CONTRA COSTA COUNTY CCCERA Employees' Retirement Association

AGENDA

RETIREMENT BOARD MEETING

FIRST MONTHLY MEETING August 13, 2014 9:00 a.m.	Retirement Board Conference Room The Willows Office Park 1355 Willow Way, Suite 221 Concord, California

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

1. Pledge of Allegiance.

2. Accept comments from the public.

3. Routine items for August 13, 2014.

   a. Approve certifications of membership.
   b. Approve service and disability allowances.
   c. Accept disability applications and authorize subpoenas as required.
   d. Approve death benefits.
   e. Accept Asset Allocation Report

CLOSED SESSION

4. The Board will go into closed session under Gov. Code Section 54957 to consider recommendations from the Medical Advisor and/or staff regarding the following disability retirement applications:

	Member	Type Sought	Recommendation
a.	Carlos Aguilar	Non-service Connected	Non-service Connected
b.	Lynn Barajas	Non-service Connected	Non-service Connected
c.	Jeff Beaty	Service Connected	Service Connected
d.	Robert McLendon	Service Connected	Service Connected
e.	Kelly Morris	Service Connected	Service Connected
f.	Donald Williams	Service Connected	Service Connected

OPEN SESSION

5. Presentation from Segal Consulting regarding methodologies used for interest crediting on reserves.

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

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.

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7. Presentation from Segal Consulting regarding interest crediting rate on member accounts.

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

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

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

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

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

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

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

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

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

17. Discuss SACRS letter concerning education program on DB plans.

18. Report from staff on semi-annual rebalancing.

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

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

    Trustees Roundtable, CALAPRS, September 12, 2014, Burbank, CA.

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

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CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

August 13, 2014

Items requiring Board Action

Meeting Date
08/13/14
Agenda Item
#3

A. Certifications of Membership – see list and classification forms.

B. Service and Disability Retirement Allowances:

Name	Number	Effective Date	Option Type	Group	Selected
Abrao, Sandra	67911	06/01/14	SR	III	Unmod
Andrews, Paul	46769	03/27/14	SR	S/A	Unmod
Applegate, Mitchell	41384	03/31/14	SR	III	Option 2
Baker, Debra	63628	05/31/14	SR	I	Unmod
Bowers, Rudolph	51394	06/01/14	SR	S/A	Unmod
Buckner, Karen	D3814	08/01/13	SR	I	Unmod
Carter, Matthew	D9990	07/03/13	NSD	I	Unmod
Djajkusuma, Mohammed	55212	05/28/14	SR	S/A	Unmod
Glatt, Patricia	50602	03/30/14	SR	III	Option 1
Gollop, Wendy	56753	03/31/14	SR	III	Unmod
Hill, Timothy	D7274	05/15/14	SR	S/A	Unmod
Jorge, Antoinette	62849	02/01/14	NSD	II & III	Unmod
Manes, Deborah	41519	03/01/14	SR	II & III	Unmod
McCarty-Porter, Molly	63134	06/22/14	SR	III	Option 2
McClease, Georgiana	D3406	06/01/14	SR	I	Unmod
Mello, Yvonne	66532	05/22/14	SR	III	Unmod
Myers, Charolette	39669	07/01/14	SR	I, II & III	Unmod
Neef, Peter	40706	03/29/14	SR	II & S/A	Unmod
Padilla Jr., Raul	56433	06/05/14	SR	III	Unmod
Peterson, John	52763	06/28/14	SR	III	Option 2
Quever, Wanda	31693	05/31/14	SR	III	Option 1
Riordan, Raymond	41846	05/03/14	SR	II	Option 2
Stevens, David	68641	06/04/14	SR	III	Unmod
Stralovich, Michael	54210	04/16/14	SCD	S/A	Unmod
Von Aspern, Kent	D3406	02/01/14	SR	I	Option 2
Williams, Karen	45792	06/12/14	SR	S/A	Unmod

KEY:

Group
I = Tier I
II = Tier II
III = Tier III
S/A = Safety Tier A
S/C = Safety Tier C

Option
* = County Advance Selected w/option

Type
NSP = Non-Specified
SCD = Service Disability
SR = Service Retirement
NSD = Non-Service Disability

C. Disability Retirement Applications: The Board's Hearing Officer is hereby authorized to issue subpoenas in the following cases involving disability applications:

Name	Number	Filed	Type
Wilson, Christopher	69554	07/02/14	SCD
Wisotsky, Phillip	46500	07/07/14	SCD
Pye, Sonya	48109	07/07/14	NSD
Aguilar, Carlos	60055	07/08/14	NSD
Argo, James	71720	07/08/14	SCD
Hunter, Renee	50895	07/21/14	NSD
Hopkins, Matthew	70036	07/22/14	SCD
Wimberly, Sandra	45347	08/01/14	SCD & NSD

D. Deaths:

Name	Date of Death	Employer
Boling, Jeanette	03/12/14	Contra Costa County
Boni, Paul	06/21/14	Contra Costa County
Brinks Jr., William	06/30/14	Contra Costa County
Byl, Hendrika	07/16/14	Beneficiary
Dexter, Robert	07/21/14	Contra Costa County
Keitelman, Frank	07/16/14	Contra Costa County
Kiely, Mary Ann	06/11/14	Beneficiary
Lowary, Esther	07/04/14	Beneficiary
Marlin, Frances	06/19/14	Contra Costa County
Mc Dermott, Louise	07/22/14	Contra Costa County
Mc Donald, Patricia	07/24/14	Contra Costa County
Runge, Alfred	07/15/14	Beneficiary
Rutkowski, Wilma	07/01/14	Contra Costa County
Silva, Jean	07/27/14	Contra Costa County
Smith, William C	07/06/14	Contra Costa County
Thomas, Richard A	07/12/14	Contra Costa County
Valle, Brigida	07/02/14	Contra Costa County
Welsh, Mary Ann	06/10/14	Contra Costa County
Wuerzberger, Helen	06/30/14	Contra Costa County

KEY:

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I = Tier I	* = County Advance Selected w/option	NSP = Non-Specified
II = Tier II		SCD = Service Disability
III = Tier III		SR = Service Retirement
S/A = Safety Tier A		NSD = Non-Service Disability
S/C = Safety Tier C		

Meeting Date
08/13/14
Agenda Item
#3a.

CERTIFICATION OF MEMBERSHIPS

Name	Employee Number	Tier	Membership Date	Employer
Altamirano, Stephanie	80243	P5.3	06/01/14	Contra Costa County
Amanya Eteti, Joelle M	80059	P5.3	06/01/14	Contra Costa County
Anderson, Patricia C	75343	P5.3	06/01/14	Contra Costa County
Assefa Shifa, Meron	80051	P5.3	06/01/14	Contra Costa County
Ballard, Tamara Lynn	80054	P5.3	06/01/14	Contra Costa County
Beath, Lori	63691	P5.3	06/01/14	Contra Costa County
Berry, Ronald G	80111	P5.3	06/01/14	Contra Costa County
Cabrera, Aaron L	80041	P5.3	06/01/14	Contra Costa County
Cain, Michael T	79486	P5.3	06/01/14	Contra Costa County
Camacho, Abigail L	80063	P5.3	06/01/14	Contra Costa County
Capalla, Edward L	80126	P5.3	06/01/14	Contra Costa County
Carrillo, Valeria	80132	P5.2	06/01/14	Contra Costa County
Chafetz, Jay	D9500	P5.3	06/01/14	Superior Courts
Charwathakyi, Dickyi	80062	P5.3	06/01/14	Contra Costa County
Coffin, Leah	76584	P5.3	06/01/14	Contra Costa County
Collett, Debra	80196	P5.3	06/01/14	Contra Costa County
Condrashoff, Donna J	78070	P5.3	06/01/14	Contra Costa County
Conner, Crystal	80134	P5.2	06/01/14	Contra Costa County
Crabtree, Margaret	80198	P5.3	06/01/14	Contra Costa County
Crase, Celeste	45011	III	06/01/14	Contra Costa County
Crowley, Crystal	80217	P5.3	06/01/14	Contra Costa County
Deleonecheverria, Cassandre	80244	P5.3	06/01/14	Contra Costa County
Delorenzo, Blanca	74753	III	06/01/14	Contra Costa County
DeVree, Aubree A	80207	P5.3	06/01/14	Contra Costa County
Dickinson, Ray	78432	P5.3	06/01/14	Contra Costa County
Escano, Jobelle	72451	III	06/01/14	Contra Costa County
Fierner, Kelley	80141	P5.3	06/01/14	Contra Costa County
Freitas, Mary Joanne F (recip)	80048	P5.3	06/01/14	Contra Costa County
Gates, Catherine	80199	P5.3	06/01/14	Contra Costa County
Grant, Phillip	80188	P5.3	06/01/14	Contra Costa County

Key:

I = Tier I	P4.2 = PEPRA Tier 4 (2% COLA)	S/A = Safety Tier A
II = Tier II	P4.3 = PEPRA Tier 4 (3% COLA)	S/C = Safety Tier C
III = Tier III	P5.2 = PEPRA Tier 5 (2% COLA)	S/D = Safety Tier D
	P5.3 = PEPRA Tier 5 (3% COLA)	S/E = Safety Tier E

CERTIFICATION OF MEMBERSHIPS

Name	Employee Number	Tier	Membership Date	Employer
Gray, Chris	80050	P5.3	06/01/14	Contra Costa County
Guerrero, Andrea	77012	P5.3	06/01/14	Contra Costa County
Guiterrez, Cynthia H	80052	P5.3	06/01/14	Contra Costa County
Gularte, John	79932	P5.3	06/01/14	Contra Costa County
Hall, Keith B	79857	P5.3	06/01/14	Contra Costa County
Huffman, Erica A	80049	P5.3	06/01/14	Contra Costa County
Jack, Gail	80182	P5.3	06/01/14	Contra Costa County
Koran, Martin Z	D7830	P4.3	06/01/14	San Ramon Valley Fire
Krause, Katie R	80209	P5.3	06/01/14	Contra Costa County
Lavender, Lindy	74553	P5.2	06/01/14	Contra Costa County
Leung, Stephen	80219	P5.3	06/01/14	Contra Costa County
Luis, Valentino A	80100	P5.3	06/01/14	Contra Costa County
Manasian, Androosh	80128	P5.3	06/01/14	Contra Costa County
Marquez, Leticia A	80109	P5.3	06/01/14	Contra Costa County
McGowan, Chelsea	80242	P5.3	06/01/14	Contra Costa County
Mendiola, Jacqueline	80216	S/D	06/01/14	Contra Costa County
Miyashiro, Marc C	67026	P5.3	06/01/14	Contra Costa County
Morgan, Ryan M	80047	P5.3	06/01/14	Contra Costa County
Mou, Yuehui	79518	P5.3	06/01/14	Contra Costa County
Naser, Rawan T	80072	P5.3	06/01/14	Contra Costa County
Nuchols, Alicia M	80103	P5.2	06/01/14	Contra Costa County
Pathak, Anjana	74654	P5.3	06/01/14	Contra Costa County
Perry, Julie	70162	P5.3	06/01/14	Contra Costa County
Pham, Joseph D	80073	P5.3	06/01/14	Contra Costa County
Pitre, Shamone	80197	P5.3	06/01/14	Contra Costa County
Polivka, Steven C	80135	P5.3	06/01/14	Contra Costa County
Porras, Wendy D	80152	P5.3	06/01/14	Contra Costa County
Pourier, Lester	80181	P5.3	06/01/14	Contra Costa County
Primus, Shanee A	80190	P5.3	06/01/14	Contra Costa County
Rabelas, Celcille	80067	P5.3	06/01/14	Contra Costa County

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III = Tier III	**P5.2 = PEPRA Tier 5 (2% COLA)**	**S/D = Safety Tier D**
	P5.3 = PEPRA Tier 5 (3% COLA)	**S/E = Safety Tier E**

CERTIFICATION OF MEMBERSHIPS

Name	*Employee Number*	*Tier*	*Membership Date*	*Employer*
Ramirez, Brenda G	72825	P5.3	06/01/14	Contra Costa County
Ravelaz, Anna	66764	P5.3	06/01/14	Contra Costa County
Reader, Sally A	79179	P5.3	06/01/14	Contra Costa County
Romero, Cheryl E	80125	P5.3	06/01/14	Contra Costa County
Rubio, Fermin	79651	S/D	06/01/14	Contra Costa County
Ruegg, Dominique C	80212	P5.3	06/01/14	Contra Costa County
Runyan, Jaimi	80218	P5.3	06/01/14	Contra Costa County
Saha Gun, Emerson J	77853	P5.3	06/01/14	Contra Costa County
Salas, Mira K	80200	P5.3	06/01/14	Contra Costa County
Schnabel, Maria O	80106	P5.3	06/01/14	Contra Costa County
Scott, Juliette	78406	P5.3	06/01/14	Contra Costa County
Simmons, Laura O	79402	P5.3	06/01/14	Contra Costa County
Storey, Jenna	80215	P5.3	06/01/14	Contra Costa County
Summers, Rachel	79184	III	06/01/14	Contra Costa County
Tejada, Rouella J	74061	P5.3	06/01/14	Contra Costa County
Vane, Heather N	80113	P5.3	06/01/14	Contra Costa County
Vanhousen, April	80133	P5.2	06/01/14	Contra Costa County
Villanueva-Rasheed, Nelida I	80223	P5.3	06/01/14	Contra Costa County
Viswanathan, Vijayapriya	74866	P5.3	06/01/14	Contra Costa County
Wallace, Ian K	80184	P5.2	06/01/14	Contra Costa County
Wanni Arachchilage, Niluka	74461	III	06/01/14	Contra Costa County
Watson, Rhoda	56095	III	06/01/14	Contra Costa County
Wooten, Nneka A	80204	P5.3	06/01/14	Contra Costa County
Wu, Rebecca	80221	P5.3	06/01/14	Contra Costa County
Zachery, Alisa A	80195	P5.3	06/01/14	Contra Costa County

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III = Tier III	**P5.2 = PEPRA Tier 5 (2% COLA)**	**S/D = Safety Tier D**
	P5.3 = PEPRA Tier 5 (3% COLA)	**S/E = Safety Tier E**

TIER CHANGES

Name	Employee Number	Old Tier	New Tier	Effective Date	Employer	Reason for Change
Lemas, Lauren	79844	P5.3	III	3/1/2014	Contra Costa County	Recip
Villaber, Matt	80070	P5.3	III	5/1/2014	Contra Costa County	Recip
Woodhouse, Brandon	79838	P5.2	III	3/1/2014	Contra Costa County	Recip

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	P5.3 = PEPRA Tier 5 (3% COLA)	S/E = Safety Tier E

ASSET ALLOCATION

Current Assets (Market Value)

$6,789,825,000

Reporting Month End: June 30, 2014

Prepared By: Chih-Chi Chu

Meeting Date 08/13/14
Agenda Item #3e.

