

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

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

December 11, 2019 – 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 Silberstein called the meeting to order at 9:01 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern, Jones (alternate retired), Klein, Murphy, Poirier
 (alternate safety), Shaw (alternate ex officio), Silberstein, Thomas, Werby

ABSENT: Cooper

MINUTES

It was M/S Gladstern/Murphy to approve the November 6, 2019 Board Meeting Minutes as submitted.

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

NOES: None

ABSTAIN: None

ABSENT: Cooper

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. APPOINTMENT OF BOARD STANDING COMMITTEES (Action)

Appointment of Standing Committees and Standing Committee Chairs

Chair Silberstein presented appointments of Standing Committees and Standing Committee Chairs for 2020. The only changes from current members and Chairs are the appointment of Trustee Poirier to the Investment Committee and Mr. Silberstein to the Audit Committee.

Investment Committee – composed of all twelve members of the Retirement Board

Sara Klein, Chair

Finance and Risk Management Committee

Todd Werby, Chair

Steve Block

Roy Given

Sara Klein

Laurie Murphy

Governance Committee

Chris Cooper, Chair

Maya Gladstern

Dorothy Jones

Steve Silberstein

Phillip Thomas

Audit Committee

Maya Gladstern, Chair

Steve Block

Roy Given

Steve Silberstein

It was M/S Werby/Gladstern to adopt the Chair's appointments to standing committees for 2020.

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

NOES: None

ABSTAIN: None

ABSENT: Cooper

Chair Silberstein announced that Ad Hoc Committee members for 2020 will be the same as current members, except for the appointment of Trustee Poirier to the Ad Hoc Education Committee.

Ad Hoc One McInnis Committee

Maya Gladstern, Chair

Roy Given

Todd Werby

Ad Hoc Education Committee

Steve Block, Chair

Maya Gladstern

Michael Poirier

Todd Werby

Ad Hoc Retirement Administrator Performance Evaluation Committee

Steve Silberstein, Chair

Roy Given

Maya Gladstern

Dorothy Jones

C. MATTERS OF GENERAL INTEREST**1. GASB 67/68 Report (Action) – Cheiron, Graham Schmidt**

Consider and take possible action to adopt June 30, 2019 GASB 67/68 Report

Graham Schmidt, Actuary with Cheiron, presented Governmental Accounting Standards Board (GASB) Statements 67 and 68 for the period ending June 30, 2019. GASB 67 is guidance for what MCERA records in its financial statements, and GASB 68 directs what employers record and their financial statements. Mr. Schmidt discussed the summary of key results for GASB 67. The Net Pension Liability (NPL), which is roughly equivalent to the Unfunded Actuarial Liability (UAL) in the annual valuation, increased by approximately \$35 million. He explained that assets used to measure the NPL are measured as of June 30, 2019, but the Total Pension Liability (TPL) is a rolled-forward calculation using the liability from the June 30, 2018 actuarial valuation.

Mr. Schmidt stated that the NPL increased primarily due to the return on investments being lower than the expected target of 7.0%. In addition, losses on liability experience contributed about \$17 million to the increase in the NPL. The actuary detailed the change in the Collective Net Pension Liability from the prior year. The Total Pension Liability of \$2.83 billion increased by the amount of service cost and interest minus benefits paid. The Plan Fiduciary Net Position increased from \$2.5 billion to \$2.59 billion with employer and employee contributions and net investment income reduced by benefit payments and administrative expenses. The NPL is the difference between the Total Pension Liability and the Plan Fiduciary Net Position.

Mr. Schmidt reviewed the calculation of the Collective Pension Expense of \$80.7 million from the prior year value of \$64.9 million. Mr. Schmidt explained that the Net Pension Liability is allocated to each plan sponsor in proportionate shares. In response to Trustee Gladstern's inquiry on why there is no allocation to certain special districts, Mr. Schmidt explained this occurs when an employer has no active employees as of the measurement date (June 30, 2019).

Trustee Block asked for an explanation of the change in expected experience that affected the total pension liability. Mr. Schmidt replied that the primary driver of experience changes over the last few years has been Cost of Living Adjustment (COLA). Actual COLA increases have exceeded the assumptions used for the actuarial valuation. The COLA assumption is a projection of how COLAs will grow that is slightly less than long-term inflation. Trustee Werby asked how promotions are figured in and Mr. Schmidt replied there is a merit and longevity salary assumption that usually shows higher increases near the beginning of careers. Mr. Wickman added that this is looked at annually and adjusted as needed every three years when the actuary conducts the Experience Study. Trustee Thomas asked about the term “longevity bonus” which Assistant Retirement Administrator Michelle Hardesty said applies to employers other than Marin County.

