

CONTRA
COSTA
COUNTY **CCGERA**
Employees' Retirement Association

MINUTES

RETIREMENT BOARD MEETING MINUTES

FIRST MONTHLY BOARD MEETING
9:00 a.m.

August 13, 2014

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

Present: Debora Allen, Scott Gordon, Jerry Holcombe, Louie Kroll, Karen Mitchoff, John Phillips, William Pigeon, Gabe Rodrigues, Todd Smithey, Jerry Telles and Russell Watts

Absent: Brian Hast

Staff: Gail Strohl, Retirement Chief Executive Officer; Kurt Schneider, Deputy Retirement Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; Karen Levy, Retirement General Counsel; Vickie Kaplan, Retirement Accounting Manager; and Christina Dunn, Retirement Administration Manager

Outside Professional Support:	Representing:
Paul Angelo	Segal Consulting
John Monroe	Segal Consulting
Harvey Leiderman	Reed Smith

1. **Pledge of Allegiance**

Phillips led all in the *Pledge of Allegiance*.

2. **Accept comments from the public**

No members of the public offered comment.

3. **Routine Items**

It was **M/S/C** to approve the routine items of the August 13, 2014 Board meeting. (Yes: Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

Gordon was present for subsequent discussion and voting.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957.

The Board moved into open session.

4. It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:

- a. Carlos Aguilar – Non-Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)
- b. Lynn Barajas – Non-Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)
- c. Jeff Beaty – Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)
- d. Robert McLendon – Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)
- e. Kelly Morris – Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)
- f. Donald Williams – Service Connected (Yes: Gordon, Holcombe, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

Mitchoff was present for subsequent discussion and voting.

5. Presentation from Segal Consulting regarding methodologies used for interest crediting on reserves –Angelo and Monroe

Angelo discussed the current policy used for crediting interest to the reserves and member contribution accounts. He noted the current policy is to credit using one-half of the annual actuarial investment return assumption on June 30th and December 31st. He also discussed the effective date that the new investment return assumption is implemented for the purpose of crediting reserves when there is a change in the actuarial valuation investment return assumption.

Angelo discussed Segal Consulting's recommendation to change the methodology for the rate of interest that is credited to reserves to be the semi-annual compounded rate that would result in an annual rate that equals the investment return assumption. He noted the semi-annual crediting rate would be 3.5616%.

Monroe discussed the impact of the interest crediting on the reserve values and the Contra Tracking Account. He noted the recommended change in methodology for the rate of interest credited to reserves would result in a slightly smaller member contribution account. It would also result in a slightly smaller Contra Tracking Account.

It was M/S to accept Segal Consulting's recommendation to change the methodology for the rate of interest that is credited to reserves to be the semi-annual compounded rate that would result in an annual rate that equals the investment return assumption. Based on the 7.25% investment return assumption, the semi-annual crediting rate would be 3.5616%.

6. Consider and take possible action regarding methodologies used for interest crediting on reserves

After discussion, it was M/S/C to accept Segal Consulting's recommendation to change the methodology for the rate of interest that is credited to reserves to be the semi-annual compounded rate that would result in an annual rate that equals the investment return assumption. Based on the 7.25% investment return assumption, the semi-annual crediting rate would be 3.5616%. (Yes: Gordon, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

It was the consensus of the Board to return to Item 5.

5. **Presentation from Segal Consulting regarding methodologies used for interest crediting on reserves** –Angelo and Monroe

Angelo discussed the current methodology used when the Board changes the actuarial valuation investment return assumption noting there is currently an 18-month delay between the actuarial valuation date and the effective date to credit the reserves with the new interest rate and also to use it in the asset smoothing calculation. He noted the effect of the delay on the interest crediting of reserves would not have any impact on contribution rates. The difference between what is assumed to be earned and what is being used in the smoothing calculation for the actuarial value of assets does create a small actuarial gain or loss which is amortized over 18 years.

He discussed Segal Consulting's recommendation to eliminate the specific actuarial gains or losses associated with the 18-month delay that applies to the effective date for the new interest rate used to credit the reserves and for the asset smoothing calculation. He noted the most direct way would be to make the new interest rate effective with the interest crediting period that follows the valuation date when the new investment return assumption is effective.

It was M/S/C to accept Segal Consulting's recommendation and make the new interest rate effective with the interest crediting period that follows the valuation date for which the new investment return assumption is effective. (Yes: Gordon, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

7. **Presentation from Segal Consulting regarding interest crediting rate on member accounts** – Angelo and Monroe

Angelo discussed the current Board policy to credit member contributions with interest at a rate equal to the actuarial investment return assumption. This interest rate is credited to member contributions independent of what investment return is actually earned by CCCERA. He discussed the policy questions regarding the rate for crediting interest on member contributions: 1) should the member crediting rate be based on the assumed earnings rate or on a current market savings account rate; and 2) should the member crediting rate be independent of actual earnings or should it be limited to actual CCCERA investment earnings in each period.

