

*CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

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March 10, 2010

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, March 10, 2010 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, and Jerry Telles.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Silvina Leroux, Retirement Deputy Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, Counsel; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager.

Outside Professional Support:	Representing:
Rebecca Byrnes	County Counsel
Harvey Leiderman	Reed Smith LLP
Paul Angelo	Segal Company
John Monroe	Segal Company

Other Attendees:

Margie Breen	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Luz Casas	CCCERA Staff
Karen Davis	CCCERA Staff
Sean Jara	CCCERA Staff
Tracy Kroll	CCCERA Staff
Kelli Ingersoll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Bill Cullen	Retiree
Jerry Mulchay	Contra Costa County Grand Jury (CCC Grand Jury)
Thelma Wheeler	Retiree
Bob Rey	Self
Ben Best	Self
Charles Gaffney	Self
Jim Bickert	Deputy Sheriff's Association
Suzie Griffith	AFSCME 2700
John Bartel	Contra Costa First 5/Bartel Associates
John Keel	San Ramon Valley Fire Protection District (SRVFPD)
Lisa Driscoll	County Administrator's Office (CAO)
Laura Stobel	CAO
Michelle Johnston	Auditor Controller's Office
Farrell Holderman	CCC Grand Jury
Mary Lou Williams	Contra Costa County Retirees' Association (CCCREA)
Gene Dangel	Retiree
Linda Chew	Civil Grand Jury
Robert Leete	SRVFPD
Bill Hamilton	Retiree Support Group (RSG)
Colette Curtis-Brown	Contra Costa County Sanitary District (CCCSD)

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Mark DeWeese	Moraga-Orinda Fire Protection District (MOFPD)
Randy Musgraves	CCCSD
Tina Kaufmann	Auditor Controller
Rollie Katz	Local 1
Shawn Garcia	Contra Costa First 5
Will Emes	Retiree
Marnie Huddleston	Contra Costa First 5
Rich Heyne	Self
Debbie Radcliff	CCCSD
Kevin Coyulan	Self
Cathryn Freitas	CCCSD
Kris Hunt	Contra Costa County Taxpayers' Association
Wendy Lach	Self
Donna Irwin	RSG
Ed Irwin	RSG
Rick Luna	RSG
Lawrence Hellstrom	RSG
Jules Sweany	RSG
Lucy Fogarty	Contra Costa County Superior Court
Julie Enea	Self
William Landis	RSG
Roylen Stack	Local 21
C.L. Morris	Retired
Jack Waddell	Retired
Harvey Wisbird	Contra Costa County Fire Protection District (CCCFPD)
David Rolley	CCCSD/Local 1
Charles Lindsey	CCCFPD
L.C. Ello	Retiree
Jim Wilder	CCCFPD
Nadine Peyrucain	Local 512
Mike Arnold	Contra Costa County Health Services Department
Jerry Mitosinka	Self
Andrea Cassidy	Self
Jacquelyne Jackson	RSG

1. Pledge of Allegiance

Brian Hast led all in the *Pledge of Allegiance*.

2. Employee Recognition

William J. Pollacek recognized and congratulated Kathy Somsen and Tracy Kroll for their 15 years of service.

3. Public Comment

No members of the public offered comment.

4. Approval of Minutes

It was M/S/C to approve minutes of the February 24, 2010 meeting. (Yes: Buck, Cabral, Hast, Holcombe, Katz, Pollacek, and Telles)

5. Routine Items

It was M/S/C to approve the routine items of the March 10, 2010 meeting. (Yes: Buck, Cabral, Hast, Holcombe, Katz, Pollacek, and Telles)

6. Update on Depooling Study - Paul Angelo and John Monroe, The Segal Company

Paul Angelo reviewed the data issues in the depooling study. After discussing the background of the previous action by the Board on depooling and alternative approaches for the depooling process, it was M/S/C to set up an open ad-hoc committee to discuss and consider depooling options and come back to the Board with a recommendation. (Yes: Buck, Cabral, Hast, Holcombe, Katz, Pollacek, and Telles). Jerry Telles, Brian Hast, Terry Buck and Jerry Holcombe were selected for the ad-hoc committee.

Board discussion followed regarding the importance of a public discussion on this issue before final decisions were made.

Gioia was present for subsequent discussion and voting.

6a. John Bartel letter - Angelo reviewed the letter from Bartel, noting questions pertaining to the pooling rationale. Bartel noted he requested the Board look at the UAAL retroactively, based on the member population for small groups. Discussion followed on a review of this issue after the ad hoc committee returned to the Board with a recommendation.