	A	B	C	D	C-B	D-A	
	% of Target	Target Assets	Market Value	Actual Assets	Over (Under)	Over (Under)	Range
Robeco	4.5%	305,542,125	308,235,000	4.54%	2,692,875	0.04%	
Jackson Square Partners (fka Delaware)	4.5%	305,542,125	308,827,000	4.55%	3,284,875	0.05%	
Emerald Advisors	3.0%	203,694,750	197,927,000	2.92%	(5,767,750)	(0.08%)	
Intech (Core)	4.3%	291,962,475	297,923,000	4.39%	5,960,525	0.09%	
PIMCO Stock +	4.2%	285,172,650	266,501,000	3.93%	(18,671,650)	(0.27%)	
Ceredex	3.0%	203,694,750	202,732,000	2.99%	(962,750)	(0.01%)	
Total Domestic Equity	23.5%	1,595,608,875	1,582,145,000	23.30%	(13,463,875)	(0.20%)	
Pyrford (BMO)	5.3%	359,860,725	362,558,000	5.34%	2,697,275	0.04%	
William Blair	5.3%	359,860,725	359,348,000	5.29%	(512,725)	(0.01%)	
Total International Equity	10.6%	719,721,450	721,906,000	10.63%	2,184,550	0.03%	
JPMorgan Global Opportunities	4.0%	271,593,000	273,692,000	4.03%	2,099,000	0.03%	
First Eagle	4.0%	271,593,000	280,142,000	4.13%	8,549,000	0.13%	
Artisan Global Opportunities	4.0%	271,593,000	274,300,000	4.04%	2,707,000	0.04%	
Intech (Global Low Volatility)	0.3%	20,369,475	23,075,000	0.34%	2,705,525	0.04%	
Total Global Equity	12.3%	835,148,475	851,209,000	12.54%	16,060,525	0.24%	
Total Equity	**46.4%**	**3,150,478,800**	**3,155,260,000**	**46.47%**	**4,781,200**	**0.07%**	**40% TO 55%**
AFL-CIO Housing Investment Trust	3.2%	217,274,400	215,466,000	3.17%	(1,808,400)	(0.03%)	
PIMCO Total Return	5.0%	339,491,250	340,031,000	5.01%	539,750	0.01%	
GSAM "Park" Portfolio	0.0%	0	4,000	0.00%	4,000	0.00%	
Goldman Sachs Asset Management	4.2%	285,172,650	283,693,000	4.18%	(1,479,650)	(0.02%)	
Lord Abbett	4.2%	285,172,650	285,644,000	4.21%	471,350	0.01%	
Torchlight Debt Opportunity Fund II	1.2%	81,477,900	76,430,000	1.13%	(5,047,900)	(0.07%)	
Torchlight Debt Opportunity Fund III	0.3%	16,974,563	16,857,000	0.25%	(117,563)	(0.00%)	
Torchlight Debt Opportunity Fund IV	1.0%	67,898,250	42,254,000	0.62%	(25,644,250)	(0.38%)	
Torchlight Debt Opportunity Fund V	0.6%	37,344,038	0	0.00%	(37,344,038)	(0.55%)	
Total Domestic Fixed Income	19.6%	1,330,805,700	1,260,379,000	18.56%	(70,426,700)	(1.04%)	
Lazard Asset Management	4.0%	271,593,000	273,594,000	4.03%	2,001,000	0.03%	
Total Global Fixed Income	**23.6%**	**1,602,398,700**	**1,533,973,000**	**22.59%**	**(68,425,700)**	**(1.01%)**	**20% TO 30%**
Allianz Global Investors (fka Nicholas Applegate)	5.0%	339,491,250	331,833,000	4.89%	(7,658,250)	(0.11%)	
Total High Yield Fixed Income	**5.0%**	**339,491,250**	**331,833,000**	**4.89%**	**(7,658,250)**	**(0.11%)**	**2% TO 9%**
Wellington Real Total Return	0.8%	50,923,688	207,923,000	3.06%	156,999,313	2.31%	
PIMCO All Asset	1.8%	118,821,938	118,666,000	1.75%	(155,938)	(0.00%)	
Private Real Asset	2.5%	169,745,625	20,961,000	0.31%	(148,784,625)	(2.19%)	
Total Real Asset	**5.0%**	**339,491,250**	**347,550,000**	**5.12%**	**8,058,750**	**0.12%**	**0% TO 10%**
Total Real Estate	**12.5%**	**848,728,125**	**885,501,000**	**13.04%**	**36,772,875**	**0.54%**	**10% TO 16%**
Total Alternative Investments	**6.5%**	**441,338,625**	**470,943,000**	**6.94%**	**29,604,375**	**0.44%**	**5% TO 12%**
County Treasurer				0.00%			
State Street Bank			33,640,000	0.50%			
Total Cash & Equivalents	**0.5%**	**33,949,125**	**33,640,000**	**0.50%**	**(309,125)**	**(0.00%)**	**0% TO 1%**
Oaktree 2009	0.5%	33,949,125	31,125,000	0.46%	(2,824,125)	(0.04%)	
Total Market Opportunities	**0.5%**	**33,949,125**	**31,125,000**	**0.46%**	**(2,824,125)**	**(0.04%)**	**0% TO 5%**
TOTAL ASSETS	**100.0%**	**6,789,825,000**	**6,789,825,000**	**100%**	**0**	**0%**	

UNDER REVIEW:

Adelante - Performance, Board Action 05/22/13

Nogales Investors - Performance, Board Action 05/28/08

Lord Abbett - Personnel, Board Action 10/20/13

PIMCO - Organization & Personnel, Board Action 2/12/14

Real Estate & Alternative Investments
As of June 30, 2014

REAL ESTATE INVESTMENTS	Inception Date	Target Termination	# of Extension	Discretion by GP/LP	New Target Termination	Funding Commitment	Market Value	% of Total Asset	Outstanding Commitment
DLJ Real Estate Capital Partners, L.P. II	07/31/99	07/31/09	3rd 2 YR	LP	6/30/2015	40,000,000	3,722,000	0.05%	
DLJ Real Estate Capital Partners, L.P. III	06/30/05	06/30/14	1st 2 YR	GP	6/30/2016	75,000,000	47,196,000	0.70%	18,958,000
DLJ Real Estate Capital Partners, L.P. IV	12/31/07	09/30/16				100,000,000	84,066,000	1.24%	19,476,000
DLJ Real Estate Capital Partners, L.P. V	07/31/13	12/31/22				75,000,000	26,799,000	0.39%	48,201,000
Hearthstone Partners I	06/15/95	12/31/03				3,750,000	74,000	0.00%	
Hearthstone Partners II	06/17/98	12/31/09				6,250,000	(13,000)	0.00%	
Invesco IREF I	10/22/03	04/30/11				50,000,000	9,665,000	0.14%	
Invesco IREF II	05/30/07	12/31/15				85,000,000	41,942,000	0.62%	
Invesco IREF III	08/01/13	08/01/21				35,000,000	24,522,000	0.36%	12,958,000
Long Wharf FREG II	07/18/03	02/28/12	NOT DEF	LP	12/31/2014	50,000,000	3,942,000	0.06%	
Long Wharf FREG III	03/30/07	12/30/15				75,000,000	32,321,000	0.48%	
Long Wharf FREG IV	08/14/12	09/30/21				25,000,000	11,267,000	0.17%	14,833,000
Oaktree Real Estate Opportunities Fund V	12/15/11	12/31/16				50,000,000	58,344,000	0.86%	
Oaktree Real Estate Opportunities Fund VI	09/30/13	09/30/20				80,000,000	57,719,000	0.85%	29,682,000
Siguler Guff Distressed Real Estate Opp. Fund	12/31/11	12/31/16				75,000,000	69,277,000	1.02%	22,518,000
Siguler Guff Distressed Real Estate Opp. Fund I	08/31/13	08/31/20				70,000,000	14,700,000	0.22%	70,700,000
Paulson Real Estate Fund II	11/10/13	11/10/20				20,000,000	11,476,000	0.17%	8,523,000
Angelo Gordon Realty Fund VIII	12/31/11	12/31/18				80,000,000	61,223,000	0.90%	22,145,000
LaSalle Income & Growth Fund VI	01/31/12	01/31/19				75,000,000	40,067,000	0.59%	34,485,000
Adelante Capital Management (REIT)						0	180,032,000	2.65%	
INVESCO International REIT						0	97,160,000	1.43%	
Willows Office: $10,774,100 ***						0	10,000,000	0.15%	
						1,175,000,000	885,501,000	13.04%	302,479,000
	Outstanding Commitments						302,479,000		
	Total						1,187,980,000		

*** Purchase price $10,600,000 plus acquisition cost and fees $174,100.

PRIVATE DEBT INVESTMENTS	Inception Date	Target Termination	# of Extension	Discretion by GP/LP	New Target Termination	Funding Commitment	Market Value	% of Total Asset	Outstanding Commitment
ING Clarion Commercial Mortgage Fund II	09/28/06	09/30/14				128,000,000	76,430,000	1.13%	
ING Clarion Commercial Mortgage Fund III	09/30/08	09/30/16				75,000,000	16,857,000	0.25%	
Torchlight Commercial Mortgage Fund IV	08/01/12	08/30/20				60,000,000	42,254,000	0.62%	9,143,000
						263,000,000	135,541,000	2.00%	9,143,000
	Outstanding Commitments						9,143,000		
	Total						144,684,000		

Real Estate & Alternative Investments
As of June 30, 2014

ALTERNATIVE INVESTMENTS	Inception Date	Target Termination	# of Extension	Discretion by GP/LP	New Target Termination	Funding Commitment	Market Value	% of Total Asset	Outstanding Commitment
Adams Street Partners	12/22/95	INDEFINITE				180,000,000	109,386,000	1.61%	118,648,000
Adams Street Secondary II	12/31/08	12/31/20				30,000,000	30,465,000	0.45%	13,283,000
Adams Street Secondary V	10/31/12	10/31/22				40,000,000	9,269,000	0.14%	30,432,000
Pathway	11/09/98	05/31/21				125,000,000	73,939,000	1.09%	18,249,000
Pathway 2008	12/26/08	12/26/23				30,000,000	20,391,000	0.00%	11,493,000
Pathway 6	05/24/11	05/24/26				40,000,000	13,612,000	0.00%	28,199,000
Pathway 7	02/07/13	02/07/28				70,000,000	6,880,000	0.00%	63,478,000
Siguler Guff CCCERA Opportunities	06/03/14	05/31/25				200,000,000	2,280,000	0.00%	197,720,000
EIF USPF I	11/08/02	11/08/12	3rd 1YR	LP	11/08/15	30,000,000	850,000	0.01%	0
EIF USPF II	06/15/05	06/15/15				50,000,000	42,099,000	0.62%	0
EIF USPF III	02/28/07	02/28/17				65,000,000	49,216,000	0.72%	0
EIF USPF IV	06/28/10	06/28/20				50,000,000	16,681,000	0.25%	28,979,000
Nogales Investment	02/15/04	02/15/14			UNTIL LIQ	15,000,000	3,346,000	0.05%	1,651,000
Bay Area Equity Fund	06/14/04	01/15/13	1st 2 YR	LP	1/15/2015	10,000,000	22,630,000	0.33%	0
Bay Area Equity Fund II	2/29/09	12/31/17				10,000,000	8,769,000	0.13%	2,338,000
Paladin III	11/30/07	12/31/17				25,000,000	17,332,000	0.26%	2,603,000
Carpenter Community BancFund	01/31/08	01/31/16				30,000,000	37,659,000	0.55%	6,032,000
Ocean Avenue Fund II	06/11/14	05/31/24				30,000,000	6,139,000	0.09%	21,761,000
						1,030,000,000	470,943,000	6.21%	544,866,000
Outstanding Commitments							544,866,000		
Total							1,015,809,000		

OPPORTUNISTIC INVESTMENTS	Inception Date	Target Termination	# of Extension	Discretion by GP/LP	New Target Termination	Funding Commitment	Market Value	% of Total Asset	Outstanding Commitment
Oaktree Private Investment Fund 2009	02/28/10	01/31/17				40,000,000	31,125,000	0.46%	5,163,000
Outstanding Commitments							5,163,000		
Total							36,288,000		

REAL ASSET INVESTMENTS	Inception Date	Target Termination	# of Extension	Discretion by GP/LP	New Target Termination	Funding Commitment	Market Value	% of Total Asset	Outstanding Commitment
Commonfund Capital Natural Resources IX	06/30/13	06/30/20				50,000,000	8,034,000	0.12%	41,500,000
Aether III & III Surplus	11/30/13	11/30/20				75,000,000	12,927,000	0.19%	65,828,000
						125,000,000	20,961,000	0.31%	107,328,000
Outstanding Commitments							107,328,000		
Total							128,289,000		

Market value column is the latest ending quarter plus any additional capital calls after the ending quarter.
The Target Termination column is the beginning of liquidation of the fund, however, some funds may be extended for an additional two or three years.

