin County Sheriff

Consider and take possible action on Administrative Law Judge's proposed findings of fact and recommended decision to grant service-connected disability retirement application

Chair Bolger reported that the Board adopted the Administrative Law Judge's proposed findings of fact and recommended decision to grant Karen Ott's application for service-connected disability retirement by a vote of 9-0. Motion was by Trustee Cooper and seconded by Trustee Given. Voting for the motion were Trustees Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens and Thomas.

D. DISABILITY CONSENT AGENDA (TIME CERTAIN: 10:00 a.m.) (Action)

1. Cheryl Fisher Service-connected Marin County Sheriff

Adopt Administrative Recommendation to grant service-connected disability retirement.

It was M/S Given/Shore to adopt the Administrative Recommendation to grant service-connected disability retirement to Cheryl Fisher with an effective date of March 31, 2016.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: None

Chair Bolger directed deliberations to **Agenda Item C.3, Ad Hoc Committee Reports.**

BOARD OF RETIREMENT MATTERS, continued

3. Ad Hoc Committee Reports

a. Ad Hoc Education Committee

1. Strategic Workshop Agenda (Action)

Consider and take possible action to amend agenda

Mr. Wickman presented a revised proposed agenda for the April 17-18, 2017 Strategic Workshop based on discussions at the last Board meeting. Professor Terrance Odean of the University of California at Berkeley has agreed to lead a session on behavioral finance on the second day. Day one has been reconfigured with the assistance of Callan Associates to review investment processes and new capital market projections.

It was M/S Given/Gladstern to approve the Strategic Workshop Agenda as presented, subject to a reasonable fee for the services of Mr. Odean.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: None

4. Trustee Comments

a. Educational Training: Reports by Trustees and Staff

Trustee Gladstern attended the CalAPRS Trustees' Roundtable that included a presentation by actuary Paul Angelo. Ms. Gladstern related the concept that consultants predicting investment returns may be setting their own benchmark relatively low.

Trustees Gladstern and Trustee Cooper attended the CII winter conference that focused on the impact of the next generation on corporate boards of directors. Trustee Cooper gained perspective from CII attendees with varied backgrounds such as endowment funds. He said environmental and social matters were the dominant themes. Trustee Silberstein observed that CII policy is that all shares should have equal voting rights.

Trustee Silberstein reported the CalAPRS General Assembly was an outstanding and worthwhile educational program. He observed a lack of diversity within the presenters. Trustee Gladstern discussed the session on disabilities, noting that systems have different methods of processing disability retirement applications. Mr. Wickman advised that MCERA is trying to take the best practices of other systems and believes our disability processes are reasonable. Ms. Dunning added MCERA's disability procedures are very strong.

Ms. Dunning reported on the CalAPRS Attorneys' Roundtable. A City of San Jose case decision concluded that any public business conducted through private devices will be subject to public records unless otherwise exempted. Decisions on California Department of Forestry and Fire Protection and San Joaquin County Correctional Officers Association cases upheld the elimination of airtime and changing employee contribution rates for PEPRA members, respectively. City of Los Angeles attorneys discussed the NCPERS request that retirement systems have service providers commit to acting in the best interest of beneficiaries. Open meeting cases were discussed as to the level of specificity needed on agendas to comply with the Brown Act so the public knows whether they want to attend. Felony forfeiture cases are all pending or on appeal. A draft policy on felony forfeiture will be considered at the next Governance Committee meeting.

b. Other Comments

Chair Bolger reported that she understands the League of Women Voters will be asking that the Marin County Board of Supervisors form a pension advisory committee.

F. NEW BUSINESS

1. SACRS Board of Directors Election

Consider and discuss nominees submitted by the SACRS Nominating Committee for the Slate of Directors for 2017-2018.

Mr. Wickman presented the nominees submitted by the SACRS Nominating Committee for the Slate of Directors for 2017-2018, one of whom has subsequently withdrawn his

name from consideration. At its April meeting the Board will consider the final slate of officers and select MCERA's voting delegate for the May SACRS business meeting.

2. Future Meetings

Consider and discuss agenda items for future meetings

Mr. Wickman said from the actuary will shortly begin working on the next Experience Study. Previews of the study results may be available in early summer with the final completed study presented in the fall.

G. OTHER INFORMATION

1. Training Calendar (Action)

The Administrator encouraged trustees to attend the SARS spring conference for required training. He and Chair Bolger supported overnight stays to enhance the value of the conference.

It was M/S Gladstern/Murphy to approve the Training Calendar as submitted.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: None

2. Keeping in Touch

March Issue, Association of Retired Employees newsletter

H. CONSENT CALENDAR (Action)

It was M/S Given/Gladstern to approve the Consent Calendar as submitted.

AYES: Bolger, Cooper, Given, Gladstern, Murphy, Shore, Silberstein, Stevens, Thomas
NOES: None
ABSTAIN: None
ABSENT: None

**CONSENT CALENDAR
MCERA BOARD MEETING, WEDNESDAY, MARCH 8, 2017**

**CONSENT CALENDAR
FEBRUARY 2017**

RETURN OF CONTRIBUTIONS

Carol Hannon	Withdrawal of Contributions-Rollover	\$ 3,838.74
Christopher Donohue	Age Change-Return of Excess Contributions	\$ 21,531.68
Richard Hopkins	Age Change-Return of Excess Contributions	\$ 4,770.86