There was discussion on the reason this item was placed on the agenda at this time. The Board directed staff to include this item with a staff report on a future agenda.

Allen was present for subsequent discussion and voting.

8. **Consider and take possible action to adopt Member Crediting Rate**

There was no reportable action on this item.

9. **Consider and take possible action on terminal pay assumptions for the December 31, 2013 Actuarial Valuation in light of AB 197 implementation**

Angelo noted this item had been presented to the Board at the July 9, 2014 meeting and is returning to the Board for consideration in light of the AB 197 implementation. Angelo reviewed the history of the terminal pay assumption and the effect the implementation of AB 197 has on the terminal pay assumption. He noted the Board made an additional change to the terminal pay assumption by eliminating "straddling".

He described the terminal pay assumption noting the terminal pay assumption is a broad term that includes such items as vacation sell backs, administrative leave sell backs and some other pay items. He noted for these pay items a new term, leave cash out assumption, has been created to replace the

term terminal pay assumption. Based on the changes noted above, Segal Consulting is proposing a new leave cash out assumption be used in the December 31, 2013 actuarial valuation for non-PEPRA members.

It was M/S to adopt the proposed leave cash out assumptions effective for the December 31, 2013 actuarial valuation for non-PEPRA members.

In public comment, Ken Westermann, Deputy Sheriff's Association, asked what the normal cost of terminal pay is for the employers.

In public comment, Dan Borenstein, Contra Costa Times, asked if the proposed numbers were post the AB 197 court ruling.

It was M/S/C to adopt the proposed leave cash out assumptions effective for the December 31, 2013 actuarial valuation for non-PEPRA members. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

10. Presentation from Segal Consulting regarding employer/member cost sharing of terminal pay assumption – Angelo and Monroe

Leiderman provided a confidential memo to the Board noting he feels the memo does not need to be confidential. He discussed the statutes that defines the structure of the benefit plan. He noted the law clearly requires that member contribution rates be premised on the same "final compensation" that the actuary uses to project future benefits.

It was M/S/C to waive confidentiality of the Reed Smith memo dated August 11, 2014 regarding member contribution rates and terminal pay assumption. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

Angelo discussed the current practice and the assumptions used to calculate the basic member rate, the COLA member rate, the basic employer rate and the COLA employer rate. He also discussed the history of the leave cash out assumption noting it is currently not included in the basic member rate calculation.

He noted a legal opinion now exists recommending that the leave cash out assumption be included in the basic member rate calculation. He discussed two different options for including the leave cash out assumption in the basic member rate calculation. For "Option A" an average assumption is developed and applied by tier and for "Option B" the assumption is developed and applied for each cost group. He noted for "Option A" and "Option B" there is the same impact on the total average employer rate.

In public comment, Ken Westermann, Deputy Sherriff's Association, wonders why the member rate would be increased for all members even though most of the members do not receive terminal pay.

In public comment, Dan Borenstein, Contra Costa Times, since the numbers are post AB 197 then if this would have been done before AB 197 the impact would have been larger.

Leiderman provided clarification on the term terminal pay and described what is included in that assumption.

In public comment, Jim Bickert, Rains Lucia and Stern, stated he understands what is included in the terminal pay assumption but asks if the Board really understands the level of contempt members have for the Board and the process. He feels the majority of the Board is insulated from the contempt

that the members have. He feels that the members that receive terminal pay should pay for it and should not be shared with members that do not receive the same benefit.

In public comment, Vince Wells, Local 1230, asked when the terminal pay was eliminated in 2011 if that was taken into account for the member's rates at that time.

Angelo compared "Option A" and "Option B" noting there would be a higher subsidization with "Option A" since the option is pooled by tier and not by cost group. He noted "Option A" is consistent with the current practice used for COLA member rates and "Option B" is consistent with the current practice for employer rates since it is pooled by cost group.

In public comment, Dan Borenstein, Contra Costa Times, questioned what items are included in terminal pay and can the items that are included be identified?

In public comment, Ken Westermann, Deputy Sheriff's Association, stated that in Cost Group C there are not any managers that are able to sell back vacation so he would like clarification on what items are included in the assumption.

