RETIREMENT BOARD MEETING
SECOND MONTHLY MEETING
9:00 a.m.

January 22, 2014

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

******AMENDED******

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.

2. Recognition of Richard Cabral for over 35.5 years of service to CCCERA.

3. Accept comments from the public.

4. Educational presentation from Segal Consulting regarding the CCCERA Funding Policy.

5. Consider and take possible action to adopt the CCCERA Funding Policy.

6. Consider and take possible action regarding Segal Consulting's recommendation on rounding when determining the member contribution rates for PEPRA members.

7. Educational presentation from Fiduciary Counsel on Municipal Bankruptcy and Public Pensions.

8. Consider and take possible action regarding staff recommendation for assignment of Ceredex contract.

9. Consider and take possible action on staff recommendation to contract with Vocational Review services provider.

10. Consider and take possible action on staff recommendation to issue a RFI for CCCERA web development services.

11. Consider and take possible action regarding the Investment Consultant for CCCERA.

12. Consider authorizing the attendance of Board and/or staff:
    a. General Assembly, CALAPRS, March 2 – 4, 2014, Rancho Mirage, CA.
    b. CAPP Part II, IFEBP, June 5 – 6, 2014, San Jose, CA.
    c. 2014 Investor Conference, Angelo Gordon, April 9 – 10, 2014, New York, NY.

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

13. Miscellaneous
    a. Staff Report
    b. Outside Professionals' Report
    c. Trustees' comments

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SEGAL | CCCERA Actuarial Funding Policy

Actuarial Funding Policy
January 22, 2014

Meeting Date
01.22.14
Agenda Item
#4

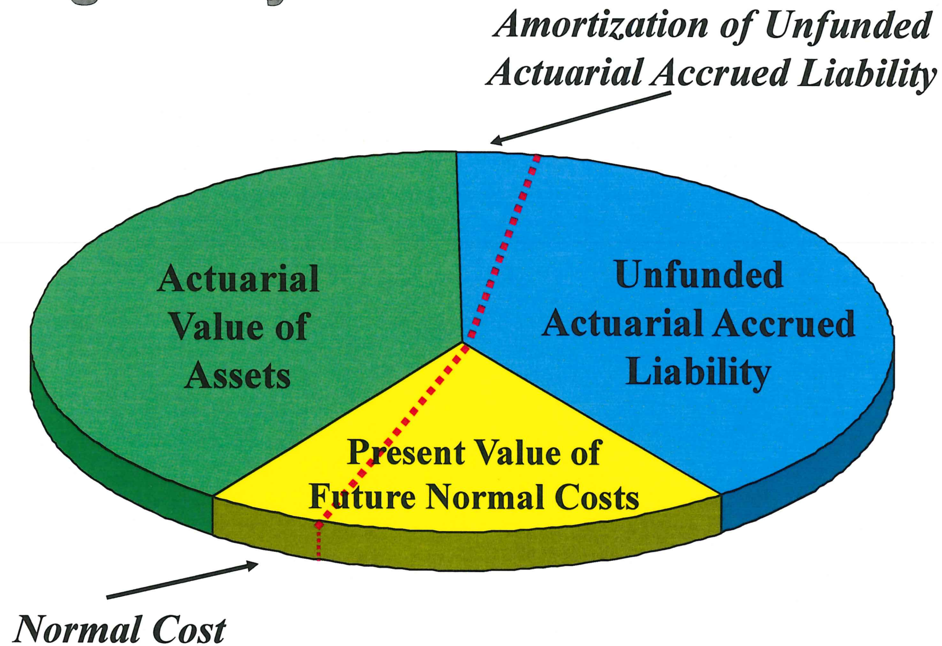
PAUL ANGELO, FSA
Senior Vice President and Actuary
JOHN MONROE, ASA
Vice President and Associate Actuary
Segal Consulting

5228154v7

Funding Policy Components

- **Actuarial Cost (Funding) Method** – allocates costs to time periods, past vs. future
- **Asset Smoothing Method** – assigns a value to assets for determining contribution requirements
- **UAAL Amortization Policy** – how, and how long to fund difference between liabilities and assets
- Other Policy Considerations
- Interest crediting and excess earnings policy
  - Unique to 1937 Act county systems
  - Generally separate from funding policy

Funding Policy and Annual Cost



General Policy Objectives

1. Future contributions plus current assets sufficient to fund all benefits for current members
   - Contributions = Normal Cost + full UAAL payment
2. Reasonable allocation of cost to years of service
   - Both expected costs and variations from expected costs
3. Reasonable management and control of future employer contribution volatility
   - Consistent with other policy objectives

General Policy Objectives

4. Support public policy goals of accountability and transparency
   - Clear in intent and effect
   - Allow assessment of whether, how and when sponsor will meet funding requirements
   - Enhance credibility and objectivity of cost calculations

General Policy Objectives

- Policy objectives 2 and 3 reflect two aspects of the general policy objective of “interperiod equity” (IPE).
- Objective 2 promotes “demographic matching”
  - Intergenerational interperiod equity
- Objective 3 promotes “volatility management”
  - Period-to-period interperiod equity
- These two aspects of IPE tend to move funding policy in opposite directions.
  - Policy objectives 2 and 3 combine to seek to balance intergenerational and period-to-period IPE
  - Demographic matching vs. volatility management

CCCERA Current Funding Policy

- Cost method
  - Entry Age
- Asset smoothing method
  - 5-year smoothing period with no market value corridor
  - Reaffirmed by the Board in 2009
- UAAL amortization policy
  - Layered approach for UAAL established after 12/31/2007
    - 18-year periods
  - Approved by the Board effective with 12/31/2008 valuation
  - Level percent of pay amortization

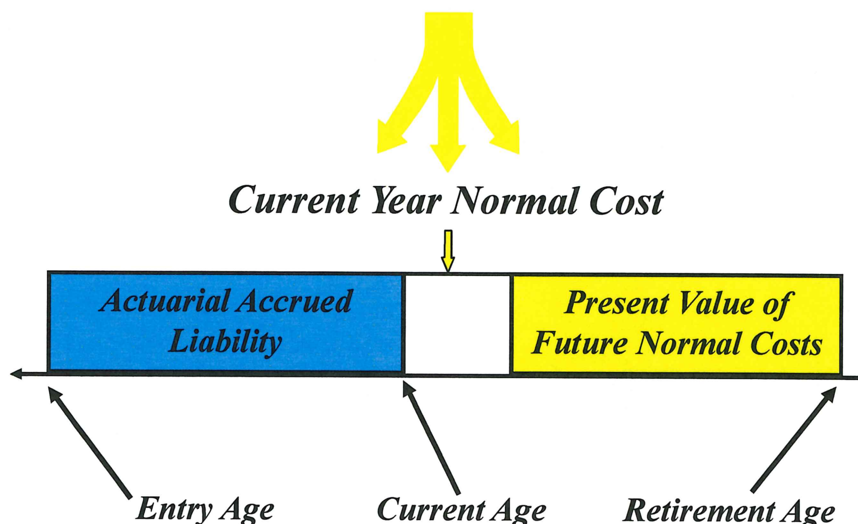
Review of CCCERA Funding Policy

- Review all three current funding policy components
  - Cost method, asset smoothing, UAAL amortization
  - Incorporate all components into a comprehensive statement of funding policy
    - Review and adoption by the Board
    - Increased importance due to GASB changes
- Separate topic not part of this review
  - Interest crediting and excess earnings allocation policy

Funding Policy Recommendations

- No change to Entry Age Cost Method
- No change to asset smoothing method
- Emerging model practices for UAAL amortization
  - Actuarial Gains/Losses, Assumption/Method Changes
    - No change to separate 18-year layers
  - Plan Amendments
    - Shorter periods than for other sources of UAAL
    - Particularly for Early Retirement Incentive Programs
  - Surplus
    - Longer periods than for UAAL
    - Allows consideration of other Surplus management tools

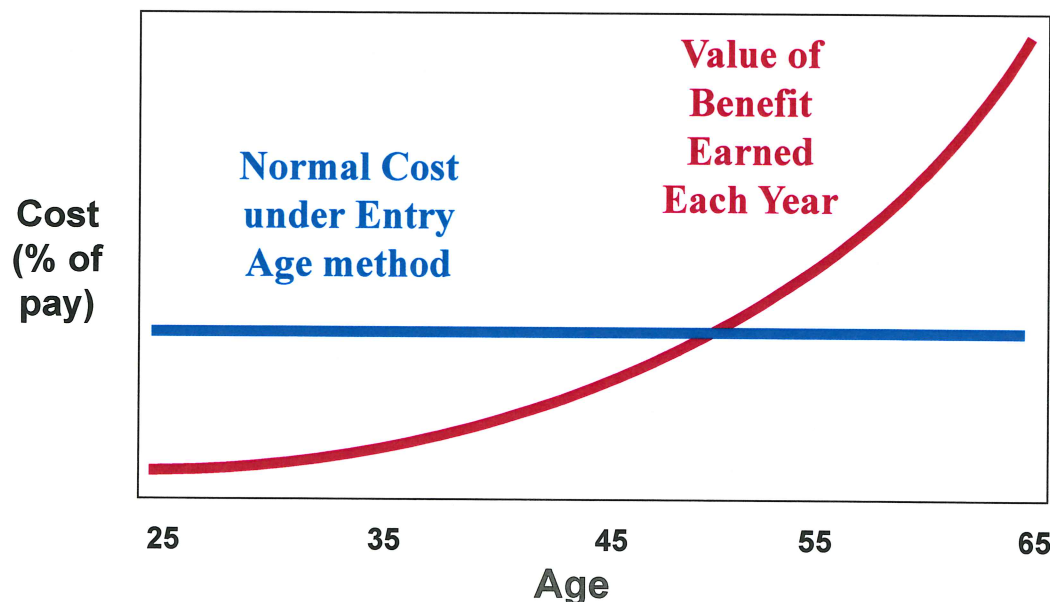
Actuarial Cost Method



Entry Age Method

- Direct allocation of cost
- Designed to produce Normal Cost that stays level as a percentage of pay
  - Normal Cost Percentage = percentage of future payroll for each active member needed to fund PV of member's projected benefits at retirement
  - Normal Cost = NC% times current pay
- Model practice and consistent with version endorsed by GASB Statements 67 and 68
- Normal cost is <u>not</u> just the value of benefit earned

