MINUTES

Marin County Employees' Retirement Association (MCERA)
Retirement Board Strategic Workshop

One McInnis Parkway, First Floor
San Rafael, CA
October 26-27, 2021

This meeting was held via videoconference pursuant to MCERA Board of Retirement Resolution 2021-22/01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through November 12, 2021. The public was able to listen to and observe the meeting on YouTube and provide comment through Zoom.

Day 1

October 26, 2021

Meeting Chair Steven Block

9:00 a.m.

Call to Order/Roll Call

Chair Block called the meeting to order at 9:00 a.m.

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

ABSENT: None

Open Time for Public Expression

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.

9:00 a.m. – 10:00 a.m.
Asset/Liability Study Update
Jay Kloepfer, Callan, Capital Markets Research

Jay Kloepfer, Executive Vice President with Callan LLC, presented an update of the Asset/Liability Study. Mr. Kloepfer stated the goal of the Asset/Liability Study is to review the Fund's asset allocation in light of the liabilities, and update relevant factors used for assets and liabilities based on experience. These include changes in the capital markets and MCERA's Plan over the past five years.

Mr. Kloepfer outlined three phases for the Asset/Liability Study: 1) Review the current investment program as to strategic allocations to broad asset classes and set asset class expectations on return, risk, and correlations; 2) Build an integrated asset-liability model by rolling forward the June 30, 2020 Actuarial Valuation, which will include the strong 2021 fiscal year investment return; and 3) Develop preliminary asset/liability results, confirm decision variables including the applicable discount rate, and present the final Asset/Liability Study in December 2021 or January 2022.

Mr. Kloepfer explained the liability model is built using deterministic projections and generating 2,000 simulations per year for ten years per asset mix to capture possible economic scenarios. After defining risk tolerance, the appropriate target mix of asset classes is selected. Currently the portfolio is diversified across private and public equities, fixed income, and real assets.

Discussing the capital markets, Mr. Kloepfer said equities had a strong run over the past twelve months. Over the past ten years the best performing asset class has been U.S. large cap equities. Gross Domestic Product (GDP) is expected to taper down from 5% to 4% next year, and then revert to a 2% to 2.5% trend. Callan built at least one recession into its 10-year capital market projections listed below:

Domestic Equity:	6.60%
Global ex-US Equity:	6.80%
Domestic Fixed Income:	1.75%
Private Equity:	8.00%
Real Assets:	5.55%

Correlations of asset classes were presented and five efficient mixes listed, of which Mix 3 aligns with MCERA's current target asset allocation.

Trustee Klein asked if recent inflation would change the reduced projected return for fixed income. Mr. Kloepfer replied this is being considered in the bond model, but there is no compelling reason to change the projection. Mr. Kloepfer stated this year yields moved up and have since receded, with the expectation of rising further after another year. Chair Block asked about the negative correlation of fixed income versus equities. Mr. Kloepfer replied after the Great Financial Crisis the correlation went deeply negative and has since moderated. Noting that real assets are constrained to 15% for the asset mixes, Chair Block asked if a 20% allocation to real assets could be modeled. Mr. Kloepfer said there has not been interest in increasing real

assets because the volatility has scared some investors. Mr. Callahan said increased real assets can be modeled, noting that some investors have more diversified real asset portfolios that include infrastructure that may be of interest, though liquidity is a consideration. Trustee Werby asked about the opportunistic portfolio, which Mr. Callahan said is not modeled because it has a 0% target allocation but has a strong likelihood of meeting the expected return.

Mr. Kloepfer discussed risk/return profiles across the five efficient mixes. The Mix 3 projected real return is 4.0%, which is close to the assumed real return of 4.25%. For Mix 3 the probability of achieving the 6.75% assumed rate of return is 43%, and the expected return is 6.0%.

Mr. Kloepfer stated key decision variables for the liability model are the range of the projected actuarial liability, present value of future contributions, range of the market value of Plan assets, funded ratio, liquidity and cash flow needs, present value of the future unfunded liability, and ultimate net cost (combines contributions over the planning horizon plus the unfunded liability at the end of the projection period). Considerations include the financial strength of the Plan sponsor and the Plan, investment goals and objectives, liability growth rates, time horizon, and the tolerance for risk of decision makers.

