

**MINUTES**

**REGULAR BOARD MEETING  
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**One McInnis Parkway, 1<sup>st</sup> Floor  
Retirement Board Chambers  
San Rafael, CA**

**April 9, 2014 - 9 A.M.**

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**EVENT CALENDAR**    9 A.M.        Regular Board Meeting

**CALL TO ORDER**    Chair Bolger called the meeting to order at 9:00 A.M.

**ROLL CALL**            PRESENT:    Bartfeld, Bolger, Brenk, Cooper (alternate safety),  
Given, Gladstern, McFarland, Piombo, Shaw (ex  
officio alternate), Shore, Smith, Webb (alternate  
retiree)

ABSENT:    None

**MINUTES**

It was M/S Gladstern/McFarland to approve the March 12, 2014 Regular Board meeting Minutes as submitted.

AYES:            Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo,  
Shore  
NOES:            None  
ABSTAIN:        Smith  
ABSENT:         None

It was M/S Gladstern/Piombo to approve the March 13, 2014 Investment Committee meeting Minutes as submitted.

AYES:            Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo,  
Shore  
NOES:            None  
ABSTAIN:        Smith  
ABSENT:         None

**A. OPEN TIME FOR PUBLIC EXPRESSION**

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

No public comment.

**B. MATTERS OF GENERAL INTEREST**

1. Actuarial Discussion – Graham Schmidt, Cheiron

Introduction and initial discussion of the new Actuarial Standards of Practice (ASOP) issued by the Actuarial Standards Board (ASB) and the Report issued by the Society of Actuaries Blue Ribbon Panel

Actuary Graham Schmidt of Cheiron provided a summary of Actuarial Standards of Practice No. 27 (ASOP No. 27) and the Report of the Blue Ribbon Panel on Public Pension Plan Funding for discussion. Mr. Schmidt stated that Cheiron follows the Actuarial Standards of Practice issued by the Actuarial Standards Board. Mr. Schmidt noted that ASOP No. 27 includes additional information regarding the selection of the discount rate. These standards will apply after September 2014.

Mr. Schmidt stated that one of the revisions in ASOP No. 27 eliminates the definition of “reasonable range” as a range with at least a 50% chance of achievement. According to Mr. Schmidt, Cheiron had already considered that definition to result in too wide a range to be reasonable and therefore its practices align with ASOP No. 27 on that point. The standards provide for establishing an expected return based on capital market expectations, estimates of inflation and returns expected across asset classes.

An alternative approach for setting the expected return presented in ASOP No. 27 is the market related or value approach whereby cash flows are discounted based on bond yields, such as the “risk-free rate”, according to Mr. Schmidt. As these rates are generally lower, their use results in a higher calculated liability. Mr. Schmidt indicated that the approach used of those presented depends on what you are trying to measure. Trustee Bolger observed that there will be further discussion on these points in the months ahead following this introductory discussion.

Turning to the Report of the Blue Ribbon Panel on Public Pension Plan Funding, Mr. Schmidt stated that the panel is comprised of non-actuaries and actuaries. The report’s recommendations, he said, are similar to those issued by the California Actuarial Advisory Panel (CAAP) last year. These include disclosure of ten-year funding and asset liability levels. The recommendations of the two panels differ in the Blue Ribbon panel’s use of the risk-free rate for calculating liabilities, although not for funding purposes. The Blue Ribbon panel also recommends stress testing scenarios.

In summary, Mr. Schmidt stated that the proposed changes indicate that further discussion of risk analysis is appropriate for public pension plans. Mr. Schmidt advised that the recommendations of the Blue Ribbon panel are not binding.

2. Actuarial Valuation Report, FY 2012/13 – Graham Schmidt, Cheiron (Action)

Consider and take possible action to adopt Actuarial Valuation report, FY 2012/13

Mr. Schmidt presented the Actuarial Valuation as of June 30, 2013, that sets forth the funded status of the Plan and employer and employee contribution rates for the next fiscal year. In his review of key findings of the valuation, Mr. Schmidt reported that funding ratios for Marin County, the City of San Rafael and Novato Fire District have improved from the prior fiscal year. The Plan's overall funded ratio increased from 71.3% last year to 75.1% based on actuarial values. The Plan is 79.8% funded based on market value.

Mr. Schmidt reviewed contribution rates, noting that for the Plan overall, contribution rates decreased by 1.65% of pay to 31.4% of pay. Contributing factors to the lower rates included a decline in the unfunded liability and payroll growth. Also, Marin County made an additional contribution of \$32.2 million, which Mr. Schmidt explained increases the County's portion of Valuation Assets. The City of San Rafael also made an additional contribution in the amount of \$1 million.

