The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, March 25, 2009 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager; Karen Levy, Counsel.

Outside Professional Support: Representing:

Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Tim Price	Milliman
Paul Angelo	Segal Company
John Monroe	Segal Company

Other Attendees:

Margie Breen	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Joelle Luhn	CCCERA Staff
Gayle Cruz	CCCERA Staff
Colette Curtis Brown	Central Sanitary District
Lucy Fogarty	Superior Court
Jim Wagner	Grand Jury
Ron Tervezt	Grand Jury
Debbie Ratcliff	Central Sanitary District
Marie Rulloda	CCC Auditor Controller
Kris Hunt	Contra Costa County Taxpayers' Association
Leslie Lea	Grand Jury
Pete Nowicki	Moraga Orinda Fire Department (MOFD)
Satomi Cadena	Contra Costa County Retired Employees' Association
Sue Caset	MOFD
Jim Bickert	Deputy Sheriff's Association (DSA)
Ray Waletzko	CC Mosquito and Vector Control
Rollie Katz	Local One

1. <u>Pledge of Allegiance</u>

Remick led all in the *Pledge of Allegiance*.

2. **Public Comment**

No members of the public offered comment.

3. **Approval of Minutes**

After the previous change of removing the last sentence on Page 2, before Item 6, noting the reasons the Board moved into closed session, and on Page 5 under Telles' comments, changing "DA" to "DSA", it was **M/S/C** to approve the minutes of the March 11, 2009 meeting as amended. (Yes: Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Telles: Abs: Viramontes)

4. **Reed Smith Presentation** - Harvey Leiderman

Leiderman began his presentation on the "Framework for Considering Modifications to Actuarial Funding Methodologies" by reviewing fundamental fiduciary duties. He noted the duty of loyalty has to be in the best interest of all members and beneficiaries. He discussed all stakeholders including retirees, active members and the employer. There was discussion on the different groups, who are all equal in value under the law. There are different needs and different responsibilities for each group; however, each group has complex concerns. It was stated the Board has an obligation to keep the fund healthy. Leiderman noted the discussion topics at this meeting only affect employer rates; the Unfunded Actuarial Accrued Liability (UAAL) is the sole responsibility of the employer.

Leiderman stated setting rates is a "core" function of the Board and is their decision alone. He discussed the impact of the recent extraordinary economic events on the Retirement System, County, Districts and members.

He noted appropriate factors the Board could consider, and discussed prudent decision making. The Board should conduct open and public proceedings; provide notice to members and retiree organizations; avoid "negotiating" with the County and districts; and identify and act on any disqualifying conflicts of interest.

5. **Presentation on Amortization of Unfunded Actuarial Accrued Liability (UAAL)** - Segal Company

Paul Angelo of the Segal Company provided a review of CCCERA Amortization and Asset Smoothing policies. He discussed the amortization of Unfunded Actuarial Accrued Liability (UAAL); the present value of future normal costs and the Actuarial Value of Assets (AVA).

Angelo noted each year's gain/loss, after smoothing, gets amortized in UAAL. He discussed the role of assumptions and methods. He provided the formula: Contributions + Investment Income equals Benefit Payments + Expenses (C+I=B+E). He noted a huge drop in "I" will have to be made up with "C". Actuarial valuation determines the current or "measured" cost, not the ultimate cost. Assumptions and funding methods affect only the timing of costs (unless benefits are affected).

He discussed the amortization and sources of UAAL, including plan changes, assumption or method changes and gains/losses. The amortization period can be a fixed or rolling period, with one or multiple layers. The amortization method can be a level dollar amount or a level percentage of pay.

CCCERA's current policy for the amortization of the UAAL is a single layer, fixed (decreasing) period with 15 years remaining as of December 31, 2007. The UAAL payment is currently about 9% of the UAAL amount. Angelo reviewed the different methods the Board could consider, including new layers and fixed periods for gains or losses.

Angelo provided illustrations of amortization methods for different periods and illustrated several alternatives for 14 through 20 years. He discussed the treatment of existing UAAL, not including 2008 investment losses, which could be treated separately using the layered approach.

He discussed amortization policy choices, single or multiple layers, with a recommendation for new multiple layers to be amortized over 15 to 20 years, beginning with the loss incurred in 2008. This recommendation is for all sources of gains and losses, assumption and plan changes. He recommended a continuation of the current amortization of the existing UAAL. His recommendations do not affect the health of the fund or member contribution rates.

Item 6 was deferred until later in the meeting, after the presentation on Market Smoothing.

7. **Presentation on Market Smoothing** - Segal Company

Angelo continued his presentation by explaining AVA. He noted to reduce the impact of short term asset volatility; plans use an Actuarial Value of Assets (AVA) which "smoothes" returns. Each year, the difference is taken between the actual return on Market Value of Assets (MVA) and the assumed return on MVA. Current smoothing methodology spreads this gain or loss over five years. This reduces volatility without reducing long term expected return.

He then reviewed asset smoothing mechanics, and discussed a longer asset smoothing period and the possible systemic reasons. Special treatment for 2008 losses raises many issues. Angelo discussed asset smoothing and the "MVA Corridor", noting many plans limit how far the AVA can get from the MVA. There was discussion on corridors and what would happen if CCCERA reached 150% AVA vs. MVA.

He reviewed contribution and funding projections with smoothing period scenarios.