In summary, Mr. Kloepfer noted changes to MCERA's funding and benefit policies to date have been modest. Any assumption or policy changes adopted by the Board based on the June 30, 2021 Actuarial Valuation will be incorporated into the Asset/Liability Study.

Chair Block asked if building the liability model is a separate process from the actuary. Mr. Kloepfer replied no, as liability data is taken directly from the actuary for Callan's simulation. Mr. Schmidt advised that liabilities do not vary as much as the assets, in part due to capped COLAs and pay increases not affecting most of the liabilities which are related to retirees.

Chair Block invited members of the public to comment on this topic and thanked Mr. Kloepfer for the update on the Asset/Liability Study.

The Chair recessed the meeting for a break at 9:54 a.m., reconvening at 10 a.m.

10:00 a.m. – 12:00 p.m.
June 30, 2021 Annual Actuarial Valuation Funding Methods and Discount Rate Review

- **Review of extraordinary investment return for fiscal year**
- **Discuss options for potential funding approach changes**
- **Discuss COVID-19 impacts on mortality projections**

Graham Schmidt, ASA, FCA, MAAA, EA Consulting Actuary, Cheiron

Mr. Wickman stated that Cheiron has begun work on the June 30, 2021 Actuarial Valuation. The Administrator said the Board's funding approach is designed to steadily achieve the goal of being 100% funded for the Plan. Given this fiscal year's extraordinary investment return of over 30%, the funded level is now close to, or over, 100% in some cases. Today's discussion is designed to show the Board how this extraordinary return will be recognized in the annual Actuarial Valuation following the Board's current funding approach. The actuary will also discuss a Fresh Start option, which resets the current Unfunded Actuarial Liability (UAL) amortization layers, and the effects of changing the discount rate. Mr. Wickman reiterated that the Board's current funding approach and assumptions remain appropriate.

Graham Schmidt, Actuary with Cheiron, said the circumstances this year are interesting with four years of expected returns coming in one year, thus accelerating the funding process. Mr. Schmidt introduced colleague Actuary Bill Hallmark who gave an overview of the Actuarial Valuation and current funding methods. Mr. Hallmark explained that the funding target for the Plan is liabilities measured as of the prior Valuation date, June 30, 2020, which was $3.1 billion. Since assets were $2.6 billion, there was a UAL of $499 million which is amortized over time. MCERA's amortization policy is set to have a stable value for contribution rates over time.

Amortization layers include the initial UAL with ten years of amortization payments remaining, and the 2009 extraordinary investment loss amortization that has 18 years remaining. Layers of other actuarial gains and losses including assumption changes are included. The total of these amortization layers are computed as a level percentage of payroll to arrive at employer contribution rates. In 2014 direct rate smoothing was implemented so that gains and losses are phased in and then out to achieve stability in contribution rates.

Mr. Hallmark posed the question of what happens when full funding occurs in one year. Under current funding policy, for the Marin County and Special District valuation group, the June 30, 2021 experience of 30%+ investment returns would be phased in over 5 years and out over 5 years, and the net UAL payments become negative in 2026. After that, contributions would result in negative amortization credits. Trustee Gladstern asked if the minimum contribution affects classic members. In reply, Mr. Schmidt explained for legacy employees changing the discount rate would affect their rates. The funding level affects only the UAL which is paid by employers.

Mr. Hallmark said the Conference of Consulting Actuaries Public Plans Community has a white paper on public Actuarial Funding Policies and Practices for Public Pension Plans. He said the white paper proposes that when Plans are 100% funded, they should consider a Fresh Start option to eliminate all prior amortization layers and set up a 30-year amortization of the surplus. Mr. Schmidt stated part of the reason for this approach is the employer would otherwise be paying more than the Normal Cost for the next four years, because the investment gain is being phased in over five years. With the Fresh Start option, he said, there would be a large one-year drop in employer contribution rates. Once the Plan is funded, the Actuary said, it is appropriate to consider what the appropriate level of contributions is going forward.Given the different time horizons and durations of active and retired members, the Actuary said a potential idea is to discount the benefit payments of each group at different rates. Trustee Silberstein asked if this has been done by other Plans. Mr. Schmidt replied there is a public pension system using a different return assumption for pre- and post-retirement members. Mr. Wickman added there are no County Employees Retirement Law of 1937 (CERL) systems using this method. Trustee Given said splitting the discount rate seems like a complicated approach.