Risk measures discussed by Mr. Schmidt included the ratio of assets to payroll that measures the sensitivity of the Plan to the returns earned on plan assets. The asset-to-payroll ratio is recommended by the Blue Ribbon panel discussed above and has been part of Cheiron's analysis for a number of years, according to Mr. Schmidt. Another risk measure presented by Mr. Schmidt projects the potential effect on contributions in the event of a 10% loss in asset values.

Mr. Schmidt explained that investment losses in 2008-2009 were the largest contributor in the change in funded status over the past five years. He explained that there are deferred gains in the smoothed value of assets that should lead to lower employer contribution rates moving forward, subject to all assumptions being met.

A discussion of projections for future contribution rates, assets, and liabilities followed. Mr. Schmidt noted that the actuarial value of assets and market value of assets were within 6% of each other as of June 30, 2013. Mr. Schmidt reviewed a comparison of asset returns over time for actuarial and market values that demonstrates how actuarial smoothing stabilizes values.

The development of employer contribution rates for each of the three main Plan groups was presented by Mr. Schmidt. In addition Mr. Schmidt reviewed the new addition of contributions to fund administrative expenses in a two-year phase in. The valuation also presents a new analysis of the development of the amortization payment for the unfunded actuarial liability. Mr. Schmidt noted that consideration of whether to use layered amortization for future gains and losses will be part of a funding policy discussion later this year.

Board counsel Ashley Dunning presented proposed technical revisions to the Valuation on pages 95 through 97 that do not affect valuation metrics. Ms. Dunning clarified the definition of who is a PEPR member, noting that members who were in MCERA prior to January 1, 2013, left contributions on deposit and returned have no break in service as defined in the 1937 Act and therefore are not PEPR members. In responding to

Trustee Gladstern's inquiry on the effect of redeposits over time on a returning member's tier, Ms. Dunning explained that without a redeposit initially a returning member would be treated as a PEPRA member. Chair Bolger inquired whether this is a matter that should be addressed before approving the Valuation. In response Ms. Dunning said it is more of an administrative and legal question than a policy question.

Assistant Retirement Administrator Michelle Hardesty indicated that a returning member who does not make a redeposit would be placed in the PEPRA tier; if they redeposit, she said, then their service can be converted to the prior tier. Ms. Hardesty added that there is a need to decide whether to do this for PEPRA members or not. Chair Bolger said it sounds like a procedural issue and Ms. Dunning said it can be further discussed at the Governance Committee, if necessary.

Mr. Schmidt concluded his presentation with projections of funded ratios and liabilities for active and inactive members. Mr. Schmidt provided sensitivity analysis projections for contribution rates under conditions of negative investment returns, which are recommended by the Blue Ribbon panel. He also provided simulations of contribution rate calculations for Marin County by varying the standard deviation, noting that the 50<sup>th</sup> percentile closely matches projected contribution rates. Mr. Schmidt explained that this analysis makes it clear what the range of probabilities are over time and therefore gives a better indication than a single number such as a risk-free rate.

Discussion followed with Mr. Schmidt responding to the trustees' inquiries. Trustee Shore asked about a historical comparison of contribution rates with what was projected, which Mr. Schmidt said is provided for the previous six years. In response to Trustee Brenk's inquiry, Mr. Schmidt explained that the effect of lowering the assumed rate of return would be to increase contributions in the short term, with lower contributions over the long term. He noted that a change in the investment mix would affect projections. In response to Trustee Bartfeld's inquiry, Mr. Schmidt explained that the relationship between the change in the assumed rate of return and the change in contribution rates is not linear. Mr. Schmidt referred to a "Valuation at a Glance" summary that presents the impact on contribution rates of 1% changes in the assumed rate of return. In response to Trustee Smith's inquiry, Mr. Schmidt explained that the scenario in which a plan sponsor would contribute only 80% of their contribution is not applicable to MCERA.

It was M/S Gladstern/Piombo to adopt the Actuarial Valuation as of June 30, 2013 with the amendments recommended by Board counsel.

Chair Bolger invited public comment. Dave Brown addressed the Board, introducing himself as a resident of Mill Valley and a representative of Citizens for Sustainable Pension Plans. Mr. Brown read a letter addressed to the members of the Board. In the letter Mr. Brown requests that the Retirement Board be an early adopter of ASOP No. 27 and the recommendations of the Blue Ribbon panel discussed above. Mr. Brown requested that the Actuarial Valuation be amended to include calculation of the Plan liability and normal cost using the risk-free rate. He also requested inclusion of a standardized plan contribution for assessing the recommended plan contribution

that he said would facilitate a longitudinal comparison of all public pension plans. Other recommendations by Mr. Brown included the calculation of the present value of future pension benefits by different methods. These could include using a settlement basis to show what a pension is worth in the open market as annuity and using a hypothetical bond portfolio trading in an open market.

