

San Mateo County  
Employees' Retirement Association  
A Component Unit of the County of San Mateo

Sources, Uses and Budget Report  
for the Fiscal Year 2004-2005

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**San Mateo County Employees' Retirement Association**  
**SOURCES, USES AND BUDGET REPORT**  
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April 27, 2004

Board of Retirement  
San Mateo County Employees' Retirement Association

Dear Trustees:

SamCERA's stewardship of the Retirement Fund requires adherence to the highest standard of fiduciary conduct in our management of the System's flow of funds. This *Sources, Uses and Budget Report* sets forth management's reports and best estimates of the flow of funds during the current and coming fiscal years.

This Report is being adopted as the State and County continue to grapple with their worst financial crises in history and SamCERA is implementing new benefit enhancements that will dramatically increase the County's retirement costs for decades to come. While it is imperative that we be as frugal as prudence permits in these difficult times, it is equally imperative that our Board and Staff remain steadfast and true to our fiduciary obligations.

#### **AUTHORITY**

SamCERA is administered pursuant to *Article XVI §17 of the California Constitution*, the *County Employees' Retirement Law of 1937* (The '37 Act), other relevant State and Federal governing statutes, regulations and case law.

#### **SamCERA'S POLICIES DRIVE THE ALLOCATION OF RESOURCES**

SamCERA's Administrative and Professional Services Budgets are managed in accordance with the law and the Board's adopted policies, including but not limited to the *Regulations of the Board of Retirement*, *SamCERA's Mission and Goals*, *SamCERA's Strategic Services* and *SamCERA's Annual Budget Initiatives*.

These key policies drive the allocation of staff and contractual resources within the budget process.

These key policies are also mirrored in *SamCERA's Investment Plan*, which governs the allocation and management of employer and member contributions and investment income, as well as investment expense.

Likewise, benefit payments, refunds and actuarial matters are governed in accordance with the law and the *Regulations of the Board of Retirement*.

#### **2003 – 2004 CHALLENGES AND ACCOMPLISHMENTS**

A status report on SamCERA's current budget initiatives begins on page 42. In addition to SamCERA's normal activities, the following unique challenges were addressed during the current fiscal year:

##### **Benefit & Actuarial Services**

**New Benefit Formulas:** The County entered into agreements with unions representing General Members, Safety Members and Probation Members. The new agreements provide for the implementation of enhanced retirement benefit formulas in two increments for the members of the affected unions. Staff, successfully implemented the new 2% @ 55 formula for General Members and the new 3% @ 55 formula for Safety and Probation Members. A second round of benefit enhancements will be implemented in 2005.

**Actuarial Challenges:** The Board, with the assistance of its actuary and staff, reviewed the actuarial assumptions and revised the interest assumption downward, from 8.25% to 8%.

The combination of three-years of dismal investment markets, more generous benefit formulas and revised actuarial assumptions has caused the Funding Ratio to decline from 98.6% two year's ago to 76% as of June 30, 2003.

The actuary has predicted that the funding ratio is unlikely to reach 80% during the decade.

The Board retained the services of a new Actuary, Public Pension Professionals, during the fiscal year.

The Board reviewed and revised its Interest Crediting Policy during the year, with the help of its new actuary..

**Medicare Part-B Premium Reimbursement Program:** The Board of Supervisors funded the Medicare Part-B Premium Reimbursement Program for the current fiscal year. However, in February 2004, the Board of Retirement voted to suspend the program as of June 30, 2004, since SamCERA no longer meets the 80% Funding Ratio requirement that was part of the 1998 agreement between the Board of Supervisors and the Board of Retirement.

**Purchase of Military Service and Plan 3 Upgrades:** Member interest in purchases has increased since the implementation of the improved benefit formulas.

**Teamsters Local 856 Litigation:** During the current fiscal year the Court of Appeals upheld, and the Supreme Court declined to review, Judge Pollak's writ of mandate that the Board of Retirement provide for retroactive calculation and payment of benefits to existing retirees, survivors and beneficiaries, as required by the 1997 California Supreme Court's *Ventura* decision. The Board authorized the Chief Executive Officer to implement the writ of mandate and to collect arrears contributions on the benefits paid in accordance with the writ. Implementation is scheduled for completion before the end of the calendar year.

### **Investment Services**

**Asset / Liability Modeling Study:** The Board completed its Asset / Liability Modeling Study under the guidance of its Investment Consultant, Strategic Investment Solutions. The Study confirmed the Board's Asset Allocation, but concluded that risk adjusted returns could be enhanced with a revised investment manager structure. During the year, the Board began the process of refining its manager structure and selecting managers reflective of the appropriate investment disciplines.

### **Board & Management Support Services**

**Benefits Administration System:** The Board authorized the implementation of a new electronic document management system that includes imaging of mission critical records. Further enhancements to *PensionGold* were undertaken over the course of the year as the need arose.

**Website:** SamCERA's website was redesigned, with increasing emphasis on the member interface, access to information, online forms and member statements.

**SamCERA's Risk Management Program:** During the current fiscal year, SamCERA strengthened several elements of SamCERA's risk management effort. SamCERA's *Risk Management Matrix* provides a regularly updated status report on SamCERA's Risk Management Program. [see page 38]

**SamCERA's Business Continuity Plan:** Staff undertook its second disaster recovery exercise; successfully launching its back-up, redundant computer system.

**Human Resources:** SamCERA continued its emphasis on professional development during the year, resulting in the promotion of staff to the positions of Retirement Analyst and Senior Accountant. In addition, SamCERA continued its strong commitment to trustee education.

### **2004 – 2005 CHALLENGES**

SamCERA's budget initiatives for next year are set forth beginning on page 43. Highlights include:

#### **Benefit & Actuarial Services**

**Ventura Implementation:** Resources are committed to complete the recalculation and payment of retroactive benefits by December 31, 2004.

**Formula Changes:** Staff is prepared to implement a new 2% @ 55.5 formula for General Plans 1, 2 & 4 during 2004-2005 and a new 3% @ 50 formula for all Safety Plans and Probation Plans during 2004-2005.

**New Benefits:** Various statutory requirements make it highly probable that SamCERA will be required to implement the following new benefit programs during 2004-2005: Mandatory Domestic Partner Spousal Benefits

(2003:AB205), Additional Retirement Credit purchases (2003:AB55) and an Internal Revenue Code mandated Excess Benefit Plan.

**Benefits Administration System:** Staff will continue to improve the interface between the *PensionGold* on-line real-time Benefits Estimator and our Members and will make additional enhancements as required, including provisions for domestic partner benefits, IRS income limit testing and calculations for Additional Retirement Credit purchases.

**Web-Based Member Services:** Staff will continue to expand the availability of on-line, interactive forms for the members' convenience during the coming fiscal year. Member education and New Employee Orientation will be two focuses for our web-based services.

**Member Services:** Retirement Enrollment Workshops will replace SamCERA's Financial Planning Seminars next fiscal, as staff plans for the increase in new retirements that will follow implementation of the new benefit formulas. Staff will be analyzing more cost-effective ways to provide Member Education, following our dropping of the Financial Planning Seminars.

**Actuarial Challenges:** The Board, with the assistance of its a new actuary, will devote a significant effort to re-evaluating SamCERA's actuarial assumptions and methodologies during the 2004 Actuarial Valuation. Staff and the actuary will be fully engaged in building the necessary interface between *PensionGold* and the actuary's valuation system.

## **Investment Services**

**Investment Plan:** Staff will redirect resources as necessary to assist the Board with the selection, due diligence, transition of assets to, and monitoring of the additional investment managers called for by the amendments to the *Investment Plan* that resulted from the asset/liability modeling study and manager restructuring.

**Investment Managers' Performance Attribution:** As the Board adds additional investment disciplines to its roster of managers, staff will incorporate additional performance attribution information into the monthly reports to the Board.

## **Board & Management Support Services**

**Document Management System:** Staff will implement its new electronic document management system during the coming fiscal year.

**Human Resources:** Staff proposes the addition of three Retirement Analyst I/II.

One of the positions would be permanent and two would be unclassified, which means they are 'benefited' positions that last only as long as they are funded.