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100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

Meeting Date
08/13/14
Agenda Item
#5

August 6, 2014

Mr. Kurt Schneider
Deputy Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Methodologies Used for Interest Crediting on Reserves

Dear Kurt:

As requested, we are providing information concerning Board policy decisions related to certain methodologies for interest crediting on reserves. We discuss the following two methodologies that the Board could potentially act on related to interest crediting on reserves:

1. The application of the semi-annual interest rate to be used in crediting reserves on every June 30 and December 31.

2. The effective date that the new investment return assumption is implemented for the purpose of crediting reserves when there is a change in the actuarial valuation investment return assumption.

SEMI-ANNUAL INTEREST RATE

The Association credits interest to the reserves and member contribution accounts semi-annually on every June 30 and December 31. Interest is based on the actuarial investment return assumption, which is an annual rate. The current policy is to credit using one-half of the (annual) actuarial investment return assumption when crediting the reserves (including member contributions) every six months. For example, currently the actuarial investment return assumption applicable to interest crediting during the 2014-15 fiscal year is 7.25%. The Association therefore would credit the reserves with a 3.625% rate (half of 7.25%) on December 31, 2014 and then another 3.625% on June 30, 2015. Because of the effect of compounding, the annual effective interest rate that would actually be credited for the entire year would be 7.38% (1.03625 x 1.03625 - 1), which is higher than the investment return assumption of 7.25% per annum.

Another possible alternative approach that could be used is to credit the reserves with the semi-annual compounded rate that would result in an annual effective rate that equals the investment return assumption. Using the same example as above, a semi-annual interest crediting rate of 3.5616% would result in an equivalent annual interest crediting rate of 7.25% (1.035616 x 1.035616 – 1). The advantage of this method is that the interest the reserves receive on an annual basis would be consistent with the actuarial investment return assumption.

In the actuarial valuation, we use the smoothed valuation value of assets to compare with the actuarial liabilities in order to calculate employer contribution rates towards the Unfunded Actuarial Accrued Liability (UAAL). The reserve crediting generally does not have a direct impact on the valuation value of assets but it does affect the reserve values and the Contra Tracking Account. However, the interest crediting rate applied to the member contributions would impact the amount of refund members will receive if they terminate employment and elect to withdraw their contributions. Some pre- and post-retirement death benefits and benefits paid under Option 1 will also be affected. In general, the alternative method would result in a slightly smaller member contribution account and therefore a slightly smaller benefit due to refunds or some pre- and post-retirement death benefits. It would also result in a slightly smaller Contra Tracking Account.

With respect to the employer contribution rates, we expect a very slight decrease because of a smaller liability due to refunds. Also, we would expect that the refundability factor could change very slightly which leads to a minor change in contribution amounts for the employer when they "subvent" part of the member contribution rate. Overall, the changes in employer rate and refundability factors due to these effects are de minimis.

EFFECTIVE DATE OF NEW INTEREST RATE

When the Board adopts new actuarial assumptions to be used in the actuarial valuation, there is an 18-month delay between the actuarial valuation date and the date those assumptions are implemented. In particular, the contribution rates based on the new actuarial assumptions are effective 18-month from the valuation date. Also, a change in the actuarial assumptions for either the investment return or mortality assumptions would require a change to the actuarial factors used in converting the unmodified benefit to other optional forms. The effective date to apply these new actuarial factors is also 18 months after the valuation date. There are various reasons for the 18-month delay that involve timing of the annual actuarial valuation, employer budgeting and administrative feasibility.

Currently, this 18-month delay also applies to the effective date to credit the reserves with the new interest rate and also to use it in the asset smoothing calculation. For example, the Board adopted the new actuarial investment return assumption of 7.25% in the December 31, 2012 actuarial valuation. However, the Association will not be using this new 7.25% rate to credit the reserves or in the asset smoothing calculation until July 1, 2014.

In the actuarial valuation, we in effect assume that the fund would earn 7.25% starting from January 1, 2013. Therefore, for the three six-month periods before the Association would start actually crediting the new 7.25% interest rate (January 1, 2013 through June 30, 2013, July 1, 2013 through December 31, 2013 and January 1, 2014 through June 30, 2014), the valuation assumes an expected annual market return of 7.25%. However, the reserves would actually have been credited based on the 7.75% rate and that same rate would have been used in the asset smoothing calculation for the actuarial value of assets. Since we only use the total reserves after reflecting the Contra Tracking Account, the effect of the delay on the interest crediting of reserves would not have any impact on the contribution rates. However, the mismatch between what is assumed to be earned and what is being used in the smoothing calculation for the actuarial value of assets does create a small actuarial gain or loss which is amortized over 18 years.

Conclusion

We believe that it would be reasonable for the Board to change the methodology for the rate of interest that is credited to reserves to be the semi-annual compounded rate that would result in an annual rate that equals the investment return assumption. Based on the 7.25% investment return assumption, the semi-annual crediting rate would be 3.5616%.

In addition, if the Board wants to eliminate the specific actuarial gains and losses associated with the 18-month delay that applies to the effective date for the new interest rate used to credit the reserves and for the asset smoothing calculation, then the most direct way would be to make the new interest rate effective with the interest crediting period that follows the valuation date for which the new investment return assumption is effective.

As in all matters pertaining to the interpretation and application of the law or Plan provisions, you should be guided by the advice of the Plan's Legal Counsel.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any comments or questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

John Monroe
John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary

EY/hy

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

Meeting Date
08/13/14
Agenda Item
#7

August 6, 2014

Mr. Kurt Schneider
Deputy Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Contra Costa County Employees' Retirement Association
Interest Crediting Rate on Member Contributions

Dear Kurt:

This letter responds to your request for information concerning Board policy decisions related to the interest crediting rate on Member contributions.

Current Policy and Impact on Benefits and Contribution Rates

Current Board policy is that Member contributions are credited with interest at a rate equal to the actuarial investment return assumption. This rate is credited independent of what investment return is actually earned by CCCERA.

The interest crediting rate applied to member contributions impacts the amount of refund members will receive if they terminate employment and elect to withdraw their contributions. Other benefits affected are some of the pre- and post-retirement death benefits, including benefits paid under Option 1. In addition, it affects the amount charged when a Member redeposits their contributions.

As far as the effect on employer contribution rates, we note first that anything that changes the benefits being paid out by the system will to some extent also change the cost of the system. In this case, a change to the member interest crediting rate would lead to slightly different benefit payments (as just described) and, therefore to very slightly different employer contribution rates. Also, we would expect that the refundability factors could change very slightly which leads to a minor change in contribution amounts for the employer when they "subvent" part of the member contribution rate. Overall, the change in employer rate and refundability factors due to these effects are *de minimis* considerations.

Note that part of Section 31453(a) of the Government Code (quoted below) appears to grant the Board authority to adopt a member interest crediting rate that is different than the actuarial investment return assumption, however we defer to CCCERA's legal counsel regarding the interpretation of this section.

> *"With respect to the rates of interest to be credited to members and to the county or district, the board may, in its sound discretion, recommend a rate which is higher or lower than the interest assumption rate established by the actuarial survey."*

Board Policy Questions

Broadly, there are two policy issues regarding the rate for crediting interest on Member contributions:

(1) Should the member crediting rate be based on the assumed earnings rate or on a current (external) market savings account rate

(2) Should the member crediting rate be independent of actual earnings, or should it be limited to actual CCCERA investment earnings in each period

We believe that these issues lead to three realistic policy options that the Board could consider for crediting interest on Member contributions:

(A) Continue current policy of crediting the actuarial investment return assumption regardless of actual CCCERA investment earnings

(B) Credit the actuarial investment return assumption with a limit that is based on actual CCCERA investment earnings on an actuarial value basis

(C) Credit a market or savings based rate to Member contributions regardless of actual CCCERA investment earnings

For reference, the table below shows the survey results for the various member interest crediting options used by fifteen of the 1937 Act county retirement systems:

Policy	Fixed Rate	Actual Investment Earning on an Actuarial Value Basis	Market or Savings based Rate	Actuarial Investment Return Assumption
Number of systems	2	3	4	6

We will first address the issue of whether the member crediting rate should be based on the actuarial investment return assumption or a market based savings rate.

Setting the Basic Member Crediting Rate

Historically, 1937 Act systems have credited the actuarial investment return assumption to Member contributions. Only recently have some boards established rates for Member contributions that are lower than the assumed rate. Setting a lower rate is consistent with a philosophy that:

- The primary purpose of the system is to provide retirement benefits to members and not to serve as a savings depository for shorter-term members; and

- Member contributions should receive interest at a rate consistent with that available from savings deposits in the marketplace.

The decision on what rate to use for crediting interest on Member contributions is really a plan design issue. This decision should be driven by the amount of benefits the Board believes should be paid to those Members who terminate and elect a refund of contributions, some pre- and post-retirement benefits, or Option 1 benefits. However, as noted above, this will also affect the amount of contributions collected from Members that are making a redeposit.

If the Board wants to use the assumed actuarial investment return to credit Member contributions as compared to a market based rate, then higher amounts of the above mentioned benefits will be paid and higher amounts of contributions collected from Members that are making a redeposit. If a variable market or savings based rate is used, then the interest rate credited to member accounts would change frequently, but would still be fairly straightforward to administer. Note that the interest rates that the Member is charged on redeposits would be known at the time of the redeposit as those rates would be based on the rates through the six-month period ending on June 30 or December 31 prior to the redeposit.

On a side note, we would recommend that the actuarial investment return assumption continue to be used to calculate the installment payments whenever a service purchase contract is initiated since the interest charged for the installment payments is essentially to account for the time value of money.

Member Crediting Rate vs. Actual Fund Earnings

Once the Board has decided on whether to use the actuarial investment return assumption or a market based rate, then the next key board policy question is whether the chosen rate of interest should be credited to member contributions regardless of the fund's actual earnings. Using such a "fixed" rate[1] would follow from a board philosophy that interest credits on member contributions are in fact benefit accruals, and benefit accruals should not depend upon the fund's actual investment results. Such a philosophy may be appealing given the basic structure of 1937 Act systems as defined benefit plans.

[1] Note that both the actuarial assumptions and the market savings rates vary over time so are not really "fixed". Here we use fixed to mean "not limited to actual earnings".

This question draws special attention in times of low or even negative investment earnings. Does it make sense to credit the member accounts with more earnings than the fund actually earned, especially if the fund actually incurs losses? As noted above, the defense would be to view these interest credits as a form of benefit accrual. Just as members accrue service independent of the fund's year-to-year earnings, so the member's accounts would grow at a fixed interest rate, independent of actual earnings.

However, if the Board chooses to credit the actuarial investment return assumption to Member contributions then the member is already receiving an advantage over what savings accounts could earn. For that reason, if the actuarial rate is used then we would recommend that the Board consider a cap or limit based on CCCERA's actual earnings. Under this approach we would recommend basing the limit on the return on actuarial value so as to introduce some stability in the member crediting rate. This approach is listed above as policy option B.You may have noticed that we did not include a policy option to credit a market or savings based rate to Member contributions with a limit that is based on actual CCCERA investment earnings on an actuarial value basis. If the Board chooses to credit a market based rate to Member contributions, then we believe that <u>not</u> including a cap or limit based on CCCERA's actual earnings would be most consistent with the philosophy that leads to the use of a market rate.

Impact on Reserves

When interest is credited to Member reserves at a member interest crediting rate lower than the actuarial investment return assumption, then any difference between the rates should be credited to some other valuation reserve. This is done so that the total valuation reserves are credited with the full valuation earnings assumption. There are a few different ways that this can be handled.

In our experience with 1937 Act systems that use a market based interest crediting rate for Member contributions, the difference between the actuarial investment return assumption and the rate actually credited is credited to another reserve such as the Employer Advance Reserve. This difference is sometimes called the "make-up" credit and is not available to the member who elects a refund upon termination nor is it treated as being part of the member contribution account for any other calculations. We recommend that this difference be credited to the Employer Advance Reserve because that reserve is more of a "balancing" item that is not linked to any other value (unlike the Retired Member or Member Deposit Reserves).

We understand that there is at least one system that credits a rate lower than the actuarial investment return assumption to member contributions for refunds paid to a member who terminates employment. For some other purposes (e.g., transfers to Retired Member Reserves or calculation of Option 1 benefits), the member contributions are credited with the full actuarial investment return assumption. In effect this means that two member contribution accounts are tracked for each member (one is the refundable amount based on the lower rate and the other is the nonrefundable amount based on the actuarial rate). Using this method would involve a more significant administrative burden as both the refundable and nonrefundable portion of the member accounts would need to be tracked and the correct one applied. Also, we would need to determine which reserve balance is used in the interest crediting and excess earnings policy.

In the situation where there is a cap or limit on the rate to be credited, in years where the cap applies (i.e. the actual actuarial value investment return is less than the assumption), then the difference would be credited to some valuation reserve (just like the "make up" credit described above, and an identical, offsetting amount tracked in the Contra Tracking Account. The details on how to implement the reserving mechanics can be determined based upon what is adopted by the Board.

