

San Mateo County Employees' Retirement Association
Minutes of the Meeting of the Board of Retirement

November 28, 2006

Agenda Item 3.0

October 24, 2006 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 1 p.m.

1. [Call to Order](#)
2. Roll Call
 - 2.1 [Roll Call](#)
3. [Approval of the Minutes](#)
4. Oral Communications
 - 4.1 [Oral Communications From the Board](#)
 - 4.2 [Oral Communications From the Public](#)
5. Benefit & Actuarial Services
 - 5.1 [Adoption of Consent Agenda](#)
 - 5.2 [Consideration of Items Removed from Consent Agenda](#)
6. Investment Services (The Investment Committee will meet on August 22 at 9 a.m.)
 - 6.1 [Monthly Portfolio Performance Report](#)
 - 6.2 [Asset Liability Study – Review Asset Mix Output – Evaluate Inputs/Ranges As Necessary](#)
7. Board & Management Support Services
 - 7.1 [Monthly Financial Report](#)
 - 7.2 [Quarterly Budget Report](#)
 - 7.3 [Approve Auditor's Reports for June 30, 2006, Financial Audit](#)
 - 7.4 [Approve Comprehensive Annual Financial Report](#)
 - 7.5 [Approve Restatement of Resolution Creating 401\(h\) Account](#)
 - 7.6 [Discussion of SACRS Initiatives and Resolutions](#)
 - 7.7 [Update on Pension Protection Act Provisions](#)
8. Management Reports
 - 8.1 [Chief Executive Officer's Report](#)
 - 8.2 [Assistant Executive Officer's Report](#)
 - 8.3 [Investment & Finance Manager's Report](#)
 - 8.4 [County Counsel's Report](#)

CLOSED SESSION – The board will meet in closed session prior to adjournment

- C1 [Consideration of items, if any, removed from the Consent Agenda](#)
- C2 [Conference with Legal Counsel - Anticipated Litigation](#)

Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9
One Matter
9. [Report on Actions Taken in Closed Session](#)
10. [Adjournment](#)

October 24, 2006 – Board Minutes

- 0610.1 **Call to Order:** Mr. Bryan, chair, called the Public Session of the Board of Retirement to order at 1 p.m., October 24, 2006, in *SamCERA's* Board Room, Suite 125, 100 Marine Parkway, Redwood Shores.

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- 0610.2 **Roll Call:** Mr. Bryan, Ms. Arnott for Mr. Buffington, Ms. Colson, Mr. Hackleman, Mr. Hooley (dep. 2:02 p.m.), Ms. Stuart, Ms. Tashman and Mr. Wozniak. *Excused:* Mr. Lewis. *Other Board Members in Attendance:* Mr. Murphy and Ms. Salas. *Staff:* Mr. Bailey, Mr. Hood, Ms. Dames and Ms. LeBlanc. *Consultants:* Ms. Carlson, Dr. Fracchia, Mr. Gesell, Ms. Jadallah and Mr. Thomas. *Retirees:* 0, *Actives:* 0.
- 0610.3 **Approval of the Minutes:** Ms. Arnott submitted the following correction to the October 3, 2006, board meeting minutes: 0609.5.1 under Refunds For September 2006: “Johnston-Crofts, Averi”. **Motion** by Tashman, second by Stuart, carried unanimously to approve the minutes of the October 3, 2006, board meeting, as corrected.
- 0610.4.1 **Oral Communications From the Board:** Mr. Bryan reported that he attended the Annual International Foundation of Employee Public Benefits (IFEPB) Employee Benefits Conference earlier in the month. He found the conference’s program and educational meetings to be quite comprehensive. He recommended that trustees attend the 2007 IFEPB Employee Benefits Conference which is scheduled to be held in Anaheim, California.
- 0610.4.2 **Oral Communications From the Public:** None.
- 0610.5 **Benefit & Actuarial Services**
- 0610.5.1 **Adoption of Consent Calendar:** Mr. Bryan removed the disability application of Douglas Chapman from the day’s consent calendar to be taken into consideration under agenda item 5.2 in closed session. **Motion** by Stuart, second by Arnott, carried unanimously to adopt the consent calendar, as amended, as follows:
- Disability Retirements:**
The board finds that **Matthew Spray** is disabled from performing his usual and customary duties as a Deputy Sheriff, and **GRANTS** his application for a *service-connected* disability.
- The board finds that **James Killmon** is disabled from performing his usual and customary duties as a Deputy Sheriff, and **GRANTS** his application for a *service-connected* disability.
- Routine Actions** taken by staff pursuant to the board's *Delegation of Authority* and the *Regulations of the Board of Retirement*:
- Service Retirements:**
- | | | |
|-------------------|------------------|----------------------------|
| Grinnell, Jeffrey | July 30, 2006 | Library |
| Murray, Martin | October 7, 2006 | District Attorney’s Office |
| Vega, Fernando | October 8, 2006 | Human Services Agency |
| Apostol, Imelda | October 14, 2006 | Hospital |
| Hartsell, Steven | October 14, 2006 | Environmental Health |
| Motley, Christine | October 19, 2006 | County Counsel’s Office |
| Walton, Chris | October 19, 2006 | Deferred |
| Carboni, Maryanne | October 20, 2006 | Information Services |
| Oates, Daniel | October 31, 2006 | Sheriff’s Office |