**Permanent Retirement Analyst:** The permanent position will allow us to solve our peer review and depth problem, which became evident with the extended illness of our Retiree Services Retirement Analyst, which required several of us, to "drop everything" to make certain that retirees were paid on time; and shorter periods of illness experienced by our Member Services Retirement Analyst, who handles all disability and divorce issues and was out when numerous Plan 3 upgrade purchases needed to be completed prior to retirement. Normal workload and requests for service take a back seat when staff temporarily reprioritizes to meet key deadlines.

Another important function that has been degraded is the internal audit of newly retired members' records. Up until the day Ms Manning retired, all retiree records were subjected to a thorough audit before the records were stored. These records are now reviewed on an as needed basis or are on hold until we can schedule resources to conduct the final records review. Additional staff is needed to provide the peer review 'second set of eyes' before a record is closed.

One of the functions that will be transferred to the additional retirement analyst is checks on calculations for all types of purchases and estimates, account splitting in the case of divorce, disability percentage calculations when a members' service retirement would otherwise exceed 50% of their salary, retiree retro calculations and calculations of refunds due when a member dies before their contributions and interest runs out and they have no

continuance benefit. Additionally, purchases involving the new cost sharing percentages must be hand calculated and verified.

Lately, our ability to cross-train has declined. Consequently, we have not maintained our peer review process for benefit operations at the level we consider prudent. Just as we expect our actuary to subject their work to peer review, so too, should our staff. The additional retirement analyst will be cross-trained and be able to conduct review work and fill in where needed.

We have noted several times over the past two years that SamCERA's 'routine work' quickly becomes non-routine when special time-sensitive projects are placed on top of it. With the known challenges that lie ahead, prudence demands that we add depth to our team now.

As noted in the Assistant Executive Officer's report submitted to the board on November 25<sup>th</sup>, the staffing analysis illustrated that SamCERA's ratio of members to benefits staff is much higher than it is for our peers. The addition of the three positions would place SamCERA near the mean for its peers.

**Unclassified Retirement Analysts:** Initial funding for the unclassified positions will be provided from the *Ventura Contingency Reserve* Budget. Future funding will depend on which of the following workloads materialize.

The temporary unclassified positions are needed to get us through the next two years. The following is an incomplete list of the larger considerations ahead of SamCERA, which must be integrated into our operations in addition to our normal workload:

*Ventura Implementation:* As we begin to recalculate and pay *Ventura* benefits, each completed case will be entered as an adjustment to the payroll. It will include a retro payment and an adjustment to pension and annuity going forward; additionally the COLA must be brought current. While a separate group will do the research for this project, it must still be entered in through the payroll process. While we research ways to input this data automatically, the default is to manually input the changes. Not only will verification of the calculations require additional time, manually entering these adjustments will be enormously time consuming.

*Electronic Document Management System Implementation:* SamCERA is on the verge of implementing an electronic document management system. Proper implementation will result in new procedures being developed, adjusted, reviewed and written. SamCERA's plan to execute a 'day forward' approach to the backfile conversion could take up to an estimated two hours per day per retirement analyst to review the files they are currently working with to remove and dispose of documents not needed in the files and to scan and index the files to be retained and then dispose of the files that have been scanned. Outside of the backfile conversion, there may be an increased workload to scan and index incoming documentation and dispose of the original documents. Contra Costa County Employees' Retirement Association did hire additional personnel and reclassified some of their positions to include the task and responsibility of scanning and indexing documents.

*Spring 2005 Retirements under the new retirement formulas:* Staff anticipates that more than 400 new retirees will take advantage of the 2% @ 55.5 and 3% @ 50 formulas, which will create a 'bottleneck' of paperwork. Although we have scheduled retirement workshops to allow us to manage the workflow, the volume will be something that we have not seen before. Additional hands and eyes will be required to insure all those retiring are paid when they expect to be paid and receive what they are entitled to receive. The unfortunate part of our business is that we can only project retirement numbers. Our members tend to keep their retirement information 'close hold'.

*Processing of New County Employees after the Spring 2005 retirement bubble:* The County's fiscal constraints, notwithstanding, the County will be hiring a higher than normal number of new employees to fill critical positions vacated by those who retire in the Spring of 2005.

*Other contingent workloads that must be anticipated:*

- 5-years Additional Retirement Credit
- IRC § 415 Limits
- Legislated Domestic Partners Benefits
- Legislated Budget Mandates

Legislated Disability Mandates  
Mobilization of the AEO for 1 year  
Working with a new Actuarial Team

*Member Education:* SamCERA has not pursued a member education series to replace the seminar series previously conducted by Net Equities Associates. This will free up some staff time to devote to member matters. Sacramento County has also done away with conducting education seminars until they complete their *Ventura* work.

*SamCERA's Business Continuity Plan:* During the coming fiscal year staff plans to refine *SamCERA's Emergency Procedure Manuals Series* for each mission critical function and to conduct an emergency field office exercise.

## THE SOURCES, USES AND BUDGET REPORT

This Report consists of the following sections:

- This *Chief Executive Officer's Report*
- Sources and Uses Summary
- Administration of the Association
- SamCERA's Benefits Programs
- SamCERA's Budget Policies and Process
- SamCERA's Mission, Goals, Strategic Services & Budgets
  - SamCERA's Risk Management Matrix – Status Report as of March 25, 2003*
  - SamCERA's Budget Initiatives 2003-2004 – Status Report as of March 25, 2003*
  - SamCERA's Budget Initiatives 2004-2005*
  - Administrative Budget Resolutions for 2003-2004 and 2004-2005
  - Administrative Services Line Item Budget
  - Professional Services Budget
  - Ventura Budget

Mr. Clifton and I have collaborated in the preparation of this Report. It has been my pleasure to assist him in realizing his vision. All *SamCERA* staff members have contributed to the development of our budget initiatives.

For those wishing to review additional sources and uses information, *SamCERA's Comprehensive Annual Financial Report*, *SamCERA's Investment Plan* and the Actuarial Valuation Report can be viewed on SamCERA's web site at [www.samcera.org](http://www.samcera.org).

Respectfully submitted,

Sid McCausland, Chief Executive Officer



## **SOURCES AND USES SUMMARY**



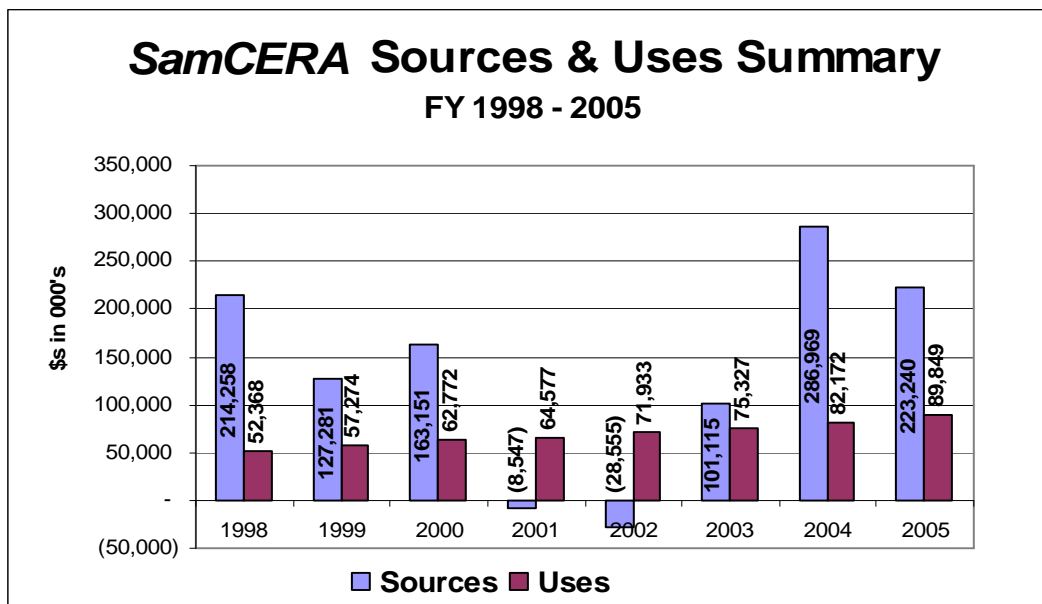
### SOURCES AND USES SUMMARY

**Uses:** SamCERA's Retirement Fund is managed as a Trust Fund whose sole purpose is to provide lifetime and lump sum benefits authorized by the County of San Mateo and the Mosquito Abatement District for their permanent employees, beneficiaries and survivors. Retirement Fund income may also be used to defray the professional and administrative expenses of administering SamCERA's benefits, investment and management programs.

