

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 members of the public provided comment.

B. MATTERS OF GENERAL INTEREST

1. Actuarial Amortization and Funding Policy Review – Graham Schmidt, Cheiron Review and discuss MCERA's current amortization policy

Mr. Wickman introduced Graham Schmidt from Cheiron to review the Board's Actuarial Amortization and Funding Policy. He stated the agenda item was being presented today as a result of the discussions at the April Strategic Workshop on managing risk. In addition, this review also serves as a preview to the actuary's 2020 triannual Experience Study.

Mr. Schmidt said the Actuarial Amortization and Funding Policy review includes funding objectives and how the Board has arrived at its decisions on amortization policy. The objective of funding policy is to determine how to fund actuarial liabilities that are not covered by current assets. Funding policy can be used to meet and balance different objectives, including securing the benefit promise, providing predictable and stable contributions, and promoting intergenerational equity meaning the cost of services are paid for by the current tax payers who are receiving the services. Mr. Schmidt observed that funding objectives can in some ways be competing. The objective called for in the Constitution of the State of California is to be able to provide the promised benefits when they are due. This will lead to more conservative assumptions and higher contributions. But plan sponsors have to be able to make their payments, so there is a balancing act with respect to determining the employer contribution rates and how short an amortization period should be. Having predictable and stable contributions is a worthy goal that can lead to slightly longer amortization periods. The more stable the assets, the less fluctuation in contributions. But the need for predictable contributions may also affect investment policy, leading toward lower risk/lower return investments. The generational equity concept to fund benefits during the career of the employee is challenged when significant gains or losses, such as with the loss of 2008, occur. Balancing objectives means not taking any one objective to an extreme. Mr. Schmidt stated in the end, it is what actually happens that affects the level of contributions.

In setting its funding policies, the Board looked for guidance from two organizations, the Conference of Consulting Actuaries (CCA) and the California Actuarial Advisory Panel (CAAP). Both encouraged the use of level percentage of payroll and amortization layers

in the 15- to 20-year range, considered the sweet spot for generational equity since it is the average working lifetime for employees. MCERA also moved to the market value of assets for funding policy when GASB introduced that requirement.

The main individual actuarial cost method is to set the Normal cost using the entry age method, spread as a level percentage of payroll. The Normal cost is then added to the difference between assets and liabilities, the Unfunded Actuarial Liability (UAL), to determine contributions. Most plans including MCERA have moved away from rolling amortization periods and now use closed periods. MCERA also uses layered amortization showing the cause and time period for each layer. The prior policy of using two amortization layers, one for the 2008 loss and the other for the total UAL, would have led to shorter and shorter amortization periods, resulting in instability of contribution rates.

Mr. Schmidt explained that layered amortization establishes a new base every year, and layers are added to arrive at the total UAL amortization payment. Negative amortization would happen if amortization payments were less than the interest on the UAL. This can happen in individual amortization layers, such as for the extraordinary investment loss, but the important thing is not to have negative amortization on the sum total of all the amortization layers. Currently, the average length of the periods being amortized is less than 13 years for the unfunded actuarial liability.

As part of the process for examining optimal funding policy, Cheiron ran simulations to see what funding status looks like in different scenarios. Cheiron also studied the effect of adding amortization layers with different time periods and found that the 20-year time frame resulted in the most stability for contribution rates. The 20-year amortization period is also used for assumption changes.

Another element of funding policy is smoothing contribution rates, instead of assets, to make them more predictable. This is achieved through the Board's direct rate smoothing policy. Amortization payments are phased in over a short period, kept level over a longer period, then phased out over a short period. Trustee Block asked for clarification of the reference to gains or losses. Mr. Schmidt said he is referring to all gains or losses for the Plan during a specific valuation period. This includes the sum total of all investment and demographic gains or losses that occurred during a specific year. Mr. Wickman noted the net gain or loss is shown in the Valuation report. Trustee Gladstern asked about shortening the amortization schedule of the 2008 extraordinary loss, and Mr. Schmidt replied the software could be programmed to simulate what the impact would be on contribution rates. He noted there are 20 years remaining and we are now past the negative amortization point for the extraordinary loss. Mr. Wickman indicated that considering the effects of changing amortization periods could be part of the analysis of the next Experience Study.