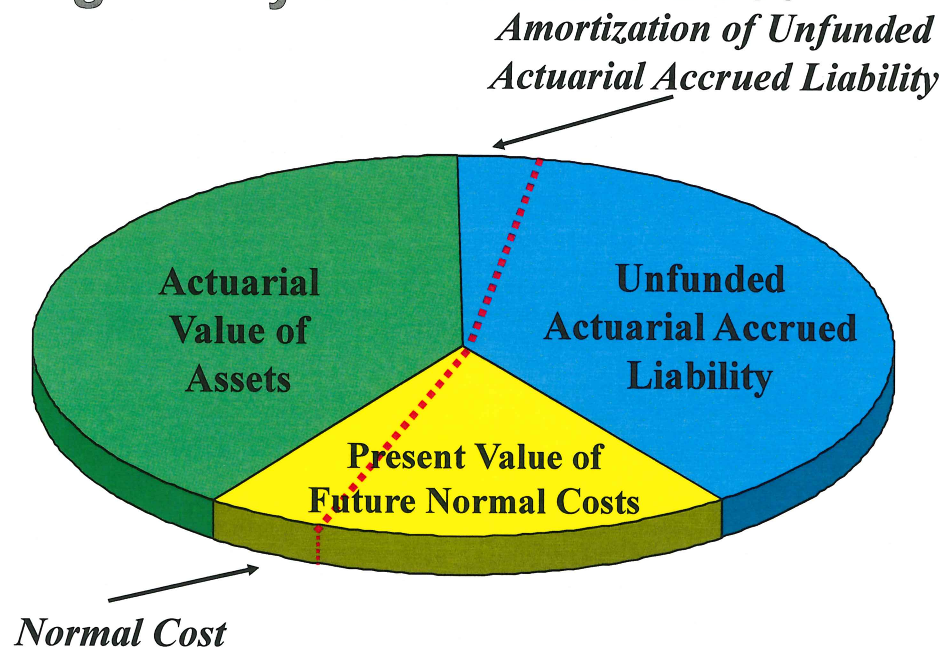
Normal Cost vs Earned Benefit



Managing Contribution Volatility

- Asset allocation – volatility at the source
- Asset smoothing
  - Specific to investment return volatility
- UAAL amortization – assets and liabilities
  - More than just asset volatility control
- Direct contribution rate smoothing
  - Contribution collar – limits increases
  - Contribution rate phase-in – delays full impact

Funding Policy and Annual Cost



Asset Smoothing Methods

- Objectives
  - Reflect market value of assets
  - Smooth out fluctuations in market values
  - Produce smoother pattern of contributions
- Features
  - Practical to both understand and model
  - Consistently lead or lag market
  - Treatment of realized vs. unrealized gains
  - Consistency with other investment policies
  - “Return to Market” conditions
- Smoothing methods and periods
  - Including “Market Value Corridor”

Income Smoothing Methods

- Contributions and benefits recognized immediately
- Split income into Immediate and Deferred portions
  - Deferred portion gets “smoothed”
- Smooth over n years, n = 3, 4 or 5 … or 10 or 15!
- Decide what part of earnings gets smoothed
  - Unrealized gains/losses
  - All capital gains/losses
  - **Total return above or below assumed earnings**

Example: one good year

Year	1	2	3	4	5	6	7
MVA return	13%	8%	8%	8%	8%	8%	8%
Deferred	(5%)						
Recognized	1%	1%	1%	1%	1%		
AVA return	9%	9%	9%	9%	9%	8%	8%

* Using 8% as assumed return.

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Example: one good, then one bad year

Year	1	2	3	4	5	6	7
MVA return	13%	3%	8%	8%	8%	8%	8%
Deferred	(5%)	5%					
Recognized	1%	1%	1%	1%	1%		
		(1%)	(1%)	(1%)	(1%)	(1%)	
AVA return	9%	8%	8%	8%	8%	7%	8%

* Using 8% as assumed return.

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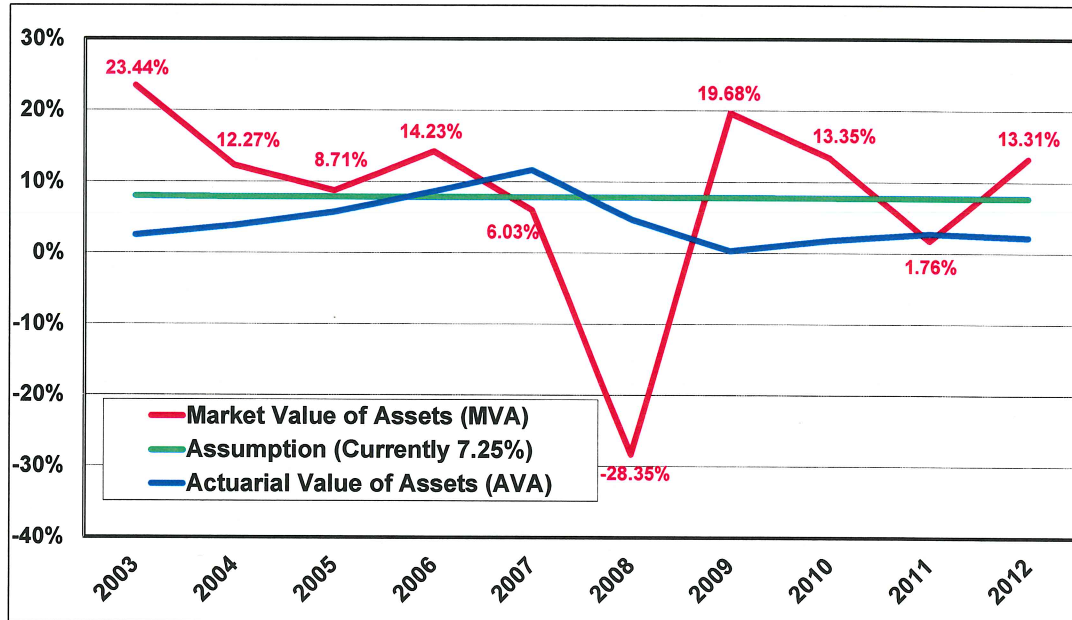
CCCERA Investment Rates of Return



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Asset Smoothing Mechanics

- When MVA return is **greater** than assumed
  - Smoothing "defers gains"
  - Smoothed value (AVA) is **less** than MVA
  - UAAL and contributions are **larger**
- When MVA return is **less** than assumed
  - Smoothing "defers losses"
  - Smoothed value (AVA) is **greater** than MVA
  - UAAL and contributions are **smaller**

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CCCERA Actuarial Value of Assets as of Dec. 31, 2007

(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2007	($168,393)	$67,289	90%	80%	($97,722)
2006	$262,227	($647)	70%	60%	$183,171
2005	$71,553	($53,290)	50%	40%	$14,461
2004	$190,029	($57,177)	30%	20%	$45,573
2003	$243,581	$127,205	10%	0%	$24,358
Net GAINS not yet recognized					$169,841

Market Value of Assets	$5,199,117
MINUS GAINS not yet recognized	($169,841)
Actuarial Value of Assets	$5,029,276
AVA/MVA ratio	97%

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CCCERA Actuarial Value of Assets as of Dec. 31, 2008

(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2008	($1,318,200)	($553,808)	90%	80%	($1,629,425)
2007	($168,393)	$67,289	70%	60%	($77,502)
2006	$262,227	($647)	50%	40%	$130,855
2005	$71,553	($53,290)	30%	20%	$10,808
2004	$190,029	($57,177)	10%	0%	$19,003
Net LOSSES not yet recognized					($1,546,262)

Market Value of Assets	$3,749,699
PLUS LOSSES not yet recognized	$1,546,262
Actuarial Value of Assets	$5,295,961
AVA/MVA ratio	141%

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CCCERA Actuarial Value of Assets as of Dec. 31, 2009