Mr. Schmidt analyzed contribution rates in different scenarios. For the Marin County and Special District group, employer contribution rates are projected to decline in 2030 when the initial UAL is paid off. Under the current funding policy, over five years the contribution rate goes down to the Normal Cost at about 12% of pay, and the funded ratio goes to 106%, steadily increasing to 118% over 20 years if all return assumptions are met. Alternatively, using the Fresh Start concept, the employer contribution rate drops immediately to the Normal Cost, and the funded ratio of 106% grows at a slower pace because only the Normal Cost is being paid.

Mr. Schmidt discussed the effect on projected employer contribution rates if the discount rate is reduced by 0.25% to 6.5%, or when different discount rates of 6.25% for inactive and 6.75% for active member benefits are used. Trustee Block asked how this would look when including the Fresh Start process. The Actuary replied that employer contribution rates would still drop to 13 to 14% of pay. Trustee Silberstein asked if the rates can be computed using a 6.25% discount rate, and Mr. Schmidt explained how this would affect employer contribution rates and funding. Trustee Gladstern asked how this fits with MCERA's Unrestricted Earnings Policy. Retirement Administrator Wickman said staff will review the policy to determine how any approach selected by the Board would work.

Turning to employee contribution rates, Mr. Schmidt explained they are steady because employees are paying half the Normal Cost, and not the UAL. Reducing the discount rate to 6.5% results in a 70 basis point increase in the average employee contribution rate. Trustee Block asked if this could be phased in and Mr. Schmidt replied it is not recommended, partly because the discount rate assumption needs to be the best estimate.

Chair Block requested a summary of options and Mr. Schmidt's opinion on the Fresh Start. In response Mr. Schmidt stated he would be cautious about reducing the discount rate below 6.25%, and the Fresh Start or no Fresh Start options are possibilities.

Mr. Wickman summarized options as follows:

1. Retain the current funding policy and discount rate puting the gain in a new layer to be amortized.
2. Retain the current funding policy and discount rate but do a one-time reset of existing amortization layers.
3. Retain the current funding policy but lower the discount rate
4. Retain the current policy but do a one-time reset of existing amortization layers and lower the discount rate.

Trustee Gladstern requested further explanation and consideration of the split discount rate.

Chair Block invited Board members to focus on questions to inform discussions and then be able to narrow the options to consider. Asked by Chair Block if there is a mechanism to reduce employee contribution rates, Mr. Schmidt replied using the split discount rate the employee contribution rates do not change.

Mr. Schmidt said with the large investment return there is a concern about a runaway surplus, but this effect is minimal over the next 20 years. With the Fresh Start, there may be more instability in employer contribution rates in the future, he said.

Trustee Silberstein advocated a gradual reduction in the discount rate and not to overreact to the unusual investment return. Trustee Given indicated the discount rate should not be lowered based on one year's investment returns because it could have a long-term impact on the Fund. Trustee Gladstern supported Trustee Given's view.

Trustee Given said the amortization layers have historical value and would be lost by using the Fresh Start. Chair Block asked if the Fresh Start would accelerate changes to funding policy and

Mr. Schmidt said it accelerates the reduction in the employer contribution if the Plan gets to 100% funded. Trustee Cooper supported Trustee Given's views, saying change is not needed right now and we are not on a path to reduce the discount rate, because prior reductions in the discount rate were unique decisions. He indicated the Board should wait for more information before reducing the discount rate that would effectively reduce pay of the active work force by increasing their contribution rate. Following up on this opinion, Trustee Klein asked if it is fair to reduce the discount rate, thereby causing active employees to pay more while employers would be paying less due to the reduction in the UAL.

