

MINUTES

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

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

December 10, 2014 - 9 a.m.

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, Haim (alternate retired), Piombo, Shaw (ex officio alternate), Shore, Thomas, Webb

ABSENT: None

MINUTES

It was M/S Webb/Gladstern to approve the November 5, 2014 Regular Board Meeting Minutes as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb

NOES: None

ABSTAIN: None

ABSENT: None

It was M/S Gladstern/Thomas to approve the October 14-15, 2014 Strategic Workshop Minutes as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb

NOES: None

ABSTAIN: None

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.

Jody Timms, Peter Anderson, Richard Gray, Ken Jones and Silver Clark from 350Marin addressed the Board regarding climate change. They asked the Board to consider conducting an educational session on social investing and to divest from fossil fuel investments.

B. APPOINTMENT OF BOARD COMMITTEES

Appointment of Committees and Committee Chairs (**Action**)

Chair Bolger stated that she worked with the Administrator to develop the committee assignments for 2015. Committees and committee chairpersons appointed by Chair Bolger for 2015 are:

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

Finance and Risk Management Committee

Alan Piombo, Chair
Bernadette Bolger
Roy Given
Dave Shore
Sean Webb

Governance Committee

Jeffrey Bartfeld, Chair
Bernadette Bolger
Greg Brenk
Maya Gladstern
Phillip Thomas

Ad Hoc Education Committee

Dave Shore, Chair
Jeffrey Bartfeld
Allen Haim
Maya Gladstern

Ad Hoc Retirement Administrator Performance Evaluation Committee

Bernadette Bolger, Chair
Chris Cooper
Roy Given
Phillip Thomas

It was M/S Shore/Gladstern to approve committee members and committee chairpersons as submitted.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore,
Thomas, Webb

NOES: None

ABSTAIN: None

ABSENT: None

Trustee Shaw joined the meeting at 9:26 a.m.

C. MATTERS OF GENERAL INTEREST

1. Funding Policy Methodology (Action) – Cheiron, Graham Schmidt
Consider and take possible action to adopt layered amortization and direct rate smoothing methodologies

Mr. Wickman introduced Actuary Graham Schmidt of Cheiron to present layered amortization and direct smoothing methodologies for consideration by the Board. Mr. Schmidt explained that the funding policy is designed to balance the objectives of securing the benefit promise, reducing contributions through investment earnings, providing predictable and stable contributions, and promoting intergenerational equity.

Mr. Schmidt reviewed the goal of amortization within the funding policy. Amortization of the unfunded accrued liability (UAL) is designed to get assets back to the target level. Key amortization parameters are the length of the period, the payment pattern (level dollar, level percent of pay), rolling or closed periods, and single or multiple layers for different sets of liabilities. The current MCERA amortization policy is a 17-year closed period with level percentage of payroll. The 2008 extraordinary loss is amortized over a 25-year closed period. Mr. Schmidt stated that the amortization policy is reasonable and satisfies the GASB cross-over test with closed periods that decrease every year.

Moving forward Mr. Schmidt recommended separate amortization layers for future sources of UAL changes (from investment gains/losses or assumption changes). Parameters for these layers would need to be defined for the length of the amortization period and payment pattern. The Conference of Consulting Actuaries (CCA) and the California Actuarial Advisory Panel (CAAP) both encourage use of layered, level-percentage of pay amortization. These organizations provide “Model” policies which include 15 to 20 years for actuarial gains or losses and 15 to 25 years for assumption and method changes. With the level percentage of pay method, Mr. Schmidt explained, negative amortization is expected in the early stages but only for periods of 1-2 years.

In response to Trustee Gladstern’s inquiry Mr. Schmidt explained that amortizing over a shorter period of 10 years would be unreasonable in that it would lead to highly volatile contribution rates. Trustee Bartfeld inquired about a sliding scale based on the size of the gain or loss. This would add unneeded complexity to the funding policy, according to Mr. Schmidt, and there would also be a question of materiality in that there may be a minimal effect on contribution rates.

Mr. Schmidt provided graphical representations to show the effect of different amortization periods on the projected UAL and amortization payments. He also presented multiple statistical modeling results that measure the potential impact of different amortization periods on future contribution rates, funded status, and annual expected change in contributions, based on assets, liabilities, assumptions, and methods

Mr. Schmidt reviewed the parameters for direct smoothing. The same principles apply to the length of the amortization period for liability and assumption changes as they do for asset smoothing. Direct smoothing includes five-year ramp up and ramp downs that effectively lengthen the amortization period by half the length of the smoothing period. Mr. Schmidt provided graphical representations to demonstrate that the pattern for projected contribution rates is similar for direct smoothing and traditional asset smoothing.

Mr. Schmidt recommended implementing direct rate smoothing and set forth the recommended parameters shown below.