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Continuance of Benefits:

McCavitt, Loretta

Beneficiary of Bernard

Deferred Retirements:

Branshaw, Cindy	G2 vested	Reciprocity
Brown, Tamra E.	G4 non-vested	Reciprocity
Deconcini, Kathryn	G2 vested	Reciprocity
Huang, Charles Y.	G4 non-vested	Reciprocity
Nicholas, Deborah W.	G2 vested	Reciprocity
Draper, Kathleen M.	G4 vested	
Etezadi, Susan I.	G2 vested	
Fojo, Albert J.	G2 vested	
Hernandez, Martha	G4 vested	

Extended Purchase:

None

Refunds For October 2006:

Armas, Gloria	G4 non vested
Kent, Alexis	G4 non- vested
Leyva, Yoginee	G4 non vested
Licudine, Oswald	G4 non vested
Merrill, Peter	G4 non vested
Montenegro, Valentin	G4 non vested
Nunez, Sal	G4 non vested
Pachinger, Aura	G4 non vested
Sigua, Ma	G4 non vested
Vivar, Michele	G4 non vested
Vo, Hoa	G4 non vested
Williams, Nicole	G4 vested
Yaley, Dawn	G4 vested

Rollovers for October 2006:

Gundersen, Janet	G4 non vested
Oppen, Michelle	G4 non vested

0610.5.2 **Consideration of Items Removed from Consent Agenda:** See agenda item 9.0 under Report on Actions Taken in Closed Session.

0610.6 **Investment Services**

0610.6.1 **Monthly Portfolio Performance Report:** Mr. Bailey presented the monthly portfolio performance report for the period ending September 30, 2006. *SamCERA's* 1.63% Total Fund Return for the month outperformed the Total Plan Policy Benchmark return of 1.30%. The Fund's return for the trailing twelve months, 10.69%, is 275 basis points above the Actuarial Discount Rate, 7.75%, and 76 basis points above *SamCERA's* Total Plan Policy Benchmark of 9.93%.