Counsel Dunning advised that trustees have fiduciary duties of prudence and loyalty to members and beneficiaries, and Trustee Klein makes an important observation about fairness to them. Trustees also need to have the money available to pay the promised benefits on a go-forward basis, Ms. Dunning said, and trustees should be weighing these intergenerational issues with a view to being impartial to all members and beneficiaries. The Board Counsel further stated that prudence relates to listening to experts and discussing, as trustees have been, how to make sure the system is funded in a way to minimize employer contributions and fairly distribute the obligation over time to timely pay promised benefits.

Counsel Dunning asked for clarification on the Fresh Start option and Mr. Schmidt said both the Fresh Start option when fully funded or keeping the current funding policy would fall within recommended practices. Trustee Given asked how other plan sponsors would be affected. In response, Mr. Schmidt said the Fresh Start would drop the employer contribution rate for the Novato Fire Protection District from 48% to 24% of pay and it would be 100% funded, and the City of San Rafael employer contribution rate would decrease by about 5% at a 95% funded level.

Trustee Murphy asked about ways to reduce employee contribution rates. Mr. Schmidt explained that employee contribution rates are based on the Normal Cost. He said dropping the discount rate will increase the member contribution rate is because it is used to calculate benefit payments. He pointed out that employers, not employees, have been paying the UAL and therefore will have lower contributions due to the large investment gain.

In conclusion, Mr. Schmidt stated in all these scenarios the funded status of the Plan is very healthy. Counsel Dunning said from a prudence and loyalty perspective the rationale for having a lower discount rate for retirees is their liabilities need to be funded faster than for active members. Mr. Schmidt said using the split discount rate, employees pay the same contributions. For employers the unfunded liability payment would go up and then down to zero over the next four years. Mr. Wickman noted using the split discount rate would mean transferring some of the cost of a lower discount rate to the employer contributions, which is why he felt this was not an approach the Board should take.

Chair Blocked thanked Mr. Schmidt and Mr. Hallmark, recessing the meeting for lunch at 12 p.m., reconvening at 1:15 p.m.

Trustee Poirier was excused from the meeting at 1 p.m.

12:00 p.m. – 1:15 p.m.
Lunch Break1:15 p.m. – 2:15 p.m.

China Investment Considerations
Cara LaFond
CFA, Managing Director, Multi-Asset Strategist, and Portfolio Manager
Wellington Asset Management

Josh Berger
CFA, CMT, Managing Director and Associate Director, Investment Product & Fund Strategies
Wellington Asset Management

Elise Douglas
CFA, Investment Analyst, Product & Fund Strategies
Wellington Asset Management

Molly Conway of Wellington Asset Management introduced Cara LaFond, Managing Director, Multi-Asset Strategist and Portfolio Manager, to review China Investment Considerations. Ms. LaFond stated the intent is to share a mosaic of views on investing in China, including its geopolitical landscape and ecosystem. The investment team continues to see emerging markets screen high in terms of potential return, along with a fair amount of volatility. Broadly speaking, the risks are environmental concerns, regulations and motivations of the government, trade wars, human rights concerns, and the potential for military conflict.

Based on GDP, China has reemerged as the second largest economy in the world, Ms. LaFond said, and China's middle class is expected to accelerate GDP growth. China is transitioning from a manufacturing economy to a more consumer-driven economy. One of the key drivers of change is the decision by MSCI to include China A shares within its Emerging Markets Index. China A shares have more retail oriented companies with growth potential in information technology, communication services, consumer, and health care. The number of listed stocks is growing, reflecting entrepreneurship and a broad opportunity set.

In the geopolitical landscape there are a number of headwinds, Ms. LaFond said, including a steady decline in the dominance of U.S. political power with respect to the rest of the developed world and the rise of China's global geopolitical power. China outranks the U.S. in total embassies worldwide. As the countries become more independent, Ms. LaFond said Wellington believes the relationship between the U.S. and China will continue to decline. Areas of disagreement include intellectual property, national security, and defense, she said, and China's intent is to become independent of the U.S. for its needs. Wellington is monitoring areas such as Taiwan, Hong Kong, and the South China Sea as key geopolitical flashpoints.