Amortization policy recommendations of the actuary are:

- *Layered, level percentage of payroll amortization for changes in the UAL after June 30, 2013*
- *Adopt separate levels for gains/losses, assumption or actuarial method changes, and benefit changes*
- *20-year amortization of gains/losses and assumption/method changes*
- *Shorter amortization layers for benefit changes: shorter of 15 years or expected working lifetime of affected members for active members; shorter of 10 years or average expected remaining lifetime of affected members for retiree changes*

It was M/S Gladstern/Piombo to adopt the amortization policy recommendations of the actuary as listed in italics above.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb
NOES: None
ABSTAIN: None
ABSENT: None

Direct rate smoothing is recommended by the actuary with the following parameters:

- *Five-year phase-in/out for asset and liability gains/losses*
- *Three-year phase-in/out for assumption changes (aligns with 3-year period for Experience Studies)*
 - *22 year amortization schedule, which includes a 3 year phase-in/out period*
- *Maintain same amortization periods as elected under traditional method*
 - *24 year amortization schedule, which includes a 5 year phase-in/out period*
- *Not applicable for benefit changes*

It was M/S Piombo/Gladstern to adopt the actuary's recommendations for direct rate smoothing as listed in italics above.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb
NOES: None

ABSTAIN: None
ABSENT: None

At the January 2015 Board meeting Mr. Schmidt will present an analysis of the proposed amortization and smoothing methodology recommendations based on economic and demographic changes adopted by the Board from the Experience Study. In response to Trustee Shore's inquiry, Mr. Wickman stated that plan sponsors understand that direct rate smoothing lends greater stability to contribution rates.

D. BOARD OF RETIREMENT MATTERS

1. Administrator's Report (Oral)

a. Administrator's update

Mr. Wickman reported that he attended the fall SACRS conference where Diane Oakley, Executive Director of the National Institute on Retirement Security (NIRS), provided an update on NIRS research on the economic impact of defined benefit plan payments. He also found the presentation on changes in the health care systems as presented by representatives from Manatt, Phelps & Phillips and Kaiser Permanente to be valuable. Other topical subjects included a discussion of the challenges of investing in a low interest rate environment and a review of the recent Ventura initiative.

Mr. Wickman commended MCERA's two delegates, Trustees Gladstern and Webb, for relating concerns regarding the proposed CERL re-organization legislation and Ad Hoc Committee proposals at the SACRS Board meeting.

Mr. Wickman commended Assistant Retirement Administrator Michelle Hardesty and staff for eliminating the backlog of service purchases.

The Administrator is a member of the CalAPRS executive board that met in Burbank recently to set assignments for 2015. Mr. Wickman volunteered to chair the committee for the Administrators' Institute in September of 2015. He will also serve on the Management Academy committee, Operations Committee and will coordinate the Attorney Roundtables.

- Staffing Update – see Agenda Item G.1 regarding the Financial Officer position.
- Facility Use Report – The Marin County Association of Retired Employees (MCARE) held a meeting in the Board conference room for their board meeting in the past month.

b. Business Objectives Quarterly Review

Mr. Wickman reviewed the status of business objectives for the current evaluation year. In Benefit Administration workload tracking in OnBase, the existing imaging and document management system, has not been started. Implementing additional

customer service contacts to allow members to receive service directly from staff is planned as a function of our new web presence which is under development.

Performance Management metrics reported by Assistant Retirement Administrator Michelle Hardesty follow:

- One hundred percent (versus goal of 95%) of new retiree payroll inceptions are completed in the month following retirement. The benefits team has embraced this goal as part of their culture.
- Retirement estimates are ahead of where they were this time last year. Of 63 estimates for March 2015 retirements, 50 members have requested retirement applications. Eventually the goal of completing 80% within 30 days will be measured.
- Ninety-nine percent of service purchases (versus goal of 75%) are completed within 30 days of receiving a request. There are 4 service purchases over 30 days that require adjustment in the system for specific circumstances.
- Responses to all written customer correspondence are completed within 5 days.

Mr. Wickman commended Ms. Hardesty and the benefits team for meeting or exceeding most performance objectives. Other improvements include enhanced member education as a result of the new retirement seminar program.

Trustee Haim complimented staff for enhanced customer services and Trustee Piombo observed that he has heard no complaints in his two years on the Retirement Board. Trustee Gladstern was impressed with how quickly the new system can generate benefit estimates. In response to Ms. Gladstern's inquiry, Ms. Hardesty stated that next year she will have a better idea of the percentage of service purchase requests completed by staff

The Human Resource Management objective of filling the Financial Officer position is underway. Mr. Wickman's proposal to hire a recruiter for the position underscores its importance and will be discussed under Agenda Item G.1 below.