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Asset Class	Market Value	1-Month	1-year TTWRR*	5-year TTWRR*
<i>Domestic Equity</i>	\$949,848,206	2.34%	10.52%	9.20%
<i>International Equity</i>	<u>304,237,816</u>	0.47%	20.70%	13.20%
Total Equity	1,254,086,022	1.88%	12.95%	10.13%
Fixed Income	543,975,632	0.88%	4.22%	5.27%
Real Estate Aggregate	140,684,016	2.44%	18.50%	14.23%
Cash Equivalents	3,585,198	0.31%	3.91%	2.90%
TOTAL FUND	\$1,942,330,869	1.63%	10.69%	9.21%
<i>Benchmark</i>		1.30%	9.93%	9.26%

* Total Time-Weighted Rate of Return

0610.6.2

Asset Liability Study – Review Asset Mix Output – Evaluate Inputs/Ranges As

Necessary: Margaret Jadallah, Patrick Thomas and Marc Gesell of Strategic Investment Solutions were present to discuss Part II of *SamCERA*'s asset liability study. Mr. Thomas reviewed capital market assumptions. Ms. Jadallah then reviewed the board's decisions from the October 3, 2006, board meeting regarding suitable asset classes, constraints and weighting schemes for integration of sub-classes that were used in the study and flowed into the day's presentation. The board then discussed 80/20 vs. 90/10 (large/small) US Equity weighting. Ms. Jadallah reviewed the various asset mixes along with their total risk and return with both 80/20 and 90/10 weightings. Mr. Thomas noted that *SamCERA*'s current mix was quite efficient. Ms. Jadallah noted that the total amount of risk and return among the mixes does not differ much between the 80/20 or 90/10 (large/small) US equity weightings.

The board expressed that they were more comfortable with an 80/20 large/small US Equity weighting. Regarding the various mixes, trustees stated that they would prefer to analyze Mix 3, 4 and 5, with Mix 3 being very similar to *SamCERA*'s current mix and Mix 5 having more total risk and return. In response to a question from Mr. Hooley, Mr. Thomas indicated that Mix 5 was a significantly higher amount of risk than the board has experienced historically. Mr. Thomas also stated that showing a wide range of mixes will permit the board to make a better informed decision.

Ms. Tashman then stated that the board has discussed adding a second real estate manager and that none of the mixes call for this scenario. Ms. Colson noted that should *SamCERA* consider adding a second real estate manager, the board should not anticipate the amount as a certain asset percentage but as an absolute full dollar amount over total assets, with growth of assets from INVESCO.

Mr. Gesell then performed an overview of the important liability model inputs, comparing them to the inputs for the previous study in 2002. He noted the decline in funded ratio from 92% to 75% which brings up whether or not the board would be inclined to take on more risk. He stated that the model will typically show that more risk is better at lower funded ratios.

0610.7

Board & Management Support Services

0610.7.1

Monthly Financial Report: Mr. Bailey reported that *SamCERA*'s Net Assets Held in Trust for Pension Benefits as of September 30, 2006, totaled \$1,940,383,062. *SamCERA*'s Net Assets increased by approximately \$27 million in September primarily due to a net appreciation in fair value of investments.

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0610.7.2 **Quarterly Budget Report:** Mr. Bailey reported that with 25% of the fiscal year completed, administrative expenditures to date represent 18.8% of the total \$2,880,000 appropriated for fiscal year 2006-2007. All major categories are under budget.

SamCERA's Administrative Budget

	ADOPTED BUDGET	YTD ACTUAL
Salaries & Benefits	\$ 1,692,500	\$ 371,599
Services & Supplies	\$ 1,087,500	\$ 168,985
Fixed Assets	<u>\$ 100,000</u>	<u>\$ 0</u>
Total	\$ 2,880,000	\$ 540,584

Professional Expenses accrued year-to-date total \$1,499,950, or 24.1% of the estimated total for the year. As of September 30, 2006, the aggregate professional services fee is approximately 30.2 basis points.

0610.7.3 **Approve Auditor's Reports for June 30, 2006, Financial Audit:** Mr. Bailey noted that reports for the most recent financial audit were presented by Andrew Paulden of Brown Armstrong at the October 3, 2006, board meeting in draft form. The reports were now being presented for approval. No changes have been made to the reports since the last board meeting.

Motion by Hackleman, second by Tashman, carried unanimously to approve the reports related to Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter's audit of *SamCERA's* June 30, 2006, financial statements.