More constructive areas include climate change, sustainability, and health care. With deglobalization there are better opportunities in companies, termed national champions, on the right side of government motivation and regulators. Bouts of volatility are expected to come and go over time that may be offset with good diversification within Chinese equities. Ms. LaFond pointed out the correlation of the MSCI China All Shares Index with the U.S. S&P 500 Index is low at 0.56, thereby providing diversification for globally diversified investors.

Josh Berger, Managing Director and Associate Director, Investment Product & Fund Strategies, said areas of opportunity for bottom-up investors are based on an increase in regulation and innovation driven by China's Research and Development spending that is on a steady uptrend and closing in on U.S. levels. These factors have led to the development of New China as industries mature. Elise Douglas, Investment Analyst, Product & Fund Strategies, said health care illustrates an area of potential as China moved from generic drug production to innovative contract research, biopharma, and medical technology and device companies.

Mr. Berger pointed out Chinese equities that have a lower multiple than developed markets, and this gap has grown. Wellington does not see the case for Price/Earnings multiple expansion in China equity markets, but expects growth. Mr. Berger said China A shares provide diversification and emphasized the difference in performance across equity sectors. He spoke to the importance of having an investment team on the ground to find opportunities. Investment themes include the growth of the middle class leading to increased spending, oncology and other age-related health care, and digitalization and localization of the economy since the pandemic, such as testing facilities that are displacing multinationals.

Ms. Douglas discussed reform and restructuring across Chinese markets, including state owned enterprises that used to comprise the bulk of equity markets. Their prevalence is decreasing due to a focus on the liberalization of industries. A consideration is that regulators who are not keeping up with innovation take extreme actions to balance the ideals of the Chinese Communist Party with the idea of capitalist innovation. One example is taking after-school companies nonprofit because families struggled to devote more income to their children's tutoring sessions. Ms. Douglas stressed the importance of knowing where these issues are.

One area of forward-looking guidance from the Chinese government is its goal of decarbonization. This has led to substantial investments in smart grid, electric vehicles and batteries, and a supply-demand imbalance. Natural gas is an opportunity as additional capacity is needed. Ms. Douglas said another key aspect of evaluating companies in China is Environmental-Social-Governance (ESG), which is in its early stages and is important to downside protection. Governance is a key area of focus to ensure alignment with shareholder interests. Analysts examine the business model and how stakeholders are treated. Social considerations include human rights violation, for example. Ms. Douglas noted the government has an unwillingness to pursue capitalism at the expense of common prosperity and socialist ideals.

Trustee Gladstern asked about the Variable Interest Entity (VIE) structure in which the investor outside China does not own the company. In response Mr. Berger explained VIEs were developed 20 years ago to provide access to internet companies in China. Certain VIEs in the market are not created equal and remain a risk. Recently, regulators have recognized and are reassessing the VIE structure. Mr. Berger said Wellington tends to own ADRs of large cap companies because they are more transparent. The market will ultimately converge into one type of share class, Mr. Berger said, and part of that process is going on now. China is beginning to institute new exchanges, and he expects reforms to improve ways to invest in China will continue. Asked by Trustee Gladstern what the alternative to VIEs is, Mr. Berger said investors can purchase A shares, ADRs, and use China Stock Connect or the Hong Kong exchange as alternatives.

Trustee Silberstein said he has attended presentations where investors were advised not to invest in China because the government can shut companies down instantaneously and there is risk in not being able to get funds out of China. Mr. Berger replied there are reforms to improve the integrity of the capital markets in China by implementing new processes. As an example, in the STAR Market, western-style Initial Public Offerings (IPOs) have been implemented, as opposed to the government setting the price, and futures were introduced. In addition, the MSCI Emerging Market Index is moving to have A Shares as 20% of the index. Mr. Berger added China is looking to integrate into the global capital markets and broaden out the investor base in Chinese equities. Trustee Silberstein asked if the risks are overblown, and Mr. Berger replied the risks exist in concentrated areas of Chinese markets such as VIE's, and China has been working on offering other ways to invest. He said Wellington does not own heavily regulated areas of the market, such as Evergrande or property companies, for example, indicating being selective on where to invest is recommended.