11. **Consider and take possible action to amend Actuarial Funding Policy regarding employer/member cost sharing of terminal pay assumption**

It was **M/S** to amend the actuarial funding policy regarding the employer/member cost sharing of the terminal pay assumption and use "Option B" to calculate the basic member rate as recommended by legal counsel.

A substitute motion was **M/S** to table this item and direct staff to bring back information on what pay items are included in the terminal pay assumption and how many employees receive the included pay items.

There was discussion on the timing of the valuation report.

In public comment, Bob Campbell, Contra Costa County Auditor/Controller, clarifying that the Board has adopted the terminal pay assumption and reminds the Board that the rates have already been delayed and employers are starting to work on budgets and need the rates to incorporate them into the budget for next year.

In public comment, Jim Bickert, Rains Lucia and Stern, questions if there is still the option of not doing anything and leaving the rate calculations the way they are currently. It appears this impacts a very small number of members.

An amended substitute motion was **M/S** to direct Segal to complete the December 31, 2013 valuation report without including the terminal pay assumption in the basic member rate and direct staff to bring back information on what pay items are included in the terminal pay assumption and how many employees receive the included pay items with input from employers and employee organization groups.

After a lengthy discussion, it was **M/S/C** to call for the question. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

The amended substitute motion **failed**. (Yes: Pigeon, Rodrigues and Smithey; No: Allen, Gordon, Mitchoff, Phillips, Telles and Watts).

The original motion was withdrawn.

It was M/S to adopt a policy to include leave cash out assumptions in the basic member rate effective for the December 31, 2013 valuation and request staff bring back information regarding the various cost groups and tiers to the September 10, 2014 meeting.

A substitute motion was M/S to table this item until the September 10, 2014 meeting and direct staff to bring back information on what pay items are included in the terminal pay assumption and how many employees receive the included pay items with input from employers and employee organization groups.

Telles was not present for subsequent discussion and voting.

Leiderman discussed the issues with making policy changes that effect previous years.

The substitute motion **failed**. (Yes: Kroll, Pigeon, Rodrigues and Watts; No: Allen, Gordon, Mitchoff, Phillips, and Smithey)

The original motion was amended to adopt a policy to include leave cash out assumptions in the basic member rate effective for the December 31, 2014 valuation.

Telles was present for subsequent discussion and voting.

After a lengthy discussion, It was M/S/C to adopt a policy to include leave cash out assumptions in the basic member rate effective for the December 31, 2014 valuation. (Yes: Allen, Gordon, Mitchoff, Phillips, Rodrigues and Watts; No: Pigeon, Smithey and Telles)

12. Consider and take possible action to implement terminal pay assumption changes for the current fiscal year

Angelo stated that with the elimination of terminal pay and "straddling" the terminal pay assumptions have been lowered which decrease the member and employer rates. The lower terminal pay assumptions will be applied to future valuations. He noted a Board member requested a discussion to adjust the contribution rates effective July 1, 2014 by the lower terminal pay assumption.

Leiderman reviewed legal precedence on changing contribution rates mid-year noting there is nothing in the law that precludes a Board from making changes in contribution rates mid-year.

It was M/S to change the contribution rates for members and employers as soon as possible going prospective.

After discussion on the timing of implementing revised contribution rates, it was M/S to amend the original motion to table this item to the September 10, 2014 meeting and direct staff to provide information on the timing to implement the revised contribution rates.

A substitute motion was M/S to revise the contribution rates effective January 1, 2015.

The substitute motion was withdrawn.

The amended original motion was M/S/C to table this item to the September 10, 2014 meeting and direct staff to provide information on the timing to implement the revised contribution rates. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

13. Consider and take possible action on employer contribution rates as recommended by Segal Consulting for Con Fire PEPRA Tier 4 (2% COLA)

Schneider reviewed the memo regarding the employer contribution rates for a member in PEPRA General Tier 4 with a 2% COLA noting there is one person currently in this tier.

It was **M/S/C** to adopt the employer contribution rates as shown in the Segal Consulting letter for members employed by Contra Costa County Fire Protection District (Cost Group #5) in PEPRA General Tier 4 (2% COLA). (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

14. Presentation from staff regarding 18-month delay of implementation of contribution rate changes

Schneider reviewed the reasons the 18-month delay was implemented for contribution rate changes. He discussed the practical considerations for the implementation of the 18-month delay noting the delay allows employers to more accurately budget for pension contributions.

He discussed other alternatives including CCCERA changing the plan year from the calendar year to the July 1st fiscal year noting this change would reduce the delay of implementation of contribution rates to 12 months.