It was M/S Gladstern/Given to adopt the June 30, 2019 GASB 67/68 Report as submitted.

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

2. Audited Financial Statements for Fiscal Year Ending June 30, 2019 (Action) – Brown Armstrong, Andy Paulden, CPA, Audit Manager

Discuss and consider Audit Committee recommendation to adopt the Audited Financial Statements for June 30, 2019

Ashley Casey, CPA with Brown Armstrong, presented the Audited Financial Statements for Fiscal Year Ending June 30, 2019 and related reports in place of Mr. Paulden who was not able to attend. Ms. Casey reported that Mr. Paulden met with the Audit Committee four times during the audit and he presented the final review of the financials at the Audit Committee’s December 4, 2019 meeting.

Ms. Casey explained the Reports to the Board of Retirement that precede the financial statements. The first report is a Required Communication to the Members of the Board of Retirement and Audit Committee in Accordance with Professional Standards (SAS 114), a summary letter going over any significant matters or disagreements with management or anything that is needed to be communicated to the Board. She reported that, similarly to last year, the report discloses that an adjustment was made due to a lag in private equity valuations.

The next report is the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters that is in accordance with Government Auditing Standards. This report would disclose if there were weaknesses in compliance or internal controls and there were none.

Ms. Casey reported that the Independent Auditor’s Report on the Financial Statements is an unmodified clean opinion, which is the best opinion that can be attained. Chair Silberstein asked for questions or comments on the annual financial audit.

Chair Silberstein directed deliberations to **Agenda Item D.2.b, BOARD OF RETIREMENT MATTERS, Standing Committee Reports, Audit Committee.**

D. BOARD OF RETIREMENT MATTERS

2. Standing Committee Reports

b. Audit Committee

1. Financial Statements – Andy Paulden, Brown Armstrong

Review and discuss draft June 30, 2019 financial statements

Audit Committee Chair Gladstern stated Committee members including Trustees Given and Block met with staff and auditor Andy Paulden who talked about the process of wrapping up the annual audit. Mr. Paulden reviewed a summary of all the required reporting for the annual financial audit. The draft financial statements included updated litigation notes and data from GASB 67/68 reports. Areas of focus for the audit included revenue recognition, management override of controls, investments and related earnings, participant data and actuary, benefit payments, and employer and employee contributions. The Committee determined the financial statements were in order and recommended their adoption by the Board.

Chair Silberstein redirected deliberations to **Agenda Item C.2, Audited Financial Statements for Fiscal Year Ending June 30, 2019.**

Audit Committee Chair Gladstern recommended that the Board adopt the June 30, 2019 financial statements.

Mr. Wickman advised that the Audit Committee's recommendation covers both the auditor's report and the financial statements.

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

Mr. Wickman thanked Brown Armstrong auditors Andy Paulden, Ashley Casey and her team for cooperating with staff and the Audit Committee on the annual financial audit.

3. Preliminary Actuarial Valuation Results June 30, 2019 – Cheiron, Graham Schmidt

Presentation of preliminary results for the actuarial valuation

Mr. Schmidt presented preliminary results for the June 30, 2019 actuarial valuation. He observed that the Net Employer Contribution Rate increased slightly due primarily to investment returns being lower than the expected target and lower payroll growth rates

The market value of Plan assets rose to \$2.57 billion from \$2.48 billion in the prior period. The actuarial liability rose to \$2.97 billion from \$2.85 billion in the prior period. The difference between these two values is the unfunded actuarial liability of \$398.8 million, as compared with \$366.4 million in the prior period. The resulting funded ratio is 86.6% and the Plan's net employer contribution rate is 29.68%, as compared with 28.90% in the prior period.

Mr. Schmidt explained that the slight difference in the market value of assets from the GASB 67/68 Report has to do with contingency reserves. Mr. Schmidt explained that

contribution rates are established as a percentage of payroll. As a result, when payroll for an employer increases, it will cause contribution rates to decrease because cost is spread over a larger payroll base. Mr. Wickman noted that the opposite is also true, so when an employer's payroll decreases, the contribution rate goes up because the base is smaller. Trustee Block asked if this affects member contribution rates and Mr. Wickman explained it does not because members do not pay for the unfunded liability.