0610.7.4 **Approve Comprehensive Annual Financial Report:** Mr. Bailey presented the final version of *SamCERA's* Comprehensive Annual Financial Report. The CAFR was presented to the board at its October 3, 2006, meeting in draft form. No changes have been made since that meeting.

Motion by Stuart, second by Hackleman, carried unanimously, to approve *SamCERA's* Comprehensive Annual Financial Report (CAFR) for the period ending June 30, 2006.

0610.7.5 **Approve Restatement of Resolution Creating 401(h) Account:** Ms. Carlson stated that **Bob Blum**, tax attorney, recommended that *SamCERA* reword the resolution creating its 401(h) account in order to comply with current law. The rewording will not change the effect of the original resolution.

Motion by Hackleman, second by Hooley, carried unanimously to adopt **Resolution 06-07-07**, approving the restatement of Resolution 97-98-11 creating a 401(h) account, as follows:

“WHEREAS, *SamCERA* is an Internal Revenue Code (Code) § 401 (a) tax-qualified retirement system which may provide tax-free retiree medical benefits in accordance with § 401(h) and applicable federal tax regulations (Regulations); and

“WHEREAS, pursuant to Resolution 97-98-11, effective February 24, 1998, the Board established a 401(h) Reserve Account to provide tax-free retiree medical benefits to

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members of *SamCERA*; and

- “**WHEREAS**, the Board subsequently amended Resolution 97-98-11, effective May 26, 1998, to clarify the operation of the 401(h) Reserve Account; and
- “**WHEREAS**, the Board wishes to again amend Resolution 97-98-11 to reconfirm the operation of the 401(h) Reserve Account in accordance § 401(h) and the Regulations. Therefore, be it
- “**RESOLVED** that the Board hereby declares this resolution to be an integral component of *SamCERA*'s “plan document”, as it governs the granting and payment of retiree medical benefits. Be it further
- “**RESOLVED** that, to the extent funded by the County of San Mateo, the Board shall pay the full reimbursable cost of Medicare Part-B premiums paid by individual retirees, beneficiaries and survivors, upon certification by the individual retiree, beneficiary or survivor that he or she is eligible for and participates in Medicare Part-B coverage and is responsible for bearing the cost of such Medicare Part-B premiums. The Board shall not pay any other retiree medical benefits to any other person. Be it further
- “**RESOLVED** that the Board hereby establishes a 401(h) Reserve Account upon the books of the Association which shall be established and maintained in conformance with the requirements of the Code and applicable Regulations. These requirements include the following: (a) Funds held in the 401(h) Reserve Account shall only be used to provide medical benefits to eligible *SamCERA* retirees, beneficiaries and survivors. (b) No funds in the 401(h) Reserve Account shall be used for, or diverted to, any purpose other than providing retiree medical benefits. (c) If, and only if, all liabilities of *SamCERA* to provide retiree medical benefits are completely satisfied, then any remaining assets in the 401(h) Reserve Account shall be returned to the County. (d) The 401 (h) Reserve Account is for record keeping purposes only and the funds held in that Reserve Account may be commingled for investment purposes with other Association funds. Be it further
- “**RESOLVED** that all retiree medical benefits shall be provided in accordance with the requirements of the Code and applicable Regulations. In addition to the provisions governing the establishment and maintenance of the 401(h) Reserve Account, these requirements include the following: (a) All retiree medical benefits plus all life insurance benefits provided by *SamCERA* shall be subordinate, as provided in the Code and Regulations, to the retirement benefits provided by *SamCERA* and contributions for these benefits shall not exceed 25% of the total actual contributions to the Association (other than contributions to fund past service credits) after the date on which the 401(h) Reserve Account is established. (b) All retiree medical benefits provided by *SamCERA* shall only be paid from the 401(h) Reserve Account. (c) If the County determines to contribute to the 401(h) Reserve Account, the contributions to that Reserve Account shall be made by the County of San Mateo as determined by the Board of Supervisors. (d) All contributions for benefits to be paid from the 401(h) Reserve Account shall be reasonable and ascertainable. (e) If the County contributes to the 401(h) Reserve Account, such action shall not create, under California or other applicable law, any vested or contractual rights in any party (including any retiree or *SamCERA*) to any future contribution to such Reserve Account. (f) The County shall designate in writing any such contributions as being only for the 401(h) Reserve Account. Such designation must be made at the time of contribution. (g) In the event that an individual's interest in the 401(h) Reserve Account is forfeited prior to termination of *SamCERA*, an amount equal to the amount of the forfeiture must be applied as soon as possible to reduce employer contributions to fund the medical benefits provided through the 401(h)