Conclusion

We do not believe that there is a significant financial advantage to the system from making a change to the rate at which interest is credited to Member contributions since the interest credited to Member contributions affects both (1) the benefits paid out of the system for those Members who terminate and elect a refund of contributions, some pre- and post-retirement benefits, etc. and (2) the amount of contributions collected from Members that are making a redeposit. This is because the benefits paid and the amounts collected will both move in the same direction as the crediting rate and so will offset each other to some extent. However, we anticipate that the savings from item (1) will be greater than the cost increase from item (2).

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please give us a call if you have any questions.

Sincerely,

Paul Angelo, FSA, MAAA, FCA
Senior Vice President & Actuary

John Monroe, ASA, MAAA, EA
Vice President & Associate Actuary

JR/hy

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THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

Meeting Date
08/13/14
Agenda Item
#9

August 5, 2014

Mr. Kurt Schneider
Deputy Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Leave Cashout (Terminal Pay) Assumptions for Non-PEPRA members for the December 31, 2013 Actuarial Valuation

Dear Kurt:

We are proposing new leave cashout assumptions that would replace the current terminal pay assumptions for all Non-PEPRA members. These new assumptions are based on the recent court ruling requiring CCCERA to implement AB 197 and changes that the CCCERA Board made to eliminate "straddling". Note that for purposes of this letter and the annual actuarial valuation we have historically used "terminal pay" as a broad term that includes such items as vacation sellbacks, administrative leave sellbacks and terminal pay items during the final average pay period. We will now be using the new term "leave cashouts" when describing the new assumption as it is more consistent with the items above that will occur during the final average earning period on a prospective basis.

BACKGROUND

In 1997 the Board adopted a policy that determined which pay items are considered compensation for retirement purposes. Under that policy, various types of terminal pay were included in the determination of compensation for retirement purposes. As of the December 31, 2012 actuarial valuation, this policy applies to members with membership dates before January 1, 2011.

In March 2010, the Board adopted a change to this policy for members with membership dates on or after January 1, 2011[1]. Under this amended policy, certain terminal pay elements are no longer included in the determination of compensation for retirement purposes.

---

[1] Note that as a result of the passage of the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), terminal pay would no longer be considered in determining Pensionable Compensation for members covered by the CalPEPRA plans.

CURRENT TERMINAL PAY ASSUMPTIONS

Based on our experience study for the period from January 1, 2010 through December 31, 2012, the Board had previously adopted the following terminal pay assumptions shown below for members with membership dates before January 1, 2011 and for members with membership dates on or after January 1, 2011 but before January 1, 2013 who are under the new policy.

The following assumptions for terminal pay as a percentage of final average pay were used in the December 31, 2012 actuarial valuation for non-PEPRA members.

	Membership Date before January 1, 2011	Membership Date on or after January 1, 2011 but before January 1, 2013
Cost Group 1:	12.50%	3.00%
Cost Group 2:	4.00% for Tier 2 8.00% for Tier 3	1.00%
Cost Group 3:	24.00%	8.75%
Cost Group 4:	5.75%	0.75%
Cost Group 5:	11.50%	2.75%
Cost Group 6:	9.00%	2.25%
Cost Group 7:	12.00%	1.50%
Cost Group 8:	10.50%	1.25%
Cost Group 9:	4.00%	0.50%
Cost Group 10:	13.00%	1.50%
Cost Group 11	14.00%	3.50%
Cost Group 12:	15.50%	6.25%

RECENT EVENTS

On September 12, 2012, the Governor signed into law Assembly Bill 197, with an effective date of January 1, 2013. The measure changed how county retirement boards were permitted to calculate their current members' retirement allowances. For CCCERA, this would effectively make members with membership dates before January 1, 2011 subject to the policy that currently applies to members with membership dates on or after January 1, 2011.

We understand that the Contra Costa County Superior Court has entered a judgment in the litigation and a Writ directing CCCERA to proceed to comply with AB 197. However, the matter was appealed and a request was filed on June 9, 2014 with the Court of Appeal for an immediate "stay" of the Superior Court's ruling. On June 30, 2014, the Court of Appeal issued an order denying the request for an additional stay. Therefore, we understand that CCCERA is required to implement the AB 197 changes in calculating benefits for all retirements with an effective date of July 12, 2014 or later. Note that a final resolution of this issue in the courts could take several years.

At its July 9th meeting, the Board decided that the December 31, 2013 valuation should be done assuming that AB 197 will be implemented according to the judge's final ruling, regardless of the fact that the appeal is ongoing.

In addition, the Board decided to discontinue allowing a practice called "straddling" where employees could time their leave cashouts so that two leave cashouts would occur during their 12-month final average earnings period. The Board decided that only one such payment should be included on a prospective basis.

CCCERA provided us with updated leave cashout information for actual retirements during the period from January 1, 2010 through December 31, 2012 (the same period over which information was collected for the last experience study). That information reflects the hypothetical impact of AB 197 and the discontinuation of "straddling" on those members. Based on that information, we are recommending new leave cashout assumptions for all non-PEPRA members that would be used in the December 31, 2013 actuarial valuation.

Proposed Leave Cashout Assumptions

The first column of numbers in the table below shows the hypothetical leave cashout experience (as a percentage of final average pay) based on the data provided to us. The second column contains the new leave cashout assumptions as a percentage of final average pay that we propose be used in the December 31, 2013 actuarial valuation for non-PEPRA members. These assumptions are all lower than the current assumptions for members with membership dates on or after January 1, 2011.

	Hypothetical Experience	Proposed Assumption
Cost Group 1:	1.59%	1.50%
Cost Group 2:	0.63% for Tier 2	0.50% for Tier 2
	0.77% for Tier 3	0.75% for Tier 3
Cost Group 3:	6.84%	6.50%
Cost Group 4:	0.23%	0.25%
Cost Group 5:	1.56%	1.50%
Cost Group 6:	0.00%	1.25%
Cost Group 7:	0.74%	0.75%
Cost Group 8:	0.64%	0.75%
Cost Group 9:	0.00%	0.25%
Cost Group 10:	1.32%	1.50%
Cost Group 11	2.96%	3.00%
Cost Group 12:	3.49%	3.50%

COST IMPACT

We have estimated the impact of proposed leave cashout assumption changes as if they were applied to the December 31, 2012 actuarial valuation. If the leave cashouts assumptions were implemented, the average employer rate would have decreased by 4.2% of compensation, where the Normal Cost rate decreased by 1.9% and the Unfunded Actuarial Accrued Liability (UAAL) amortization rate decreased by 2.3%. The average member rate would have decreased by 0.3% of compensation. The UAAL would have decreased by about $200 million.

Unless otherwise noted, this cost estimate was made using generally accepted actuarial practices and is based on the December 31, 2012 actuarial valuation, including the participant and actuarial assumptions upon which that valuation was based. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions, and we look forward to discussing this with the Board.

Sincerely,

John Monroe

Paul Angelo, FSA, EA, MAAA
Senior Vice President and Actuary

John Monroe, ASA, EA, MAAA
Vice President and Associate Actuary

AW/bqb

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

Meeting Date
08/13/14
Agenda Item
#10

August 6, 2014

Mr. Kurt Schneider
Deputy Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Application of Leave Cashout Assumptions in the Development of Member Contribution Rates

Dear Kurt:

As requested by CCCERA, we are providing information regarding a long-standing practice at CCCERA that is followed by Segal (and CCCERA's prior actuary) as to how the leave cashout (formerly terminal pay) assumptions are reflected in the development of the member contribution rates in the actuarial valuation. Note that all results in this letter are based on the proposed leave cashout assumptions for all non-PEPRA members in our letter dated August 5, 2014.

In particular, we have been following the same method used by the prior actuary (presumably applied by them since CCCERA's Paulson Settlement) to reflect leave cashouts at retirement when establishing member contribution rates. For this discussion, "leave cashouts" refer to the cashing out of accumulated annual vacation leave or compensatory time off both earned and available to be cashed out during the final average salary measuring period. The methods – both current and alternative – available to be used to reflect leave cashouts in determining member rates are described in this letter.

BACKGROUND

As a result of CCCERA's Paulson Settlement, leave cashouts count as compensation earnable for use in determining retirement benefits for current legacy members[1].

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1 Note that as a result of the passage of the California Public Employees' Pension Reform Act of 2013 (CalPEPRA), leave cashouts would no longer be considered in determining pensionable compensation for members covered by the CalPEPRA plans.

While there are separate and specific procedures outlined in the County Employees Retirement Law (CERL) of 1937 that public plan actuaries have followed in determining member basic and COLA contribution rates, those procedures were not modified by the legislature after the Paulson Settlement and Ventura Decision in order to clarify how elements of salary that emerge primarily during the final salary averaging period immediately preceding retirement should be treated in determining member basic and COLA contribution rates. As a result, some retirement systems that entered into settlement agreements (including CCCERA) have continued to follow the same procedures used before the Paulson Settlement Agreement to establish member basic and COLA contribution rates. Those procedures are detailed in Attachment A of this letter.

Actuarial assumptions as to expected leave cashout amounts are applied in developing <u>employer</u> contribution rates (basic and COLA) as well as the <u>member COLA</u> contribution rates. However, the additional leave cashout assumptions are <u>not</u> applied in developing <u>member basic</u> contribution rates. A more detailed discussion of all the assumptions that apply in the development of each of the basic and COLA member rates is provided in Attachment A.

It is our recollection that this difference in treatment for the leave cashout assumptions originated from informal discussions among public plan actuaries shortly after the settlement agreements, as well as discussions between those actuaries and their client systems. During those discussions, concerns were expressed that it might not be equitable to apply the same additional leave cashout assumptions (which are based on aggregate plan experience) used in developing employer rates when calculating the individual entry age based basic member rates.

One consideration was that female members might reach retirement with lower levels of accumulated leave as compared to male members. Another consideration was that members entering at younger ages could have more service at retirement and so might have higher leave cashouts at retirement. These considerations are not a concern when setting the employer rates where average experience is pooled across all members of a cost group. However, basing the basic member rates on average leave cashout experience would potentially overcharge (or undercharge) categories of members with generally smaller (or larger) levels of additional leave cashout.

As a result, the leave cashout assumptions were not applied in developing the basic member rates at some 1937 Act systems. Note that (as detailed in Attachment A) even for these systems the <u>member COLA</u> rates did reflect the leave cashout assumptions because, under the 1937 CERL, they are based on the <u>employer COLA</u> rates that do reflect the leave cashout assumption.

It is our understanding that since the settlement agreements many 1937 CERL systems that originally excluded the leave cashout assumption from the basic member rate calculation now include that assumption. To our knowledge, systems that continue to exclude this assumption include CCCERA and VCERA.

LEAVE CASHOUT ASSUMPTIONS

The following assumptions for leave cashout as a percentage of final average pay are proposed in our letter dated August 5, 2014 for use in the December 31, 2013 actuarial valuation for non-PEPRA members pending the Board's approval.

	Membership Date before January 1, 2013
Cost Group 1:	1.50%
Cost Group 2:	0.50% for Tier 2
	0.75% for Tier 3
Cost Group 3:	6.50%
Cost Group 4:	0.25%
Cost Group 5:	1.50%
Cost Group 6:	1.25%
Cost Group 7:	0.75%
Cost Group 8:	0.75%
Cost Group 9:	0.25%
Cost Group 10:	1.50%
Cost Group 11	3.00%
Cost Group 12:	3.50%

IMPACT OF LEAVE CASHOUTS ON CONTRIBUTION RATES

The portion of the aggregate employer and member contribution rates due to the proposed leave cashout assumptions based on the December 31, 2012 actuarial valuation is shown in the table below, based on the current practice of not reflecting the leave cashout assumptions in the member basic rates:

Portion of Contribution Rate Due to the Application of the New Leave Cashout Assumptions based on the December 31, 2012 Actuarial Valuation			
	Basic	COL	Total
Employer Normal Cost	0.21%	0.05%	0.26%
Employer UAAL	0.21%	0.08%	0.29%
Member Normal Cost	0.00%	0.04%	0.04%
Total	0.42%	0.17%	0.59%

If the Board wants to change policy so as to reflect the leave cashout assumption in the member basic rates, then there are two ways to do so, depending on how the leave cashout assumptions are pooled across different cost groups within the same tier.

OPTION A - APPLY AVERAGE LEAVE CASHOUT ASSUMPTIONS FOR EACH TIER IN DEVELOPING MEMBER BASIC RATE

If we were to develop an average leave cashout assumption for each of the tiers (based on the cost group specific leave cashout assumptions) and apply those assumptions in developing the basic member rates for all members in all cost groups within each tier, it would also result in an increase in the member rates and a comparable decrease in the employer rates after adjusting the employer rates for refundability. Option A would be consistent with how the COLA member rates are currently pooled across the tiers. So, there would be no change in the COLA member rates. There would be six member contribution rate tables for non-PEPRA members under Option B (one for each tier).

