

## **MINUTES**

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

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

**May 30, 2018 – 9:30 a.m.**

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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 and Committee 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.

#### **CALL TO ORDER**

Chair Murphy called the meeting to order at 9:31 a.m.

#### **ROLL CALL**

PRESENT: Block, Murphy, Piombo, Shaw

ABSENT: Given, Klein

#### **MINUTES**

It was M/S Piombo/Block to approve the February 28, 2018 Finance and Risk Management Committee Meeting Minutes as submitted.

AYES: Block, Murphy, Piombo, Shaw

NOES: None

ABSTAIN: None

ABSENT: Given, Klein

#### **A. OPEN TIME FOR PUBLIC EXPRESSION**

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

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee'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 Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons

addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

## **B. NEW BUSINESS**

### **1. Administrative Budget for Fiscal Year 2018/19 (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 2018-19 in accordance with MCERA's Budget Policy and Adoption Process. The Administrator explained that the proposed budget does not include MCERA's legal, investment management, actuarial or information technology expenses. Expenses for these items are charged directly to the trust as allowed in statute. There is a cap on the administrative budget prescribed by the County Employees' Retirement Law of 1937 (CERL) of no more than 21 basis points of the actuarial accrued liability. Salaries and Benefits make up the majority of the administrative budget. A benefits multiplier is applied to salaries to determine the cost of all employee benefits for the year. This year the multiplier was reduced from 61% to 60% of salaries to align with the County. The other factor impacting Salaries and Benefits is the potential for a cost of living adjustment (COLA) for employees. Marin County is currently negotiating new three-year contracts with projections that include the cost of COLA's during the term of the agreement. The proposed administrative budget was developed using a projected 2.7% COLA for the next fiscal year. All salaries are budgeted at the top step of the positions salary range.

Mr. Wickman explained Salaries and Benefits increased from the prior year due to three position changes. First, a second Retirement Benefits Supervisor position was filled that replaced a lower-level position. Second, an Office Assistant III position was reclassified to a Retirement Benefits Assistant with a slight increase in salary. Third, the Accounting Unit Manager position that was budgeted for half of the prior year is now budgeted for a full year.

Lower expected costs for Services and Supplies were due to cost savings in reproduction and projections for reduced disability-related costs based on current trends. Other Departmental Charges are for services MCERA receives from the County's Human Resources, Finance, and Information Technology Departments.

Mr. Wickman presented a three-year comparison of administrative expenditures before adjustments. To arrive at the requested administrative budget, expenditures are reduced by: 1) the portion of the Administrator's time related to investment management; and 2) staff time related to the administration of the County of Marin retiree health benefits.

The proposed administrative budget for fiscal year 2018-19 is \$4.13 million. This amount is 15 basis points of the actuarial accrued liability, and \$1.585 million under the 21-basis point cap. The proposed administrative budget increased about 6% from the prior year. The budget proposal includes details for major budget categories which Mr. Wickman reviewed and discussed. The Salaries and Benefits category is about 10% higher than the



prior year for the reasons discussed above. Services and supplies are slightly lower due in part to reduced banking fees. In this category the owner allocation for utilities at One McInnis has increased due to the current vacancies. There are projected savings for boards and commission payments as some Board members have waived meeting payments. Disability-related expenses were reduced from the prior year and office expenses are projected to be flat over the year. Details on professional service provider expenses were presented; these include Innovest that produces benefit statements and checks, auditor Brown Armstrong, and Alpha graphics for publishing the newsletter.

Trustee Block indicated there may be a need to hold disability-related expenses steady given process changes the Board just enacted. In response, Mr. Wickman explained why he expects the new processes to reduce the number of administrative hearings and there was general agreement on this point. Trustee Block asked about agreements related to reimbursement for administration of retiree health benefits and inter-departmental charges. In response, Mr. Wickman said the allocation model for retiree medical administration is based on a percentage of staff time; he will look into whether a formal agreement would provide additional value. The County uses an allocation model for Interdepartmental charges to all County Departments. Mr. Wickman said the County has been very open to discussing and reviewing MCERA's allocation expenses and finding ways to reduce costs..

Chair Murphy suggested adding actual expenditures from the prior year as a comparison. In response to Maya Gladstern's inquiry, the Administrator explained staff time for administration of County of Marin retiree health benefits has increased as a result of additional complexity. If needed, MCERA's allocation model for capturing these costs can be adjusted based on actual experience.