Trustee Block asked about how the degree to which you change funding policy affects various stakeholders, and if there is a normative basis for at what point change is appropriate. Mr. Schmidt replied that in an ideal world, you would set funding policy and forget it. He indicated that a change in the discount rate of 25 basis points, for example, has a smaller impact on the County but has a larger impact on other employers. If there are extreme events, the current policy may still be the best approach, but there would still be a need to look at it and see the effect on funding and the determination of contributions to

see if adjustments are necessary. In response to Trustee Block's question on planning for a 3-standard-deviation investment loss, Mr. Schmidt noted this is part of what Cheiron does in simulating how much contribution rates would change as a result of extreme events. So, this policy was set with those extremes in mind. The amortization of half of the extraordinary loss over a longer time period is an example of adjusting to an extreme event. In summary, Mr. Schmidt stated with MCERA's funding policy, the Board can act in the best interest of the Plan. Mr. Wickman added that MCERA's employer sponsors are aware of what the Board is discussing so they can comment as needed on any potential policy change that might affect them. Counsel Dunning advised that from a legal standpoint, when the Board is determining whether or not to change funding policy, what is looked at is if the Board is being prudent as it considers all the variables and always making sure to comply with its fiduciary duty of loyalty to members and beneficiaries of the Plan.

Trustee Cooper was excused from the meeting at 9:52 a.m.

C. BOARD OF RETIREMENT MATTERS

1. Administrator's Report

a. Administrator's Update

Mr. Wickman reported nominations for the election of the 2nd General member and both Safety members are due today at 4:30 p.m. There is more than one nominee for Safety, so there will be an election. Safety ballots go out on June 28 and are due back on July 26, 2019.

The Administrator said we are close to having a signed lease for space on the second floor at One McInnis. MCERA has received a signed letter of intent and has moved quickly through the leasing process. Mr. Wickman thanked Nossaman counsel for facilitating this process.

Due to the possibility for PG&E blackouts, Marin County has formed a business continuity team that the Administrator and Assistant Retirement Administrator will serve on. A priority is to determine what needs to be kept up and running. Trustee Block asked about backup power, and Mr. Wickman replied there are no batteries or a generator at MCERA; there is emergency power for lights only. Mr. Wickman said MCERA is dependent on the County for its computer network, and he will discuss the power situation with Woodmont.

c. Staffing update

Last week Robert Sanders was hired as the Retirement Benefits Technician, and MCERA will be recruiting to fill his former position. The recruitment for the Business Systems Analyst position is still in progress.

d. Facility Use Report

Nothing to report with respect to facility use.

e. Future Meetings

- June 19, 2019 Investment Committee
- July 10, 2019 Board
- July 10, 2019 Audit Committee

Chair Gladstern advised that she, Vice Chair Roy Given, and Karen Shaw are recusing from Agenda Item D.1 and leaving the room because they know the applicant and the applicant worked in the Marin County Department of Finance. At 10:03 a.m., Trustees Gladstern, Given and Shaw recused themselves and left the room. Board Secretary Laurie Murphy served as the Chair and directed deliberations to **Agenda Item D.1, Disability Consent Agenda**, applicant Supranee Mai.

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

1. Supranee Mai Service-connected Marin County Department of Finance

Adopt Administrative Recommendation to adopt Administrative Law Judge's proposed findings of fact and recommended decision to deny service-connected disability retirement.

It was M/S Werby/Thomas to adopt the Administrative Law Judge's proposed findings of fact and recommended decision to deny Supranee Mai's application for service-connected disability retirement.