A comparison of the average member contribution rates based on the December 31, 2012 valuation before and after this adjustment is provided in the table below:

Option A – Apply <u>Average</u> Leave Cashout Assumptions for Each <u>Tier</u> in Member Basic Rate			
	Average Member Rate <u>Before</u> Adjustment to Basic Rate For Leave Cashout	Average Member Rate <u>After</u> Adjustment to Basic Rate For Leave Cashout	Increase/ (Decrease) in Average Member Rate
Cost Group #1 – General Enhanced Tier 1 (County and Small Districts)	10.43%	10.67%	0.24%
Cost Group #2 – General Enhanced Tier 3 (County and Small Districts)	10.59%	10.63%	0.04%
Cost Group #3 – General Enhanced Tier 1 (Contra Cost County Sanitary District)	10.83%	11.07%	0.24%
Cost Group #4 – General Enhanced Tier 1 (Housing Authority)	11.09%	11.33%	0.24%
Cost Group #5 – General Enhanced Tier 1 (CCCFPD)	10.69%	10.93%	0.24%
Cost Group #6 – General Non-Enhanced Tier 1 (Non-Enhanced Districts)	12.60%	12.71%	0.11%
Cost Group #7 – Safety Enhanced Tier A (County)	17.06%	17.15%	0.09%
Cost Group #8 – Safety Enhanced Tier A (East CCCFPD/CCCFPD)	16.74%	16.84%	0.10%
Cost Group #9 – Safety Enhanced Tier C (County)	13.96%	13.98%	0.02%
Cost Group #10 – Safety Enhanced Tier A (Moraga-Orinda FPD)	16.57%	16.68%	0.11%
Cost Group #11 – Safety Enhanced Tier A (San Ramon Valley FD)	16.51%	16.62%	0.11%
Cost Group #12 – Safety Non-Enhanced Tier A (Rodeo-Hercules FPD)	15.68%	15.95%	0.27%
Grand Total	11.86%	11.94%	0.08%

OPTION B - APPLY LEAVE CASHOUT ASSUMPTIONS SPECIFIC TO EACH COST GROUP IN DEVELOPING MEMBER BASIC RATE

If we were to instead apply the leave cashout assumptions for each cost group in developing separate basic member rates for members in each cost group, it would also result in an increase in the average member rate and a comparable decrease in the average employer rates after adjusting the employer rates for refundability for most cost groups. However, the rate changes for each cost group would differ as compared to Option A.

Under Option B, the specific leave cashout assumptions for each cost group are used in the determination of the basic member rates for the members of that specific cost group. In addition, the COLA member rates are no longer pooled across all members of a tier as they currently are; instead they are also determined separately for each specific cost group. This last point is the reason that the member rates for some cost groups actually show decreases even after including the leave cashout assumption in the determination of the basic member rate.

A comparison of the average member contribution rates based on the December 31, 2012 valuation before and after this adjustment is provided in the table below. Note that the "before" column uses the proposed leave cashout assumptions in our August 5, 2014 letter with no change in the member rate methodology. The "after" column is after changing the member rate methodology to include the leave cashout assumptions for each specific cost group in developing the basic member contribution rates for that cost group.

This methodology results in twelve different sets of member contribution rates for non-PEPRA members (one for each cost group) as compared to six under Option A (one for each tier).

Option B – Apply Leave Cashout Assumptions for Each Cost Group in Member Basic Rate[2]			
	Average Member Rate Before Adjustment to Basic Rate For Leave Cashout	Average Member Rate After Adjustment to Basic Rate For Leave Cashout	Increase in Average Member Rate
Cost Group #1 – General Enhanced Tier 1 (County and Small Districts)	10.43%	10.37%	-0.06%
Cost Group #2 – General Enhanced Tier 3 (County and Small Districts)	10.59%	10.63%	0.04%
Cost Group #3 – General Enhanced Tier 1 (Contra Cost County Sanitary District)	10.83%	11.50%	0.67%
Cost Group #4 – General Enhanced Tier 1 (Housing Authority)	11.09%	10.83%	-0.26%
Cost Group #5 – General Enhanced Tier 1 (CCCFPD)	10.69%	10.62%	-0.07%
Cost Group #6 – General Non-Enhanced Tier 1 (Non-Enhanced Districts)	12.60%	12.71%	0.11%
Cost Group #7 – Safety Enhanced Tier A (County)	17.06%	17.10%	0.04%
Cost Group #8 – Safety Enhanced Tier A (East CCCFPD/CCCFPD)	16.74%	16.80%	0.06%
Cost Group #9 – Safety Enhanced Tier C (County)	13.96%	13.98%	0.02%
Cost Group #10 – Safety Enhanced Tier A (Moraga-Orinda FPD)	16.57%	16.74%	0.17%
Cost Group #11 – Safety Enhanced Tier A (San Ramon Valley FD)	16.51%	16.87%	0.36%
Cost Group #12 – Safety Non-Enhanced Tier A (Rodeo-Hercules FPD)	15.68%	15.95%	0.27%
Grand Total	11.86%	11.94%	0.08%

[2] In addition, the leave cashout assumptions continue to be applied in determining the member COLA rate, however, that calculation is now done separately for each specific cost group instead of on a pooled basis for each tier.

COLLECTION OF EMPLOYER AND MEMBER CONTRIBUTIONS ON LEAVE CASHOUT

It is our understanding that historically both employer and member contributions are collected on all salaries that are considered pensionable, including the additional leave cashout. We concur with this methodology and recommend that it continue going forward.

Unless otherwise noted, these cost estimates were made using generally accepted actuarial practices and are based on the December 31, 2012 actuarial valuation, including the participant and actuarial assumptions upon which that valuation was based. The one exception is that the proposed leave cashout assumptions from our August 5, 2014 letter have been reflected in the cost estimates. Calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any comments or questions, and look forward to discussing this issue with the Board.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary

John Monroe
John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary

AW/bqb
Enclosures

Attachment A

Detailed Discussion on Development of Member Basic and Member COLA Contribution Rates

MEMBER BASIC CONTRIBUTION RATE

The member basic contribution rate is calculated to fund the present value of a specified percent of final average salary at a specified age.

The present value is calculated assuming a level benefit (i.e., no COLA) payable over a member's lifetime only (i.e., it excludes the 60% automatic continuance payable to an eligible spouse/domestic partner). Both the percent and age are specified for each retirement benefit formula. For instance, for non-PEPRA Safety members covered under the 3% at 50 enhanced benefit formula in Cost Group 7, member basic contribution rates are calculated to fund the present value of a benefit equal to 1% of one-year average salary per year of service assuming that the benefit would be paid commencing at age 50.

Under the current procedure, the following actuarial assumptions are used to calculate the member basic rate:

- Salary increase assumption to project the change in compensation from entry age to the specified age
- Mortality assumption used for service retiree to estimate how long the benefit would be paid to a member at the specified benefit commencement age
- Investment return assumption to calculate the present value of the future benefit and the present value of the future salary in determining the contribution rate

In addition to the partial set of actuarial assumptions described above for calculating the member basic rate, the following experience based actuarial assumptions are included in the valuation (along with a few other minor assumptions) to determine the total basic contribution rate (and hence the net employer's basic contribution rate because that rate is just the difference between the total rate and the member rate):

- Probability of a member with a spouse/domestic partner eligible for an automatic continuance benefit
- Probability of a member either dying, terminating, or becoming disabled and receiving benefits specific to those events
- Probability of service retirement (this is different from the specified benefit commencement age used in developing the member basic rate because the probability of service retirement has been developed based on the experience of members retiring at various actual retirement ages).

- Level of leave cashouts observed at service and disability retirement and has been developed based on the experience of members retiring at actual retirement ages

- Level of additional service due to accumulated sick leave observed at service and disability retirement and has been developed based on the experience of members retiring at actual retirement ages

From the above discussions, the last five actuarial assumptions are only used in developing the employer's basic rate. In particular, the leave cashout assumptions developed using the experience observed at the actual retirement ages are <u>not</u> used in developing the member basic rate.

MEMBER COLA CONTRIBUTION RATE

The member COLA contribution rate is calculated so that the cost to provide a COLA benefit is "shared equally between the county or district and the contributing members" as described in Section 31873 of the CERL.

Based on this definition, the member COLA contribution rates are calculated taking into account the level of the annual COLA benefit plus the full set of actuarial assumptions described above for use in setting the total basic contribution rates. In particular, the actual retirement ages and the leave cashout assumptions developed observed at those ages are used in developing both the member and the employer's COLA rates.

While not every retirement system under the CERL had entered into a settlement agreement, we are aware of one other retirement system that has followed these same procedures in setting member basic and COLA contribution rates. Also, for at least one other system that had entered into a settlement agreement, they originally used the same procedures as described above but amended their procedures so that the leave cashout assumptions observed at the actual retirement ages is applied in developing member basic contribution rates at the specified age.

Segal Consulting

CCCERA
Board of Retirement

Application of Leave Cashout Assumptions in Development of Member Contribution Rates

August 13, 2014

Paul Angelo, FSA
John Monroe, ASA

Segal Consulting

San Francisco

5326545v3

Member Contributions: Leave Cashout Assumption

- Formerly Known as "Terminal Pay" assumption.
  - Proposed leave cashout assumption developed based on recent court ruling requiring CCCERA to implement AB 197 and Board's elimination of "straddling"
  - Found in our letter dated August 5, 2014 and will be used in the December 31, 2013 actuarial valuation pending adoption by the Retirement Board
- Cash outs of accumulated annual vacation leave or compensatory time off
  - Included in benefit calculation as a result of CCCERA's (and other 1937 CERL systems) Paulson Settlement (or Ventura Decision)
    - Similar for other 1937 CERL systems
  - Include in "compensation earnable" if earned and cashed out during final average salary measuring period
  - Only applicable to legacy (or non-CalPEPRA plans)
    - Specifically excluded by CalPEPRA for new CCCERA members with membership dates on or after January 1, 2013

Member Contributions: Leave Cashout Assumption

- After Paulson Settlement, new assumption for leave cashouts at retirement added to actuarial valuation
  - For leave cashouts in final average compensation period
  - Increased actuarial accrued liability and (total) normal cost
  - Increased employer contribution rates
- No change in the 1937 CERL to address calculation of basic and COLA member contribution rates to reflect for new pay elements as a result of settlement agreements
  - Some systems (including CCCERA) continued to use same pre-Paulsen/Ventura procedure to calculate member contribution rates

Member Contributions: Assumptions Used

- Assumptions used in developing basic member rates
  - Based on PARTIAL actuarial assumptions used in valuation
    - Salary increases, mortality, interest (discount rate)
      - » No disability or survivor benefits
    - Amount to fund percent of final pay at single retirement age
      - » Percent and age set in 1937 CERL
- Assumptions used in developing COLA member rates
  - Based on ALL actuarial assumptions used in valuation
    - Service retirement, disability retirement, survivor benefits, deferred retirement, withdrawal
    - Cost of COLA benefit is shared equally by member and the employer
      - » As required by 1937 CERL

Member Contributions: Leave Cashout Assumption

- After settlement agreements, leave cashout assumption added to valuation
  - Increased COLA contribution rates for both employer and members – consistent with 1937 CERL
- Open question: should the leave cashout assumption be included in basic member rate calculation?
  - Many systems (including CCCERA) did not; rationale:
    - Some of the plan's actuarial assumptions have always been excluded in developing basic member rates
    - Concern with overcharging categories of members with generally smaller levels of leave cashouts
  - Over time some systems added leave cashout assumption to basic member rate calculation
    - CCCERA and VCERA continue to exclude leave cashout assumption from basic member rate calculation
- Note that member (and employer) contributions are collected on leave cashouts

Policy Options to Calculate Member Contributions

- Possible policy options for calculating member contribution rates to reflect additional cashout at retirement
- Status Quo: Continue with current method for members, which includes leave cashout assumption only in COLA rates (excluded from basic member rates)
- Option A: For members, include leave cashout assumption in basic and COLA rates with average leave cashout assumption applied for each tier
  - Develop average assumption for each tier based on cost group specific assumptions
    - Used for basic member rates for all members in all cost groups within each tier
  - Consistent with current practice for COLA member rates
    - Current practice for COLA rates uses same cashout assumption for all cost groups within each tier
    - No change in average or individual COLA member rate

Policy Options to Calculate Member Contributions

- Possible policy options for calculating member contribution rates to reflect additional cashout at retirement (continued)
- Option B: For members, include leave cashout assumption in basic and COLA rates with separate leave cashout assumption applied for each cost group
  - Use specific leave cashout assumption for each different cost group
    - Consistent with current practice for employer rates
  - COLA member rates no longer pooled across all members of a tier
    - Change from current practice
    - Instead COLA rates also determined separately for each specific cost group
    - One result: average member rates decrease for some cost groups
      - Decrease from depooling greater than increase from including cashout assumption
- NOTE: Option A and Option B have same impact on total average employer rate
  - Differences are by cost group within tiers

Member Contributions – Status Quo – Review/Comment

- Option to continue with status quo
  - For members, include leave cashout assumption only in COLA rates
- This means:
  - Employers: Continue to fund 100% of basic normal cost associated with leave cashouts at retirement
  - Employers and employee: Continue to share funding (50% each) of COLA normal cost associated with leave cashouts at retirement
- Leave cashout assumptions currently used in:
  - Employer basic and COLA rates
    - Separate leave cashout assumptions for each of the twelve cost groups
  - Employee COLA rates:
    - Calculated using average leave cashout assumption applied for each tier
      - Average developed for each tier based on cost group specific assumptions

Member Contributions - Option A – Review/Comment

- Option A: include leave cashout assumption in basic and COLA member rates with average leave cashout assumption applied by tier
  - Average assumption is based on cost group specific leave cashout assumptions
  - Used for basic and COLA member rates for all cost groups within a tier
  - Six member contribution rate tables for non-PEPRA members
    - Same number of member rates as current method
- This means:
  - Employer and Employee: Share in funding basic normal cost associated with leave cashout at retirement
  - Employer and Employee: Continue to share funding (50% each) of COLA normal cost associated with additional cashouts at retirement
    - Continue to pool cost groups within each tier
- Leave cashout assumptions used in employer and employee basic and COLA contribution rates:
  - Reflect average leave cashout assumptions for each tier
    - Different cashout assumptions for each cost group pooled across the tier
    - Subsidization of members in higher leave cashout assumption cost groups