**Sources:** The Retirement Fund receives contributions from the County, the District and the members of the Retirement System. These contributions are based upon a percentage of pay as determined by the actuary and set by the Board of Retirement. These contributions are invested along with accumulated contributions and investment earnings from prior years.

Net investable resources are estimated to increase by \$133,595,231 in the coming fiscal year. The estimate assumes that the Association earns the projected Policy Benchmark return of 8.23%

|                                   | 2002-2003<br>Actual  | 2003-2004<br>Projected | 2004-2005<br>Budget  | Change        |
|-----------------------------------|----------------------|------------------------|----------------------|---------------|
| <b>Sources</b>                    |                      |                        |                      |               |
| Contributions                     | \$58,719,773         | \$76,285,840           | \$103,904,751        | 36.2%         |
| Investments                       | \$42,395,283         | \$210,682,932          | \$119,335,000        | -43.4%        |
| <b>TOTAL SOURCES</b>              | <b>\$101,115,056</b> | <b>\$286,968,772</b>   | <b>\$223,239,751</b> | <b>-22.2%</b> |
| <b>Uses</b>                       |                      |                        |                      |               |
| Benefits                          | \$68,989,296         | \$73,800,000           | \$78,000,000         | 5.7%          |
| Refund of Member Contributions    | \$1,205,576          | \$2,177,612            | \$2,200,000          | 1.0%          |
| Professional Expense              | \$1,989,330          | \$2,350,000            | \$4,500,000          | 91.5%         |
| Administrative Expense            | \$1,886,892          | \$1,994,500            | \$2,398,950          | 20.3%         |
| Interest on Prepaid Contributions | \$1,256,003          | \$1,850,000            | \$2,750,000          | 48.6%         |
| <b>TOTAL USES</b>                 | <b>\$75,327,097</b>  | <b>\$82,172,112</b>    | <b>\$89,848,950</b>  | <b>9.3%</b>   |
| <b>NET INVESTABLE RESOURCES</b>   | <b>\$25,787,959</b>  | <b>\$204,796,661</b>   | <b>\$133,390,801</b> | <b>-34.9%</b> |

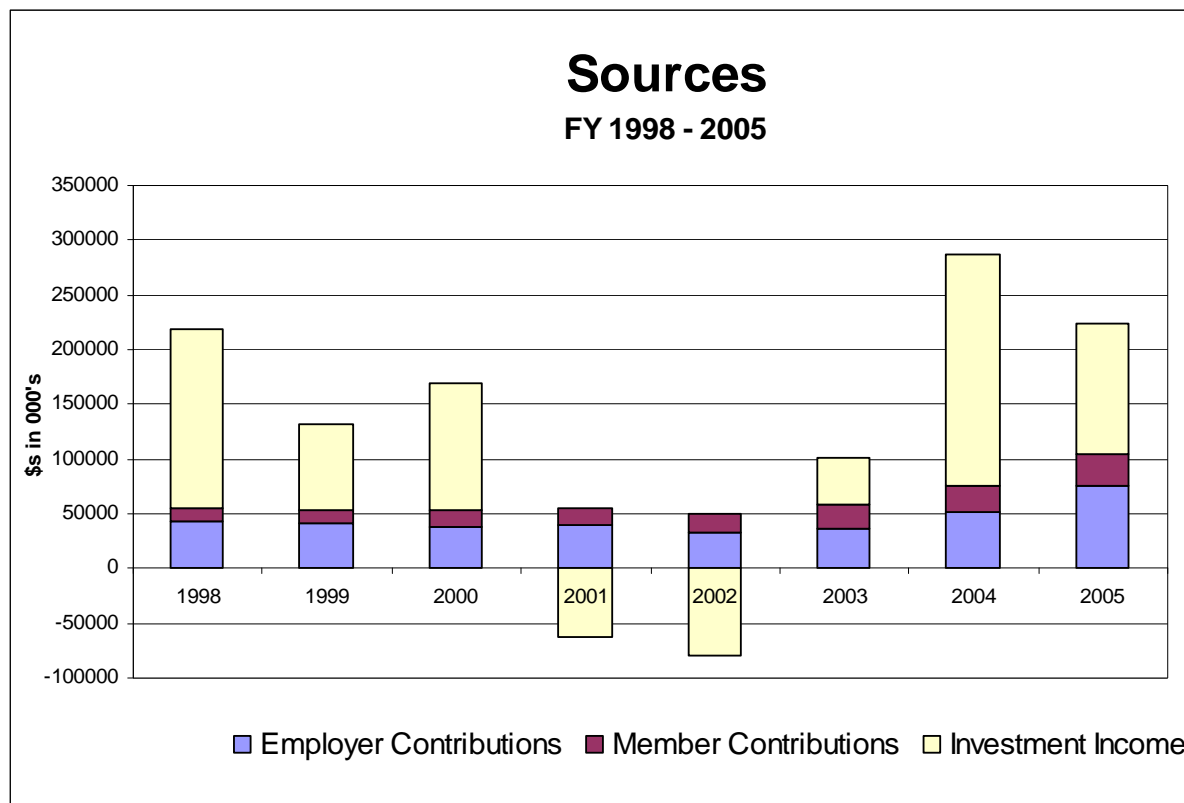


### SOURCES DETAIL

Employer Contribution rates are set for each of SamCERA's ten plans (tiers) by the Board and ratified by the Board of Supervisors based upon the recommendations set forth in the annual actuarial valuation. Actual contributions are dependent on the actual distribution of payroll across SamCERA's ten plans. The estimates below are as set forth in the June 30, 2003 actuarial valuation.

Member Contributions are based on entry age by plan and are set in accordance with the '37 Act. The estimates below are as set forth in the June 30, 2003 actuarial valuation.

| For the Years Ended June 30,                                    |                      |                        |                      |              |
|---|----------------------|------------------------|----------------------|--------------|
| Contributions   | 2002-2003<br>Actual  | 2003-2004<br>Projected | 2004-2005<br>Budget  | Change       |
| Employer  | \$36,069,587         | \$50,943,786           | \$75,304,751         | 47.8%        |
| Member  | \$22,650,186         | \$25,342,054           | \$28,600,000         | 12.9%        |
| <b>TOTAL CONTRIBUTIONS</b>                                      | <b>\$58,719,773</b>  | <b>\$76,285,840</b>    | <b>\$103,904,751</b> | <b>36.2%</b> |
| <b>Investments</b>  |                      |                        |                      |              |
| Interest & Dividends  | \$16,520,506         | \$10,682,932           | \$20,000,000         | 87.2%        |
| Net Appreciation (depreciation)<br>in fair value of investments | \$26,200,706         | \$200,000,000          | \$99,335,000         | -50.3%       |
| <b>NET INVESTMENT INCOME</b>                                    | <b>\$42,721,212</b>  | <b>\$210,682,932</b>   | <b>\$119,335,000</b> | <b>43.4%</b> |
| <b>TOTAL</b>  | <b>\$101,440,985</b> | <b>\$286,968,772</b>   | <b>\$223,239,751</b> | <b>22.2%</b> |