Mr. Callahan said another frequent concern is the quality of corporate information and accounting standards. This is a valid risk, Mr. Berger said, making it important to have a local perspective. By reading the financials and doing channel checks, Wellington team members assess the value of information. He further stated the U.S. is holding China accountable in delisting companies that cannot provide proper financials. Trustee Werby asked how big a problem Evergrande (it has debt payment issues) will be. Ms. LaFond replied it is an example of the risk associated with the growth of debt within the housing market that regulators are reigning in, causing the housing market to contract.

Chair Block asked about the management disciplines of proxy contests and short sales. In response Mr. Berger said short selling has just started in China and is not at western standards. As to proxy contests, Mr. Berger said he can follow up on this question. Chair Block asked if the Chinese government would allow hedge funds and Mr. Berger said no. Chair Block opined that investors are dependent entirely on regulators to bring transparency to the market.

In summary, Ms. LaFond said the influence of the government is an important factor and investors have to be cautious about structuring asset allocation in what is a diverse opportunity set with both potential and risk. Chair Block inquired about China's levers on Taiwan Semiconductor Manufacturing Company (TSMC). Ms. LaFond said because TSMC is so specialized it is somewhat protected from actions that would be disruptive to China's own ambitions in terms of adoption of technology.

Asked by Chair Block for his view on investing in China, Mr. Callahan said there are pros and cons and China is a significant and growing part of the opportunity set. Given all the considerations, the best approach is having an active manager to thoughtfully minimize and address the risk, as MCERA currently has. Mr. Callahan said as the A Shares become a bigger part of the market, the approach can be reconsidered. Chair Block noted the Sonoma County Employees' Retirement Association has removed its direct China allocation. Mr. Callahan said he has not seen significant divestment from China, but since the risks in China are becoming heightened, they are being more thoughtfully considered. He introduced Ho Hwang, head of Callan's Non-U.S. Global Research team, who said some clients have been talking about a path to divesting from China, such as the Global Emerging Markets Ex-China vehicle. Mr. Hwang pointed to positive transformations in China as discussed above, and to geopolitical and other risks; for example, in a bankruptcy the government may support stakeholders rather than shareholders.

Chair Block thanked Wellington presenters for perspectives on investing in China.

2:15 p.m. – 2:30 p.m.
Closing and Follow-up Items from Today's Agenda

Chair Block requested that the Administrator summarize the funding policy options the Board should consider given the extraordinary investment gain. Mr. Wickman listed options for consideration as follows:

1. Current Funding Policy

    a. No changes to funding policy.

    b. Model a reduced discount rate.

2. Current Funding Policy With Fresh Start

    a. Set amortization layers to zero.

    b. Model a reduced discount rate.

Mr. Wickman said the Board can consider these options when the preliminary Actuarial Valuation is presented at the December Board meeting, or at the January 2022 Board meeting. Trustee Jones said Option 1 it would enable a cushion in the event the market declines in the future. Mr. Wickman suggested waiting to see what the next fiscal year investment return is before making changes to funding policy, and Trustee Silberstein agreed with the Administrator that caution is warranted. Chair Block said the risk of not lowering the discount rate now is to make it tougher to increase contribution rates later. He asked if others are interested in the Fresh Start option, and based on responses Mr. Wickman will have the Actuary include the Fresh Start option in his discussion of the June 30, 2021 Actuarial Valuation.

Chair Block asked for comments on the discussion about investing in China. Mr. Wickman noted there are other presenters who can add perspective on the risk of investing in China if the Board is interested. Chair Block said there may be ways to invest in China that avoid some of the risks. Trustee Klein said what concerns her is the power of the government; actions can be random and the question is how to invest in those circumstances. Trustee Given agreed to continue to have the conversation and keep the topic at the forefront.

Chair Block invited public comment and no members of the public responded.

Chair Block recessed Day One at 2:51 p.m.

Day 2

October 27, 2021

9:00 a.m.

Call to Order/Roll Call

Chair Block called the meeting to order at 9:00 a.m.

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

ABSENT: None

Open Time for Public Expression

No members of the public provided comment.