After a short discussion it was M/S/C to table this item until after the ad hoc committee meets regarding the depooling issue and returns to the Board with a recommendation. (Yes: Buck, Cabral, Gioia, Holcombe, Hast, Katz, Pollacek, and Telles)

7. Update on CCCERA's Projection of Retirement Plan Costs - Paul Angelo and John Monroe, The Segal Company

Angelo reviewed the CCCERA Projection of Retirement Plan Costs. He noted the Segal Company is in the process of performing a triennial experience study for CCCERA for the three-year period ending December 31, 2009, along with the current review of the economic assumptions. Angelo said any actuarial assumptions, both economic and non-economic, adopted from those two studies will be implemented in the upcoming December 31, 2009 valuation. As Segal's

recommended assumptions are not yet known, these projections are based on the Plan's current actuarial assumptions, with the exception of the actual market return for 2009.

Angelo emphasized that projections, by their nature, are not a guarantee of future results. Models are intended to serve as illustrations of future financial outcomes based on the information available at the time the model is undertaken and completed. The agreed-upon assumptions and methodologies are described in the report. Emerging results may differ significantly if the actual experience proves to be different from the assumptions or if alternative methodologies are used. Actual experience may differ due to variables such as demographic experience, the economy, stock market performance and the regulatory environment.

Again, it was noted that the results in the report will be different than results based on any potential assumption changes the Board might adopt as a result of the upcoming triennial experience study.

8. Review of Economic Actuarial Assumptions for the December 31, 2009 Actuarial Valuation

Paul Angelo - The Segal Company

Angelo reviewed the Economic Actuarial Assumptions for the December 31, 2009 Actuarial Valuation, highlighting the following recommendations:

**Investment Return** - The estimated average future net rate of return on current and future assets of the Association as of the valuation date. This rate is used to discount liabilities.

**Recommendation:** Reduce the rate from 7.80% per annum to 7.75% per annum.

**Inflation** - Future increases in the cost-of-living index which drives investment returns and active member salary increases, as well as cost-of-living adjustments (COLAs) for retirees.

**Recommendation:** Reduce the rate from 3.75% to 3.50% per annum. Segal recommends decreasing the assumed COLA for Tier 3 disability benefits and Tier 2 benefits from 3.75% to 3.50% per year.

**Individual Salary Increases** - Increases in the salary of a member between the dates of the valuation to the date of separation from active service. This assumption has three components: inflationary salary increases, real "across the board" salary increases, and promotional and merit increases.

**Recommendation:** Reduce the current inflationary salary increase assumption from 3.75% to 3.50%. Increase the current real "across the board" salary increase assumption from 0.50% to 0.75%. The promotional and merit increase assumption ranges from 0.75% to 7.50% for General and 0.75% to 8.00% for Safety. The promotional and merit increases will be reviewed as part of the triennial experience study of non-economic assumptions.

**Terminal Pay** - Additional pay elements expected to be received during the member's final average earnings period.

**Recommendation:** The recommendation will be included in the triennial experience study of non-economic assumptions report.

After a short discussion it was *M/S/C* to adopt the recommended changes to the economic assumptions as presented in the Segal Report. (Yes: Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles; No: Buck; Abs: None)

9. Public comments for items 10 through 12

No members of the public offered comment at this time.

10. Discussion on Calculation of Final Compensation for Retired and Active members

It was *M/S* to retain CCCERA's current policy regarding elements of pay to be considered for all active members and retirees.

Katz spoke to the motion, noting it would be administratively burdensome to make changes for this group. He added that active and retired members had relied on the Board's long-standing policies for calculating final compensation and any change would be unfair.

Public Comment-

Rollie Katz - stated his support of the motion for reasons already discussed by the Board, noting that the Board had acted reasonably applying the Paulsen settlement to all members. He also noted his disagreement with the Board's Fiduciary Counsel over the interpretation of the appellate court decision, *In re Retirement Cases*, which he believes does not require the Board to exclude terminal pay from the calculation of retirement benefits.

Bill Cullen - spoke in support of the motion to reaffirm the existing policy.

Kris Hunt - noted that the court cases have changed and failure to make a change would be wrong. She stated this is a reciprocity and fairness issue.

Gioia noted legal issues on the table concerning actives and retirees include the issues of reliance and vested rights. He notes that the compensation policy was not an error but a reasonable interpretation at that time, and that case law has changed since that time and it was appropriate to review.

Roylen Stack - expressed agreement with the motion.

Board discussion followed on the legislation recently introduced regarding terminal pay issues.

It was *M/S/C* retain CCCERA's current policy regarding elements of pay to be considered for all active members and retirees. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, and Telles; No: None; Abs: Pollacek)

11. Addendum to Policy for Determining Which Pay Items is "Compensation" for Retirement Purposes

Leiderman stated the purpose of this addendum to the Policy for *Determining Which Pay Items are "Compensation" for Retirement Purposes*, adopted December 5, 1997, and amended January 13, 1998 is to reflect the Retirement Board's re-examination of the Policy since its adoption and the Retirement Board's decision to revise certain aspects of the Policy with respect to persons who become members of the retirement system on or after January 1, 2011. This Addendum is made as of March 10, 2010 and shall be referenced in communications to affected members regarding the Policy, following its adoption.