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Reserve Account. (h) No “key employees”, as defined in the Code, shall be eligible to receive any retiree medical benefits from *SamCERA* because no person employed by or retired from a public agency is a key employee under Code section 416(i). Be it further

“RESOLVED that, if the Board of Retirement wishes to request that the Board of Supervisors make a contribution to the 401(h) Reserve Account for any year, the Board of Retirement shall do the following: (a) Prior to the beginning of each fiscal year, the Board of Retirement shall review the results of the prior year’s actuarial valuation and either (1) if the actuarial funding ratio therein was less than 80%, the funding for the 401(h) Reserve Account program shall be suspended at the end of the current fiscal year, or (2) if the actuarial funding ratio therein equaled or exceeded 80%, the dollar amount of retiree health benefits reasonably anticipated for the coming fiscal year, plus a reasonable reserve therefore, shall be determined. (b) For each year in which the funding for the 401(h) Reserve Account is not suspended, the Board of Retirement shall request that the Board of Supervisors contribute to the 401(h) Reserve Account the amount the Board of Retirement determines to be necessary to provide retiree medical benefits provided for hereunder and reasonable reserves therefore for the coming fiscal year. The Board of Retirement shall request that the Board of Supervisors specifically designate, in writing, any such contribution as being for the 401(h) Reserve Account and that such designation occur at the time of the contribution. The Board of Retirement shall request that such contribution be made at such time as meets the requirements of Code § 401(h). The Board of Supervisors will then, independently, determine whether to make any contributions to the 401(h) Reserve Account for the coming fiscal year. Be it further

“RESOLVED that no existing or future employee, retiree, spouse or dependent shall have, under California or other applicable law, any vested rights, contractual rights or other rights in or to any retiree medical benefits or payment or subsidy for any such benefits. The Board of Retirement may modify or terminate, at any time and without any limitation, any retiree medical benefits provided by the Board of Retirement. Modification or termination may occur even if the retiree medical benefits have been provided without modification or termination on or after the date of hire of any employee, the date of retirement of any retiree, and/or the date of marriage or beginning of dependency of any spouse or dependent (but shall not modify or terminate any benefits actually paid prior to the date of modification or termination). In addition, neither *SamCERA*, the Board of Retirement, or any other party shall have any liability to pay any medical benefits (or contribution or subsidy for any such benefits) to the extent that such benefits (or contribution or subsidy) would exceed the assets allocated to the 401(h) Reserve Account. Be it further

“RESOLVED that the Administrator is hereby authorized to take all actions necessary to implement the provisions of this resolution.”

0610.7.6 **Discussion of SACRS Initiatives and Resolutions:** Mr. Bailey noted that, at the previous board meeting, Mr. Bryan was appointed as *SamCERA*’s voting delegate for the November 17th SACRS business meeting. Only one recommendation had come forward so far, regarding the selection and makeup of the SACRS Executive Committee. Some SACRS members have been concerned about the way officers are selected for SACRS executive positions and that representation on the Executive Committee could more broadly represent the member counties, geographically and by fund size. Mr. Bailey briefly summarized the SACRS nomination review ad-hoc committee’s report and recommendations to the board. He also reviewed 2007 SACRS legislative proposals including possible OPEB clean-up language following the

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enactment of AB 2863 and the possible creation of a uniform set of guidelines relating to the provisions of the Federal Pension Protection Act (PPA) of 2006.