9:00 a.m. – 9:30 a.m.
Breakdown of MCERA Retiree Population by Location
Syd Fowler, Department Analyst
Jeff Wickman, Retirement Administrator

Retirement Administrator Jeff Wickman said the Breakdown of MCERA Retiree Population by Location is an informational presentation on where our retirees are residing. The Administrator introduced Syd Fowler, Department Analyst, who presented charts showing where MCERA retirees live. Ms. Fowler reported that of 3,422 retirees, the majority, 2,835 (83%), still reside in California. As of June 30, 2021 retirees live in 12 countries/territories on 4 different continents. Within the United States retirees live in 46 of 50 states, and are most densely populated on the West Coast. Within California retirees reside in 51 of 58 counties, and the densest population is in the Bay Area. Marin County has the most retirees with 40%, and Sonoma County is in second place with 29% of retirees.

Trustee Silberstein pointed out the economic impact of having retirees in Marin County and asked if those living outside of Marin County are younger or older. Mr. Wickman said age data and the economic impact can be analyzed, adding that members typically retire at or near the eligible retirement age, but that since the pandemic more are staying in their jobs. Assistant Retirement Administrator Michelle Hardesty said one reason members stay in Marin County is to retain Kaiser medical coverage. Mr. Wickman agreed medical coverage has an impact on where retirees choose to live, saying it is not common for retirees to change locations. Trustee Gladstern noted Kaiser is available in several states and Mr. Wickman replied the challenge is Kaiser may only cover part of a state. Ms. Hardesty pointed out that coverage of the Kaiser Senior Advantage Plan is different from the under 65 years old plan. She explained that retirees are required to sign up for Medicare and can have supplemental health insurance plans.

Chair Block observed that given the high portion of retirees living in the Bay Area, having the retiree Cost of Living Adjustment (COLA) based on the Bay Area Consumer Price Index (CPI) (a statutory requirement) is applicable. He indicated it may make sense to provide a retiree service day in Sonoma County. Mr. Wickman said he is not hearing retirees have difficulty

getting to MCERA. Trustee Gladstern asked if there are challenges for retirees who live outside of Marin County. In response Ms. Hardesty said retirees do not need to come into the office since required original documents may be mailed, and otherwise email, fax or text is used for communication. As to Trustee Gladstern's inquiry about banking, retirees are required to have a U.S. bank for direct deposits of benefits.

9:30 a.m. – 10:30 a.m.
Review of MCERA's Annual Processes and Contingencies
Michelle Hardesty, Assistant Retirement Administrator
Syd Fowler, Department Analyst

The Administrator introduced Assistant Retirement Administrator Michelle Hardesty to present the review of MCERA's Annual Processes and Contingencies. Ms. Hardesty gave an overview of annual business processes and stated that the processes occur at the same each year and have set time frames. Ms. Hardesty introduced Syd Fowler, who reviewed the list of annual business processes and their timelines.

Ms. Hardesty then discussed the four steps for completion of each project, which included Planning, Execution, Communication, and Follow Up. Ms. Hardesty and Ms. Fowler then presented examples in more detail on two of the annual processes, 1099-R's and Contribution Rates Implementation.

Annual 1099-R's are sent to any member receiving any type of distribution in a calendar year. The process has a short time frame of one month and involves three outside vendors, including the Internal Revenue Service (I.R.S.), and multiple staff members. After determining whether there are any filing changes stipulated by the I.R.S., current 1099-R forms are ordered and process steps are assigned to staff and vendors. Following a trial run, data is analyzed and corrections are made as needed. Of two extracts from the final run, one is uploaded to the I.R.S, and the other is uploaded to Innovest to print the forms. MCERA mails the 1099-R's and informs members by mail and the website to expect the forms. Starting in January members typically inquire as to when they will receive the form. Because it takes time to receive the imaged documents back from Innovest, MCERA has secured access to an Innovest information site that prints the form.

Ms. Fowler discussed multiple steps for communicating and implementing employer and employee contribution rates. The process involves the same staff and timelines each year. After the Board adopts the Annual Actuarial Valuation, including employer and employee contribution rates, the Annual Actuarial Valuation is placed on the website and sent to all employers. Separate documents are extracted from the Valuation to show contribution rates for each employer and contribution rates for members that include any cost-sharing. This information is placed on the website and implemented into MCERA's database. Employers also receive detailed contribution rate spreadsheets electronically .