Management of investments will be enhanced through the proposed rebalancing strategy that will be considered at tomorrow's Investment Committee meeting. Review of and potential changes to the Investment Committee charter are complete.

In communications and education the web site design is complete and we are ready to populate the site. With changes to the online benefit estimate calculator, now PEPRA members have the ability to produce estimates. Also the calculator was previously limited to members with 10 years of service but now accepts any period of service. In 2015 the seminar program for early career employees will include presentations by representatives from the County's deferred compensation program. The disability handbook is 90% complete and will include a fillable application form for the convenience of members.

Completing the first Comprehensive Annual Financial Report (CAFR) is linked to filling the financial officer position.

- c. Future meetings
 - December 11, 2014 Investment Committee
 - January 14, 2015 Board

2. Standing Committee Reports

a. Finance and Risk Management Committee

1. Administrative Budget FY 2014/15 Review

Consider and review budget for quarter ending September 30, 2014

Finance and Risk Management Committee Chair Gladstern reported that overall expenditures for the Administrative Budget as of September 30, 2014 were on track at 25% of the budgeted amount. The Administrator reviewed budget categories running higher than 25% for the quarter, including workers compensation insurance that was impacted as a result of higher than expected experience in the County of Marin pool. Professional services includes an amount in addition to the annual audit for implementing GASB 67/68. Membership dues for SACRS are an annual amount. Higher expenses for transcription/medical records review and investigations were required for a few complex disability retirement applications.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Retiree payroll is the largest single expenditure for non-budgeted expenses at \$28 million. CPAS expenses include the annual hosting services fee, software upgrades and maintenance. Additional service hours were purchased to have new contribution rates updated. Legal expenses were discussed in regards to data in the survey conducted for SACRS by R.V. Kuhns. Comparison of the data is difficult because some systems utilized in-house counsel. In general there was consensus that MCERA has received excellent representation but it is also necessary for the Retirement Administrator to be diligent in managing legal expenses. Woodmont expenses are for placing Century Plaza on the market, which is half their fee for selling the property. Investment manager fees are the second largest category.

3. Quarterly Checklist

Consider, review and updates on the following:

- a. MCERA educational and event-related expenses

The committee reviewed educational and training expenses for trustees and staff that include the CalAPRS Principles of Pension Management and Leadership Management courses.

b. Continuing Trustee Education Log

Continuing education requirements due December 2014 have been met for all trustees.

c. Other expenses per Checklist guidelines

No discussion.

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

See discussion above.

e. Reconciliation of MCERA administrative accounts

Progress has been made in identifying key drivers for reconciliation of administrative accounts.

f. Vendor services provided to MCERA

Nothing new to report.

g. MCERA staffing status

See Agenda Item G.1.

h. Internal controls, compliance activities and capital calls

Capital calls for private equity commitments are more consistent recently as activity has increased in the private equity markets.

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

The annual audit resulted in a clean opinion of the financial statements as of June 30, 2014. Processes for documenting risk assessment and adding and removing staff from CPAS will be reviewed.

j. Other items from the Retirement Administrator related to risk and finance

Nothing to report.

4. Fiduciary Liability Insurance Renewal (Action)

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

The Finance and Risk Management Committee conducted an initial review of two proposals for renewal of MCERA's fiduciary liability insurance and directed the Administrator and counsel to work with MCERA's broker MacCorkle Insurance Services to address potential questions with the proposal from Hudson. Based on these discussions and the potential legal challenges currently under litigation Mr. Wickman and Counsel Dunning recommend renewing fiduciary liability insurance with current provider AIG. There will be a small increase in the annual premium from the prior year due to general claims experience and terms are otherwise favorable to MCERA. In response to Trustee Haim's inquiry Ms. Dunning stated there is no retention cost in the current litigation.

It was M/S Webb/Shore to retain AIG as provider of the Board's fiduciary liability insurance.

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore, Thomas, Webb
NOES: None
ABSTAIN: None
ABSENT: None

5. Recruitment of Financial Officer Position (Action)

Consider and take possible action on Finance and Risk Management Committee's recommendation to enter into agreement with recruiter for financial officer position

The Committee recommended that the Board hire Alliance Resource Consulting to assist with the recruitment of the Financial Officer. This matter is presented under New Business Agenda Item G.1, Recruitment Service Contract, for action by the Board.

3. Trustee Comments

Chair Bolger initiated a discussion of whether tomorrow's Investment Committee meeting should be delayed in view of potential inclement weather. Upon discussion there was general consensus to continue with the meeting as scheduled.

F. CONSIDERATION OF AND ACTION ON ITEMS PULLED FROM DISABILITY CONSENT CALENDAR AND OTHER NON-CONSENT CALENDAR DISABILITY RETIREMENT APPLICATIONS

[Any non-Consent Calendar disability retirement application, whether pulled from the Disability Consent Calendar or originally agendized as a non-Consent agenda item, will be considered in Closed Session unless the applicant specifically waives confidentiality and requests that his or her application be considered in Open Session.]