Member Contributions as of December 31, 2012: Leave Cashout Assumption Under Option A

Impact of including average leave cashout assumptions for each tier in basic member rates	Average Member Rate Before Adjustment to Basic Rate For Leave Cashout	Average Member Rate After Adjustment to Basic Rate For Leave Cashout	Increase in Average Member Rate
Cost Group #1 – General Enhanced Tier 1 (County and Small Districts)	10.43%	10.67%	+0.24%
Cost Group #2 – General Enhanced Tier 3 (County and Small Districts)	10.59%	10.63%	+0.04%
Cost Group #3 – General Enhanced Tier 1 (Contra Costa Sanitary District)	10.83%	11.07%	+0.24%
Cost Group #4 – General Enhanced Tier 1 (Housing Authority)	11.09%	11.33%	+0.24%
Cost Group #5 – General Enhanced Tier 1 (CCCFPD)	10.69%	10.93%	+0.24%
Cost Group #6 – General Non-Enhanced Tier 1 (Non-Enhanced Districts)	12.60%	12.71%	+0.11%
Cost Group #7 – Safety Enhanced Tier A (County)	17.06%	17.15%	+0.09%
Cost Group #8 – Safety Enhanced Tier A (East CCCFPD/CCCFPD)	16.74%	16.84%	+0.10%
Cost Group #9 – Safety Enhanced Tier C (County)	13.96%	13.98%	+0.02%
Cost Group #10 – Safety Enhanced Tier A (Moraga-Orinda FD)	16.57%	16.68%	+0.11%
Cost Group #11 – Safety Enhanced Tier A (San Ramon Valley FD)	16.51%	16.62%	+0.11%
Cost Group #12 – Safety Enhanced Tier A (Rodeo-Hercules FPD)	15.68%	15.95%	+0.27%
All Categories Combined	11.86%	11.94%	+0.08%

Member Contributions - Option B – Review/Comment

- Option B: include leave cashout assumption in basic and COLA member rates with specific assumption applied for each cost group
  - Reflect specific leave cashout assumptions for each different cost group
  - Twelve member contribution rate tables for non-PEPRA members
- This means:
  - Employer and Employee: Share in funding basic normal cost associated with leave cashouts at retirement
    - Employee share: Leave cashout plus PARTIAL valuation assumptions (see slide 4)
    - Employer share: Remaining amount not funded by employee
  - Employer and Employee: Continue to share funding (50% each) of COLA normal cost associated with additional cashouts at retirement
    - Now determined for each specific cost group instead of by tier
- Leave cashout assumptions used in employer and employee basic and COLA contribution rates:
  - Specific leave cashout assumptions for each different cost group

Member Contributions as of December 31, 2012: Leave Cashout Assumption Under Option B

Impact of including leave cashout assumptions for each cost group in basic member rates	Average Member Rate Before Adjustment to Basic Rate For Leave Cashout	Average Member Rate After Adjustment to Basic Rate For Leave Cashout	Increase in Average Member Rate
Cost Group #1 – General Enhanced Tier 1 (County and Small Districts)	10.43%	10.37%	-0.06%
Cost Group #2 – General Enhanced Tier 3 (County and Small Districts)	10.59%	10.63%	+0.04%
Cost Group #3 – General Enhanced Tier 1 (Contra Costa Sanitary District)	10.83%	11.50%	+0.67%
Cost Group #4 – General Enhanced Tier 1 (Housing Authority)	11.09%	10.83%	-0.26%
Cost Group #5 – General Enhanced Tier 1 (CCCFPD)	10.69%	10.62%	-0.07%
Cost Group #6 – General Non-Enhanced Tier 1 (Non-Enhanced Districts)	12.60%	12.71%	+0.11%
Cost Group #7 – Safety Enhanced Tier A (County)	17.06%	17.10%	+0.04%
Cost Group #8 – Safety Enhanced Tier A (East CCCFPD/CCCFPD)	16.74%	16.80%	+0.06%
Cost Group #9 – Safety Enhanced Tier C (County)	13.96%	13.98%	+0.02%
Cost Group #10 – Safety Enhanced Tier A (Moraga-Orinda FD)	16.57%	16.74%	+0.17%
Cost Group #11 – Safety Enhanced Tier A (San Ramon Valley FD)	16.51%	16.87%	+0.36%
Cost Group #12 – Safety Enhanced Tier A (Rodeo-Hercules FPD)	15.68%	15.95%	+0.27%
All Categories Combined	11.86%	11.94%	+0.08%

Discussion

CONTRA COSTA COUNTY CCCERA
Employees' Retirement Association

Meeting Date
08/13/14
Agenda Item
#13

MEMORANDUM

Date: August 13, 2014

To: CCCERA Board of Retirement

From: Kurt Schneider, Deputy Retirement Chief Executive Officer

Subject: PEPRA General Tier 4 (2% COLA) Employer Contribution Rates for Contra Costa County Fire Protection District

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On July 29, 2014, the Contra Costa County Board of Supervisors approved a Memorandum of Understanding (MOU) with AFSCME Local 2700, which grants employees who become new members of CCCERA, on or after July 1, 2014, a post-retirement cost-of-living adjustment limited to 2% per year. This provision is similar to that in other County MOUs, however, one individual covered under this MOU is employed by the Contra Costa County Fire Protection District (Con Fire). There are currently no employer contribution rates for this employer for this exact benefit tier.

The employer contribution rates currently in effect are those recommended by the System's actuary, Segal Consulting, in the December 31, 2012 Actuarial Valuation. All of the required components for the Con Fire contribution rates for Tier 4 members with a 2% maximum COLA were calculated as part of that valuation. That is, the employer Normal Cost rate and UAAL rate for the basic and COLA benefit are shown in the valuation report. The attached letter from Segal Consulting assembles those components into employer contribution rates for Con Fire for PEPRA Tier 4 (2% COLA).

Recommendation: Adopt the employer contribution rates as shown in the Segal letter.

Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

July 31, 2014

Mr. Kurt Schneider
Deputy Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

Re: Contra Costa County Employees' Retirement Association
FY14-15 Employer Contribution Rates for PEPRA General Tier 4 (2% COLA) Members in Contra Costa County Fire Protection District

Dear Kurt:

Enclosed please find the employer contribution rates for PEPRA General Tier 4 (2% COLA) members in Contra Costa County Fire Protection District (Cost Group #5) for the period from July 1, 2014 through June 30, 2015 fiscal year.

We understand that these contribution rates are necessary for Contra Costa County Fire Protection PEPRA members covered under a MOU recently approved by the Board of Supervisors with the 2% COLA provisions.

The normal cost contribution rate has been developed based on the same methodology used to previously estimate the costs for the new PEPRA tiers. In particular, we have assumed that the demographic profile of the new members covered under this tier can be approximated by the data profiles of active General members as of December 31, 2012 with membership dates on or after January 1, 2011.

These calculations are based on the December 31, 2012 actuarial valuation results including the participant data and actuarial assumptions on which that valuation was based. That valuation and these calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary. The undersigned is a member of the American Academy of Actuaries and meets the qualification requirements to render the actuarial opinion contained herein.

Sincerely,

John Monroe

John Monroe

AW/cn
Enclosure

5326803v1/05337.002

EXHIBIT

Employer Contribution Rates for Members with Membership Dates on or after January 1, 2013 Under Recommended Assumptions for July 1, 2014 through June 30, 2015

	Enhanced				
	Cost Group #5				
	Contra Costa County Fire Protection District				
	Normal Cost	+	UAAL	=	Total
PEPRA General Tier 4 (2% COLA)					
Basic	8.04%		16.48%		24.52%
COL	1.81%		9.77%		11.58%
Total	9.85%		26.25%		36.10%

CONTRA COSTA COUNTY CCCERA
Employees' Retirement Association

Meeting Date
08/13/14
Agenda Item
#14

MEMORANDUM

Date: August 13, 2014

To: CCCERA Board of Retirement

From: Kurt Schneider, Deputy Retirement Chief Executive Officer

Subject: 18-month Delay in Implementing Contribution Rate Changes

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Summary

When the CCCERA Board adopts an actuarial valuation that recommends changes in the member and employer contribution rates, those changes are not effective until 18 months after the valuation date. Note the following observations:

- The delay allows employers to more accurately budget for pension contributions.
- Due to statutes that require CCCERA to provide advanced notice to the sponsor of changes in contribution requirements, CCCERA would have to make significant changes to the valuation process in order to reduce the delay.
- The delay is one component of a much broader actuarial funding policy.
- There is an available method to account for the delay without decreasing it.

For these reasons we do not propose any change to the current practice of implementing rate changes 18 months after the valuation date. However, if the Board wishes to take another action, we believe that it should be limited to implementing the employer contribution rate adjustment described later.

The purpose of this memorandum is to review the reasons for the 18-month delay as well as the implications of the delay.

Practical Considerations

Under Gov. Code §31453(a), the CCCERA Board must notify the County Board of Supervisors of any changes in County or District contribution requirements 45 days prior to the beginning of the fiscal year. The County's fiscal year begins July 1, so the Board of Supervisors must be notified of any changes no later than May 16. The plan year for CCCERA is the calendar year, meaning the actuarial valuation is done as of December 31 each year. So, in order for the rates recommended in the December 31, 2014 Actuarial Valuation to be effective any less than 18

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months after the valuation date, the valuation and the rates must be adopted by the CCCERA Board before May 16, 2015 and sent to the Board of Supervisors.

The valuation process requires CCCERA to provide the actuary with asset information and demographic data as of the end of the year, which cannot be done until CCCERA receives the information from various sources. The demographic data is received from the employers, imported into CCCERA systems, then exported and sent to the actuary. The actuary reconciles the data with data from prior years and works with CCCERA to resolve any data issues before finalizing the data that will be used for the valuation. This process can take several weeks.

The net asset value information is received from our custodial bank and individual investment managers and compiled by CCCERA staff. Only after CCCERA's independent auditor signs off on the year-end asset values are they sent to the actuary for use in the valuation. For portfolios of publicly traded securities that are custodied in separate accounts at our custodial bank, we can receive final values within as little as six weeks after year-end. However, for illiquid investments (privately held real estate, real assets, debt and equity), CCCERA does not typically receive the year-end asset information until the asset managers' auditors have signed off on their year-end asset values, which typically takes months. A further delay is incurred for the "fund of funds" managers. This is because the underlying funds must send audited year-end figures to the fund of funds managers before the fund of funds managers can have their own year-end figures audited and send those figures to CCCERA. CCCERA typically sends audited year-end asset values to the actuary around the second week of May making it impossible, without any changes to our current practice, to notify the Board of Supervisors of contribution rate changes by May 16.

In order for CCCERA to provide asset figures to the actuary sooner, unaudited asset figures could be used. Note that it is not uncommon for systems to adopt valuations that rely on unaudited asset figures. Any restatements due to the audit process will simply be taken into account in the following valuation. Other changes would have to be made in the valuation process to meet the May 16 deadline such as in years when the actuary is performing an experience study. The demographic experience would not be reviewed until after the valuation is completed. Any proposed changes in assumptions would not be adopted until the following actuarial valuation.

Another alternative would be for CCCERA to change the plan year from the calendar year to the July 1 fiscal year. This would mean the valuation would be performed every June 30 making it practical to reduce the rate implementation delay to 12 months. Currently 15 of the 20 '37 Act systems have plan years that correspond to the fiscal year. Note that some assets managers only produce audited financial statements on a calendar year basis, which means the June 30 figures would be adjusted year-end values and unaudited. Also, a 12 month delay still means asset values for the next valuation will not include any contributions that would have resulted from the prior year's contribution rate increase.

Implications of the Rate Delay

When the actuary determines that an employer contribution increase (or decrease) is required as of the valuation date, but that change is delayed for 18 months, a contribution loss (or gain) occurs over that 18 month period. This loss (or gain) results in another, much smaller, increase (or decrease) in the required contribution rate. For example, when the contribution rate increases by 1% of payroll, the contribution rate will increase one year later by approximately 0.07% of payroll, since the 1% of payroll was not collected during the year, and it will increase another 0.04% of payroll the following year, since it was not collected during the first half of the that year. When the layer is fully amortized, after 18 years under current policy, offsetting gains (or losses) occur due to the fact that the contribution rate change continues 18 months after the layer is fully amortized, since there is another 18-month delay.

While there is a "cost" to the 18-month delay whenever there is a contribution rate increase, it is partly unavoidable as some delay is required in any case. Also, the 18 year amortization policy alone results in "costs" to the plan sponsors due to the time value of money. For example, an actuarial loss is not fully made up through additional contributions for 19 ½ years when amortization and rate implementation delay are taken into account, (even longer for investment losses which are first smoothed) and the total contributions to replace the loss will include interest over that entire period. Simply put, any dollar that is not paid now will have to be made up by more than a dollar later. The total cost of the plan due to experience losses could be reduced by shortening the amortization period or the rate implementation delay, but shortening the delay is less practical. Keep in mind, however, that the opposite happens when there are experience gains. Those gains earn interest over the 19 ½ year period, since they are also amortized over the same period.