Trustee Silberstein said each employer likely has a different payroll system. Ms. Hardesty said that is correct, and for the most part all employers can update payroll systems easily with the correct contribution rates. MCERA's benefit administration system does a comparison to test if employer contribution rates are correct. Ms. Hardesty said discrepancies for members may occur if the wrong rate is put into the system, or if the member age is different.

In summary, Ms. Hardesty pointed out all business processes are unique projects, but are planned as a whole as to make sure resources are available. She said good communication processes have come out of annual processes, such as the use of FAQs by staff to standardize communication with members on any annual process.

In response to questions by Trustee Klein and Chair Block, Ms. Hardesty stated that the Age 70 Distributions process only impacts a small number of members, noting that most members take distributions before that age, and that the processes are spread out over the course of the year to manage the impact on staff resources. Mr. Wickman added that staff looks at the workload when considering the impact of any new items requested by the Board.

Noting the concentration of work in the fall, Chair Block asked if annual process work can be spread out or if the Board is causing an increased workload. Mr. Wickman explained if the Board makes a request, staff looks at the workload and what has to be done in considering the impact of any new items.

Chair Block said it sounds like all annual processes have a significant degree of documentation that can be relied on by new staff or in a crisis. Mr. Wickman said documentation has been improved upon over the last few years. Chair Block asked if documentation is reviewed and is understandable. Mr. Wickman replied the audit has a benefit administration component where auditors review documentation regularly in the course of an audit. Auditors also ask for documentation on any new processes. Trustee Gladstern asked about dependencies needed for annual processes, and Chair Block said that may be useful information. Chair Block thanked Ms. Hardesty and Ms. Fowler for their presentations.

Closing and Follow-up Items from Today's Agenda
10:30 a.m. – 11:00 a.m.

Chair Block invited comments from the trustees. Trustee Gladstern expressed appreciation for the staff presentations and asked if they can be shared with retirees. Mr. Wickman said the presentation on retiree locations can be shared. She suggested a future topic might be the economic impact of retirees in the Bay Area. Trustee Jones said she appreciated the staff presentations for being very informative. Chair Block suggested presentations on member communication and consideration of a member portal. Trustee Silberstein said the Board could discuss how many other CERL systems have a member portal and what the issues and successes are. Trustee Klein requested a presentation on how staff manages investment responsibilities and Chair Block supported this idea.

Chair Block asked for further thoughts on yesterday's discussions. Trustee Silberstein suggested maintaining the funding policy discipline and managing the communication challenge regarding the unusual investment gain and funding level going forward. Chair Block asked the Administrator to outline what we are asking the Actuary to review.

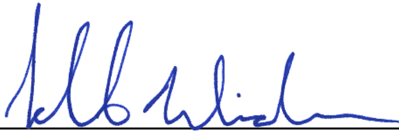
Mr. Wickman listed two approaches to handling the June 30, 2021 extraordinary investment gain:

1. Use MCERA's current funding approach with layered amortization, which will lead to a small decrease in employer contribution rates for several years. An option is consider what the impact of lowering the discount rate would be.

2. Use the current funding approach but conduct a one-time Fresh Start eliminating prior amortization layers. An option is to consider what the impact of lowering the discount rate would be.

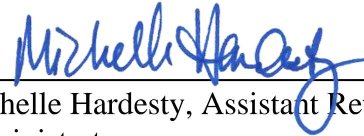
Trustee Gladstern asked about eliminating only the extraordinary loss from amortization, which would keep the other amortization history. Trustee Given recommended staying with consistency over time rather than a Fresh Start, and Trustee Werby asked to review the inflation assumption. The Administrator said he has asked the Actuary to be able to model incremental changes to the discount rate. He emphasized that the Board's current funding policy is reasonable and the effects of the unusual gain on funding policy can be considered. The Board will revisit these topics with the Actuary at its December or January meeting.

There being no further business, Chair Block adjourned the meeting at 10:24 a.m.



Jeff Wickman, Retirement Administrator

On behalf of:
Steve Block, Meeting Chair



Michelle Hardesty, Assistant Retirement Administrator
On behalf of:
Laurie Murphy, Secretary