He concluded by reiterating: C + I = B + E and there is "no free lunch".

6. **Action on Amortization of Unfunded Actuarial Accrued Liability (UAAL) Methods**

There was discussion on the very unusual times, the need to manage losses, and some wanted to be assured the losses would be paid off in eighteen years. It was noted, if the Board does nothing, volatility will be higher as the amortization period of the UAAL becomes shorter. The Board expressed interest in a method that would prevent having to revisit this issue.

There was a **motion** to leave the existing UAAL on the current amortization schedule, begin with the amortization of future gains/losses in multiple layers for an 18 year amortization period, starting with the 2008 losses. Other changes due to actuarial assumptions or plan changes will be included in the same layered approach and identified separately.

In public comment, Kris Hunt, of the Contra Costa County Taxpayers' Association commented the move toward multiple layers would increase the transparency and changes will be identifiable to the source.

Leedom noted she had received correspondence from employers noting varying opinions on possible amortization methodology changes.

On the motion, it was **M/S/C** to leave the existing liability at the current amortization period, continue with future amortization of gain/loss with multiple layers for 18 years, starting with 2008, and to separately identify other plan or actuarial assumption changes. (Yes: Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, Telles, and Viramontes; No: Cabral)

8. Action on Market Smoothing

It was **M/S/C** to leave the market smoothing period at 5 years without a corridor and to consider revisiting if the fund goes past 140% AVA vs. MVA. (Yes: Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, Telles, and Viramontes)

Cabral, Gioia, Remick, and Telles were not present for subsequent discussion and voting.

It was **M/S/C** to include plan changes in the layered approach for amortization of the UAAL. (Yes: Gaynor, Hast, Holcombe, Naramore, Pollacek, and Viramontes)

Cabral, Remick, Telles were present for subsequent discussion and voting.

9. **INVESCO Real Estate Fund I**

Hally provided the history behind his recommendation regarding INVESCO Real Estate, Fund I (IREFI). There was discussion on cash flow and occupancy rates. Hally stated IREFI is not incurring additional debt; the request is driven by a change in assets. The goal of the leverage percentage increase request is not to add debt, but to avoid distressed sale of real estate properties.

It was **M/S/C** to accept the recommendation of staff to approve the request from INVESCO to increase the debt limit of INVESCO Real Estate Fund I (IREFI) from 65% to 75% for the remaining life of the fund. (Yes: Cabral, Gaynor, Hast, Holcombe, Pollacek, Remick, Telles, and Viramontes)

10. **Council of Institutional Investors, Board of Directors Ballot**

After discussion of the merits of each candidate, it was **M/S/C** to support all Council of Institutional Investors, Board of Directors, Public Funds candidates on the ballot, except for candidates one and three. (Yes: Cabral, Gaynor, Hast, Holcombe, Pollacek, Remick, Telles, and Viramontes)

11. **Investment Policy and Guidelines**

After discussion, it was the consensus of the Board to continue review and possible action on the Investment Policy and Guidelines until the first meeting in April when, the consultants will be available.

Several changes were discussed; Board members were requested to email any additional corrections to staff by Monday, March 30, 2009.

It was **M/S/C** pursuant to Govt. Code section 54954.2(b)(2), that immediate action was needed on a matter, and that the matter came to the attention of the agency subsequent to the agenda being posted and less than 72 hours prior to the meeting. The Board moved into closed session, under Govt. Code section 54956.9(c). (Yes: Cabral, Gaynor, Hast, Holcombe, Pollacek, Remick, Telles, and Viramontes)

The Board moved into open session

Emergency Closed Session

No reportable action taken.

12. **Miscellaneous**

(a) Staff Report – Leedom reported she had responded to two employees requesting service purchase for previous time worked with the county as contract employees.

She reminded all Board members that form 700 Disclosure Statements are due on April 1. She noted the ad for Deputy CEO had just been released in Pension and Investments (P & I).

Hally reported ING Clarion requested an amendment to their subscription agreement changing the first close date to December 19, 2008 instead of June 30, 2008. This resulted in a net benefit to CCCERA; Hally noted we will agree to the terms.

Hally reported that Chris Sullivan, the co-head of the Fixed Income Group of Goldman Sachs Asset Management (GSAM), was leaving the firm and moving to Fidelity; Mike Swelt will be taking his spot. Hally also noted the departure of Mike Keough from GSAM.

(b) Outside Professionals' Report - Nothing further to report.

(c) Trustees' Comments - Viramontes requested clarification on the Vallejo bankruptcy ruling from counsel. Leiderman noted that municipalities have the right to reject collective bargaining agreements at the stage of bankruptcy currently experienced by the City of Vallejo.

Pollacek noted the economic presentation given by Dr. Lacy Hunt at the SACRS Symposium predicted we could be entering a business cycle where equity markets remain essentially flat for 15- 20 years similar to the l967-1982 period.

It was **M/S/C** to adjourn the meeting in memory of the Oakland Police Officers killed in the line of duty: Police Officer, John Hege, Concord; Sergeant Erv Romans, Danville; Sergeant Mark Dunakin, Tracy; and Sergeant Dan Sakai, Castro Valley. (Yes: Cabral, Gaynor, Hast, Holcombe< Pollacek, Remick, Telles, and Viramontes)

BDHast.

Brian Hast, Chairman

Jerry Telles, Secretary