Potential Employer Contribution Rate Adjustment

Some public sector retirement systems attempt to adjust the employer contribution rate to account for the contribution gains or losses that are expected to occur due to the 18-month delay. For example, when there is an employer contribution rate increase, there would be an additional increase added to the employer contribution rate. That additional increase is equal to the expected contribution rate increase due to the contribution loss that would occur due to the delay. Generally, this adjustment moves the contribution rate change associated with the contribution gain or loss one year earlier to the current valuation instead of recognizing the gain or loss in the first valuation after it actually occurs. Based on the example shown in the prior section, a 0.11% additional increase would be included in the employer contribution rates in the valuation where the 1% rate increase occurs.

Note that this type of adjustment would increase volatility because when rates increase they will increase slightly more and when rates decrease they will decrease slightly more. Since the adjustment for the delay is also delayed 18 months, this is merely a method to account for the delay, which is, at least to some degree, unavoidable.

Conclusion

Since losses due to the delay when rates increase are offset by gains due to the same delay when rates decrease, the delay is expected to have generally minimal net impact on plan funding over the long term. Also, the gains and losses due to the delay are an order of magnitude smaller than whatever gain or loss lead to the rate increase in the first place. For these reasons as well as the practical considerations outlined above, we do not propose any change to the current practice of implementing rate changes 18 months after the valuation date. However, if the Board wishes to take another action, we believe that it should be limited to implementing the contribution rate adjustment described earlier.

CONTRA COSTA COUNTY CCCERA
Employees' Retirement Association

Meeting Date
08/13/14
Agenda Item
#16

MEMORANDUM

Date: August 13, 2014

To: CCCERA Board of Retirement

From: Kurt Schneider, Deputy Retirement Chief Executive Officer

Subject: Retroactive Correction to Retirement Allowance

At the direction of the Board, in 2014 CCCERA staff began reviewing past retirement calculations to determine whether any retired CCCERA members were receiving benefits that were calculated on amounts that should not have been included in their pensionable compensation. During that review, staff discovered that the final compensation used in one retirement calculation included 13 months of base salary rather than 12. The Member retired on March 31, 2011. In the 39 months since that time, the Member was overpaid $32,612.13. We propose recovering the overpayment without interest by making deductions from future benefit payments.

The CCCERA Board Regulations, Section 4.E, delegate to the Retirement CEO the duty to, "correct prospectively any administrative error in the calculation of retirement benefits, with the issue of retroactive corrections, if any, to be reserved for the Board's exercise of discretion in accordance with the law." Accordingly, the Member was notified and a prospective adjustment was made effective with the August 1, 2014 benefit payment.

When CCCERA recovers amounts due from an annuitant, the amount is typically deducted from the retirement allowance. However, when the total amount owed exceeds 10% of one benefit payment, we offer the member the option to allow us to recover the money over multiple payments. There is no statute or policy that specifically limits the recovery to 10% of the monthly allowance, however, since the error was in no way the fault of the member, the Board may wish to offer the Member the option to repay the overpayment at a rate of 10% of the current monthly payment. At this rate it will take 23 months to recover the full amount.

Recommendation: Authorize staff to recover the overpayment retroactive to the date of retirement. Consider giving direction as to the time period over which the repayment should be spread.

1355 Willow Way Suite 221 Concord CA 94520 925.521.3960 FAX: 925.646.5747 www.cccera.org

SACRS
State Association of County Retirement Systems
Staff ★ Trustees ★ Affiliates ★ Success
A California Non Profit Corporation

Meeting Date
08/13/14
Agenda Item
#17

Date: June 19, 2014

To: SACRS Chief Executive Officers, Retirement Administrators & SACRS Systems Board Chairs

From: Yves Chery, SACRS President

Subject: Status of SACRS' Approach to Sustaining Public DP Plans

Background:

In April, SACRS Executive Director, Robert Palmer, sent a memorandum to all SACRS Affiliates and SACRS Systems regarding the establishment of an educational program on the positive benefits of providing defined benefit retirement plans.

So far, Mr. Palmer has received very little formal feedback from the systems on the proposal to seek out and fund a profession public relations firm to educate the public on the positive aspects of DB plans, such as our CERL systems. He has told me that you folks at the local system level have a better feel for this matter. But at the SACRS staff level, there are a variety of comments surfacing. Some have said that trustees are fiduciaries, not proponents of DB. Some believe that this matter is a plan sponsor and labor organization issue. Others have said that to do anything in the way of a public relations firm creating public support could become very divisive at the local level. Others want to have more discussion before proceeding. In fact, some have suggested either a special session on this topic or put it on the agenda for the November SACRS Conference. Others, pointedly, just want to wait and see what happens with the Ventura County initiative.

New Approach:

As the new SACRS President, I have established an ad hoc committee to look into this educational concept for SACRS and to make recommendations back to the organization. Those selected (and volunteering) are:

Gregg Rademacher, Los Angeles CERA
Richard Stensrud, Sacramento CERS
Jeff Wickman, Marin CERA
Skip Murphy, San Diego CERA
Tracy Towner, Ventura CERA

Continued

We are in the process of setting the first working session for this group. They will start with a pretty open slate. Does SACRS have a role in education of public DB plans? Should it be the "Honest Broker" on these pension topics, as it has done in Sacramento with the Legislature and the Governor's Office? Should SACRS consider retaining a communications firm to assist with the educational program? Does SACRS have an obligation to become involved with initiatives, such as Ventura? If so, to what level?

As the ad hoc committee develops concepts, they will be seeking feedback from the SACRS systems on what is being proposed.

The Ventura Initiative:

Since April memorandum, the focus has moved to what is happening in Ventura County. We all know by now that the proposed initiative received the necessary number of voter signatures to qualify for the November elections. There are three moving parts at this time; I have included summary documents providing their points of view.

1) The Reason Foundation's article on pension reform in Ventura County
2) Ventura County Counsel's legal analysis of the initiative
3) Overview of the lawsuit filed by the opponents of the initiative, Citizens for Retirement Security (CRS).

Your Input:

As we move forward on this educational approach, we welcome comments; suggestions and feedback from all the SACRS systems. Clearly, this is a new role for the SACRS organization…uncharted waters as they say. We have set a session on this topic for the November Conference.

If you have any questions or comments please send to either Bob Palmer at sirbpalmer@aol.com or to Yves Chery at ychery2013@gmail.com.

Thank you,

Yves Chery

Yves Chery, SACRS President

Attachments (3)

Date:	July 28, 2014
To:	SACRS Board of Directors
From:	Robert Palmer, SACRS Executive Director
Subject:	Update On Ad Hoc Committee's Progress

To Educate Or Not To Educate…That Is The Question….

As Hamlet's contemplates his continued existence in his moving soliloquy, it serves well as an analogy for the future direction that SACRS should consider.

The ad hoc committee appointed by Yves Chery, SACRS President, is very much aware that moving in a direction to provide more educational information on the advantages of defined benefit plans is a new and challenging area for SACRS. SACRS is composed of twenty county pension systems that often see their system's role as quite different from each other.

The initiative filed in Ventura is a line in the sand for us. Some see this as the start of a "domino effect". Others have conveyed that the issue of benefits is really an employer and employee issue. They are the responsible parties and therefore they should be the ones mounting an active defense if they wish to maintain their current benefits.

We in SACRS are supposed to be trustees and fiduciaries, which is true. But we are also the most knowledgeable about our business. We know fact from misrepresentation better than any other entity. Some trustees and administrators want to wait to see the outcome of the initiative, others believe the time is now, and not wait. It is this environment that the ad hoc committee was asked to discuss and make recommendations to the SACRS Board of Directors. The intent is that the SACRS Board of Directors will have a plan and present it to the full membership at the next conference.

To get more actively involved leads to a discussion of public exposure. The topic of SACRS creating more visibility is very difficult. Historically, we have pride ourselves on staying under the radar. So who should lead the discussion on the positive aspects of providing DB plans? There is so much negative information being released that is going unchallenged. We are really the experts on this subject. But it has been the employer and the employees who have negotiated and changed the plans' benefits. They are ultimately responsible for the content of the plans. Many of the systems are signaling that they are uncomfortable with publicly supporting the defined benefit plans as proposed by the SACRS Executive Director.

Is there a role for SACRS in this issue? And what form should it take?

Sometimes, it is necessary to take small steps in matters of great importance. And that is the direction that the ad hoc committee is advising the SACRS Board of Directors to consider.

It has been suggested that we should focus on our own membership and affiliations on the importance of the defined benefit plans. We find that our members have a limited understanding of the benefits to which they are entitled. Also it has been said that the level of interest is primarily because they trust us. They know that we function in the best interests of the members. They know that "the promise" made to them by their employer will be fulfilled by us, the trustees.

At this point in time, the ad hoc committee is suggesting that factual information be gathered and made available for internal use among the SACRS systems and their affiliations. The purpose would be twofold: to educate the members and other interested parties of the SACRS organization on the positive aspects of their defined benefits and also to provide a clear and consistent understanding of our business. So often factual information about our plans is misinterpreted or used in an inappropriate way. Having one source may prove useful to all systems and to their membership.

With this general direction in mind, the ad hoc committee believes it is necessary to establish policies and procedures on how this communication would be undertaken. The ad hoc committee plans to meet with a professional communications firm to explore creating and maintaining a method of providing ongoing and useful information to the SACRS systems. If this appears to be feasible it may become part of the ad hoc committee's recommendation to the SACRS Board of Directors for consideration to the full membership.

As this project progresses, we will provide you, the Board, with further updates and a possible plan of action.

Thank you,

Robert Palmer

Robert Palmer,
SACRS Executive Director

Cc: Members of the ad hoc Committee

CONTRA COSTA COUNTY CCCERA
Employees' Retirement Association

Meeting Date
08/13/14
Agenda Item
#18

MEMORANDUM

Date: August 1, 2014

To: CCCERA Board of Retirement

From: Timothy Price, Retirement CIO

Subject: Semi-Annual Rebalancing

Overview

CCCERA received its annual pre-payments of select employer contributions in late July and used these proceeds, in conjunction with four withdrawals from existing investment managers, to conduct the semi-annual rebalancing. Most segments of the CCCERA investable universe experienced moderately strong returns in the first half of 2014, with the large capitalization US equity markets and domestic REITs being the two areas of particular strength.

We took modest withdrawals from the large capitalization US equity portfolios totaling $23 million along with an $8 million redemption from domestic REITs. These proceeds, along with $300 million in employer pre-payments, were used to fund a number of managers distributed broadly across public equities (small and non-US), fixed income and real assets. A total of $77 million was kept in the Cash account to meet a number of large capital calls in late July and early August along with the immediate benefit payments. Amounts less than 0.1% were not rebalanced.

The following tables show the rebalancing trades which occurred between the end of July and early August, 2014.

Funds were raised from the following sources:

Employer pre-payments	$307.0	Million
Jackson Square Partners	$6.0	Million
Robeco Boston Partners	$7.0	Million
INTECH (U.S. Core)	$10.0	Million
Adelante	$8.0	Million
	$338.0	Million

Proceeds were invested with the following investment managers:

Emerald	$13.0	Million
PIMCO Stocks Plus	$32.0	Million
Ceredex	$8.0	Million
Pyrford	$9.0	Million
William Blair	$13.0	Million
JP Morgan	$6.0	Million
Artisan	$5.0	Million
AFL-CIO Housing Investment Trust	$16.0	Million
PIMCO Total Return	$53.0	Million
Goldman Sachs Core Plus	$39.0	Million
Lord Abbett	$37.0	Million
Lazard	$7.0	Million
Allianz	$19.0	Million
PIMCO All Asset Fund	$4.0	Million
Cash	$77.0	Million
	$338.0	Million

The rebalancing exercise used the adjusted target asset class weights as approved by the Board on January 11, 2012. Please note that several adjustments were to the target weights to be consistent with the temporary allocations noted in that earlier memo (see attached). The temporary adjustments were put in place to account for the time lag in building out private allocations as well as to account for the unfunded allocation to long bonds. As the balances invested in private allocations shift (a rise in private equity, a reduction in opportunistic, etc), we revise the temporary adjustments to reflect our funding progress. The adjustments used in this rebalancing are outlined below.

