The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, March 27, 2013 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Debora Allen, Terry Buck, Richard Cabral, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: Gabe Rodrigues

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; and Vickie Kaplan, Retirement Accounting Manager

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Paul Angelo	The Segal Company
John Monroe	The Segal Company

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Karen Davis	CCCERA Staff
Christina Dunn	CCCERA Staff
Jessica Huffman	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Rossini	CCCERA Staff
Lisa Driscoll	County Administrators Office
Laura Strobel	County Administrators Office
Paul Louis	Retiree
Todd Smithey	Central Contra Costa Sanitary District
Michelle Johnston	Auditor-Controller's Office
Joanne Bohren	Auditor-Controller's Office
Lori Epsten	Auditor-Controller's Office
Marie Rulloda	Auditor-Controller's Office
Thea Vassallo	Central Contra Costa Sanitary District
Vito Impastato	Local 1230
Gloriann Sasser	San Ramon Valley Fire District
Robert Leete	San Ramon Valley Fire District
Bill Cullen	Retiree
Jackie Lorrekovich	Contra Costa County Fire District
Sue Casey	Moraga-Orinda Fire District
Pat Pattersen	RSG of Contra Costa County
John Bartel	First 5 Contra Costa
Haj Nahal	Auditor-Controller's Office
Ray Waletzko	Contra Costa Mosquito & Vector Control
Marnie Huddleston	First 5 Contra Costa

Ken Westermann	Deputy Sheriff's Association
Rollie Katz	Local 1
Sean Casey	First 5 Contra Costa
Jacqueline Rhoades	Institutional Shareholder Services
Fassil Michael	Institutional Shareholder Services

1. **Pledge of Allegiance**

Buck led all in the *Pledge of Allegiance.*

2. **Public Comment**

No members of the public offered comment.

3. **Presentation from The Segal Company on Actuarial Funding Policy**

Angelo reported one of the reasons for reviewing and discussing CCCERA's Actuarial Funding Policy relates to the Governmental Accounting Standards Board (GASB) recently adopting Statements No. 67 and 68 that substantially revise financial reporting requirements for governmental pension plans and their sponsors. The revisions are for accounting purposes, not funding, but are instructive for funding policies.

He reported that in 2009 the CCCERA Board did a comprehensive review of the Actuarial Funding Policy components. He reviewed the Actuarial Cost Method, the Asset Smoothing Method, and the Unfunded Liability Amortization Policy, noting they will not be recommending changes to the Actuarial Cost Method or the Asset Smoothing Method. He also reviewed the general policy objectives, funding policy recommendations, asset smoothing methods and income smoothing methods. He reviewed asset smoothing and the Market Value of Assets (MVA) corridor, noting smoothing manages market volatility.

Angelo reviewed the amortization policy and the sources of the unfunded liability. He recommends no changes to current Unfunded Accrued Actuarial Liability (UAAL) layers already established as of December 31, 2011.

He recommended three changes to the current funding policy. The first change Segal recommended would be to adopt a shorter amortization period for plan amendments for a period not to exceed 15 years. He also recommended using a shorter amortization period for Golden Handshakes or early retirement incentive type programs (ERIP) of up to 5 years along with a statement that a recommendation by the actuary to the Board on the amortization period be included as part of the required actuarial cost study for any such ERIP. After discussion about amortizing a surplus as a credit to the contribution requirement and pointing out that PEPRA Section 7522.52 could be interpreted to mean no such credit is allowed, the final recommendation is to increase the amortization period for any actuarial surplus from 18 years to 30 years, if allowed under the law. He noted these recommendations apply to future changes in the UAAL and there would not be an impact on current UAAL layers or current contribution rates.

Bill Cullen, retiree, asked if the recommended plan amendments could be paid for with excess earnings. Angelo confirmed that would be discussed separately since these changes would affect benefits that are funded by future contributions.

The Board discussed "contribution holidays", and the pay down of UAAL. He noted the UAAL is paid for through employer contributions and investment earnings and is not part of the employee contributions.

4. **Presentation from The Segal Company regarding projected five year employer contribution rates based on the changes to economic assumptions**

Monroe reported Segal has updated their five-year projection of estimated employer contribution rate changes for CCCERA. He stated the projection is derived from the December 31, 2011 actuarial valuation results and incorporates an estimated gross market value investment return of 14.1% for the 2012 calendar year. The rate changes include the asset gains and losses that are funded as a level percentage of the Association's total active payroll base as well as contribution increases from the changes in economic assumptions starting with the December 31, 2012 valuation. He noted the rate change projections are for the period beginning 18 months after the December 31, 2012 actuarial valuation.

He reviewed the assumptions and methods used to estimate the contribution rates as well as the projected contribution rates.

Lisa Driscoll, County Administrators Office, read a letter from the Board of Supervisors requesting that the CCCERA Board implement the entire contribution rate change resulting from decreasing the investment return assumption from 7.75% to 7.25% in the first year, rather than phasing in the new economic impacts over several years.

Jackie Lorrekovich, Contra Costa County Fire District, stated she was not speaking on behalf of the Fire District's governing board although their board has made the same recommendation as the County. She spoke to the impact of the assumption rate change stating their rates will increase an estimated 19.77% on a small amount of payroll which will have a direct impact on service reductions.