### USES DETAIL

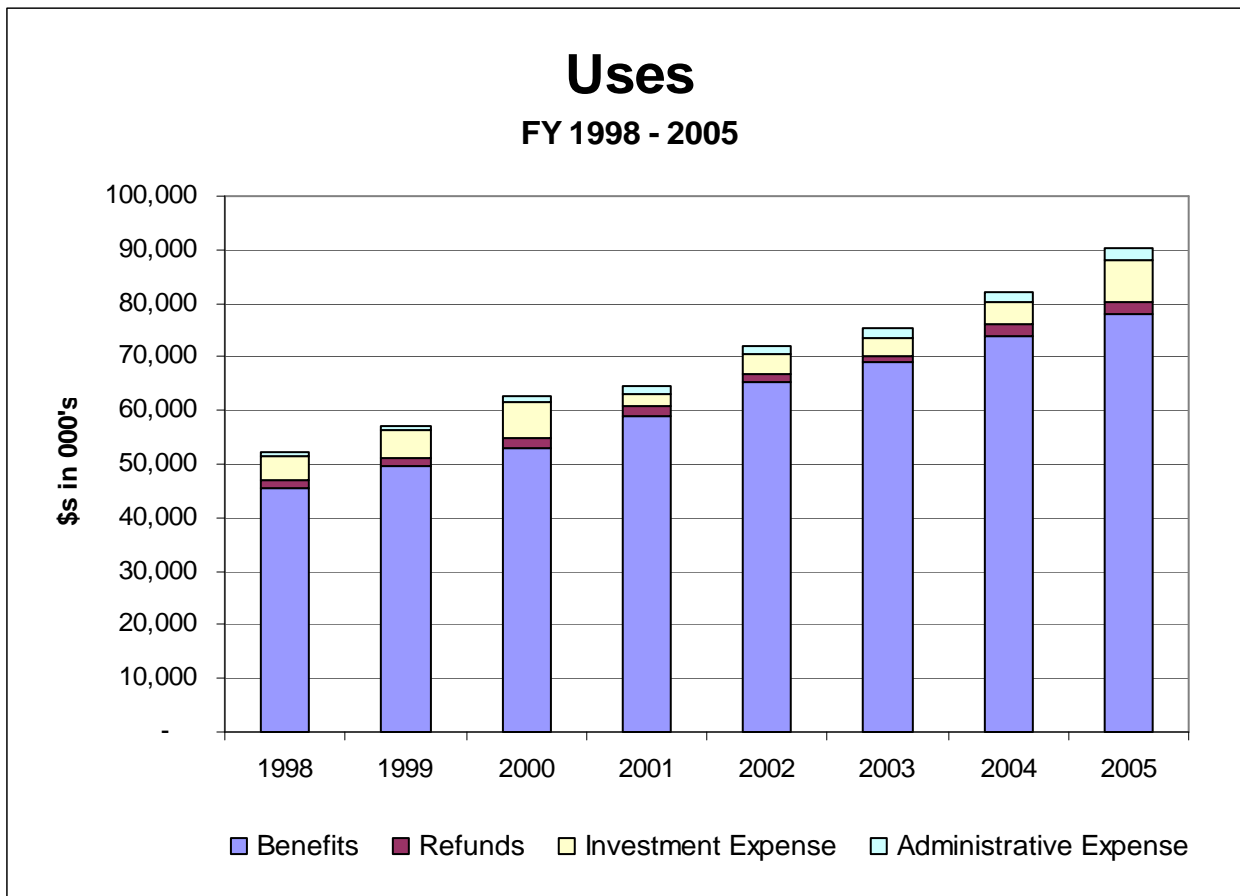
Earned benefits are paid monthly for the lifetime of eligible retirees, beneficiaries and survivors. One-time lump-sum death benefits are paid to eligible survivors who are not eligible for a lifetime monthly benefit. Benefits are paid out of the corpus of the Retirement Fund.

Members who have terminated County or District employment may withdraw their contributions with interest. Refunds are paid out of the corpus of the Retirement Fund

Professional services for investment consulting, investment management, global custody, actuarial and external legal services are paid for out of investment earnings.

SamCERA's administrative expenses are also paid for out of investment earnings.

| For the Years Ended June 30,      |                     |                        |                       |        |
|-----------------------------------|---------------------|------------------------|-----------------------|--------|
|                                   | Actual<br>2002-2003 | Projected<br>2003-2004 | Budgeted<br>2004-2005 | Change |
| Benefit Payments                  | \$68,989,296        | \$73,800,000           | \$78,000,000          | 5.7%   |
| Refund of Member Contributions    | \$1,205,576         | \$2,177,612            | \$2,200,000           | 1.0%   |
| Professional Expenses             | \$1,989,330         | \$2,350,000            | \$4,925,000           | 109.6% |
| Administrative Expenses           | \$1,886,892         | \$1,994,500            | \$2,398,950           | 20.3%  |
| Interest on Prepaid Contributions | \$1,256,003         | \$1,850,000            | \$2,750,000           | 48.6%  |
| TOTAL EXPENSES                    | \$75,327,097        | \$82,172,112           | \$90,273,950          | 9.9%   |





# **Administration of the Association**



**Inception of San Mateo County Employees' Retirement Association:** SamCERA stands for the San Mateo County Employees' Retirement Association. SamCERA was founded in 1944 with the Board of Supervisors adoption of Ordinance 564, which implemented the provisions of the County Employees' Retirement Law of 1937 (the '37 Act).

**Description of the Association:** SamCERA exists for the sole purpose of administering the funding for and payment of benefits authorized by the '37 Act that have been granted to permanent employees of San Mateo County (the County) by its Board of Supervisors and to the employees of the Mosquito Abatement District (the District) by its Board of Directors.

SamCERA is a cost-sharing, multiple-employer, governmental defined benefit plan providing earned pension, disability and death benefits to eligible permanent employees of the County and the District.

As governmental plans, SamCERA's benefit programs are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Administration of the Association:** SamCERA operates as an independent public agency pursuant to the authority granted by *Article XVI of the California Constitution*, the County Employees' Retirement Law of 1937 [commencing with Section 31450 of the Government Code of the State of California], other relevant State and Federal governing statutes, regulations and case law.

SamCERA is administered by a nine member Board of Retirement per GC§31520.1. Two of the Board members are elected by the County & District employees who are General Members of SamCERA, one is elected by the County employees who are Safety Members and one is elected by SamCERA's Retired Members. Four additional members are appointed by the Board of Supervisors. The four elected & appointed members serve three-year terms. The County's elected Tax Collector/Treasurer serves as the ninth trustee on the Board of Retirement.

SamCERA is managed in accordance with the law and the Board's adopted policies, including but not limited to the *Regulations of the Board of Retirement*, *SamCERA's Mission and Goals*, *SamCERA's Strategic Services* and *SamCERA's Annual Budget Initiatives*.

These key policies are also mirrored in *SamCERA's Investment Plan*, which governs the allocation and management of employer and member contributions and investment income, as well as investment expense.

Likewise, benefit payments, refunds and actuarial matters are governed in accordance with the law and the *Regulations of the Board of Retirement*.

The Board defines its duties as follows:

- Grant Earned Benefits & Provide for the Disbursement of those Benefits
- Provide for the Investment & Safekeeping of Retirement Fund Assets
- Assure the Actuarial Soundness of the System
- Establish & Arrange for the Collection of Contributions
- Manage the Association & System in accordance with the Law
- Define Fiduciary & Ministerial Responsibilities and Effectively Delegate them to Designated Fiduciaries
- Select & Monitor the Performance of Designated Fiduciaries, including but not limited to

- investment managers, consultants and other advisors
- Approve & Monitor Internal Controls & Audit Programs

The Board has delegated responsibility for the management of the Association to its Chief Executive Officer.

**SamCERA’s Staff:** SamCERA's operations are managed by the Chief Executive Officer (CEO) who serves at the pleasure of the Board of Retirement. The CEO is a County Employee and SamCERA member who serves under contract to the Board.

SamCERA’s staff is responsible for administering the policies and programs approved by the Board. Reporting to the CEO are the Assistant Executive Officer and the Investment and Finance Manager.

The Assistant Executive Officer and his staff administer SamCERA’s Benefit & Information Technology programs.

The Investment and Finance Manager and his staff are responsible for (1) establishing and maintaining internal controls designed to protect the assets of the Fund; (2) overseeing and monitoring the Board’s independent investment managers and other consultants; (3) maintaining the accounting records of the Association; (4) compiling data necessary for, and preparing, financial statements in conformity with generally accepted accounting principals and applicable requirements; and (5) preparing and monitoring SamCERA’s annual budgets.

**SamCERA’s Staff**

|                    | 2003      | 2004      | 2005      |
|--------------------|-----------|-----------|-----------|
| <b>Total Plan</b>  | <b>11</b> | <b>11</b> | <b>12</b> |
| Benefits Section   | 4.5       | 4.5       | 5.5       |
| Finance Section    | 3.5       | 3.5       | 3.5       |
| Technology Section | 1.5       | 1.5       | 1.5       |
| Executive Section  | 1.5       | 1.5       | 1.5       |

**Professional Services:** The Board retains independent advisors to perform specific professional services essential to the Fund. The Actuary provides the Association with a review of the demographics and actuarial funded status of the Fund and recommends modifications to the economic and non-economic assumptions and member and employer contribution rates. The Investment Consultant assists the Board with the development, implementation and monitoring of the Fund’s asset allocation and manager structure; the maintenance of *SamCERA’s Investment Plan*; and the measurement of the managers’ and the Fund’s performance. Style-specific Asset Class Investment Managers are retained to invest and reinvest the assets of the Association. A global custodian holds in trust the Fund’s actively managed assets and provides accounting and performance reports for all investment assets. Independent real estate legal counsel provides the Board with real property document review and due diligence.