Mr. Brown requested a change in the language in the valuation that describes the impact of market losses in 2008-2009. Mr. Brown stated that asset values were higher since that time and that it should be the higher liabilities cited as the cause of the lower funded ratio. In response, Mr. Schmidt explained that liabilities are expected to go up every year by definition, as people are earning more benefits. The assets are also expected to go up every year by the assumed rate of investment return (7.5%). In 2008-2009 the assets declined. The loss of assets when assets are projected to grow represents an “actuarial loss” to the system which results in lower funded ratios and higher employer contributions. Mr. Schmidt noted that assets in 2013 would have been considerably higher than they were five years ago if all assumptions had been met.

Marty Miller, retired actuary and member of Citizens for Sustainable Pension Plans, addressed the Board in support of Mr. Brown’s recommendations. Mr. Miller added that the funded ratio does not include the effect of a pension obligation bond, which would result in a lower funded ratio.

Chair Bolger stated that the Board will be having further discussions on these recommendations as the Board has not yet fully digested these issues.

Luke Mazur, Marin County resident and prior investment manager, addressed the Board to support Mr. Brown’s recommendations. Mr. Mazur noted that any information as it relates to risk would be a benefit to the investment manager.

Chair Bolger stated that a discussion of the relationship between investment risk and the assumed rate of return will occur at the Board offsite meeting. Chair Bolger called for the vote.

AYES:	Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo, Shore, Smith
NOES:	None
ABSTAIN:	None
ABSENT:	None

Chair Bolger announced that Retirement Administrator Jeff Wickman is recovering from surgery as a result of a bicycle accident and wished him well on behalf of the Board.

Chair Bolger recessed Open Session for a break, reconvening in Closed Session at 10:30 A.M.

Chair Bolger recessed Closed Session, reconvening in Open Session at 11:05 A.M.



Trustee Gladstern's inquiry, Counsel Dunning indicated that Transparent California has acknowledged that MCERA has been responsive to requests for public records.

Contract discussions with Woodmont continue pursuant to Investment Committee determinations, according to Ms. Hardesty. Mr. Wickman is working on a new agreement to present to the related ad hoc committee to review.

b. Staffing update

No staffing changes.

c. Facility Use Report

No facility use.

d. Future meetings

- May 6, 2014 Finance and Risk Management Committee
- May 7, 2014 Board

2. Ad Hoc Committee Reports

a. Ad Hoc Education Committee

Ad Hoc Education Committee Chair Alan Piombo presented a proposed agenda for the next Board offsite meeting. Mr. Piombo explained that goal was to strike a balance between educational and strategic level discussions. The importance of managing time efficiently in order to be effective in fulfilling the Board's fiduciary duty was stressed by Mr. Piombo. Chair Bolger added that the concept is to set forth a blueprint for managing the system without being too intrusive.

Proposed agenda topics include a facilitated discussion of Governance practices and approaches, the role of the fiduciary in oversight and management of the system, and a panel discussion on different approaches for managing fiduciary responsibilities in the business operation. On the second day the relationship between the investment of assets and calculations of liabilities will be reviewed by the investment consultant and the actuary.

Based on Trustee Given's recommendation, methods of providing for further structure to the meeting were discussed to ensure that the Board has adequate time to conduct its business. Ms. Dunning indicated that the Chair sets the tone for the meeting and may provide for public comment during open session at the beginning of the meeting and then at the conclusion of the Board's deliberations on each agenda item.

Based on discussions Chair Bolger directed the Retirement Administrator to proceed with the concept presented for the offsite agenda. The meeting will be scheduled on October 14 and 15, 2014.

3. Trustee Comments

Chair Bolger directed that the Governance Committee consider placing certain disability retirement applications on the Consent Calendar.

Trustee McFarland gave a positive report on presentations at the Manatt Fiduciary Forum on PEPRA, municipal bankruptcy, and the role of the fiduciary when controversies arise.

Chair Bolger reminded trustees that ethics training will be presented by Counsel Dunning at the May SACRS conference.

Chair Bolger directed deliberations to **Agenda Item E.1.**

**E. NEW BUSINESS**

- 1. Voting Instructions to MCERA Delegate to SACRS Business Meeting, May 16, 2014
  - a. Election of SACRS Board of Directors (**Action**)

Chair Bolger presented the SACRS Memorandum dated April 1, 2014, Final Ballot for the SACRS Board of Directors Elections 2014/2015.

It was M/S Given/Brenk to approve the final ballot for the SACRS Board of Directors.