15. Consider and take possible action to amend Actuarial Funding Policy to adjust for the 18-month delay

After discussion on the cost of the 18-month delay, it was **M/S/C** to not institute any changes to the 18-month delay in implementing contribution rate changes. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

16. Consider and take possible action on retroactive correction to retirement allowance

Schneider reviewed his memo regarding the retroactive correction to retirement allowance noting the Board directed staff to begin reviewing past retirement calculations to determine whether any retired CCCERA members were receiving benefits that were calculated on amounts that should not have been included in their pensionable compensation. The error in the spreadsheet created a final compensation period of 13 months of base salary rather than 12 months. He discussed the options CCCERA can provide the member to repay the \$32,612.13 overpayment noting the amount does not include interest since the error was no fault of the member.

It was **M/S** to accept the staff recommendation and authorize staff to recover the overpayment retroactive to the date of retirement over the next 23 months.

After discussion on the past practices of recovering overpayments and the legal statutes associated with overpayments, the motion was amended to include directing staff to confirm with tax counsel if interest is required to be collected on the overpayment.

It was **M/S/C** to accept the staff recommendation and authorize staff to recover the overpayment retroactive to the date of retirement over the next 23 months and direct staff to confirm with tax counsel if interest is required to be collected on the overpayment. (Yes: Allen, Gordon, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey and Watts; No: Telles)

17. Discuss SACRS letter concerning education program on DB plans

Strohl stated SACRS recently sent out letters requesting the systems in SACRS provide input on SACRS providing educational information to the public regarding defined benefit plans. She noted at this point there is not a cost to the system regarding this educational program.

There was a discussion on the role of the Board in the politics and public education on defined benefit plans. It was noted the role of political support for defined benefit plans should be a role the employer and members pursue and not something the Board should be involved in.

It was the consensus of the Board to support SACRS providing educational information on defined benefit plans.

18. Report from staff on semi-annual rebalancing

Price reviewed his memo noting it was a fairly routine rebalancing.

Gordon was not present for subsequent discussion and voting.

19. Consider and take possible action to execute assignment letter reflecting new ownership structure of Aether

Price discussed the new ownership structure for the Aether management company. He discussed the positives and negatives of the structure.

It was M/S/C to accept the recommendation from Milliman and staff to consent to the continuation of the investment agreement with Aether following the ownership structure transaction. (Yes: Allen, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

20. Consider authorizing the attendance of Board and/or staff

It was M/S/C to authorize the attendance of three Board members to the Trustees Roundtable, CALAPRS, September 12, 2014, Burbank, CA. (Yes: Allen, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)

21. Miscellaneous

(a) Staff Report –

Price reported the onsite for DBL was held on August 11, 2014.

He also reported the onsite for Adams Street has been scheduled for August 29, 2014.

He noted he will be speaking to Cortex regarding the Investment Consultant RFP and will follow up with the Investment Consultant committee on the next steps after that phone call.

Kaplan reported accounting has been busy with the pre-payment true-ups and GASB 67 and 68. She also reported accounting is in the process of an accounting system upgrade.

Strohl reported SB 673, which is the legislation to create CCCERA as an independent district, has passed the assembly.

She also reported the Communications Coordinator has resigned and we are actively recruiting for a replacement.

She noted a new Benefits Manager is schedule to begin employment on August 25, 2014. She reported the internal re-model has begun to accommodate the growing staff.

She noted the email system has been down and staff are working on alternatives.

(b) Outside Professionals' Report -

None

(c) Trustees' comments –

Kroll reported he attended the UC Berkeley public pension program and felt it was very good.

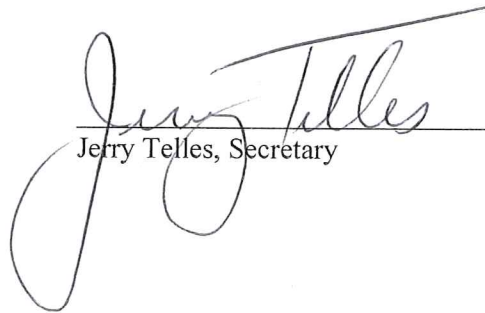
Rodrigues noted he thought this was a very good meeting.

Holcombe reported he attended DBL with Gordon, Price, Strohl, Youngman and Young and felt underwhelmed. The managing partners did not seem sincere with their apologies regarding notification of the staff changes within the firm. The positive item that came out of the meeting was that they would notify us of any staff changes during the quarterly updates. He recommended keeping them on the watch list.

It was M/S/C to adjourn the meeting. (Yes: Allen, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Smithey, Telles and Watts)



Brian Hast, Chairman



Jerry Telles, Secretary