Cabral asked for a definition of a new member as outlined in the proposed addendum. He also requested research on specific pay items such as the deferred compensation payment to elected officials and Key Employee 2% provision, including the effect on final compensation. He requested a review of all pay items currently used by CCCERA in calculating final compensation.

It was M/S to accept the proposed addendum to the policy *Determining Which Pay Items are Compensation for Retirement Purposes* as amended. Further discussion followed on current legislation in process, the dates of implementation and the possibility of deferring the decision to a later date.

Public Comments -

Rollie Katz - Urged the Board to not adopt the policy change, stating they disagreed with Mr. Leiderman's opinion and felt CCCERA would be creating a 2 tier system.

David Rolley - asked the Board to consider the impact this change would have on the employers. He expressed concern about the employers' ability to attract the same level of talent.

Kris Hunt - Spoke in favor of the motion, noting the Board needs to follow counsel advice.

Roylen Stack - reiterated that CCCERA's counsel said this decision is up to the Board's discretion.

It was M/S to call for the question. (Yes: Katz and Telles; No: Buck, Cabral, Gioia, Hast, Holcombe, and Pollacek; Abs: None). Motion failed.

Leiderman advised pay items that are only payable after termination should not be used in calculating final average salary, based on recent case law, because it was not both earned and payable in cash during the final compensation period.

Counsel also noted recently introduced legislation regarding these types of pay items that would affect all members retiring after July 1, 2011. Gioia asked Leiderman to explain the difference in the roles of the employers and the retirement board. Leiderman explained that the employers and employees determine what items of compensation are to be received during

service; the retirement board determines which of those items should be counted in calculating retirement allowances.

Discussion followed on the implications of this addendum on deferred members, reciprocal members and situations of layoff and return to work. If an employee has no history in this system, prior to the effective date of the addendum, they will be affected by the new policy. Leiderman explained the rules relating to reciprocity that affect CCCERA.

After a discussion about the effective date of the addendum, it was *M/S/C* in a substitute motion to accept the addendum to the policy with an effective date of January 1, 2011. (Yes: Gioia, Hast, Holcombe, Katz, and Pollacek; No: Buck, Cabral, and Telles; Abs: None).

**12. AFSCME Retirees request for retiree mailing**

It was *M/S/C* to accept the retiree mailing with the addition of language as outlined in CCCERA's Retiree Mailing policy: "This letter is mailed with the cooperation of the Retirement Board: Recipients' addresses have not been released." (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles).

The Board moved into closed session pursuant to Govt. Code Section 54957 to consider the Medical Advisor and or staff's recommendation regarding disability retirement applications.

**13. Disability Retirements**

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

- (a) Dennis Almond - Service Connected (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles).
- (b) Richard Carpenter - No reportable action taken.

**14. Conference Seminar Attendance**

- (a) It was *M/S/C* to authorize the attendance of all Board Trustees and appropriate staff at the Spring Conference, SACRS, May 11-14, 2010, Newport Beach, CA. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)
- (b) It was *M/S/C* to authorize the attendance of Telles at the Spring Conference, CRCEA, April 25-28, 2010, Santa Barbara, CA. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)
- (c) It was *M/S/C* to authorize the attendance of Buck and 3 staff members at the Public Pension Fund Fiduciary Forum, Manatt, March 26, 2010, San Francisco, CA. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)
- (d) No one was able to attend Portfolio Concepts and Management, Wharton, May 24-27, 2010, Philadelphia, PA.

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15. Miscellaneous

- (a.) Staff Report- Leedom noted an additional needed amendment to the February 24, 2010 minutes.

It was *M/S/C* to approve an additional amendment to the February 24, 2010 minutes, noting that David Rolley was present at that meeting on behalf of Local 1. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)

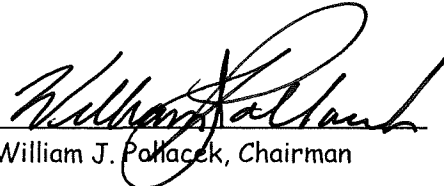
Levy stated that a second revised Board travel cost breakdown for 2009 was provided to Kris Hunt of the Contra Costa County Taxpayers' Association in response to that Association's public records request.

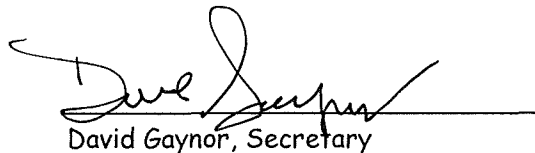
Leedom reminded the Board the deadline to turn in Form 700 is April 1, 2010.

- (b.) Outside Professionals' Report - nothing to report

- (c.) Trustees' comments - Cabral reported he attended the Credit Suisse conference and will be submitting the report soon.

It was *M/S/C* to adjourn at 12:58. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)

  
William J. Pollacek, Chairman

  
David Gaynor, Secretary