It was M/S Piombo/Block to recommend that the Board adopt the Administrative Budget for Fiscal Year 2018-19 as submitted.

AYES: Block, Murphy, Piombo, Shaw  
NOES: None  
ABSTAIN: None  
ABSENT: Given, Klein

2. Administrative Budget Fiscal Year 2017/18 Quarterly Review  
Consider and review budget for quarter ending March 31, 2018

Mr. Wickman presented the current administrative budget expenditures through March 31, 2018. Total expenditures are 61% of the budgeted amount at the end of the third quarter for the fiscal year. Due to staff vacancies, Salaries and Benefits are running under budget for the fiscal year. The Administrator expects the Services and Supplies category to be within the budget at the end of the fiscal year. Insurance premiums are close to the budgeted amount and no further payments are anticipated. Utilities for One McInnis will be monitored to see if adjustment is needed since the owner allocation is 100% due to the tenant vacancy. The investigations expense was for background checks on new employees. Disability-related transcription expenses were trending higher, Mr. Wickman said, but the overall number of disability cases is slowing down.

### 3. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Non-budgeted expenses include retiree payroll and professional services related to computers, legal, actuarial and investment expenditures. Some of these fees are annual, such as the CPAS software support fees. Other uneven expenses include county counsel services and investment manager fees. The largest single non-budgeted expense is retiree payroll, which will change in the last quarter of the fiscal year due to the application of the April 1st COLA and the new retirees in March. Mr. Wickman said total legal expenses at \$359,000 are close to last year's level through the third quarter. Details for legal expenses were presented that include investment contract work. There was some reimbursement for the Greene v. MCERA case by MCERA's fiduciary insurance provider. Trustee investment training included the Wharton class which is the most expensive course.

The value-added real estate portfolios managed by AEW and RREEF are now closed so there will be no further investment fees. This is also the case for the Vanguard REIT portfolio that was transitioned out in September of 2017. There are fee savings due to the transition of the Artisan portfolio to the international growth trust vehicle.

### 4. Quarterly Checklist

Consider, review and updates on the following:

#### a. MCERA educational and event-related expenses

Mr. Wickman observed the educational and event-related expense report shows good distribution of Board members and staff attending CalAPRS and other educational events. Board Counsel Ashley Dunning attends CalAPRS Attorneys' Roundtables on behalf of MCERA.

#### b. Continuing Trustee Education Log

The Education Log shows Board members have either met or will meet the requirement of 24 hours every two years.

#### c. Other expenses per Checklist Guidelines

A summary of credit card charges was presented in line with the new Credit Card Policy. Trustee Block is interested in online subscriptions to investment journals; the Administrator will look into available digital packages.

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

See discussion above.

#### e. Vendor services provided to MCERA

One investigative service provider was hired during the period.



f. MCERA staffing status

Mr. Wickman reported MCERA is fully staffed.

g. Internal controls, compliance activities and capital calls

Mr. Wickman stated the capital call report shows MCERA received \$7 million more in distributions from Abbott private equity funds than it paid in capital calls for the fiscal year so far. For Pathway funds, distributions were slightly higher than capital calls. Most distributions are coming from the original private equity funds that had a slow start. Trustee Block requested that total commitment amounts and dates when no further capital will be called be added to the capital call report.

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

No discussion.

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

Mr. Wickman reported that yesterday he signed an agreement with Milliman for actuarial audit services. The agreement will not exceed \$77,000.

5. Cyber Risk Management

Consider and discuss methods and means of managing cyber risk

Mr. Wickman stated that cyber security has been an important topic recently as the number of reported security breaches and ransomware attacks has increased. The Board authorized purchasing cyber insurance that could be exercised if a security breach or other covered event were to occur involving MCERA-related data. MCERA receives information technology services from three areas: the County of Marin provides telephonic, network and email services maintaining their own security protocols. Responding to Trustee Block's inquiry, Mr. Wickman said the County maintains electronic images of MCERA member files in an imaging and document management system. CPAS provides the benefit management system software which includes the database administration and backup. CPAS maintains separate security protocols for data stored and hosted by CPAS. The other area is Innovest that produces benefit checks and 1099R statements based on data sent from MCERA through a secure file transfer process.