AYES: Bolger, Brenk, Given Gladstern, McFarland, Piombo, Shore, Smith  
 NOES: None  
 ABSTAIN: Bartfeld  
 ABSENT: None

Trustee Gladstern reported that the SACRS Bylaws Committee is proposing changes in how SACRS operates. The process will take into consideration feedback from '37 Act systems culminating in a final proposal and vote at the November conference.

2. Future Meetings

Consider and discuss agenda items for future meetings

No discussion.

**F. INVESTMENT INFORMATION**

"X" indicates report distributed; \* indicates report distributed electronically

**PERIODIC REPORTS**

1. Equities and Fixed Income

* X	Abbott Capital	-Private Equities Fund	Quarter
* X	Artisan Funds, Inc.	-International Equities Fund	
* X	The Clifton Group	-Futures Overlay Program	
* X	Columbus Circle Investors	-Small Cap Growth Portfolio	
* X	Dimensional Fund Advisors	-Small Cap Value Fund	

- \* X Eaton Vance -Emerging Markets
- Morgan Stanley -International Equities Fund
- \* X Pathway Capital -Private Equities Fund Quarter
- \* X Pyramis Global Advisors -International Small Cap Equity Fund
- \* X State Street Global Advisors -S&P 500 Flagship Non-Lending
- \* X Wellington Management -Core Domestic Fixed Income Portfolio
- \* X Western Asset Management -Intermediate Credit Fixed Income Portfolio
- 2. Real Estate
- \* Woodmont Realty Advisors -Direct ownership – Monthly report
- \* X AEW Capital Management -Value Added Portfolio Annual
- \* X AEW Capital Management -Core Real Estate Annual
- \* X Colchester Global Investors -Global Fixed Income
- \* X RREEF -Value Added Portfolio Quarter
- Woodmont Realty Advisors -Direct Ownership Quarter
- \* X UBS -Core Real Estate Quarter
- 3. Other

**G. OTHER INFORMATION**

1. Trustee Training Calendar (**Action**)

It was M/S Gladstern/McFarland to approve the Training Calendar as amended.

AYES: Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo, Shore, Smith  
 NOES: None  
 ABSTAIN: None  
 ABSENT: None

2. *Keeping in Touch* – April Issue, Retired Employees Association newsletter

Trustee Gladstern reported that retiree newsletter editors are considering publishing fewer issues during the year.

**H. CONSENT CALENDAR (Action)**

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

AYES: Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo, Shore, Smith  
 NOES: None  
 ABSTAIN: None  
 ABSENT: None

In response to Trustee Gladstern’s inquiry, Ms. Hardesty reported that there are 34 retirement applications in process. With the introduction of the new comprehensive application form, she said, transitioning members to retirement status is more efficient.

AYES: Bartfeld, Bolger, Brenk, Given Gladstern, McFarland, Piombo, Shore,  
Smith  
NOES: None  
ABSTAIN: None  
ABSENT: None

There being no further business, Chair Bolger adjourned the meeting at 11:47 A.M.

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Bernadette Bolger, Chair

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Howard McFarland, Secretary

**CONSENT CALENDAR for  
MCERA MEETING, WEDNESDAY, APRIL 9, 2014**

**CONSENT CALENDAR  
March 2014**

**RETURN OF CONTRIBUTIONS**

Kayla Braxton	(Refund of Contributions/Term)	\$	2,337.91
Mark Tracey	(Refund of Excess Contribution)	\$	593.52
Helen McGettrick	(Refund of Contributions/Term)	\$	1,205.22
Rose Adams	(Refund of Contributions/Term)	\$	1,144.52
Kevin Caramucci	(Refund of Contributions/Marriage Payout)	\$	3,031.42
Michael Morgenlaender	(Refund of Excess Contribution)	\$	2,458.57
Tanya Nelson	(Refund of Excess Contribution)	\$	496.04
Darren Lovecchio	(Refund of Excess Contribution)	\$	3,670.78

**BUYBACK**

Paul Crimmins		County of Marin
Kathy Tobin		County of Marin
Tim Thompson		County of Marin
Susan Atkinson		County of Marin

**NEW RETIREES**

Helen Romero	Library	County of Marin
Sabra Drohan		County of Marin
Rofulo Landa Jr.	Sheriffs	County of Marin
Amy Van Doren	DPW	County of Marin
Augustine Pham	HHS	County of Marin
Dale Barrett	DPW	County of Marin
Sharon Silver	CDA	County of Marin

**RESCINDED RETIREMENTS**

**DECEASED RETIREES**

Patricia Kelly	Probation	County of Marin
Wanda Madson	Beneficiary	County of Marin
Myrna Sjoblom	Beneficiary	County of Marin

**CONFERENCES/SEMINARS**

CalAPRS General Assembly  
Trustees Bolger, Gladstern, McFarland; Administrator Wickman