Leedom reported on the timeframe noting the triennial study will be completed in May and the annual actuarial valuation will be presented to the Board in late August/early September. The final decision to approve the July 1, 2014 rates will be in the fall.

Cabral was not present for subsequent discussion and voting.

5. **Request from First Five Contra Costa regarding payment of their Unfunded Actuarial Accrued Liability (UAAL)**

Sean Casey, Executive Director of First Five Contra Costa, gave an overview of the organization. He stated they are an independent public agency, fully funded by a tobacco tax. The organization's funding is decreasing at approximately 3% per year and the revenue continues to drop.

First Five is proposing a $2 million payment towards their unfunded liability in exchange for a reduction in the amortization payment based on an 11 year level dollar amount at 7.75%.

Gioia was not present for subsequent discussion and voting.

The Board discussed whether it is appropriate to grant the exception for this employer as compared to the other employers who have previously made UAAL prepayments or those that may make future UAAL prepayments.

Angelo stated the Board can outline in their funding policy a provision that addresses how to collect UAAL from an employer that is in a similar situation.

It was **M/S/C** to approve the request from First Five and allow a $2 million prepayment towards their Unfunded Actuarial Accrued Liability (UAAL), with a level dollar amortization method, subject to legal review. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

Cabral was present for subsequent discussion and voting.

6. **Presentation from Institutional Shareholder Services (ISS) on Proxy Voting Guidelines** - Jacqueline Rhoades, Fassil Michael

Price gave an overview of proxy voting, noting the staff recommendation to move away from the using CCCERA's individual proxy voting guidelines and move forward with one of the ISS benchmark policies.

Rhoades reviewed ISS's policy formulation process and the benefits of ISS's benchmark policies, noting their guidelines are updated on an annual basis. ISS also solicits feedback annually with a policy survey followed by roundtable discussions that strike the right balance between shareholder interests and economic practicality.

Michael compared current CCCERA policies to both the ISS Public Fund policy and the ISS Benchmark policy.

7. **Staff recommendation for changes to Proxy Voting Guidelines**

The Board discussed Dodd Frank legislation requirements, noting there have been new rules written that pertain directly to plan sponsors, specifically in the areas of corporate governance and disclosure.

Price stated CCCERA's current guidelines are not specific or comprehensive enough to comply with the Dodd Frank requirements and we lack the staff necessary to stay fully apprised of the new rules. Staff believes this role is best outsourced to an expert in the field, such as ISS. The advantage of the ISS guidelines is that they encompass additional issues and their language is much more specific. The projected cost savings is approximately $5,000 per year. The total paid last year was $40,000.

It was **M/S** to adopt the Benchmark set of proxy voting guidelines offered by Institutional Shareholder Services (ISS).

After a lengthy discussion on the differences between ISS Benchmark and ISS Public Fund proxy voting guidelines, the question was called.

It was **M/S/C** to call for the question. (Yes: Allen, Hast, Holcombe and Phillips, Telles and Watts. No: Buck, Cabral, Viramontes).

It was **M/S** to adopt the Benchmark set of proxy voting guidelines offered by Institutional Shareholder Services (ISS) (Yes: Allen, Hast, Holcombe, Phillips. No: Cabral, Telles, Watts. Abs: Buck, Viramontes) Motion failed.

It was **M/S/C** to adopt the Public Fund Policy set of proxy voting guidelines offered by Institutional Shareholder Services (ISS). (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54956.9(a) (two cases) and Govt. Code Section 54956.9(b)(1) (one case).

The Board moved into open session.

8a. There was no reportable action related to Govt. Code Section 54956.9(a).

8b. There was no reportable action related to Govt. Code Section 54956.9(a).

9. There was no reportable action related to Govt. Code Section 54956.9(b)(1).

Hast was not present for subsequent discussion and voting.

10. **Miscellaneous**

(a) Staff Report –

Leedom gave an update on the status of elections for Board members whose terms are expiring on June 30, 2013.

She reported pay code items will be presented at the April 10, 2013 meeting.

Schneider reported the DSA has asked for clarification on the retirement tier for DSA staff if hired in August but not members of CCCERA until April after completing the academy and being sworn in. He stated legal will review this.

(b) Outside Professionals' Report –

None

(c) Trustees' Comments –

Holcombe reported an article on CCCERA in the Central Contra Costa Sanitary District newsletter (The Pipeline) contains incorrect information. Leedom stated she has had a conversation with Central Contra Costa Sanitary District.

Telles expressed his concern with not having a process for situations when there is not a candidate for the alternate retiree position on the CCCERA Board

He attended the onsite visit to WHV Investments and feels confident with the new CEO, noting our investment team has not changed.

Naramore stated the alternate retiree position is unlike the other alternate positions as they can only vote for the retiree trustee. The alternate retiree position also can only apply for either the alternate position or the retiree position, not both. She stated she has enjoyed her time on the Board and feels the process should be changed.

Viramontes reported she and Rodrigues attended Manatt's 2013 Public Pension Fiduciary Forum and felt it was a great conference.

It was **M/S/C** to adjourn the meeting. (Yes: Allen, Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)

Maria Theresa Viramontes, Chairman

John Phillips, Secretary