(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2009	$478,545	($39,514)	90%	80%	$399,079
2008	($1,318,200)	($553,808)	70%	60%	($1,255,025)
2007	($168,393)	$67,289	50%	40%	($57,281)
2006	$262,227	($647)	30%	20%	$78,539
2005	$71,553	($53,290)	10%	0%	$7,155
Net LOSSES not yet recognized					($827,532)

Market Value of Assets	$4,476,730
PLUS LOSSES not yet recognized	$827,532
Actuarial Value of Assets	$5,304,262
AVA/MVA ratio	118%

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CCCERA Actuarial Value of Assets as of Dec. 31, 2010

(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2010	$517,825	($268,336)	90%	80%	$251,374
2009	$478,545	($39,514)	70%	60%	$311,273
2008	($1,318,200)	($553,808)	50%	40%	($880,623)
2007	($168,393)	$67,289	30%	20%	($37,060)
2006	$262,227	($647)	10%	0%	$26,223
Net LOSSES not yet recognized					($328,814)

Market Value of Assets	$5,027,157
PLUS LOSSES not yet recognized	$328,814
Actuarial Value of Assets	$5,355,971
AVA/MVA ratio	107%

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CCCERA Actuarial Value of Assets as of Dec. 31, 2011
(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2011	($409,527)	$97,328	90%	80%	($290,712)
2010	$517,825	($268,336)	70%	60%	$201,476
2009	$478,545	($39,514)	50%	40%	$223,467
2008	($1,318,200)	($553,808)	30%	20%	($506,222)
2007	($168,393)	$67,289	10%	0%	($16,839)
Net LOSSES not yet recognized					($388,830)

Market Value of Assets	$5,052,289
PLUS LOSSES not yet recognized	$388,830
Actuarial Value of Assets	$5,441,119
AVA/MVA ratio	108%

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CCCERA Actuarial Value of Assets as of Dec. 31, 2012
(Market G/L measured in six month increments - $000s)

Year-end	Market Value Gain/(loss) thru Dec.	Market Value Gain/(loss) thru June	Percent not recognized		Amount not recognized
2012	$165,707	$101,381	90%	80%	$230,241
2011	($409,527)	$97,328	70%	60%	($228,272)
2010	$517,825	($268,336)	50%	40%	$151,578
2009	$478,545	($39,514)	30%	20%	$135,661
2008	($1,318,200)	($553,808)	10%	0%	($131,820)
Net GAINS not yet recognized					$157,388

Market Value of Assets	$5,654,581
MINUS GAINS not yet recognized	($157,388)
Actuarial Value of Assets	$5,497,193
AVA/MVA ratio	97%

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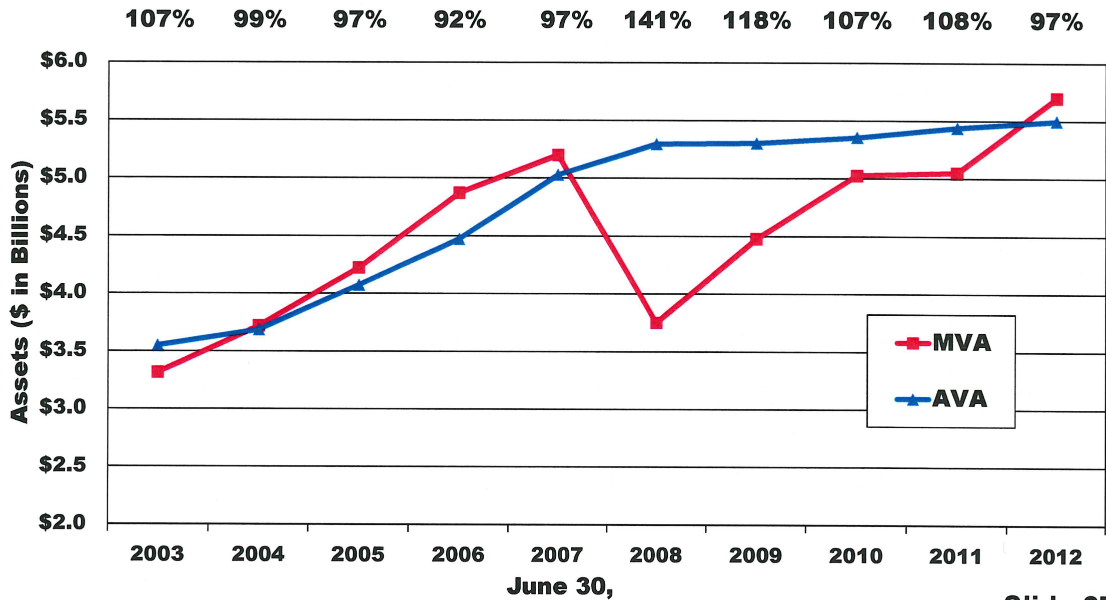
Historical MVA and AVA



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Asset Smoothing and "MVA Corridor"

- Many plans limit how far the AVA can get from the MVA by limiting the AVA ratio
- A "20% MVA corridor" means the AVA must be between 80% and 120% of MVA
  - Maximum deferred gain or loss is 20% of MVA
  - Hitting the MVA corridor effectively stops smoothing
- In 2009, some Boards widened their 20% MVA Corridors
  - Others, including CCCERA, had no corridor and reaffirmed that policy

Actuarial Standards of Practice No. 44

- ASOP 44 focuses on two key features
  - How close does AVA stay to MVA
    - Ratio of AVA to MVA ("AVA Ratio")
  - How long before AVA returns to MVA
    - Smoothing period
- ASOP 44 also provides some structure
  - If "likely" to be "reasonable", both are required
  - If "sufficiently close" or "sufficiently short" then only one or the other is required

5-year Smoothing and MVA Corridor

- Under ASOP 44, 5 years is "sufficiently short"
  - Widespread use, industry opinions
  - Assumes employer ability to pay
- Other reasons to consider MVA corridor
  - Accelerates contribution increases
    - Market timing – more contributions in down market
    - Cash flow – avoid selling assets to pay benefits
    - Solvency – if contributions ever stop, increased plan assets could secure more benefits (extreme case)

Managing future asset volatility

- Possible reasons for longer smoothing period
  - Longer business/economic cycles
  - Greater actual market volatility (assets)
  - Greater sensitivity to contribution rate volatility
  - Greater asset volatility relative to payroll
    - Higher funded percentages
    - More mature plan
    - Larger benefit levels
- Note: after losses, longer smoothing means higher ultimate contribution rates
- Recommend no change to asset smoothing method

Amortization Policy

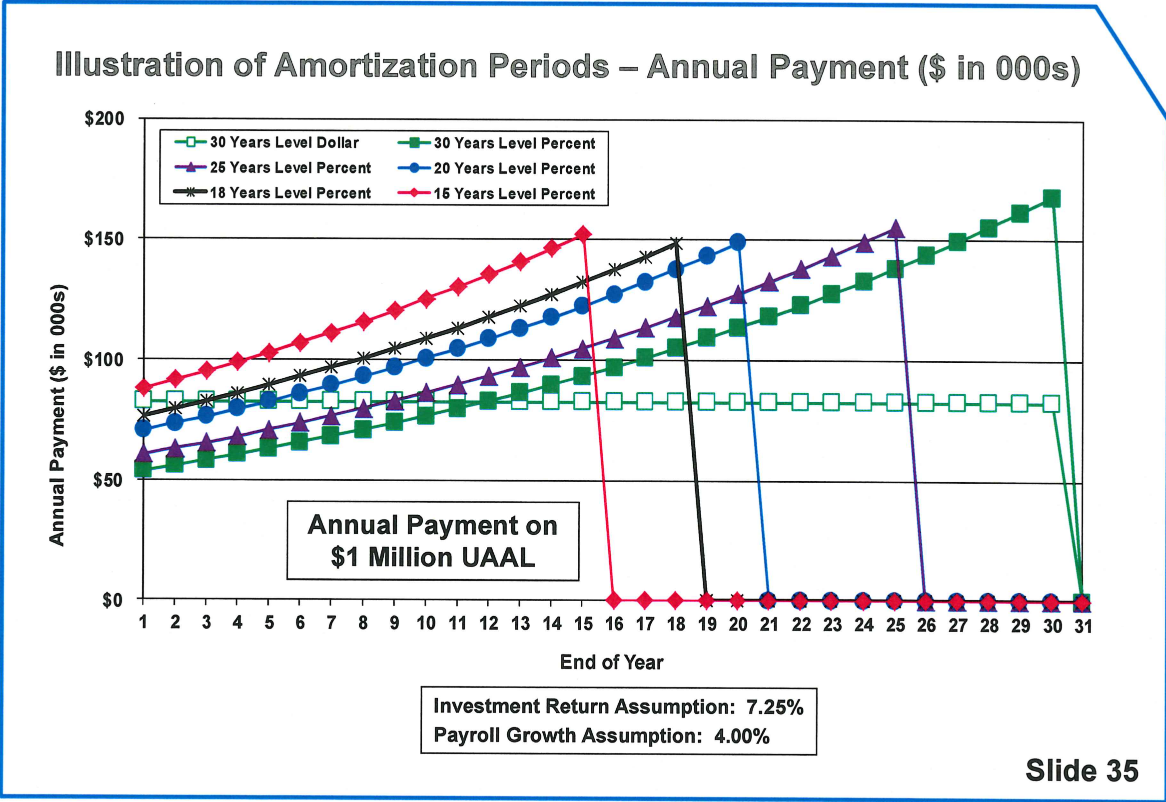
- Component of Annual Contribution
  - Normal cost plus amortization of unfunded liability
- Sources of Unfunded Liability
  - Plan changes
  - Assumption or method changes
  - Gains / losses
- Amortization policy includes:
  - Structure: Single UAAL or in layers
    - Also: fixed (closed) or rolling (open) amortization
  - Payment pattern: level dollar or level percent of pay
  - Periods: how long to fund the UAAL