Trustee Klein asked what accounts for the difference the actuarial liability value that is about \$14 million higher than reported in the GASB 67/68 Reports. In response, Mr. Schmidt explained the GASB liability is a roll forward of one year based on interest and service costs but does not include the demographic changes because that data is not available at the time the GASB report is produced. The preliminary valuation report includes the interest and service costs but also adjusts for any demographic gains or losses from the prior year.

There are more retired than active members, which is not unusual for county pension plans, Mr. Schmidt said. Active member payroll grew at 1.5%, less than the 3% assumed rate, which has the effect of increasing employer contribution rates.

Mr. Schmidt presented key metrics for Marin County, Novato Fire Protection District (Novato), and the City of San Rafael (San Rafael) showing the actuarial liability, valuation assets, unfunded actuarial liability, funding ratio, and net employer contribution rate for each. He reported that the net employer contribution rate increased the most for San Rafael. Trustee Werby asked about the differences among employers and Mr. Wickman explained that the higher percentage of safety members at the City of San Rafael and Novato Fire impacts their costs, as opposed to the County which has a small safety member population. Benefit formulas for general and safety members also impact the overall cost. Furthermore, the higher ratio of liability-to-payroll for these two groups means that asset gains and losses will have more of an effect on funding metrics.

Summarizing factors affecting contribution rates for the total Plan, Mr. Schmidt reported an expected increase of 0.48% of overall pay. The return on assets compared to the expected return increased cost by about 0.20 percent of pay in each of the next four years. PEPRAs make up a growing proportion of the active member population and generally contribute a larger share of their cost, decreasing the average normal cost by 0.21% of payroll. Individual pay increases were close to the expected amount of 3%, so this had no impact on contribution rates. Payroll growth overall was about 1.5%, less than expected, due to a reduction in the active work force.

Mr. Schmidt presented a breakdown of factors affecting the change in contribution rates for each employer group. He pointed out that the lower payroll factor increased contribution rates mostly for San Rafael because its payroll dropped by about 3%, leading to a 2.38% increase in its contribution rate. In closing, Mr. Schmidt stated the final valuation report will include a new section on additional risk disclosures and will be presented at either the January or February 2020 Board meeting. He agreed to Trustee Gladstern's request to model the amortization of the 2009 extraordinary loss in two-year increments instead of one-year increments to reduce the amortization period as part of the Experience Study which will be conducted in 2020.

BOARD OF RETIREMENT MATTERS continued

1. Administrator's Report

a. Administrator's Update

Mr. Wickman reported that the lease for Suite 250, the remaining space on the second floor of One McInnis Parkway, has been signed with Computershare. The Administrator expressed appreciation to Ms. Dunning's Partner at Nossaman, Simon Adams, for getting the lease to where we needed it to be. In response to Chair Silberstein's inquiry, he said the lease is for five years with two three-year extensions. Trustee Werby asked about terms of the lease and Mr. Wickman said rent increases 3% per year. The Administrator commended Ad Hoc One McInnis Committee members Roy Given, Maya Gladstern and Todd Werby for their work and thanked Cushman Wakefield for their part as brokers.

MCERA administers the Marin County medical plan for retirees. Staff are sending out the 2020 premium notice letter to the retirees. Sydney Fowler graduated from the Marin County Leadership Academy which is a program run for the County by Dominican University. Mr. Wickman attended the graduation ceremony which included presentations of the class projects by the various students including Ms. Fowler.

b. Staffing update

Staff are still working through the evaluation process for two open positions due to the large number of applicants. The applications need to be ranked and evaluated, and then the interview process will begin.

c. Facility Use Report

No facility usage in the period to report.

d. Future Meetings

- December 17, 2019 Governance Committee
- January 8, 2020 Board
- January 22, 2020 Investment Committee

Chair Silberstein directed deliberations to time-certain **Agenda Item E, DISABILITY CONSENT AGENDA.**

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

[Any item that a Board member requests be pulled from the Disability Consent Agenda will be considered in Closed Session under the authority of Government Code section 54957(b), unless the applicant specifically waives confidentiality and requests that his or her application be considered in Open Session.]

Adopt Administrative Recommendation to deny service-connected disability retirement application and provide applicant with opportunity to request administrative hearing.

Mr. Wickman reported that Mr. Ramirez was not attending the presentation of the application. Staff are recommending that the Board deny the service-connected disability retirement application.