AYES: Block, Jones, Klein, Murphy, Silberstein, Thomas, Werby
NOES: None
ABSTAIN: None
RECUSE: Given, Gladstern
ABSENT: Cooper

Trustees Given, Gladstern and Shaw rejoined the meeting at 10:05 a.m.

Chair Gladstern directed deliberations to **Agenda Item C.1.b, Business Objectives Quarterly Review**.

BOARD OF RETIREMENT MATTERS continued

b. Business Objectives Quarterly Review

Mr. Wickman reported staff has made good progress on Benefit Administration objectives that came out of the Employee Voice Survey two years ago having to do with the need for consistent documented processes. Staff has created an Internal Reference Guide and is beginning to add the Accounting Section. Project teams for several annual processes have been established, and more teams will be formalized once current recruitments are filled. The Workload Tracking program continues to increase in efficiency. These processes lend more formality around what we do, the Administrator said.

Staff is hitting all targets for Performance Management objectives for new retiree payroll inception, benefit estimates, service purchases and written correspondence.

In Human Resource Management the hiring of the vacant Retirement Benefits Assistant and Accounting Assistant positions was completed. Due to new unexpected openings, recruitments are underway for a Retirement Benefits Technician, Accounting Assistant and Business Systems Analyst. All remaining evaluations will be completed by the end of June.

For Business Management including Investments, the Actuarial Valuation was presented to the Board one month earlier this year. The timing depends on staff's ability to respond to the actuary while the annual financial audit is underway. The Governance Committee continues to actively monitor proxy voting by MCERA's equity managers. The Administrator has communicated with State Street Global Advisors and Dimensional Fund Advisors seeking clarification on their votes on issues of interest to the Committee. The responses will be discussed at the next Committee meeting. Mr. Wickman is also looking into, and expecting a proposal on, the services Institutional Shareholder Services (ISS) provides to manage proxy voting that can help MCERA with that process based on where the issues are. The employer audit is delayed due to MCERA's involvement in the implementation of the County's new payroll system. All trustee iPads have either been upgraded or replaced.

The Communication and Education objective to implement an Employer Handbook and dedicated web location is under development. Plan sponsors will then have direct access to information to understand their responsibilities for who is eligible for retirement, for example. Due to ongoing projects, the modification to the Annual Benefit Statements has been re-scheduled for implementation next year.

In the Finance and Accounting area, no date has been set for a new financial system. Staff is focusing on the recently issued Request for Proposal (RFP) for a company to conduct annual financial audits. Questions on the RFP are due this Friday. Staff is working on a custodial services RFP that will follow the auditor RFP. Work on a Comprehensive Annual Financial Report (CAFR) will be deferred to the June 30, 2020 audited financial statements. The Administrator said the CAFR will be the ultimate measure of our finances and give the Board a comfort level for the financial statements. In response to Chair Gladstern's inquiry, Mr. Wickman discussed potential alternatives for using a consultant in conjunction with the CAFR.

Chair Gladstern directed deliberations to **Agenda Item C.2, Standing Committee Reports.**

2. Standing Committee Reports

a. Finance and Risk Management Committee

1. Old Business

a. Cyber Risk Management

Consider and discuss methods and means of managing cyber risk

Finance and Risk Management Committee Chair Werby reported that the Committee recommended that the Board authorize the Retirement Administrator to work with LineaSecure on an agreement regarding assessing cyber risk and bring it to the Board for approval, and this was acknowledged as the Committee's direction.

2. New Business

a. Administrative Budget for Fiscal Year 2019/20 (Action)

Consider and take possible action on Finance and Risk Management Committee's recommendation to adopt administrative budget for the next fiscal year

Committee Chair Werby reported that Mr. Wickman reviewed the proposed Administrative Budget for the next fiscal year. Costs for medical services of National Disability Evaluations related to disability applicants were adjusted based on experience. Upfront costs are running higher, and backend costs for appeals are running lower than in prior years.