Amortization Structure

- CCCERA using multiple layer, 18-year declining periods
- Model approach: multiple amortization layers
  - First layer is current UAAL (as of policy adoption)
  - Each year, new layer of UAAL for gain/loss, assumption/method changes, plan amendments
  - Can use different periods for different sources of UAAL
    - CCCERA currently uses the same 18-year amortization period for all sources of UAAL
- Recommend no changes to current UAAL layers already established as of December 31, 2012

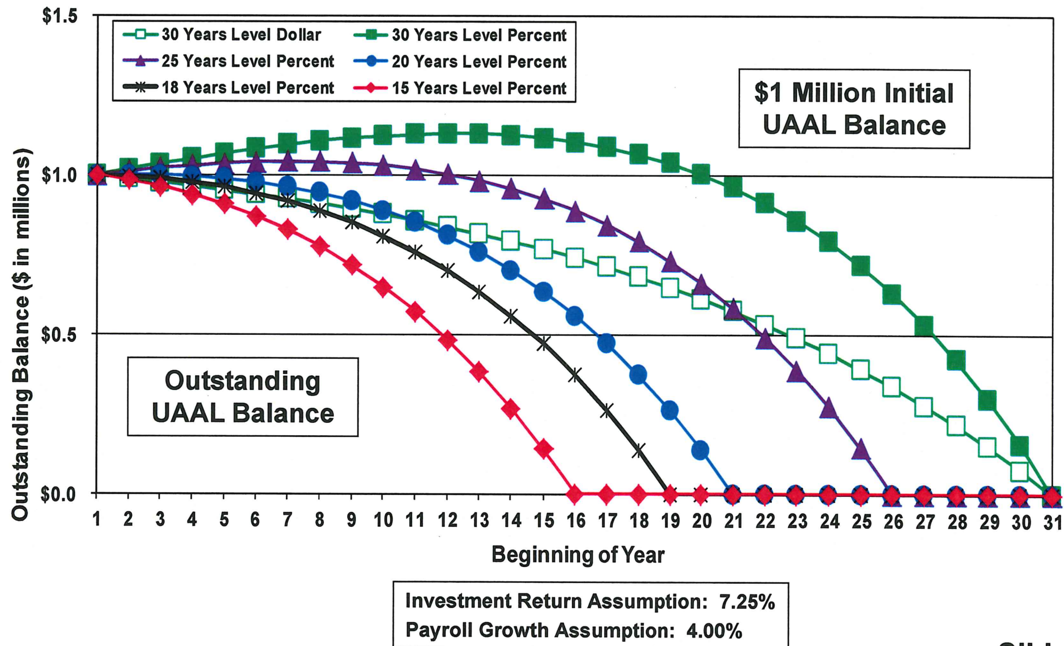
Illustration of Amortization Methods

7.25% interest 4.00% salary incr.	30 years Flat dollar	30 years % of pay	25 years % of pay	20 years % of pay	18 years % of pay	15 years % of pay
Increase in AAL	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Amortization factor	12.1037	18.5457	16.5126	14.1413	13.0858	11.3757
(first year)	0.082620	0.053921	0.060560	0.070715	0.076418	0.087907
Amortization amount						
Year 1	$ 82,620	$ 53,921	$ 60,560	$ 70,715	$ 76,418	$ 87,907
Year 15	$ 82,620	$ 93,374	$ 104,870	$ 122,455	$ 132,332	$ 152,226
Year 20	$ 82,620	$ 113,603	$ 127,591	$ 148,985	$ 0	$ 0
Year 30	$ 82,620	$ 168,161	$ 0	$ 0	$ 0	$ 0
Total amount paid						
Principal	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000
Interest	1,478,589	2,024,153	1,522,072	1,105,748	959,782	760,209
Total	$ 2,478,589	$ 3,024,153	$ 2,522,072	$ 2,105,748	$ 1,959,782	$ 1,760,209



Negative Amortization

- $1,000,000 liability, 7.25% interest
- First year interest only is $72,500
- With level dollar payments, payments are always greater than interest
- With level percentage payments, early payments can be less than interest
  - UAAL increases (but not as a percentage of payroll!)
  - Eventually larger payments cover interest plus increased UAAL
- CCCERA's 18 year period avoids any negative amortization



Model Fixed Layer Periods

- Tradeoff between and demographic matching and volatility management
  - Two aspects of "interperiod equity"
  - Constraint: consideration of negative amortization
  - Exception: volatility N/A for plan changes
- Under 15 years: too volatile
- Over 20 (25?) years: too much neg. amortization
  - 25 is the new 30: "out of bounds marker"
  - 30 years reserved for surplus
    - Normal Cost requires UAAL/surplus "asymmetry"

Model Amortization Periods

- Gains and losses: 15 to 20 years
  - Volatility management, but avoid too long a period
- Assumption and method changes: 15 to 25 years
  - Long term remeasurements, so could justify longer amortization
- Plan amendments: demographic (15 yrs. or less)
  - Avoid any negative amortization since changes are within control of plan sponsor
  - Demographic matching for actives or inactives
  - Much shorter for Early Retirement Incentives (< 5 yrs)

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Contributions when Plan has surplus

- Usual contribution is NC plus UAAL amortization
- Surplus: contribute NC minus Surplus amortization
- Short surplus amortization periods means contribution holidays, even with modest surplus
  - See late 1990s for real life examples
- Recommended approach: minimum contribution
  - 30 year amortization of surplus
- CalPEPRA further limits amortization of surplus
  - Funded ratio has to be greater than 120%
  - Other conditions also apply

Recommended Periods for Future UAALs

Source	Current Policy	Recommended
Actuarial Gains or Losses	18	18
Assumptions or Method Changes	18	18
Plan Amendments	18	15 or less
ERIPs	18	Up to 5
Actuarial Surplus	18	30

- Applies to future changes in UAAL
  - Fixed (declining) layer periods, level percent of payroll (except rolling (open) period for surplus)
  - No impact on current UAAL layers or current contribution rates

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Other Funding Policy Parameters

- Adjustment for 18-Month Delay between Rate Calculation and Rate Implementation
  - CCCERA does not make this adjustment
  - Of our 12 1937 Act clients, two make this adjustment
- Cost Sharing Arrangments ("Depooling")
  - Adopted by Board effective with 12/31/2009 valuation
  - Details can be found in funding policy or valuation report

Other Funding Policy Parameters

- Employer/Member cost sharing of impact of terminal pay
  - Only an issue for pre-PEPRA members
    - Since PEPRA requires 50:50 sharing of Normal Cost
  - Impact of terminal pay currently handled as follows:
    - Basic rates – All paid by employer
    - COLA rates – 50:50 sharing by employer/member
- Employer/Member cost sharing of impact of service from unused sick leave conversion
  - Only an issue for pre-PEPRA members
    - Since PEPRA requires 50:50 cost sharing of Normal Cost
  - Government Code requires this cost be charged only to the employer
- Employer/Member cost sharing arrangements are subject to modification under Government Code Section 31631.5

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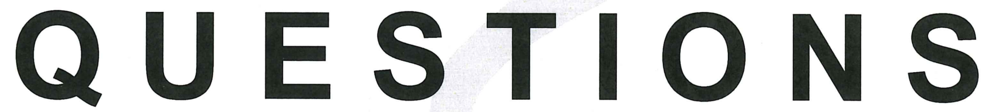
Other Funding Policy Parameters

- Additional employer UAAL contributions
  - Currently, tracked separately for employers in cost groups with multiple employers
  - Contribution is amortized over same period used for actuarial gains/losses to determine UAAL rate credit
    - Use level % of pay unless directed by Board
  - Rate reduction applies apply starting on July 1 following receipt of the additional UAAL payment
  - Each year, balance is credited with assumed return, then amortized over remaining period


QUESTIONS

Meeting Date
01.22.14
Agenda Item
#4

Contra Costa County Employees' Retirement Association

Draft Actuarial Funding Policy

Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policies set by the Board of Retirement (Board) for the Contra Costa County Employees' Retirement Association (CCCERA). The Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of CCCERA. In addition, this document records certain guidelines established by the Board to assist in administering CCCERA in a consistent and efficient manner.

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies. It is a working document and may be modified as the Board deems necessary.

Goals of Actuarial Funding Policy

1. Future contributions and current plan assets should be sufficient to provide for all benefits provided by CCCERA;

2. To seek reasonable and equitable allocation of the cost of benefits over time including the goal that annual contributions should, to the extent reasonably possible, maintain a close relationship to both the expected cost of each year of service and to variations around that expected cost;

3. To manage and control future contribution volatility to the extent reasonably possible, consistent with other policy goals; and,

4. To support the general public policy goals of accountability and transparency by being clear as to both intent and effect, allowing for an assessment of whether, how and when the plan sponsors will meet the funding requirements of the plan.