It was M/S Thomas/Gladstern to adopt the Administrative Recommendation to deny Antonio Ramirez's application for service-connected disability retirement and provide the applicant with the opportunity to request an administrative hearing.

Trustee Block asked about the process of having this agenda item in Open Session. Mr. Wickman explained that this application for disability retirement was placed on the Disability Consent Agenda because there was a unanimous opinion of staff and advisors, and furthermore the applicant was not expected to appear to present to the Board. The Chair noted the trustees have the applicant's file and Counsel Dunning advised that the Disability Consent Agenda provides the record for the process, even though it is not in Closed Session.

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

Chair Silberstein directed deliberations to **Agenda Item D.2.a, Standing Committee Reports, Finance and Risk Management Committee.**

Standing Committee Reports continued

a. Finance and Risk Management Committee

1. Administrative Budget Fiscal Year 2019/20 Quarterly Review

Finance and Risk Management Committee Chair Werby reported that administrative expenditures for the quarter ending September 30, 2019 were 18.1% of the budgeted amount for the fiscal year. He noted the number of pay periods can vary and there were two open positions leading to savings in the salaries and benefits category. Services and supplies expenditures were slightly under the budgeted amount and included higher record retention costs due to a rate increase and more boxes being stored. Staff is in the process of removing items that do not require storage to reduce costs. Expenses for medical exams, investigations and transcribing were under budget for the quarter and are trending lower. A new agreement will lead to lower costs for the review of medical documents. The personal computer lease was moved to non-administrative expenditures and will be reflected in the next fiscal year's administrative budget.

2. Non-budgeted Expenses

Non-budgeted expenses were reviewed by the Committee.

3. Quarterly Checklist

a. MCERA educational and event-related expenses

Educational and event-related expenses were \$7,000 for the quarter and include staff training at CalAPRS Accountants' and Benefits Roundtables.

b. Continuing Trustee Education Log

The Continuing Trustee Education Log tracks trustees' progress toward the education requirement of 24 hours every two years.

c. Other expenses per Checklist Guidelines

A summary of normal credit card charges was presented.

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

See discussion above.

e. Vendor services provided to MCERA

No report.

f. MCERA staffing status

See Administrator's Staffing Update above.

g. Internal controls, compliance activities and capital calls

The recap of private equity flows for the quarter shows total capital calls were \$4.6 million and total distributions were \$9.9 million.

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

Nothing to report.

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

A new card reader system has been installed that will help improve security.

4. Annual Audit of Financial Statements Update

Update on audit process

The Audit Committee met in November and last week with staff and the auditor. See Audit Committee report above.

3. Trustee Comments

a. Educational Training: Reports by Trustees and Staff

Trustee Thomas reported on the fall SACRS conference, highlighting the session on pension systems leading the way in creating accessible online experiences for members. There was a touch screen and checklist to assess compliance with the Americans with Disabilities Act (ADA) standards that he tested on MCERA's website which he said worked well. There is other software available with a more in-depth guide to help with changes, he said.

Trustee Werby also attended the SACRS conference and learned during the panel on effective leadership ways to be a good listener. One takeaway is that asking who, what, and where questions is better than asking why questions that are more likely to lead to conflict. The panel on disruptive technologies indicated that intuitive learning is a decade away. Suggestions for protecting privacy are to use better passwords and multiple security protocols. According to the PIMCO presenter, the economic outlook includes uncertainties on trade risk with Latin America and expectations of a small deal with China, but not a big one. In the real estate breakout session, the point was made that neighborhood retail malls are less susceptible to internet disruption and as a result are outperforming. The concept that industrial is better than commercial office space seemed to be due to specific locations. In the breakout session on risk and mortality, actuary Paul Angelo stated that younger people are living longer, resulting in a push to use a risk-free rate of return which would impact the retirement plans' funding levels.

Mr. Wickman attended the SACRS conference and business meeting and found the most interesting presentation was the "Up in Smoke" session on cannabis. The speaker on this topic was extremely well-versed in the investment, regulatory, legal and agriculture aspects of this topic. Also interesting was the session on innovation suggesting that new concepts can become more backable by changing the perception to an investors' point of view, thereby having a better chance of getting funded. The Administrator also attended the session on 130/30 equity extension strategies, noting that MCERA previously had these strategies in the portfolio but sold them after the 2008/2009 financial crisis. At the Legislative Committee meeting, Mr. Wickman shared the Board's concerns on how SACRS proposals would be perceived by the membership if there was not unanimous support for the proposals at the Business Meeting. In the RVK report comparing fiscal year performance (as of June 30, 2019) of SACRS systems, MCERA results were very favorable when compared to our peer County retirement systems.