Asset Class	Long-term Target	Prior Temporary Adjustment	New Temporary Adjustment	Total Adjusted Target
Global Equity	42.6%	+3.8%	+3.0%	45.6%
Global Fixed	19.4%	+4.2%	+4.6%	25.0%
Long Bonds	5.0%	-5.0%	-5.0%	0.0%
High Yield	5.0%	-	-	5.0%
Real Estate	12.5%	-	-	12.5%
Alternatives	10.0%	-3.5%	-3.0%	7.0%
Real Assets	5.0%	-	-	5.0%
Cash	0.5%	-	-	0.5%
Opportunistic	0.0%	+0.5%	+0.4%	0.4%

	% of Total Adjusted Target	6/30/2014 Market Value	% of June	Over/Under Target*	Rebalance	Market Value After Rebalance	% of Total After Rebalance
Robeco	4.3%	308,235,000	4.5%	6,382,525	(6,000,000)	302,235,000	4.3%
Jackson Square Partners (fka Delaware)	4.3%	308,827,000	4.5%	6,974,525	(7,000,000)	301,827,000	4.3%
Emerald Advisors	3.0%	197,927,000	2.9%	(12,667,750)	13,000,000	210,927,000	3.0%
Intech (Core)	4.1%	297,923,000	4.4%	10,110,175	(10,000,000)	287,923,000	4.1%
PIMCO Stocks +	4.0%	266,501,000	3.9%	(14,292,000)	32,000,000	298,501,000	4.2%
Ceredex	3.0%	202,732,000	3.0%	(7,862,750)	8,000,000	210,732,000	3.0%
Total Domestic Equity	22.7%	1,582,145,000	23.3%	(11,355,275)	30,000,000	1,612,145,000	22.7%
Pyrford	5.3%	362,558,000	5.3%	(9,492,725)	9,000,000	371,558,000	5.2%
William Blair	5.3%	359,348,000	5.3%	(12,702,725)	13,000,000	372,348,000	5.2%
Total International Equity	10.6%	721,906,000	10.6%	(22,195,450)	22,000,000	743,906,000	10.5%
JPMorgan Global Opportunities	4.0%	273,692,000	4.0%	(7,101,000)	6,000,000	279,692,000	3.9%
First Eagle	4.0%	280,142,000	4.1%	(651,000)		280,142,000	3.9%
Artisan Global Opportunities	4.0%	274,300,000	4.0%	(6,493,000)	5,000,000	279,300,000	3.9%
Intech (Global Low Volatility)	0.3%	23,075,000	0.3%	2,015,525		23,075,000	0.3%
Total Global Equity	12.3%	851,209,000	12.5%	(12,229,475)	11,000,000	862,209,000	12.1%
Total Equity	45.6%	3,155,260,000	46.5%	(45,780,200)	63,000,000	3,218,260,000	45.3%
AFL-CIO Housing Investment Trust	3.3%	215,466,000	3.2%	(16,188,225)	16,000,000	231,466,000	3.3%
PIMCO	5.6%	340,031,000	5.0%	(53,079,200)	53,000,000	393,031,000	5.5%
GSAM "Park" Portfolio	0.0%	4,000	0.0%	4,000		4,000	0.0%
Goldman Sachs Asset Management	4.6%	283,693,000	4.2%	(39,218,950)	39,000,000	322,693,000	4.5%
Lord Abbett	4.6%	285,644,000	4.2%	(37,267,950)	37,000,000	322,644,000	4.5%
Torchlight Debt Opportunity Fund II	1.1%	76,430,000	1.1%	(788,075)	-	76,430,000	1.1%
Torchlight Debt Opportunity Fund III	0.2%	16,857,000	0.2%	2,817,350	-	16,857,000	0.2%
Torchlight Debt Opportunity Fund IV	0.6%	42,254,000	0.6%	135,050		42,254,000	0.6%
Total Domestic Fixed Income	20.0%	1,260,379,000	18.6%	(143,586,000)	145,000,000	1,405,379,000	19.8%
Lazard Asset Management	4.0%	273,594,000	4.0%	(7,199,000)	7,000,000	280,594,000	4.0%
Total Global Fixed Income	24.0%	1,533,973,000	22.6%	(150,785,000)	152,000,000	1,685,973,000	23.8%
Allianz	5.0%	331,833,000	4.9%	(19,158,250)	19,000,000	350,833,000	4.9%
Total High Yield Fixed Income	5.0%	331,833,000	4.9%	(19,158,250)	19,000,000	350,833,000	4.9%
Wellington Real Total Return	0.8%	207,923,000	3.1%	155,274,313		207,923,000	2.9%
PIMCO All Asset	1.8%	118,666,000	1.7%	(4,180,938)	4,000,000	122,666,000	1.7%
Private Real Asset	2.5%	20,961,000	0.3%	(154,534,625)		20,961,000	0.3%
Total Real Asset	5.0%	347,550,000	5.1%	(3,441,250)	4,000,000	351,550,000	5.0%
Total Real Estate	12.5%	885,501,000	13.0%	8,022,875	(8,000,000)	877,501,000	12.4%
Total Alternative Investments	7.0%	470,943,000	6.9%	(20,444,750)		470,943,000	6.6%
County Treasurer	0.0%	-	0.0%	-		-	0.0%
State Street Bank	0.5%	33,640,000	0.5%	(1,459,125)		33,640,000	0.5%
Total Cash & Equivalents	0.5%	33,640,000	0.5%	(1,459,125)	-	33,640,000	0.5%
Oaktree 2009	0.4%	31,125,000	0.5%	3,045,700	77,000,000	108,125,000	1.5%
Total Market Opportunities	0.4%	31,125,000	0.5%	3,045,700	77,000,000	108,125,000	1.5%
TOTAL ASSETS	100.0%	6,789,825,000	100.0%	(230,000,000)	307,000,000	7,096,825,000	100.0%

Milliman | INVESTMENT CONSULTING

Meeting Date
08/13/14
Agenda Item
#19

650 California Street, 17th Floor
San Francisco, CA 94108
USA

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

Memorandum

August 6, 2014

To: Timothy Price, Chief Investment Officer, CCCERA
From: Dorian Young, Marty Dirks, Bob Helliesen, Bill Cottle
Subject: **Aether Investment Partners: Changes to Ownership Structure**

On August 5, 2014, Aether Chief Operating Officer David Rhoades held a conference call with CCCERA (Tim Price and Jeff Youngman), Milliman (Dorian Young), and the Aether partners (Troy Schell and Sean Goodrich) to discuss the announcement of a new ownership structure for the Aether management company ("Aether Investment Partners").

Background

CCCERA currently has $75 million in commitments to Aether Real Asset ("ARA") funds, including $25 million to ARA III and $50 million to ARA III Surplus.

Announcement Details

As part of a larger multiple entity corporate transaction (described in more detail below), the ownership structure of Aether Investment Partners (the management company) will be changing from being 70% owned by the Aether team (Troy and Sean) and 30% owned by Northern Lights Capital Group (a private equity firm with offices in Seattle and Denver) to being 100% owned by Northern Lights. Currently, Aether is one of 13 investment boutiques owned or partially owned by Northern Lights.

In exchange for the Aether team's ownership in the management company, the Aether team will effectively become sole General Partner for each of its ARA funds (previously, General Partnership was 70% owned by the Aether team and 30% owned by Northern Lights). As sole General Partner, the Aether team will collect all carried interest (subject to conditionals). Additionally, the Aether team of Troy and Sean—and now David and John Hendrickson as well—will receive upfront and future payments.

The larger corporate transaction involves Northern Lights and Treasury Group Limited, a publicly traded company headquartered in Sydney, Australia (ticker ASX:TRG). On August 5th, these two firms announced their merger, where the Treasury Group will hold approximately 61% of the new trust entity, and Northern Lights will hold the other 39%.

Northern Lights' motivation for acquiring the rest of the Aether management company was driven by its greater interest to merge with Treasury Group. Based on the outcome, Northern Lights also provided sufficient motivation to the Aether team to arrive at mutually agreeable terms.

Operational Details

As part of the Aether transaction, the Aether senior team of four (listed above) will have long-term employment contracts for the next four ARA funds (IV through VII) which are anticipated to occur over the next 8-12 years.

Regarding the investment decision-making in the ARA funds, there are no plans for any changes to either the process or the team

Conclusion

While we at Milliman believe it is always important to understand changes to ownership structure, key personnel, and compensation incentives as they relate to the investment decision-making process, we believe that this change in the ownership of the Aether management company will have little (if any) impact on the Aether team's investment decision-making process.

Moreover, the Aether investment team may now have more time to focus on investment issues once this transaction is completed. The risks are that management company and GP motivations begin to move in different directions.

Regarding the Aether and CCCERA partnership and its long-term viability, Milliman believes this transaction improves short-term visibility but perhaps clouds long-term visibility. In the short-term, the Aether GPs at both a business level and personal level appear to have stronger financial stability for their next four funds over the next 8-12 years. Over the long-term, we have less clarity as to whether the Aether team will seek to launch additional funds or grow the business into a multi-generational firm where CCCERA could continue rolling forward older funds into newer funds.

Recommendation

Milliman recommends that CCCERA consent to the continuation of the investment agreement with Aether following this transaction.

Addendum

Please find attached the Northern Lights' press releases on its merger with Treasury Group.

PR Contact: MacMillan Communications
Chris Sullivan Chris@macmillancom.com

TREASURY GROUP LIMITED, NORTHERN LIGHTS CAPITAL GROUP, AGREE TO FORM GLOBAL COMPANY

New company will create global asset manager platform with more than $46 billion of AUM

SEATTLE, August 5, 2014 – Northern Lights Capital Group ("Northern Lights"), a private equity firm with offices in Seattle and Denver, has agreed to a combination transaction with Treasury Group Limited ("Treasury Group" (ASX: TRG)), a publicly-traded company headquartered in Sydney, Australia. Northern Lights and Treasury Group will each contribute their businesses to a jointly owned company that will continue to provide strategic support to boutique asset managers worldwide. The combined company is expected to hold interests in boutique asset managers that collectively have more than $46 billion of AUM as of June 30, 2014.

In addition to creating an expanded global sourcing and distribution platform, the transaction is expected to provide both Northern Lights and Treasury Group increased diversification through its newly combined group of 21 boutiques across a wide range of asset classes. The merger is also expected to provide broader access to Europe, where both Treasury Group and Northern Lights currently have a presence. Upon closing, management and operations expect to be integrated and the business plans to operate as one group under the direction of a common Board of Directors. Shares of Treasury Group will continue to trade on the Australian Stock Exchange.

"Northern Lights and Treasury Group share very similar philosophies with both organizations committed to providing creative capital and working diligently to grow our companies," said Paul Greenwood, Managing Director at Northern Lights. "Through this partnership, we are bringing together the expertise and the resources to create a true global leader in the multi-boutique asset management space."

Andrew McGill, Managing Director and CEO of Treasury Group, said: "We are delighted to join with Northern Lights, transforming both businesses into an international multi-boutique asset management group. The partnership delivers significantly strengthened product distribution capability and builds a strong foundation, ideally positioning us for our next phase of growth across international markets."

Subject to regulatory approvals and customary closing conditions, the transaction is expected to close in the fourth quarter of 2014. William Blair acted as financial advisor to Northern Lights in the transaction.

About Northern Light Capital Group:
Northern Lights Capital Group (http://www.nlcg.com) is dedicated to identifying and collaborating with leading boutique asset managers exhibiting exceptional investment skill with client-oriented business cultures. We apply our strategic resources, including operating capital, institutional distribution, access to seed capital, and operational expertise to help our partner companies excel.

About Treasury Group Limited

Treasury Group (http://www.treasurygroup.com/) is a specialist investment and financial services business focused on boutique funds management companies. We seek to partner with talented investment professionals to deliver the highest standard of investment outcomes for investors. Through the capital we invest and range of services we provide, we support the growth and development of the boutiques with which we partner.

Forward-Looking Statements

Certain statements in this press release that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties. You should not place undue reliance on our forward-looking statements. Forward-looking statements are based on the current assumptions and beliefs of management and are only expectations of future results. Actual results could differ materially from those projected in the forward-looking statements as a result of various risks and uncertainties. Forward-looking statements speak only as of the date on which they are made. Neither Northern Lights nor Treasury Group undertakes any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

NLC228 Exp 12-31-14

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From:	CALAPRS <info@calaprs.org>
Sent:	Tuesday, July 22, 2014 10:06 AM
To:	
Subject:	Trustees Roundtable - Sept. 12 in Burbank

Meeting Date
08/13/14
Agenda Item
#20

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California Association of Public Retirement Systems

CALAPRS

EDUCATION · COMMUNICATION · NETWORKING

PROGRAM ANNOUNCEMENT

Friday
September 12, 2014
From 8:30am to 3:30pm

Marriott Burbank Airport
2500 N. Hollywood Way
Burbank, CA 91505
1-818-843-6000

Reserve your room >

Parking: $10/day
Airport: BUR
Shuttle: 5:00am-10:00pm

Trustees Roundtable

Your chance to share information and exchange ideas with fellow trustees of California public retirement systems

Contribute to the meeting agenda

Meeting co-chairs Marty Dirks (San Jose) and George Dewey (ACERA) are preparing the agenda for this meeting. Please contact them to share your suggestions for discussion topics. The agenda will be emailed to you and posted on the website as available. Breakfast and lunch will be provided.

Reserve your room by August 11

CALAPRS has a discounted room block at the Marriott Burbank Airport for $140/night + tax. To secure this rate, make your reservation before August 11 by calling 1-818-843-6000 with group code "CAP" or reserve on-line HERE.

REGISTER NOW

UPCOMING EVENTS

Course in Retirement Disability Administration

Intermediate Course in Retirement Plan

Advanced Course in Retirement Plan

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California Association of Public Retirement Systems

TRUSTEES' ROUNDTABLE

Friday, September 12, 2014
Los Angeles Marriott Burbank Airport
2500 Hollywood Way, Burbank, CA 91505
818-843-6000

TENATIVE AGENDA

8:30 am	**Continental Breakfast**
9:00 am	**Welcome** *Marty Dirks, San José Federated City Retirement System* *George Dewey, Alameda County Employees' Retirement Association*
9:10 am	**Introduction** *Systems in Attendance*
9:20 am	**Expected Portfolio Returns** *John West, Managing Director, Research Affiliates*
10:20 am	**Discussion of current issues at member plans – Part I** Selection of coordinator for the February 2015 CALAPRS Roundtable
10:40 am	**Break**
11:00 am	**Private Equity – Strategy & Opportunity** *Jeff Ennis, Founding Partner, Ocean Avenue Capital Partners*
12:00 pm	**Lunch**
12:45 pm	**Hedge Funds & Portfolio Synergy** *Ronan Cosgrave, Sector Specialist & Portfolio Manager, PAAMCO*
1:45 pm	**Discussion of current issues at member plans – Part II**
2:00 pm	**Break**
2:15 pm	**Session: To be determined**
3:15 pm	**Open discussion**
3:30 pm	**Adjournment**

CONTACT US
575 Market Street, Suite 2125, San Francisco, CA 94105
P: 415-764-4860 F: 415-764-4915
register@calaprs.org www.calaprs.org