Based on the action of the Finance and Risk Management Committee, Finance and Risk Management Committee Chair Werby recommended that the Board adopt the Administrative Budget for Fiscal Year 2019-20 as presented.

AYES: Block, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby

NOES: None

ABSTAIN: None

ABSENT: Cooper

b. Administrative Budget Fiscal Year 2018/19 Quarterly Review

Consider and review budget for quarter ending March 31, 2019

Committee Chair Werby briefed the Board that Accounting Unit Manager La Valda Marshall provided the quarterly review of the administrative budget and other expenditures. Overall administrative expenditures as of March 31, 2019 are in order at 64.3% of the budgeted amount for the fiscal year ending June 30, 2019.

For further details on Agenda Items C.2.a.2.b-d, refer to the minutes of the May 22, 2019 meeting of the Finance and Risk Management Committee.

c. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

d. Quarterly Checklist

Consider, review and updates on the following:

1. MCERA educational and event-related expenses
2. Continuing Trustee Education Log
3. Other expenses per Checklist Guidelines
4. Variances in the MCERA administrative budget in excess of 10%
5. Vendor services provided to MCERA
6. MCERA staffing status
7. Internal controls, compliance activities and capital calls
8. Audits, examinations, investigations or inquiries from governmental agencies
9. Other items from the Administrator related to risk and finance

e. Annual Audit of Financial Statements Update

Update on audit process

The annual audit of financial statements is moving forward.

b. Audit Committee

1. 2019 Audit Schedule

Review and discuss schedule of audit activities for 2019

Audit Committee Chair Gladstern reported that having Auditor Andy Paulsen of Brown Armstrong participate in the Audit Committee's last meeting was helpful. The Committee will be meeting throughout the audit process, most of which will be completed in September. After that, the draft reports and opinions will be prepared and presented to the Committee before the final presentation to the Board in December.

2. June 30, 2018 Financial Statement Disclosures

Review and discuss financial disclosures

The Audit Committee reviewed the June 30, 2018 Notes to the financial statements and discussed a number of areas for improvement, which included updated "fair value" language and other areas of research for the staff and auditors. Committee Chair Gladstern thanked Trustee Block for his contributions to the review.

3. Financial Auditor Request for Proposal (RFP)

Review and discuss issuance of financial auditor RFP

The Request for Proposal (RFP) for a financial auditor has been issued, as reported by the Administrator.

3. Ad Hoc Committee Reports

a. Ad Hoc One McInnis Committee

Mr. Wickman reported the Ad Hoc One McInnis Committee met a few weeks ago and discussed whether the Committee is interested in MCERA developing a proposal that

would move operations into Suite 150, which is on the other side of One McInnis and is about the right amount of space. Based on the discussion and direction of the Committee Mr. Wickman will develop a proposed move to be presented at a future Board meeting.

4. Trustee Comments

a. Educational Training: Reports by Trustees and Staff

Trustee Thomas reported during the May SACRS conference one topic discussed was reporting requirements for Form 700 for current Board members who participate on other Boards. He asked for clarification on whether being on the Board of the Marin County Association of Public Employees (MAPE) would be included with respect to Form 700 reporting requirements. Ms. Dunning confirmed the MAPE Board is subject to Form 700 disclosure requirements and that gifts totaling more than \$50 from MAPE would be reportable. Trustee Thomas found the discussion of public-private partnerships investments to be interesting and informative.

Trustee Silberstein reported that the first speaker at the SACRS conference who talked about the need to educate people on retirement was focused on defined contribution instead of public defined benefit plans. Another presenter, Robert Smith, talked about the need to give back and has since said he would pay the student loans of the 2019 graduating class of Morehead College. He also noted that SACRS affiliates were involved in defined contribution plan investing and was unaware that counties had defined contribution plans. Mr. Wickman indicated that most counties have Internal Revenue Code 457, deferred compensation plans. Trustee Given explained how a committee runs the 457 plan that uses low-fee mutual funds as investment vehicles.