There were no matters presented for this agenda item.

G. NEW BUSINESS

1. Recruitment Service Contract (Action)

Consider and possibly approve contract for Alliance Resource Consulting LLC for the recruiting of the Financial Officer position

Mr. Wickman presented a memo with background information in support of his recommendation to hire Alliance Resource Consulting (Alliance) to recruit candidates for the Financial Officer position. Alliance is experienced in recruiting high-level positions with '37 Act systems and is therefore attuned to the unique skills necessary for the operation of the pension plan. The total cost would not exceed \$21,000 plus actual and reasonable expenses. Should initial candidates prove to be unsatisfactory prior to interviews, MCERA can inform Alliance and the fee will not exceed \$14,000, plus actual and reasonable expenses.

It was M/S Gladstern/Thomas to approve the contract with Alliance Resource Consulting LLC for the recruiting of the Financial Officer position for an amount not to exceed \$21,000 plus actual and reasonable expenses, with the additional conditions provided in the proposed contract.

Trustee Given abstained from the vote as he is working with Alliance Resources Consulting on a contract with Marin County that may be in dispute.

AYES: Bartfeld, Bolger, Brenk, Gladstern, Piombo, Shore, Thomas, Webb
NOES: None
ABSTAIN: Given
ABSENT: None

2. Future Meetings

Consider and discuss agenda items for future meetings

No discussion.

H. INVESTMENT INFORMATION

“X” indicates report distributed; * indicates report distributed electronically

PERIODIC REPORTS

1. Equities and Fixed Income

* X	Abbott Capital	-Private Equity Funds
* X	Artisan Funds, Inc.	-International Equities Fund
* X	Colchester Global Investors	-Global Fixed Income
* X	Columbus Circle Investors	-Small Cap Growth Equities
* X	Dimensional Fund Advisors	-Small Cap Value Fund
* X	Eaton Vance - Parametric	-Emerging Markets
* X	Morgan Stanley	-International Equities Fund
* X	Parametric Clifton	-Futures Overlay Program
* X	Pathway Capital	-Private Equity Funds
* 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 Quarter
 - * X AEW Capital Management -Core Real Estate Quarter
 - * X RREEF -Value Added Portfolio
 - * X Woodmont Realty Advisors -Direct Ownership Quarter
 - * X UBS -Core Real Estate Quarter
- 3. Other

I. OTHER INFORMATION

1. Trustee Training Calendar
2. *Keeping in Touch* – December Issue, Retired Employees Association newsletter

J. CONSENT CALENDAR (Action)

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

AYES: Bartfeld, Bolger, Brenk, Given, Gladstern, Piombo, Shore,
Thomas, Webb

NOES: None

ABSTAIN: None

ABSENT: None

There being no further business, Chair Bolger adjourned the meeting at 12:05 p.m.

Bernadette Bolger, Chair

Alan Piombo, Secretary

CONSENT CALENDAR
 November 2014

<u>RETURN OF CONTRIBUTIONS</u>		
Nancy Morais	Return of Contributions/Rollover	\$ 1,146.74
Valerie Smith	Return of Contributions/Termination	\$ 12,850.63
Aisha Ervin	Return of Contributions/Termination	\$ 242.89
Diane Slager	Partial Refund of Contributions/30 yr excess	\$ 716.11
Raffaello Pata	Partial Refund of Contributions/30 yr excess	\$ 880.37

<u>BUYBACK</u>		
Martha Kassin		County of Marin
Brian Case		County of Marin
Jordan Degen		County of Marin
Peter Frye		County of Marin
Shelly Ingram		County of Marin
Kay Jackson		County of Marin
Pradesh Manirojana		County of Marin
Carol Myers		County of Marin

<u>NEW RETIREES</u>		
Charla Gonzalez	H&HS	County of Marin
Carol Gallivan	DA	County of Marin
Richard Corriea	Sheriff	County of Marin
Bonita Shannon	CDA	County of Marin
Jackie Crawford		City of San Rafael
Diane Slager	H&HS	County of Marin
Keith Pepper	Child Support Services	County of Marin
Linda Driskell	Accessor-Recorder	County of Marin

RESCINDED RETIREMENTS

<u>DECEASED RETIREES</u>		
Ann Graves	Probation	County of Marin
James Jurik	H & HS	County of Marin
Ruth Gardner	Beneficiary	City of San Rafael

CONFERENCES/SEMINARS

SACRS Fall Conference
 Trustees Cooper, Gladstern, Shore, Thomas, Webb
 Staff Wickman, Callahan, Dunning