Trustee Gladstern asked about Harvey Leiderman's discussion of 'zombie' members at the Trustee Break-out Session. Mr. Wickman explained this term refers to individuals employed by participating employers who are not eligible for membership in the retirement system because they are not truly government employees. Trustee Werby asked if our employers use independent contractors and the Administrator replied they do. He explained that if questions arose about whether an individual was an employee or independent contractor MCERA would use the Internal Revenue Service guidelines to help make any determination.

Chair Silberstein highlighted the SACRS session on disruptive technologies. He said legal session discussions included the situation when an employer has an actuarial unfunded liability and no employees contributing to the plan. Other topics of interest were the actuarial discussion about more sophisticated tables on generational income and the RVK study comparing different SACRS plans.

b. Other Comments

No other comments.

F. NEW BUSINESS

1. Fiduciary Liability Insurance (Action)

Consider and take possible action on selection of fiduciary liability insurance provider

Administrator Wickman reported that MCERA's current provider Euclid/Hudson Insurance Company (Hudson), provided a proposal to renew fiduciary liability insurance coverage for the coming year. The current policy was extended by Hudson for three days at no additional premium to give the Board additional time to consider the renewal proposal. The proposed insurance premium is \$70,637 plus \$300 Waiver of Recourse Premium for a total of \$70,937 annually. This is a \$2,349 increase over the current policy. Trustees reimburse MCERA \$25 each for the Waiver of Recourse. Additional terms of the new proposal include an increase in reimbursements to MCERA for Class Action claims for legal services for partners from \$500 per hour to \$550 per hour.

As always, Board Counsel has reviewed the renewal agreement, Mr. Wickman said, and staff's recommendation is that the Board adopt this proposal. The Administrator would then make the commitment to MacCorkle to bind the coverage.

It was M/S Werby/Gladstern to select Euclid/Hudson Insurance Company as the fiduciary liability insurance provider, subject to revised agreed-upon retention terms as noted.

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

2. Future Meetings

Consider and discuss agenda items for future meetings

Chair Silberstein invited trustees to recommend topics for future meetings. Mr. Wickman noted the presentations that had been scheduled for the October 2019 Strategic Workshop that was cancelled due to the power outage will be covered during 2020.

G. OTHER INFORMATION

1. Training Calendar (Action)

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

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

2. Keeping in Touch

December Issue, Association of Retired Employees newsletter

H. CONSENT CALENDAR (Action)

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

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

CONSENT CALENDAR MCERA BOARD MEETING, WEDNESDAY, December 11, 2019

November 2019

RETURN OF CONTRIBUTIONS		
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Therese M. Jones	Partial Refund of Contributions (age change)	\$2,779.87
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BUYBACKS		
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Milan Thomas Greene		\$15,795.07
Piotr Lempart		\$1,469.32
Clara Louse McFadden		\$13,668.16
Peter Norman		\$1,563.54
Megan Stone		\$4,514.43

NEW RETIREES		
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Gustavo Bush	City of San Rafael
Bang Cao	County of Marin - Sheriff/Coroner
Shae Cross	County of Marin - Health & Human Services
Robert Goralka	County of Marin - Public Works
Therese Jones	County of Marin - Library
Linda Prieto	County of Marin - Sheriff/Coroner
Cherie Raffaini	County of Marin - Fire Department
Marvin Urroz	County of Marin - Health & Human Services
Robert Wyatt	County of Marin - Parks & Open Space

DECEASED RETIREES		
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Gary Frugoli	City of San Rafael
Norman Johnson	Novato Fire
Jeanne La Rose	Marin County Superior Court
Melvin Mogulof	County of Marin - Beneficiary
Joan Patton Steele	County of Marin - Assessor/Recorder/County Clerk
Emelie Wilson	County of Marin - Health & Human Services

CONFERENCES/SEMINARS


SACRS Fall Conference

Administrator Wickman; Counsel Dunning
Trustees Cooper, Jones, Silberstein, Thomas, and Werby

There being no further business, Chair Silberstein adjourned the meeting at 10:37 a.m.



Steve Silberstein, Board Chair


Laurie Murphy, Secretary