**County Services:** SamCERA utilizes the services of the County where it is cost-effective to do so. Currently SamCERA uses the services of County Counsel for full legal services; the County Elections Officer for trustee elections; the Information Services Department for telecommunications, internet, intranet, local area network, and offsite document storage; Employee & Public Services for risk management, recruiting and classification services & the Controller for audit and fiscal services.

**San Mateo County Employees' Retirement Association**  
**Members of the Board of Retirement**  
for the fiscal year ending June 30, 2005

**DONNA WILLS COLSON**, Chair *appointed by the Board of Supervisors, Ninth Member*  
Donna Wills Colson is Client Services Officer with Tukman Capital Management. Donna joined the Board in August of 1998. Her term expires June 30, 2004

**ALMA R. SALAS**, Vice Chair *elected by SamCERA's Safety Members, Seventh Member*  
Alma Salas is a Deputy Probation Officer III with Adult Probation. Alma joined the Board in May of 2001. Her term expires June 30, 2006.

**BETTE PERROTON STUART**, Secretary *elected by SamCERA's Retired Members, Eighth Member*  
Bette Perroton Stuart retired as your Retirement Officer in 1988 after nearly 20 years with the County. Bette joined the Board in December of 1990. She served as Chair from 1996 – 1998. Her term expires June 30, 2004.

**TOM E. BRYAN** *elected by SamCERA's General Members, Third Member*  
Tom Bryan is a Principal Appraiser with San Mateo County and a Steward with SEIU Local 715. Tom joined the Board in July of 1986. He served as Chairman from 1989 – 1990 and 2002 – 2003. His term expires June 30, 2004.

**LEE BUFFINGTON** *Ex Officio per the '37 Act, First Member*  
Lee Buffington serves as Tax Collector/Treasurer for San Mateo County. The law which created SamCERA designates the County Treasurer as a member of the Board of Retirement. Lee joined the Board in October of 1985. SANDRA ARNOTT serves as the Constitutional Alternate in Lee's absence. His term expires January 8, 2007.

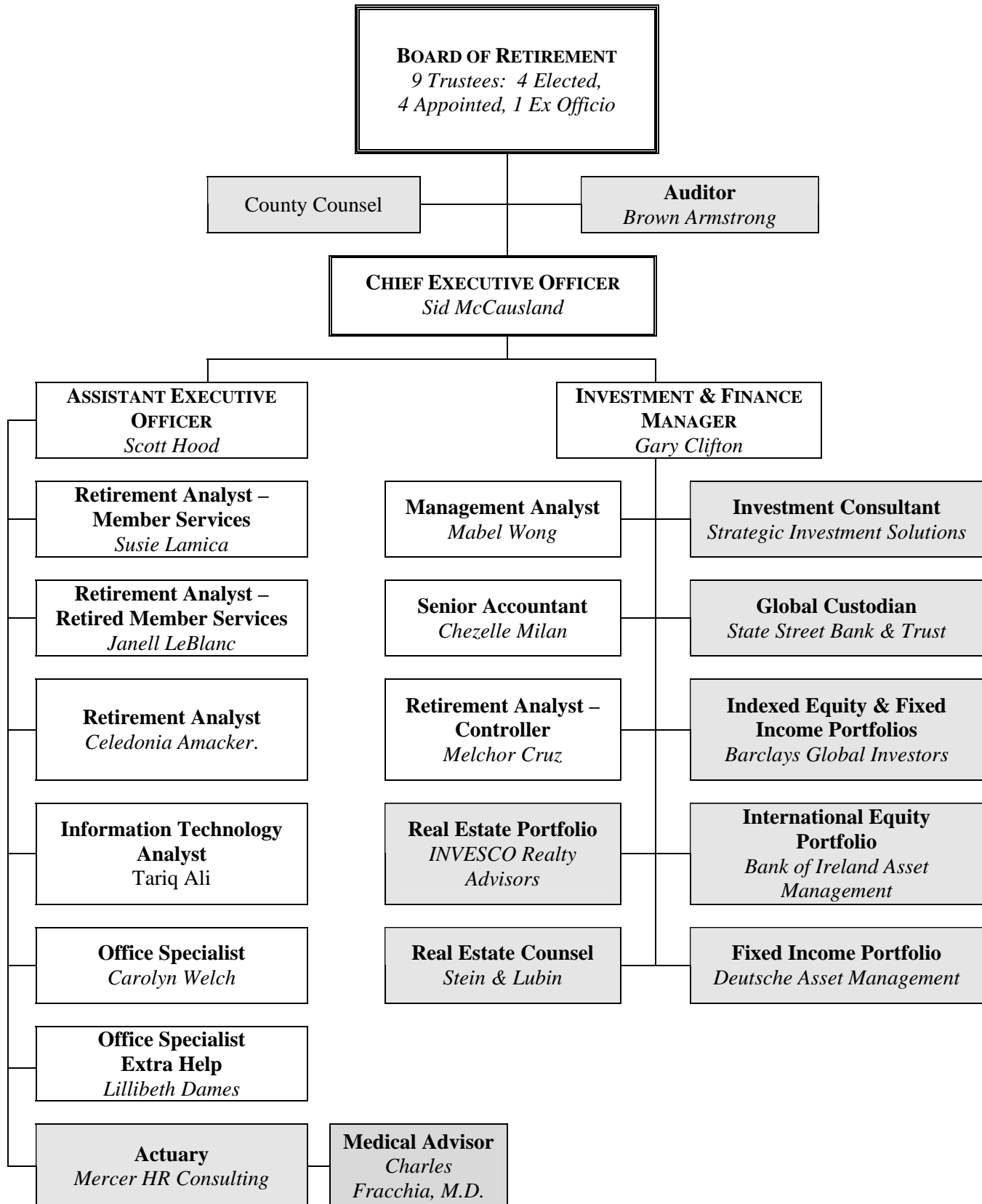
**JAMES HOOLEY** *appointed by the Board of Supervisors, Sixth Member*  
James Hooley retired as Associate Superintendent of the San Mateo County Office of Education. Jim joined the Board in September of 2003. His term expires June 30, 2006.

**KENNETH A. LEWIS** *appointed by the Board of Supervisors, Fifth Member*  
Kenneth Lewis is the Vice President – Treasurer of Franklin Resources. Kenneth joined the Board in September of 2001. His term expires June 30, 2004.

**MICHAEL E. MCMAHON** *elected by SamCERA's General Members, Second Member*  
Michael McMahon is a Senior Auditor-Appraiser with the County. Michael joined the Board in October of 1993. His term expires June 30, 2006.

**EMILY TASHMAN** *appointed by the Board of Supervisors, Fourth Member*  
Emily Tashman is a finance professional who has worked with DIVA Systems, Barclays Bank, Toronto Dominion Bank, Bank of California and SRI International. Emily joined the Board in January of 2004. Her term expires June 30, 2006.

SAN MATEO COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION  
May 27, 2004 Organization Chart



# **SamCERA's Benefit Programs**



**SamCERA** exists for the sole purpose of administering the funding for and payment of benefits authorized by the County Employees' Retirement Law of 1937 ('37 Act) that have been granted to the permanent employees of San Mateo County by its Board of Supervisors and to the permanent employees of the Mosquito Abatement District by its Board of Directors.

**SamCERA Benefits:** SamCERA administers retirement, disability and death benefits based on defined benefit formulae that use final average salary, years of service, and age to calculate benefits payable and, in addition, provide annual cost-of-living adjustments after retirement for members of Plans One, Two and Four. SamCERA maintains four plans for General Members, three for Safety and three for Probation.

**SamCERA's Membership:** Permanent employees are required to become members of SamCERA. Employees hired on or before July 6, 1980 became members of Plan 1. Employees hired after July 6, 1980 and on or before July 12, 1997 became members under Plan 2. Employees hired after July 12, 1997 become members of Plan 4. General Plan 3 members can elect membership in a contributory plan after 5 years of service. In 1990, Probation Officers were given the choice of remaining in the General Plan or electing Safety status for future service under a new Probation Plan.