Funding Requirement and Policy Components

CCCERA annual funding requirement is comprised of a payment of the Normal Cost and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on UAAL are determined by the following three components of this funding policy:

I. Actuarial Cost Method: Allocates the total present value of future benefits to each year (Normal Cost), including all past years (Actuarial Accrued Liability or AAL);

II. Asset Smoothing Method: Spreads the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process. This reduces the effect of short-term market volatility while still tracking the overall movement of the market value of plan assets; and,

III. Amortization Policy: Determines the length of time and the structure of the increase or decrease in contributions required to systemically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any surplus, i.e., any assets in excess of the AAL.

I. Actuarial Cost Method:

The Entry Age method shall be applied to the projected benefits in determining the Normal Cost and the AAL. The Normal Cost shall be determined on an individual basis for each active member.

II. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets.

The Board reserves the right to consider future ad-hoc adjustments to change the pattern of the recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction upon receiving the necessary analysis from its actuary. The adjustment would be appropriate when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together) and the following conditions are met:

- The net deferred investment gains or losses are unchanged as of the date of the adjustment; and,
- The period over which the net deferred investment gains and losses are fully recognized is unchanged as of the date of the adjustment.

III. Amortization Policy:

- The UAAL (i.e., the difference between the AAL and the Valuation Value of Assets) as of December 31, 2012 shall continue to be amortized over separate amortization layers based on the valuations during which each separate layer was previously established.
- Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of December 31 will be amortized over a period of 18 years.
- Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period of 18 years.
- Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis[1]:

[1] In particular, the Board may want to incorporate into the amortization period demographic matching specific to the plan amendment. This could entail using the remaining active future service for plan changes that affect actives. For plan changes that affect retirees, this could entail using the remaining life expectancy for retirees or period over which the increased cash flow to retirees is expected to be paid.

a. with the exception noted in b., below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 15 years;

b. the increase in UAAL resulting from a temporary retirement incentive, including the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), will be funded over a period of up to 5 years.

- UAAL shall be amortized over "closed" amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.

- UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.

- If an overfunding or "surplus" exists (i.e., the Valuation Value of Assets exceeds the AAL, so that the total of all UAAL amortization layers become negative), any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized as the first of a new series of amortization layers, using the above amortization periods.

  If amount of such surplus is in excess of 20% of the AAL per Section 7522.52 of PEPRA, then the amount of such surplus in excess of 20% of the AAL (and any subsequent such surpluses in excess of that amount) will be amortized over an "open" amortization period of 30 years only if the other conditions of Section 7522.52 are deemed to have been met. If those conditions are not met, then the surplus will not be amortized and the full Normal Cost will be contributed.

- These amortization policy components will generally apply separately to each of CCCERA's UAAL cost groups with the exception that the conditions of Section 7522.32 apply to the total plan.

Other Policy Considerations

Adjustment for 18-Month Delay in Rate Implementation

In order to allow the employers to more accurately budget for pension contributions and other practical considerations, the contribution rates determined in each valuation (as of December 31) will apply to the 12-month period beginning 18 months after the valuation date. Any shortfall or excess contributions as a result of the implementation lag will be amortized as part of CCCERA's UAAL in the following valuation.

Implementation of Contribution Rate Change Due to Plan Amendment

Any change in contribution rate requirement that results from a plan amendment is generally implemented as of the effective date of the plan amendment or as soon as administratively feasible.

Cost Sharing Arrangements

Starting with the December 31, 2009 Actuarial Valuation, the Board took action to depool CCCERA's assets, liabilities and Normal Cost by employer when determining employer contribution rates. The Board action included a review of experience back to December 31, 2002. This did not involve recalculation of any employer rates prior to December 31, 2009. However, it did involve establishing the depooled assets so as to reflect the separate experience of the employers in each individual cost group from December 31, 2002 through December 31, 2009. In addition, the Board took action to discontinue certain cost sharing adjustments for both member and employer contribution rates for General Tier 1 and Safety Tier A.

Even under the depooling structure, there are a few remaining cost sharing arrangements. Here is a summary of the ongoing cost sharing arrangements:

- Smaller employers (less than 50 active members) were pooled with the applicable County tier. Safety members from the East Contra Costa Fire Protection District were pooled with Safety members of the Contra Costa County Fire Protection District.

- Due to a statutory requirement, the Superior Court is pooled with the County regardless of how many members the Court has.

- UAAL costs are pooled between Cost Group 1 and Cost Group 2 which represent General County and Small Districts for Tiers 1 and 3. UAAL costs are also pooled for Cost Groups 7 and 9 which are Safety County Tiers A and C.

  This was done because Cost Group 1 and Cost Group 7 had active members but were generally closed to new members. If the UAAL for these two cost groups is not pooled with another cost group that is open to new active members then the UAAL rate for these generally closed cost groups would increase substantially in future years. This is due to the fact that the UAAL for CCCERA is amortized as a level percent of payroll and the payroll growth for the generally closed cost group would be less than the payroll growth assumption (currently 4.00%). This will help stabilize the employer contribution rates for the mostly closed Cost Group 1 and Cost Group 7. Normal Cost rates for those cost groups are not pooled.

  There are some substantial differences between the Safety Tier A Enhanced and Safety Tier C Enhanced benefits, such as the period over which final average salaries are determined and the COLA. However, since the County is the only employer in these two cost groups, they will be the only employer affected by this particular pooling.

Employer/Member Cost Sharing

The Cost Impact of Terminal Pay

CCCERA's Basic member rates for members with membership dates before January 1, 2013 are not increased to anticipate terminal pay while COLA member rates are increased to anticipate terminal pay using the 50:50 sharing of COLA costs between the

employer and the member (Government Code Section 31873).

The Cost Impact of Service from Unused Sick Leave Conversion

Pursuant to Government Code Section 31641.01, for members with membership dates before January 1, 2013, the cost of this benefit will be charged only to employers and will not affect member contribution rates.

Employer/Member cost sharing arrangements are subject to modification under Government Code Section 31631.5, and any such modifications would be incorporated into the determination of the employer and member contribution rates.

Additional Employer UAAL Payments

Absent any specific action by the Board, any additional UAAL payments (including those from Pension Obligation Bonds (POBs) will be accepted by CCCERA in exchange for a corresponding reduction in the employer's UAAL contribution rate over period(s) and in a manner consistent with that employer's outstanding UAAL amortization layers and payments.

The outstanding balance of the additional UAAL payment is tracked separately in a manner consistent with the procedure used to track the UAAL amortization layers. It will be credited with earnings at CCCERA's investment return assumption in effect at each valuation date and reduced by the dollar amount of the annual reduction in the employer's UAAL contributions due to the prepayment.

Unless otherwise directed by the Board, the dollar amount of the annual reduction in the employer's UAAL contributions due to the additional UAAL payment will be based on amortizing (as a level percentage of payroll) the outstanding balance of the additional UAAL payment amount over the same period as used for actuarial gains and losses, using CCCERA's investment return and payroll growth assumptions in effect at each valuation date.

The reduction in the UAAL contribution rate will then equal the dollar amount of reduction in the employer's UAAL contributions divided by the employer's expected payroll for the year following the valuation date. Rate reductions will apply starting on July 1 following receipt of the payment. The additional UAAL payment amount will be discounted back to the valuation date for which the contribution rates from that valuation become effective on that July 1.

This section applies only to employers that are in a cost group with more than one employer. For employers that are in their own cost group, the additional UAAL payment amount is directly added to the assets of their cost group. Separate tracking of the outstanding balance of the additional UAAL payment is not needed in this situation as the additional UAAL payment will automatically reduce the employer's UAAL contributions.

Glossary of Funding Policy Terms

- **Present Value of Benefits (PVB) or total cost**: the "value" at a particular point in time of all projected future benefit payments for current plan members. The "future benefit payments" and the "value" of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all members, including future service and salary increases for active members.

- **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.

- **Normal Cost (NC):** the cost allocated under the Actuarial Cost Method to each year of active member service.

- **Entry Age Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay over the expected working lifetime of the plan's members.

- **Actuarial Accrued Liability (AAL)**: the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true. Note that for inactive members the AAL equals the entire PVB.

- **Market Value of Assets:** the fair value of assets of the plan as reported in the plan's audited financial statements.

- **Actuarial Value of Assets (AVA) or smoothed value:** a market-related value of the plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smoothes out short term fluctuations in market values and produces a smoother pattern of UAALs and contributions than would result from using market value.

- **Valuation Value of Assets (VVA):** the value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

- **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the AAL and the VVA.

- **Surplus:** the positive difference, if any, between the VVA and the AAL.

- **Actuarial Value Funded Ratio:** the ratio of the VVA to the AAL.

- **Market Value Funded Ratio:** the ratio of the MVA to the AAL.

- **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or "actuarial gain" as of the next valuation. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

- **Valuation Date:** December 31 of every year.

Meeting Date
01.22.14
Agenda Item
#6a.