Mr. Wickman said staff developed an Information Technology Risk Assessment Report that is reviewed by the Finance and Risk Management Committee on an annual basis and by the auditors during financial audits. The question for the Committee to discuss is whether the Board wants to conduct additional securing testing that could include:

- Engaging a company to perform more sophisticated tests around the services in place with recommendations for improvements.
- Engage cyber insurance providers to recommend further levels of review.

- Engage a company to test investment managers based on SEC guidelines for the investment industry on protecting that information.

Trustee Block stated he believed MCERA cannot do enough in this area as he is concerned members would not get their benefit checks if a cyber event occurred. Mr. Wickman explained that MCERA would be able to replicate a payroll with one of its current service providers if necessary. Ms. Hardesty added MCERA can recreate member files because of existing redundancy. She noted the County is testing security and MCERA is actively improving the Information Technology Risk Assessment Report. In response to Trustee Block's inquiry on how to improve security, she said by continuing to assess processes and asking follow-up questions of outside providers and vendors on what they are doing to protect information.

Trustee Block's preference is for an outside service provider to check MCERA systems regarding cyber security. Chair Murphy asked if peer pension systems are going in this direction. Mr. Wickman replied that on research it appears that peer systems with issues are looking to their cyber insurance providers for guidance and he recommended that approach. Counsel Dunning agreed, adding that cyber insurance providers should have the most current information on breaches.

There was consensus that staff will include consulting with the cyber insurance provider in its Information Technology Risk Assessment Report and implement the proposed Electronic Breach Action Plan that was presented. Counsel Dunning suggested adding a regular review of the Electronic Breach Action Plan. The Administrator noted the Information Technology Risk Assessment Report is currently being reviewed annually. There was consensus that the Electronic Breach Action Plan review would occur as part of the Finance and Risk Management Committee's review of the Information Technology Risk Assessment Report.

#### 6. Annual Audit of Financial Statements Update

Update on audit process

Mr. Wickman reported the annual financial audit is in the planning stages with the work by Brown Armstrong beginning in June and running through August. Ideally the work of the auditor would be coordinated through the Finance and Risk Management Committee, but the schedule of the Committee meetings and timing of when MCERA receives the data for the GASB 67/68 reporting has complicated the ability to coordinate the work with the Committee.

Trustee Block proposed the idea of having an ad hoc audit committee review the financial statements with the auditor as a check on management. Mr. Wickman observed that the Committee has direct access to the auditor and as policy makers Board members can bring up matters for discussion in a public setting during the Board meeting, or say not to go forward. Trustee Block indicated he would prefer a smaller setting to consider matters the auditor may not be prepared to discuss, in order for the Board to exercise the supervisory function that is typical of other Boards (meaning in the private sector). Ms. Hardesty explained that staff's approach is to ask the auditors if we are doing everything we are



supposed to do. Trustee Block agreed there is a difference in motivation from a private company.

In response to Chair Murphy's inquiry, Trustee Block said he wants to be able to ask questions about the Notes to the Financial Statement. Ultimately, he said, the financial statements are the responsibility of the Board and the Board should play a more active role during while the audit is being conducted. Trustee Shaw said there is an educational component and welcomed the idea of having a walk-through on the financials.

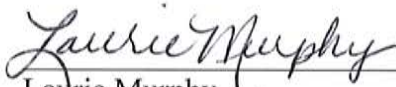
Mr. Wickman offered to meet with Trustee Block to go through the Notes to the Financial Statements and discuss with the Board Chair the possibility of forming an Ad Hoc Audit Committee. Chair Murphy and Trustee Piombo expressed satisfaction with the current process which has the audited statements being presented to the Board for adoption.

7. Future Meetings

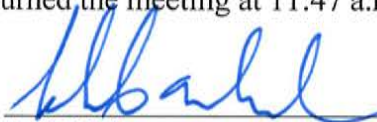
Consider possible agenda topics for future meetings

Mr. Wickman will bring the topic of custodial credit risk to the next Committee meeting. At the request of the Chair, the Committee will also consider upgrading iPads.

There being no further business, Chair Murphy adjourned the meeting at 11:47 a.m.



Laurie Murphy  
Chairperson



Jeff Wickman  
Retirement Administrator