As of June 30, 2003, SamCERA's membership was composed of the following:

|   | Plan<br>One       | Plan<br>Two         | Plan<br>Three     | Plan<br>Four        | Total               |
|---|-------------------|---------------------|-------------------|---------------------|---------------------|
| Retirees and beneficiaries currently receiving benefits:                          |                   |                     |                   |                     |                     |
| General   | 2,241             | 716                 | 90                | 3                   | 3,050               |
| Safety  | 265               | 41                  | 0                 | 0                   | 306                 |
| Probation   | <u>83</u>         | <u>15</u>           | <u>0</u>          | <u>0</u>            | <u>98</u>           |
| <b>Subtotal</b>   | <b>2,589</b>      | <b>772</b>          | <b>90</b>         | <b>3</b>            | <b>3,454</b>        |
| Terminated employees entitled to but not currently receiving benefits (Deferred): |                   |                     |                   |                     |                     |
| General   | 90                | 476                 | 114               | 88                  | 768                 |
| Safety  | 1                 | 33                  | 0                 | 12                  | 46                  |
| Probation   | <u>0</u>          | <u>30</u>           | <u>0</u>          | <u>11</u>           | <u>41</u>           |
| <b>Subtotal</b>   | <b>91</b>         | <b>539</b>          | <b>114</b>        | <b>111</b>          | <b>855</b>          |
| Current employees:  |                   |                     |                   |                     |                     |
| Vested:   |                   |                     |                   |                     |                     |
| General   | 369               | 1,822               | 61                | 161                 | 2,413               |
| Safety  | 68                | 208                 | 0                 | 26                  | 302                 |
| Probation   | 28                | 104                 | 0                 | 21                  | 153                 |
| Non-Vested:   |                   |                     |                   |                     |                     |
| General   | 1                 | 14                  | 91                | 1,694               | 1,800               |
| Safety  | 0                 | 1                   | 0                 | 131                 | 132                 |
| Probation   | 0                 | 0                   | 0                 | 137                 | 137                 |
| <b>Subtotal</b>   | <b><u>466</u></b> | <b><u>2,149</u></b> | <b><u>152</u></b> | <b><u>2,170</u></b> | <b><u>4,937</u></b> |
| <b>TOTAL</b>  | <b>3,146</b>      | <b>3,460</b>        | <b>356</b>        | <b>2,284</b>        | <b>9,246</b>        |

**Other Coverage:** Extra Help employees are excluded from membership in SamCERA. However, the County provides Extra Help employees with 401(k) coverage through a contract with a private entity known as the Public Agency Retirement System. The County does not contribute toward the PARS' defined contribution benefit.

Safety Members, Probation Members and Extra Help employees do not receive Social Security coverage, so their quarters and compensation are excluded from the calculation of their Social Security benefit when they retire. General Members do receive Social Security coverage for their service.

**Final Average Salary:** Final average salary (FAS) is defined as the sum of the highest 2,080 consecutive hours of "compensation earnable" divided by 12 for Plan 1 and 2 members. FAS for Plan 3 and Plan 4 members is based on the average of the highest three sets of 2,080 consecutive hours divided by 36, which sets need not be consecutive.

**Return of Contributions:** If a member resigns before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a member with five years of service may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

**SERVICE RETIREMENT BENEFITS:** SamCERA's service retirement benefits authorized by the Board of Supervisors are set forth in Government Code §§31676.1, 31497.3 and 31664. Two additional formulas are scheduled for implementation over the next year. The changes are detailed on our website.

Plan 1, Plan 2 and Plan 4: Members with 10 years of service who have attained the age of 50 are eligible to retire. Members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire. The benefit is a percentage of monthly FAS per year of service, depending on age at retirement and is illustrated below for typical ages. The maximum benefit is 100% of FAS.

**Percentage of Final Average Salary**

| Age         | General | Safety and Probation |
|-------------|---------|----------------------|
| 50          | 1.18%   | 2.00%                |
| 55          | 1.49%   | 2.62%                |
| 60          | 1.92%   | 2.62%                |
| 62          | 2.09%   | 2.62%                |
| 65 and over | 2.43%   | 2.62%                |

Plan 3: Members with 10 years of service, who have attained the age of 55, are eligible to retire. The percentage of monthly FAS per year of service, depending on age at retirement, is illustrated below for typical ages.

| Age       | Percentage of FAS* |
|-----------|--------------------|
| 55        | 0.74%              |
| 60        | 1.20%              |
| 62        | 1.46%              |
| 65 & over | 2.00%              |

\* One-half of these percentages is credited for years of service over 35. Percentages for ages below 65 are actuarially reduced and may change from time to time.

The Plan 3 benefit arrived at by using the percentages shown above will be reduced by using a Social Security offset formula as follows: Social Security Offset = 1/35 times County years of service times P.I.A. at age 65 (not greater than 100% P.I.A.) where P.I.A. is the Primary Insurance Amount from Social Security. The maximum combined Plan 3 and Social Security P.I.A. benefit is 70% of final average salary for years of service less than 35 and is 80% of FAS for years of service greater than 35

#### **DISABILITY BENEFITS:**

Plan 1, Plan 2 and Plan 4: If the disability is **service connected**, the member may retire regardless of length of service with a benefit equal to 50% of FAS.

Members with 5 years of service, regardless of age, may be eligible for a **non-service connected** disability benefit.

*General Members:* The non-service connected disability benefit is 1.5% of FAS for each year of service credit. If this benefit does not equal 1/3 of FAS, the service credit is increased for the years that would have been credited to age 65 if the member had continued to work. If service credit is augmented, the total benefit cannot exceed 1/3 of FAS.

*Safety & Probation Members:* The non-service connected disability benefit is 1.8% of FAS for each year of service credit. If this benefit does not equal 1/3 of FAS, the service credit is increased for the years that would have been credited to age 55 if the member had continued to work. If service credit is augmented, the total benefit cannot exceed 1/3 of FAS.

Plan 3: No disability benefit is payable under Plan 3 until the member reaches age 65. At age 65 the benefit is calculated as a service retirement benefit, but the service credit is increased for the years that would have been credited to age 65 if the member had continued to work. To be eligible for the service credit augmentation the Plan 3 member must be both totally disabled and receiving short and/or long term disability benefits provided by the County.

#### **DEATH BENEFITS**

**DEATH BENEFIT BEFORE RETIREMENT:** Plan 1, Plan 2 and Plan 4: If a member dies in the performance of duty, the eligible spouse or children receive 50% of the member's FAS. If a member dies while eligible for service retirement or non-service connected disability, the spouse receives 100% of the Option 2 allowance that the member would have received for retirement on the day of his or her death. If the survivor is not eligible for a monthly benefit, then the death benefit consists of the return of contributions with interest plus a lump sum death benefit equal to one month's salary for each completed year of service under the Retirement Association, based on the salary earned during the last 12 months preceding the members' death, but not to exceed six months' salary.

Plan 3: No death benefit is payable under Plan 3.

**DEATH BENEFIT AFTER RETIREMENT:** Plan 1, Plan 2 and Plan 4: If the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the surviving spouse for life. If the retirement was for other than service connected disability, 60% of the member's allowance is continued to the spouse for life, unless the member selected the 100% continuance.

Plan 3: 50% of the member's allowance is continued to the surviving spouse for life.

**COST OF LIVING ALLOWANCE:** The maximum increase in retirement allowance is 5% per year for General and Safety Plan 1 and 3% per year for Probation Plan 1 and all Plan 2. Plan 3 does not provide for any cost of living increase. Plan 4 members will receive a maximum of 2% per year. Increases are based on the annual average change in the San Francisco/Oakland/San Jose Consumer Price Index for the year ending December 31. Increases are added annually to the April 30<sup>th</sup> benefit disbursements.

**CONTRIBUTION RATES:** Member contribution rates are based on a formula reflecting the member's age at entry into the Association. The rates are structured to provide an average annuity at age 60 of 1/120<sup>th</sup> of final average salary for General members under Plan 1, Plan 2 and Plan 4, and at age 50 of 1/100<sup>th</sup> of final average salary for Safety and Probation members. The members do not contribute towards the cost of living benefit.

The County rates are actuarially determined to provide for the balance of the contributions needed to fund future vested benefits. In addition, the County pays 100% of management employees' and unrepresented attorneys' contributions and 50% of confidential employees' and Sheriff's Sergeants' contributions on a refundable basis. The County also pays 15% of Deputy Sheriff and Correctional Officers' contributions on a non-refundable basis.