MEMORANDUM

Date: January 22, 2014

To: CCCERA Board of Retirement

From: Kurt Schneider, Deputy Retirement Chief Executive Officer

Subject: Calculation of PEPRA Member Rates in the December 31, 2013 Actuarial Valuation

---

When CCCERA implemented tiers for new members subject to the PEPRA benefit formulas, member and employer rates were calculated in accordance with Gov. Code §7522.30. Subsection (a) of that Section set the standard that members pay at least 50 percent of normal costs and that employers not pay any of the required member contribution. Subsection (c) of that Section required that the resulting member contribution rate be rounded to the nearest quarter of 1 percent.

The rounding resulted in member contribution rates for CCCERA General Tier 4, Safety Tier D and Safety Tier E members that are slightly more than 50 percent of normal costs, and General Tier 5 members that are slightly less than 50 percent of normal costs. This rounding is in contrast to CCCERA's longtime practice of not rounding the member contribution rates once they are calculated by the System's actuary.

In 2013, SACRS sponsored legislation that was recently enacted, which added Section 31620.5 to the Government Code. Under this Section, the Board may, but is not required to round the member rate to the nearest quarter of 1 percent. As indicated in the attached letter, the System's actuary, the Segal Company, is recommending that CCCERA stop applying the quarter percent rounding effective with the December 31, 2013, Actuarial Valuation.

Recommendation: Consider taking action to stop applying the quarter percent rounding of the PEPRA member contribution rates, as recommended by the System's actuary, in accordance with Gov. Code §31620.5, effective with the December 31, 2013, Actuarial Valuation.

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Meeting Date
01.22.14
Agenda Item
#6b.

John Monroe, ASA, MAAA, EA
Vice President & Associate Actuary
jmonroe@segalco.com

December 17, 2013

Ms. Marilyn Leedom
Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Contra Costa County Employees' Retirement Association Calculation of CalPEPRA Member Rates in the December 31, 2013 Actuarial Valuation

Dear Marilyn:

When we previously calculated the member contribution rates for employees entering the new benefit tiers enacted by the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), we allocated 50 percent of the total normal cost to each of the member and the employer. However, as there was a CalPEPRA requirement that member rates have to be rounded to the nearest quarter of 1 percent (reference: Section 7522.30(c)), it was anticipated that in about half of the future valuations, member rates would be rounded up and the members would end up paying slightly more than 50 percent of the total normal cost in those years, and vice versa.

As you are aware, AB 1380 was recently enacted by the Governor. In particular, AB 1380 adds Section 31620.5 to the Government Code which provides the Board with the discretion whether or not to apply the rounding rule previously required by CalPEPRA. In particular, SEC. 18. Section 31620.5 is added to the Government Code, to read:

"31620.5. The normal rates of contribution of general and safety members subject to the California Public Employees' Pension Reform Act of 2013 shall be determined pursuant to Section 7522.30 subject to the following exceptions:

(a) The board may, but is not required to, apply the provisions of subdivision (c) of Section 7522.30 that require the initial contribution rate to be rounded to the nearest quarter of 1 percent."

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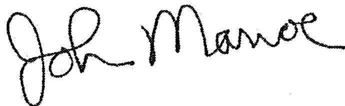
It is our understanding that Section 31620.5(a) allows the Board to continue to apply the rounding rule (to the nearest 0.25%), but the Board is not required to do so (in fact, the new Section seems to say the Board would need to take action to do so). Furthermore, if the Board believes that one of the primary goals of CalPEPRA is to achieve the payment of exactly 50 percent of the total normal cost rate by the CalPEPRA member and the employer, then it would be desirable and hence our recommendation to the Board that we no longer apply the rounding rule effective with the December 31, 2013 valuation. That way, the normal cost rate in each and every future valuation would be shared exactly 50:50.

In addition, not rounding the member contribution rate would also be consistent with long established practice for the non-PEPRA tiers.

Note that if the Board adopts our recommendation to not apply the CalPEPRA rounding rule, we would calculate the CalPEPRA total normal cost rate to the nearest one-fiftieth of one percent (i.e., the nearest even one-hundredth) as that will allow the normal cost rate to be shared exactly 50:50 without going beyond two decimal places.

Please feel free to call me with any questions.

Sincerely,



John Monroe

AW/bqb

cc: Kurt Schneider

Meeting Date
01.22.14
Agenda Item
#7

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The business of relationships.

MUNICIPAL BANKRUPTCIES AND PUBLIC PENSIONS

Prepared for the Board of Retirement
Contra Costa County Employees' Retirement Association
January 22, 2014

Harvey L. Leiderman

WHY TALK ABOUT MUNICIPAL BANKRUPTCIES?

- **Chronic budget crises**
- **GASB changes**
- **Looming municipal credit downgrades**
- ***Stockton, San Bernardino, Detroit...***

2

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"WE'LL BE CRUISING AT 30,000 FEET"

3

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3

THIS DISCUSSION

- When may a municipality file bankruptcy?
- What happens during the bankruptcy case?
- What is the effect on the retirement system and members' benefits?
- De-mystify the process

4

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4

OVERVIEW – Federal Bankruptcy Law and Chapter 9 Plans of Adjustment

- Federal bankruptcy law generally
  - a "breathing spell" – temporary freeze ("stay") on creditor actions
  - chance to restructure assets, debts
  - "fresh start"
- Chapter 9 specifically
  - just for "municipalities"
  - adjustment of obligations
  - balances federalism with states' rights

5

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5

WHO MAY FILE A CH. 9 PETITION?

To be eligible, must meet all of the following:

1. A "municipality." Includes a political subdivision, public agency or instrumentality of a state. Counties, cities and districts are; *the State of California is not!*
2. Authorized under state law to be a debtor under federal bankruptcy law. *States differ! And AB 506 makes it tougher!*
3. Insolvent – unable to, or not paying debts when due (cash flow test). Look at General Fund and uncommitted reserves only.
4. Desires to effect a plan to adjust its debts.
5. Negotiations with creditors and unions are at impasse or futile.

6

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WHAT HAPPENS IN A CHAPTER 9 BANKRUPTCY?

- Bright line between pre-filing events and post-filing events
- Snapshot of pre-filing assets and liabilities – this is what is going to be "adjusted"
- Stay (freeze) of all pre-filing legal actions
- All municipal operations continue, *without court supervision*
- All officials remain in power. No trustees or receivers

7 ReedSmith 7

WHAT ARE THE MUNICIPALITY'S POWERS IN CHAPTER 9?

- May hire professionals (attorneys, accountants, financial advisors, etc.) and pay them ahead of unsecured creditors
- Broad borrowing powers
- May object to claims against it, and bring them to trial in the Bankruptcy Court
- Court cannot interfere with debtor's decisions to pay or not pay obligations

8 ReedSmith 8

THE POWERFUL AX OF BANKRUPTCY

- Debtor may reject burdensome contracts that are still "executory"
  - "Executory" means still to be performed by both sides
- This is the primary reason municipalities consider bankruptcy – to reject labor and other burdensome contracts, like developments
- BUT: Dispute over escape from state laws – Tenth Amendment's "powers reserved to the states"

9

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9

WHAT IS A "PLAN OF ADJUSTMENT"?

- Must file a timely Plan of Adjustment
- The Plan classifies claims by their legal priority
  - Priority secured claims, like some bonds
  - Subordinated secured claims, like other bonds
  - Administrative claims, like vendors during Ch. 9
  - General unsecured claims, like vendors pre-Ch. 9
- For each class, the Plan provides a "treatment":
  - Paid in full in cash, or over time with interest, or
  - Exchanged for some new value, or
  - Rejected
- All explained in a "Disclosure Statement"

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10

WHAT IS REQUIRED TO CONFIRM A PLAN?

- Must get majority votes of creditors or "cram it down" over their objection!
- Must be in the best interest of creditors and be feasible
  - "Best interest of creditors" – best of all reasonably possible alternatives
  - "Feasible" – sensible economics; reasonably likely to succeed with no likely need to return to Bankruptcy Court

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Q & A SESSION

12

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QUESTIONS AND ANSWERS

Q: Is your municipality "insolvent"?

A: Case-by-case. The municipality would have to prove that it is insolvent on a "cash flow" basis (unable to pay its debts when due) rather than on a "balance sheet" basis (total liabilities exceed total assets).

This issue would be hotly contested. *See Vallejo, San Bernardino*

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QUESTIONS AND ANSWERS

Q: Could the municipality reject the current MOUs that provide retirement benefits for its active employees?

A: Yes, likely so. *See Vallejo*.

The test is:

1. **Does the MOU burden the debtor's ability to reorganize through a plan of adjustment?**
2. **Do the equities balance in favor of rejection?**
3. **Has the debtor made reasonable efforts to negotiate a voluntary modification of the MOUs?**

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QUESTIONS AND ANSWERS

Q: Would the municipality have to reject the entire MOU, or could it "cherry-pick" the parts it doesn't like?

A: Bankruptcy law allows rejection of the entire agreement only, not selected terms.

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QUESTIONS AND ANSWERS

Q: Could the debtor unilaterally suspend some parts of an MOU during Ch. 9, before deciding whether to reject it?

A: Unsettled.