0610.7.7 **Update on Pension Protection Act Provisions:** Ms. Carlson reported that she joined Mr. Hood in attending a conference focusing on the Pension Protection Act of 2006 in Sacramento earlier in the month. She briefly discussed the provision allowing safety retirees to pay up to \$3,000 per year for health insurance on a tax-free basis. Unanswered questions regarding this provision include the definition of a public safety officer as well as "Normal Retirement Age" (NRA) which is not defined for public systems. This topic will also be discussed at the SACRS conference and various CALAPRS round tables. Information will be gathered as to what other 1937 Act counties are doing regarding the PPA 2006. Mr. Hood noted the law may require that *SamCERA* implement the provisions by June 30, 2007. Mr. Hackleman requested that counsel and staff discuss the details regarding the PPA's effect on the county's 457 plan.

0610.8 **Management Reports**

0610.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that Mr. Lewis, trustee, will be resigning from his position on the *SamCERA* board of retirement. The November board meeting will be the last board meeting in which Mr. Lewis will hold his seat as the Fifth Member of the board.

Mr. Bailey then reported that staff interviewed teams with five different IT plan proposals. Staff was assisted by IT staff members from the county as well as Tom Watson from San Jose City. The interview panel unanimously selected one of these five IT consulting firms. Mr. Bailey stated the firm has a very experienced team within the public pension industry. Two of the individuals from the firm who were present were currently working with San Diego County Employees' Retirement Association (SDCERA). Staff is currently checking references.

Staff is also working on a written response to SCORPA's questions raised at the October 3, 2006, board meeting. SCORPA requested a clarification on *SamCERA*'s most recent actuarial valuation as well as on taxes on retiree medical deductions.

Mr. Bailey then stated that the Ad-Hoc Committee on Undistributed Earnings will start work in November. Mr. Bryan appointed Mr. Wozniak, Chair; Donna Colson and Ms. Stuart to the committee at the October 3, 2006, board meeting.

He then noted that typical trustee reimbursement for the appointed seats on the board of retirement, including that of the retiree alternate, was currently being processed. There had been a delay due to administrative issues.

Lastly, he stated that a status report of disability applications will again be forwarded to trustees in their monthly board packet.

0610.8.2 **Assistant Executive Officer's Report:** Mr. Hood reported that *SamCERA* has completed the recruitment for the Retirement Benefits Manager position. **Gladys Smith** of the County Controller's Office was the successful candidate and has accepted *SamCERA*'s offer.

Mr. Hood then reported that the building owners of *SamCERA*'s current location have returned with a counter-offer. He stated that they are still in negotiations.

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0610.8.3 **Investment & Finance Manager's Report:** Mr. Bailey reported that Mr. Clifton was attending Barclays Global Investors' Client Conference.

0610.8.4 **County Counsel's Report:** None.

0610.9 **Report on Actions Taken in Closed Session:** Ms. Carlson reported that Mr. Bryan had convened the Board in closed session at 1:06 p.m.

Ms. Carlson reported that the board unanimously finds that **Douglas Chapman** is disabled from performing his usual and customary duties as a Deputy Sheriff, and **GRANTS** his application for a *service-connected* disability.

There being no further business, Mr. Bryan adjourned the closed session at 1:13 p.m.

Mr. Bryan then took up agenda item 6.1.

0610.10 **Adjournment in Memory of the following Deceased Members:** There being no further business, Mr. Bryan adjourned the meeting at 2:14 p.m., in memory of the following deceased members:

THOMAS ELEANOR
WILSON, RUBY

SEPTEMBER 15, 2006
SEPTEMBER 30, 2006

SUPERIOR COURT
FOOD SERVICES

TOM E. BRYAN, CHAIR