**MEDICARE PART-B PREMIUM REIMBURSEMENT PROGRAM:** On a temporary, ad hoc, non-vested basis the Board of Supervisors and Board of Retirement jointly sponsor the Medicare Part-B Premium Reimbursement program for retirees, beneficiaries and survivors who are enrolled in Medicare Part-B and who do not receive reimbursement from another source. The program is reviewed and renewed one year at a time. During the current calendar year the program is reimbursing \$58.70 per enrollee.

# **SamCERA's Budget Policies and Process**



## SamCERA's BUDGET POLICIES

### Administrative and Professional Budget Policy:

- SamCERA's budgets are a tool for financial planning and operational control.
- The budgets spell out how resources are being used in the current fiscal year and will be used in the coming fiscal year to accomplish the goals, programs, and projects identified in the budgets.
- The administrative and professional budgets shall be presented to the Board of Retirement annually.
- The Board of Retirement shall revise and approve the administrative budget annually.
- The Board's approval shall be by Budget Category, as follows: (1) Salaries & Benefits, (2) Services & Supplies and (3) Fixed Assets.
- The Board shall approve its professional budgets in the individual contracts for professional services. Staff shall provide the Board with a projection of estimated contractual expenditures for the Board's review and acceptance annually.
- Quarterly comparisons of amounts spent versus the amounts budgeted shall be provided to the Board with routine checks that expenditures are being made according to plan.
- Comparisons of investment performance to various performance goals shall be provided to the Board monthly and quarterly.
- The aggregate expenditure level approved by the Board may not be amended without the approval of the Board.
- The Board may amend Salaries and Benefits, Service and Supplies and Fixed Assets Category appropriations throughout the Fiscal Year. Such changes shall be by amendment to the Board's Budget Resolution for the fiscal year.
- The Board has delegated the Chief Executive Officer authority to approve on-going reallocation of monies among line items within each Category. However, the Board has retained unto itself the authority to reallocate monies between Categories. The Chief Executive officer will inform the Board of all reallocations.

**Fixed Assets Policy:** The provisions of this policy apply to assets costing \$5,000 or more with useful lives of three or more years. Fixed Assets are recorded at historic cost. Depreciation expense is calculated using the straight-line method over the estimated life of the assets. Depreciation is pro-rated for the year the asset is acquired, and in the last year of the asset's useful life. A full year's depreciation is taken in all other years.

Association plans for projects requiring the purchase of Fixed Assets are incorporated into the administrative budget process, and are subject to budgetary review and approval.

Because of the limited amount of property and equipment owned by the Association, a fixed asset ledger maintains inventory of these types of assets. Accordingly, designation as a fixed asset simply affords internal administrative and accounting controls over the assets in question. Practically speaking, the Association's fixed assets consist only of computers and software. Even major scheduled replacements, such as those proposed for 2004 and later years, have no material impact on current or future year's operations. Were it not for the internal administration and accounting controls provided by capitalization, these expenditures would routinely be budgeted, and accounted for, as repair and maintenance or supply type of expenditures.

**The Debt Policy:** The Board of Retirement has approved debt financing only in its Real Estate Portfolio. The governance for that leverage appears in *SamCERA's Investment Policy, Section 12.3 Real Estate Leverage*, "The use of leverage is permitted only for the purpose of enhancing returns and is limited to no more than 50% of an individual property, nor 25% of the aggregate portfolio as calculated at the time the leverage was put in place." SamCERA's current debt consists of a \$7,085,547 note payable on a real estate investment with terms, which include monthly payments of principal and interest, an interest rate of 7.87%, and a maturity date of September 1, 2006.

## **SamCERA'S METHODS OF ACCOUNTING AND BUDGETING**

The San Mateo County Employees' Retirement Association Trust Fund is a fiscal and accounting entity with a self-balancing set of accounts recording financial resources, related liabilities, and residual equity, segregated for the purpose of carrying on specific activities related to the operations of the Association in accordance with the County Employees Retirement Law of 1937 (Government Code, Title 3, Division 4, Part 3, Chapter 3)

SamCERA's Fiscal Year and Administrative and Professional Budgets run from July 1 through June 30.

Preserving the fiscal integrity and the financial stability of the Association is the primary responsibility of the Board of Retirement, with the support of the Chief Executive Officer and staff.

Staff prepares an administrative budget annually for the approval of the Board of Retirement. GC§31580.2 authorizes the Board to expend the equivalent of 18 basis points of the market value of the fund for the annual administrative expenses of the Association. Such expenses are funded from the investment earnings of the Retirement Fund. The operating budget is utilized by the Board to determine, meet and monitor its obligation to defray the costs of administering SamCERA's programs. All operating expenses are budgeted and paid through the Fund.

The cash basis of accounting is used to prepare the administrative budget, except for salaries, fringe benefits, and amortization/depreciation expenses, which are prepared on the accrual basis. The cash basis of accounting records revenues when cash is received, and expenditures are paid.

The accrual basis of accounting is used to record administrative expenses for financial statement purposes. The accrual basis of accounting records revenues when they are earned, regardless of when cash is received, and expenditures when goods and services are received, regardless of when disbursements are made. No material differences result from the two methods.

## **SOURCES**

The Sources of the Association are derived from employee contributions, employer contributions and investment income.

Member contributions are mandatory except for those employees under Plan Three. The member contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The rates are determined by age at entry into the Association and are based on a percentage of covered compensation. The average employee contribution rate for the fiscal year 2002-2003 was 5.7%. It is expected to increase in 2004-2005 based on the tri-annual experience study, which will be performed by the actuary, and employee cost sharing, which has been instituted. The actual average rate is dependent

upon the distribution of payroll and entry age across each of SamCERA's ten plans.

The employer contribution rates for each plan are determined pursuant to Section 31453 of the 1937 Act and provide for the balance of the contributions which, when combined with projected investment earnings, will be needed to fund the future vested benefits granted under the plan. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current year) and an amount required to amortize the unfunded actuarial accrued liability between now and June 30, 2024. Details of funding progress, annual required contribution and contribution made by the employers, and the latest actuarial valuation may be reviewed in the June 30, 2003 Actuarial Valuation. A summary of the valuation is included in SamCERA's June 30, 2003 Comprehensive Annual Financial Report.

The member and employer contributions budgeted are equal to the estimated employee payroll multiplied by the recommended actuarial contribution rates adopted by the Board of Retirement and ratified by the Board of Supervisors.

Investment income is earned by the Association on its various investments in cash equivalents, equities, fixed income and real estate. Except for real estate, all investment income will be re-invested unless needed for benefit disbursements or operations. Real estate operating income is used as a partial offset to SamCERA's administrative expenses.

SamCERA does not accept any "soft dollar" services.

## **USES**

**SamCERA's Administrative Expenses (GC§31580.2):** GC§31580.2 authorizes the allocation of 18/100's of 1% of the assets of the Fund to defray administrative costs. Administrative Expense is estimated to be 16/100's of 1% during the fiscal year ending June 30, 2004 and is projected to be 14/100's of 1% in fiscal year 2004-2005.

Administrative expenses represent approximately 2.5% percent of the total disbursements of the Association for the fiscal year ending June 30, 2003. Administrative expenses are projected to be 2.4% in fiscal year 2003-2004 and 2.4% in fiscal year 2004-2005.

Each line item is budgeted based upon a pre-determined need or a new objective and is based upon past costs, vendor proposals, or estimates. Supporting schedules provide details for related expenditures grouped as one line item. Line item projected expenditures are grouped into the following Categories: Salaries & Benefits, Services & Supplies and Fixed Assets.

The Board of Retirements reviews year-to-date actual expenses quarterly for budget compliance.

SamCERA's Administrative Line Item Budget may be viewed on page 49.

**SamCERA's Professional Services Expenses (GC§31596.1):** Investment and Finance staff prepares a professional services budget annually for review by the Board. The professional services budget is utilized by the Board to assess, meet and monitor its contractual obligations related to the management of the Association. The expenditure authority for each professional services contract is set forth in the terms of the contract. GC§31596.1 authorizes the Board to expend funds from the investment earnings of the Fund for specific professional services.

Professional Services expenses include investment management, investment consulting, global custody, actuarial and contract legal.

The Board of Retirement employs professional investment managers to maximize the return on assets and minimize risk. Investment Management expenses are primarily dependent upon the market value of the assets under management and the negotiated fee schedule of the individual Investment Management Agreements. They are performance driven to the extent that as market values increase so does management fees. The converse relationship is also true.