Judge Ryan in *Orange County* said "not necessarily," and ordered "meet and confer" before the county could unilaterally change its labor contracts during bankruptcy.

Judge McManus in *Vallejo* said "yes."

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QUESTIONS AND ANSWERS

Q: If the municipality rejects its MOUs, what happens to its active employees?

A: Employees have to negotiate new contracts.

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QUESTIONS AND ANSWERS

Q: If the debtor rejects its MOUs, what happens to members' retirement benefits?

A: Untested. Benefits granted to current retirees likely will not be affected. The contract is not "executory" as to them...and benefits are being paid by the retirement fund.

For active employees, the contract is still "executory," BUT...

The "vested rights protected by the 'contract clause' of the federal and state constitutions" argument may prevail. BUT BUT...

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QUESTIONS AND ANSWERS

A, continued:

Don't forget that there is an <u>exception</u> under state laws to the "vested rights" guarantee:

"An employee's vested contractual rights may be modified prior to retirement for the purpose of keeping a pension system flexible to permit adjustments in accord with changing conditions and at the same time maintain the integrity of the system." **Betts v. Bd. of Admin. (CA)**

- **Are the proposed changes reasonable?**
- **Do they bear a material relation to the theory of a pension system?**
- **Will any disadvantage come with a comparable new advantage?**

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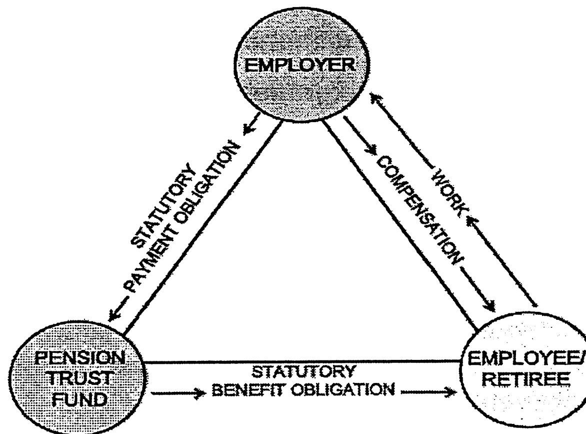
UNDERSTANDING PENSION OBLIGATIONS UNDER CALIFORNIA LAW



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QUESTIONS AND ANSWERS

Q: **May the municipal debtor suspend transferring employee contributions to the retirement system during the Ch. 9 case?**

A: **No. Payroll deductions for retirement contributions are not property of the debtor (employer) but are collected in trust for the retirement system.**

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QUESTIONS AND ANSWERS

Q: **What about employer contributions?**

A: **Very complex and uncertain. There are strong legal reasons why the debtor may not suspend its payments - payments are usually required by statute. *See* CERL secs. 31584, 31585**

At the very least, the "normal cost" portion of the employer contribution should be treated as a current, *post*-filing obligation and would have to be paid timely. *But see San Bernardino.*

The "UAAL" portion of the employer contribution, however, being the amortization of an obligation due to past service, *might* be treated differently.

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QUESTIONS AND ANSWERS

Q: May the municipality suspend its "pick up" of employee contributions while in Ch. 9?

A: No, not unless it rejects the MOU that provides for "pick-up."

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QUESTIONS AND ANSWERS

Q: May the municipality reject its obligations to fund vested benefits?

A: No (in my opinion!) Ch. 9 does not authorize rejection of <u>statutory</u> obligations under state law. Would violate the Tenth Amendment to the U.S. Constitution – reservation of rights to the states.

Fact that state and local governmental systems are exempt from ERISA indicates limitations of federalism in this arena.

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QUESTIONS AND ANSWERS

Q: Do obligations to CERL systems have priority over general obligation bonds?

A: Never been tested. CERL county and district obligations are statutory – if they don't pay, the auditor *must pay out of "any money available in the county (district) treasury."*

General obligation bonds are contractual – some secured by letters of credit or other funds, some unsecured.

Another collision of federal and state laws.

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QUESTIONS AND ANSWERS

Q: Could the municipality freeze or seize retirement system assets in Chapter 9?

A: No. The retirement system is a distinct governmental entity under state law. Its assets are not property of the debtor but rather are held in trust for members and their beneficiaries.

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QUESTIONS AND ANSWERS

Q: Would a municipality's Ch. 9 bankruptcy filing affect the retirement system's assets or investments?

A: No ... but if the municipality delays contributions, it could affect the system's cash flow, asset allocation and earnings assumptions.

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QUESTIONS AND ANSWERS

Q: Could the retirement system make a loan to the municipality during Chapter 9 or under a Plan of Adjustment?

A: It's not prohibited, BUT – likely unlikely:

- **Would have to meet all prudent fiduciary, administrative and investment requirements and the system's Investment Policy Statement.**
- ***If* appropriate, could take the form of an interim or long-term loan, sale-leaseback of property, credit enhancement, extended amortization of UAAL or other creative financing – *with many caveats.***
- ***Watch out for conflicts of interest!***

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QUESTIONS AND ANSWERS

Q: How much would a municipal bankruptcy cost taxpayers?

A: Big bucks! (Not a legal phrase...)

Professionals for the municipality and committees of bondholders, retirees, unsecured creditors, etc. all get paid first.

Plus – higher borrowing costs due to lower credit ratings.

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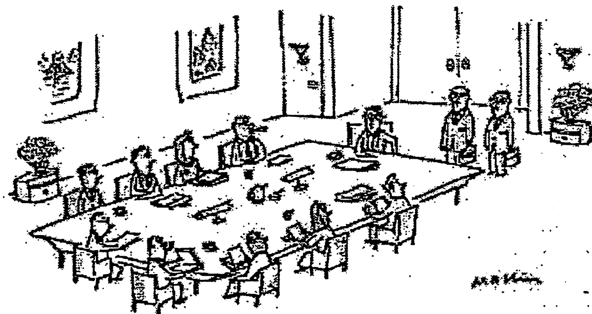

"Would everyone check to see they have an attorney? I seem to have ended up with two."

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Meeting Date
01.22.14
Agenda Item
#8

MEMORANDUM

Date: January 14, 2014

To: CCCERA Board of Retirement

From: Timothy Price, Retirement CIO

Subject: Ceredex Ownership Change

Background

In December, 2013 RidgeWorth Inc., the parent company of Ceredex, entered into an agreement to be acquired by Lightyear Capital, a $3 billion investment firm based in New York. RidgeWorth is currently owned by SunTrust Bank.

As a result of the acquisition, the legal structure of RidgeWorth will be changed from a corporation to an LLC. The acquisition is currently expected to be completed by the second quarter of 2014. Under the Investment Advisers Act of 1940, such a structural change requires the consent of Ceredex investors, including CCCERA.

Recommendation

CCCERA outside counsel has reviewed the consent request and believes that it is appropriate. We recommend that the board direct the CEO to execute the consent request.

MEMO

Meeting Date
01.22.14
Agenda Item
#9

Date: January 22, 2014

To: CCCERA Board of Retirement

From: Marilyn Leedom, Chief Executive Officer

Subject: Vocational Review Expert

Recommendation: Direct CEO to Retain Vocational Review Expert

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CCCERA serves our members, specifically when individual members may have suffered a career altering injury or illness. Disability case review must be fair to all parties, with a balanced, compassionate, and above all, rational approach.

For Tier III disabilities, the CCCERA review process may include sending files to a vocational review expert to determine whether or not the applicant can engage in gainful employment in the future. In the past this analysis has been conducted by an independent reviewer. However, the prior reviewer has left his independent practice to return to County employment.

As mentioned to the Board, we recently sent a Request for Letters of Interest to a listing of qualified individuals and companies who specialize in the vocational review field. The Request included general information regarding the duties to be assumed, confidentiality information and insurance requirements. Three qualified companies responded to our request.

While disability retirement applications requiring additional vocational review can be cyclical in nature, we estimate the total caseload to be between 3 and 12 vocational reviews per year. We currently are holding a few cases for review that will submitted following our introductory informational meeting.

I respectfully request approval from the Board of Retirement to contract with Robert Cottle & Associates, subject to legal review, to perform the vocational review services as needed under the Tier III disability requirements.

Meeting Date
01.22.14
Agenda Item
#10

MEMORANDUM

Date: January 22, 2014

To: CCCERA Board of Retirement

From: Kurt Schneider, Deputy Retirement Chief Executive Officer

Subject: CCCERA Website Redesign

CCCERA's website was first developed as a supplemental way to provide information to members, employers, and the public. Over the last several years websites have become the primary way of providing this information. CCCERA's website is the public face of an organization with over 19,000 active and retired members that manages $6 billion in assets.

Our website is currently maintained by manually editing each page that needs to be updated. The task of posting all necessary information about Board meetings, financial/actuarial reports, pension reform and other news items has become more and more difficult to keep up with under the current website architecture.

In place of the current website, we would like a redesigned, outsourced website that appeals to CCCERA members, participating employers and the general public. We plan on incorporating a streamlined navigational structure that focuses on intuitive user experience. The new website will be built on an easy-to-use content management system (CMS) that will allow for administrative staff to upload new content in a timely manner without programming expertise. Once the website is live we anticipate minimal outside maintenance costs. Future programming needs would be treated as non-investment consulting.