At the SACRS conference Trustee Murphy found the session on the potential challenges to the California Rule to be interesting and informative. She highlighted Invesco's Kristina Hooper for her discussion on risks and trends, and recommended reference materials available on Life after Retirement. Mr. Wickman indicated that he had downloaded this material and shared it with MCERA staff.

Mr. Wickman said it was a good conference and observed that SACRS has been doing more on balancing diversity in difference ways. He encouraged trustees to attend the next SACRS conference in the fall.

Administrator Wickman reported the Callan regional workshop on the Age of Illiquidity was worthwhile. One point made was that pension plans are maturing, so the question is what the options are for managing liquidity. The session led off with an actuary explaining pension plan maturity issues that was well illustrated. Then, ideas on portfolio construction were addressed.

Mr. Wickman offered materials for any of the SACRS sessions to interested Board members who were not able to attend.

b. Other Comments

No discussion.

E. NEW BUSINESS

1. Future Meetings

Consider and discuss agenda items for future meetings

Trustee Werby requested a discussion on public relations during a future meeting.

F. OTHER INFORMATION

1. Training Calendar (Action)

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

AYES: Block, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby

NOES: None

ABSTAIN: None

ABSENT: Cooper

2. Keeping in Touch

June Issue, Association of Retired Employees newsletter

G. CONSENT CALENDAR (Action)

It was M/S Murphy/Thomas to approve the Consent Calendar as submitted.

AYES: Block, Given, Gladstern, Klein, Murphy, Silberstein, Thomas, Werby

NOES: None

ABSTAIN: None

ABSENT: Cooper

CONSENT CALENDAR

MCERA BOARD MEETING, WEDNESDAY, June 12, 2019

May 2019

RETURN OF CONTRIBUTIONS			
Timothy Barber	Full refund of Contributions (termination)	\$	2,394.55
Jennifer Bates	Full refund of Contributions (termination)	\$	29,476.22
Oleksii Kozyryev	Full refund of Contributions (termination)	\$	39,780.99
Trinette Pinson	Full refund of Contributions (termination)	\$	8,526.70
Shari Roll	Full refund of Contributions (termination)	\$	11,796.32
Latonia Wilson	Full refund of Contributions (termination)	\$	16,526.78
Susanna Zuniga-McGuire	Full refund of Contributions (termination)	\$	2,298.78
Caroline Kurema	Correction to April 2019 reporting	\$	2,264.62

BUYBACKS		
Brian Auger	\$	10,708.82
Chris Chamberlain	\$	1,747.61
Pompey Festejo	\$	3,135.24

NEW RETIREES	
Susan Adams	County of Marin - Board of Supervisors
Arianna Carey	County of Marin - Public Works
Esteban Cudas	County of Marin - Human Resources
Geri Creque	County of Marin - DRO
Michael Lew	County of Marin - Beneficiary (Vivian Lo-Lew Active Death)
Corey Monge	County of Marin - Health & Human Services
Lisa Salinas	County of Marin - Public Defender
Benjamin Stough	County of Marin - Assessor-Recorder-County Clerk
Suzanne Tavano	County of Marin - Health & Human Services

DECEASED RETIREES	
Marilyn Bailey	County of Marin - Beneficiary
Alice Beetham	County of Marin - Health & Human Services
Lorraine Miner	County of Marin - Assessor-Recorder-County Clerk

CONFERENCES/SEMINARS	
SACRS Spring Conference	Trustees Cooper, Jones, Murphy, Silberstein, Thomas Administrator Wickman
NCPERS Annual Conference	Trustee Cooper

There being no further business, Chair Gladstern adjourned the meeting at 10:43 a.m.


Maya Gladstern, Board Chair


Laurie Murphy, Secretary