I respectfully request the Board of Retirement authorize staff to issue a Request for Information (RFI) to identify and pre-screen potential contractors to design and implement the redesigned website. Further, I request the Board to authorize staff to contract with an appropriate party, subject to legal review. We anticipate the cost will be between $25,000 and $50,000. The cost of this contract will fall within the 2014 Administrative Budget, under non-investment consulting.

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Meeting Date
01.22.14
Agenda Item
#11

MEMORANDUM

Date: January 13, 2014

To: CCCERA Board of Retirement

From: Timothy Price, Retirement CIO

Subject: Investment Consultant Options

Background

The Board Chair has asked staff to provide a memo discussing the possibility of issuing an RFP for a general investment consultant. Staff has previously reported on personnel changes at our general investment consultant, Milliman, in a memo dated September 4, 2013. The key changes noted in that memo were the impending retirement of our longtime consultant, Bob Helliesen, as well as the departure of Jeff Youngman, who had been part of the Milliman consulting team covering CCCERA until August 2013. As of February 2014, the consulting team covering CCCERA will consist of Marty Dirks and Dorian Young, both relatively new hires by Milliman. These changes were discussed at the September 11, 2013 Board meeting and the Board opted to conduct an on-site visit to determine the capabilities of the Milliman in the wake of these personnel changes.

Board and staff conducted the on-site visit to Milliman's offices in San Francisco on December 5, 2013. The on-site review primarily focused on the organizational structure and personnel at Milliman, but also covered the scope of services currently provided to CCCERA as well as future enhancements under development. The CCCERA attendees included John Philips, Russell Watts, Scott Gordon, Will Pigeon, Marilyn Leedom and Timothy Price.

Possible Courses of Action

As noted in the earlier memo, there are three primary options for the Board to consider.

1. Maintain the long term relationship with Milliman. The Board has already conducted an on-site review with the new consulting team, but may wish to conduct additional reviews if specific concerns arise or remain outstanding.

2. Issue an RFP for a general investment consultant. CCCERA has been well served by our general consultant relationship for nearly 30 years. Staff would recommend that the Board continue to retain a general investment consultant
3. After a final decision is made on the general investment consultant, the Board may wish to issue an RFP for a specialty consultant. Most likely, the specialty consultant would focus on the private market segments (private equity, real estate, some real assets) and would augment the services provide by the general investment consultant.

Conclusion

This memo has been prepared at the request of the Board Chair to facilitate an open discussion on the status of the investment consultant. The options above provide a framework for the Board discussion to proceed. Staff stands ready to assist the Board with the preparation and implementation of an RFP if requested.

Meeting Date
01.22.14
Agenda Item
#12a.

REGISTRATION
Online: www.calaprs.org/content/register
Email: register@calaprs.org
Registration Fee: $100 per system representative

HOTEL ACCOMMODATIONS
The Westin Mission Hills Resort
71333 Dinah Shore Drive
Rancho Mirage, CA 92270

Room Rate: $189.00/night, *plus* $27.00/night resort fee
Phone: 1-877-253-0041 / Group ID: CALAPRS
Online:
https://www.starwoodmeeting.com/Book/CAC01C

Book your room by February 9, 2014 to take advantage of the discounted rate!

Saturday, March 1

4:00pm - 6:00pm Registration Open

Sunday, March 2

10:00am - 5:00pm Registration Open

1:00pm - 1:15pm **Opening Remarks**

1:15pm - 2:15pm **Portfolio Management in the World of Unknown Unknowns**
Speaker: Ben Hunt, *Chief Risk Officer, Salient Partners, L.P.*

2:15pm - 2:30pm Afternoon Break

2:30pm - 3:30pm **What's Asia's Next Growth Engine?**
Speaker: Santiago Millan, *Wellington Management Company, LLP*

5:00pm - 9:00pm Jazzoo & Strolling Dinner at The Living Desert ***(guests welcome; transportation provided)***

Monday, March 3

7:30am- 8:25am Continental Breakfast

8:30am - 8:45am **Opening Remarks & Presentation of the Robert Toigo Award**

8:45am - 9:45am **The Human Side of Investing**
Speaker: Howard Marks, *Founder and Chairman, Oaktree Capital Management*

9:45am - 10:00am Morning Break

10:00am - 11:00am **Operational Due Diligence – Is it For You?**
Speakers: Don Pierce, *CIO, SBCERA* and Dan Levenson, *Partner, Risk Advisory Services, McGladrey LLP*
Moderator: Timothy Price, *CIO, CCCERA*

11:00am - 12:00pm **Investments – Tried and True vs. Complex and New**
Speakers: Robert Maynard, *CIO, PERSI (State of Idaho)* and Christopher Ailman, *CIO, CalSTRS*
Moderator: Robert Helliesen, *Principal, Milliman*

12:00pm - 1:15pm Networking Lunch

1:30pm - 2:45pm **Funding Public Pensions in a Post-GASB World: New Rules and Emerging Guidance**
Speakers: Paul Angelo, *Senior Vice President and Actuary, The Segal Company* and Emily Kessler, *Senior Fellow, Society of Actuaries*
Moderator: Stanley McDivitt, *Retirement Administrator, CFRS*

2:45pm- 3:00pm Afternoon Break

3:00pm - 4:00pm **Setting The Actuarially Assumed Rate of Return – Art or Science?**
Speakers: Allan Martin, *Partner, NEPC, LLC* and Bob McCrory, *Principal Consulting Actuary, Cheiron*
Moderator: Hugo Wildmann, *Retirement System Manager, AC Transit Employes' Retirement System*

5:00pm - 6:00pm Hosted Networking Reception
There are no other schedule events on Monday evening.

Tuesday, March 4

7:30am - 8:25am Continental Breakfast

8:30am - 9:30am **The Retirement Revolution: Implications for Public Retirement Systems**
Speaker: Helen Dennis, *a nationally recognized leader on issues of aging, employment and retirement*

9:30am - 9:45am Morning Break

9:45am - 11:00am **What Should a Trustee Be Asking? - A Panel Discussion**
Moderator: Richard White, *Mendocino County Employees' Retirement Association*

11:00am **Closing Remarks**

Meeting Date 01.22.14
Agenda Item # 12b.

CAPPP® - Employee Pensions - Part II

Thursday, June 5 - Friday, June 6, 2014
Dolce Hayes Mansion, San Jose, CA

Register Online   Register Fax/Mail

The CAPPP® program provides trustees and public sector policy makers with a solid knowledge base in the legal, legislative, plan design and fiduciary aspects of public sector benefit plans.

Faculty are drawn from practitioners in the public sector who are well acquainted with the real issues, allowing rich and current examples of actual situations. Class size is limited in order to foster a personal touch and comprehension.

Flexible enrollment options are available for CAPPP. Part II can be taken before Part I.

Topic Overview

- Plan Design
- Investments
- Administrative Strategies
- Emerging Issues

Key Takeaways

- A cost-effective way to get thorough, on-target information to assist you in policy-making decisions
- An examination of the role of trustees and their relationship to other public benefit plan functions
- Firsthand knowledge shared by leading consultants and practitioners in the public benefits field
- Valuable resource materials for future reference
- An educational benchmark of excellence for the public sector
- A way to test your knowledge through a take-home exam

Registration Includes

- Comprehensive take-home materials
- Valuable written references and resources
- Two continental breakfasts
- Two luncheons
- Beverage breaks

For course content and examination guidelines, call Justin Held, (262) 373-7718; or e-mail justinh@ifebp.org.

Educational sessions at this program may qualify for CEBS continuing professional education (CPE) credit. Visit www.cebscpe.org for more information.

Hotel Information

Please make your reservations directly with the hotel.

Dolce Hayes Mansion
866-981-3300, Option 2
Rate: $169.00 Single/Double Occupancy
Mention International Foundation for special rate until May 12, 2014

Who Should Attend

Training Paths

CAPPP® is designed especially for

- Public sector benefit plan trustees of all levels of experience
- Representatives of public funds of various types, sizes and geographical areas who want a high-level overview
- Individuals who need a comprehensive understanding of public employee plan management at the policy-making level

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All instructors w... handout materi... Pensions Board ... presented was in...

New C...

Registration Information

	Member	Nonmember	
Through 4/24/2014	$965.00	$1,115.00	Register Online
After 4/24/2014	$1,165.00	$1,315.00	Register Fax/Mail
			(#A1-14A2P)

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Marilyn Leedom

From: Sangeeta Kalra <skalra@angelogordon.com>
Sent: Monday, January 13, 2014 8:23 AM
To: Marilyn Leedom
Subject: Save the Date – 2014 Angelo, Gordon & Co.'s Investor Conference

Meeting Date
01.22.14
Agenda Item
#12 c.

Please SAVE THE DATE
Investor Conference 2014
April 9-10, 2014

Dear Marilyn,

Join us for Angelo, Gordon & Co.'s **2014 Investor Conference**, April 9-10 at The Mandarin Oriental, New York.

This year's conference will include discussions on the market environment in the US, Europe and Asia. We will also share our views on investment opportunities across the spectrum of credit, real estate and private equity.

We look forward to seeing you in April.

Sangeeta Kalra | Conference Manager | Angelo, Gordon & Co.

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