Other professional service expenses related to investments are driven by contractual agreement.

Although investment fees are netted from investment income for financial reporting purposes, they are reflected at gross for budgetary purposes.

Investment management expenses are budgeted to increase at the same rate as projected annual market values. The accrual basis of accounting is used to record professional expenses for budget and financial statement purposes.

SamCERA's average annual investment fees compared to average invested assets, are approximately 17.10 basis points, which compares favorably with rates reported by other public pension funds.

Performance of the investment managers is reviewed monthly and quarterly by the combined efforts of the investment consultant, the Investment and Finance Manager and the Board.

Professional service expenses are reviewed quarterly to verify conformance with the respective contracts.

SamCERA's Professional Services budget may be viewed on page 51.

**SamCERA's Benefit Disbursements:** Included within benefit disbursements are Service Retirements, Service Connected Disability Retirements, Non Service Connected Disability Retirements, QDRO benefits, monthly continuance benefits for Beneficiaries and Survivors of deceased members, one-time Lump Sum Death Benefits, refunds of Member Contributions and Interest, and Medicare Part-B Premium Reimbursements.

The budgeting of benefit disbursements is primarily dependent upon the projected number of employees in retirement, the projected number of beneficiaries and survivors receiving benefits, the number of active employees eligible for disability benefits, the number of active employees leaving the employment of the Plan Sponsor prior to receiving pension benefits and the annual cost-of-living adjustments. In order to project annual benefit disbursements, a computation of historical increases in these categories is made, adjusted for any known variances and the expected cost-of-living adjustment, and the resulting factor is applied to the previous year's actual expenses. Benefit disbursements are projected to increase by 5.7% in 2004-2005.

Benefit disbursements are vested rights and not subject to the Board's appropriation authority. The only exception is the ad hoc, non-vested Medicare Part-B Premium Reimbursement program, which is subject to annual appropriation by both the Board of Supervisors and Board of Retirement and may be cancelled at any time.

## SamCERA's BUDGET PROCESS

SamCERA's budget process is designed to allocate limited human and financial resources in an efficient and cost-effective manner to meet service and operational demands. The budget process is an integral part of SamCERA's annual business planning process.

The budget process begins in November with a planning meeting and normally ends in April with the approval of a budget by the Board of Retirement. The budget timeline is as follows.

|                    |  |
|--------------------|--|
| November-December  | The Chief Executive Officer and staff determine long-term strategic intent and long and short-term goals and objectives. Individual departments use these goals and objectives in developing their business plans.   |
| January – February | Budget initiatives are tailored to Strategic Staff Services (refer to Board Resolution 95-95-06 below) and electronically distributed. Budget workshops are held at which all staff review and amend the goals and objectives. Staff participation in the budget preparation is integral to the successful achievement of the budget goals and objectives.   |
| February           | The staff reviews the business plan progress for the current Fiscal Year. The goals and objectives for the budget process are prioritized. The administrative, professional and capital expenses are budgeted. The revenues are budgeted. The Investment and Finance Manager prepares a preliminary budget proposal for the Chief Executive Officer's review. The preliminary budget is reviewed with the Audit Committee and the Board for comment. |
| March              | The draft budget document is discussed during an open meeting of the Board of Retirement in March. The Public has opportunities to provide input during the hearing. Staff incorporates the adopted revisions.   |
| April              | The draft budget document is discussed during an open meeting of the Board of Retirement in March. The Public has opportunities to provide input during the hearing. Staff incorporates the adopted revisions, if necessary.<br><br>The final budget document is prepared and distributed to the Board of Retirement for their acceptance at May Board Meeting.  |
| May                | Following adoption by the Board, the adopted budget document is prepared and distributed to the Members of the Board, the County, Mosquito Abatement District, SamCERA staff and interested parties.   |
| June               | The Chair of the Board and the Chief Executive Officer provide the Plan Sponsor, the County of San Mateo, with an overview of the Association's Business Plan.   |

**Amending the Budget:** Any request for a change to the budget is submitted for review and validation by the staff. If valid, a revised budget with changes highlighted is presented to the Board for approval at the next regular meeting.

**Policy and Procedural Changes:** Policies and procedures have remained substantially intact from the prior year to the current year. However, the Board may adopt changes to the policies and procedures in public session when properly noticed.



**SamCERA's Mission, Goals,  
Strategic Services  
and  
Budgets**



**SamCERA's MISSION & GOALS:** As mentioned earlier, SamCERA's mission, goals, strategic services and budget initiatives are used to set operational targets, fiscal plans and resource allocation. These goals, programs and projects are in compliance with the laws governing the Fund. They are determined and agreed upon in April of the year proceeding the budget year. Costs are then assigned to these various programs and projects, providing a basis for determining many of the variable expenses of the administrative budget.

The Board adopted Resolution 95-96-05, setting forth SamCERA's Mission and Goals and directed staff to adhere to the principles set forth therein in the management of the resources of the Association.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Mission and Goals**  
RESOLUTION 95-96-05

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), sets forth SamCERA's Mission and Goals.*

**WHEREAS**, Article XVI, §17(a) of the Constitution of the State of California states in part that "the retirement board...shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system...;" &

**WHEREAS**, Article XVI, §17(b) of the Constitution of the State of California states in part that "the members of the retirement board...shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty...;" &

**WHEREAS**, Article XVI, §17(c) of the Constitution of the State of California states in part that "the members of the retirement board...shall discharge their duties with respect to the system with the care, skill, prudence, and diligence...a prudent person acting in like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims;" &

**WHEREAS**, Government Code §31520 vests the management of SamCERA in the Board; &

**WHEREAS**, the Board wishes to define its mission and goals so as to direct its efforts and the efforts of its staff in concert with the spirit of the law. Now, therefore, be it

**RESOLVED**, that the Board hereby adopts the following:

**MISSION**

SamCERA exists  
To serve as Loyal Fiduciary for our Members, Retirees and Beneficiaries; &  
to serve as Prudent Administrator of our County's Retirement System.

**SAMCERA'S GOALS**

To provide caring, fair, accurate, timely and knowledgeable professional  
Service to our clients and our public.  
To prudently manage the assets and appropriately fund the actuarial liabilities of the Retirement System,  
so as to minimize the costs to our County,  
while assuring our ability to pay all earned benefits.  
To constantly improve the effectiveness of our services and  
the efficiency of our operations.

Be it further

**RESOLVED**, that the Board hereby agrees, and directs the Retirement Administrator, to adhere to the principles set forth herein in the management of the resources of the Association.

ADOPTED by unanimous vote, August 25, 1995  
AMENDED by unanimous vote, February 26, 2002

**SamCERA's STRATEGIC SERVICES:** The Board then adopted Board Resolution 95-96-06, which incorporates the language submitted to the Board on April 14, 1994 as part of SamCERA's first independent budget. The Resolution is an integral part of SamCERA's annual budget process.

The statement of strategic services expands SamCERA's Mission and Goals by expressing the Board's vision of the services provided.

A statement of strategic services is a key element in the Board's setting of priorities. If the Board spends sufficient time defining its strategic services, then the delegation of authority, the budget and the process for monitoring staff performance will be straightforward.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Strategic Services**  
 RESOLUTION 95-96-06

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), sets forth the Board's Responsibilities & Strategic Staff Services.*

**WHEREAS,** Government Code §31520 vests the management of SamCERA in the Board; &  
**WHEREAS,** Resolution 95-96-05 defines the Board's mission and goals; &  
**WHEREAS,** the Board wishes to direct its efforts and the efforts of its staff in concert with the spirit of the law and the Board's Mission and Goals. Now, therefore, be it  
**RESOLVED,** that the Board hereby adopts the following:

**BOARD RESPONSIBILITIES**

- Grant Earned Benefits & Provide for the Disbursement of those Benefits
- Provide for the Investment & Safekeeping of Retirement Fund Assets
- Assure the Actuarial Soundness of the System
- Establish & Arrange for the Collection of Contributions
- Manage the Association & System in accordance with the Law
- Define Fiduciary & Ministerial Responsibilities and Effectively Delegate them to Designated Fiduciaries
- Select & Monitor the Performance of Designated Fiduciaries, including but not limited to investment managers, consultants and other advisors
- Approve & Monitor Internal Controls & Audit Programs

**STRATEGIC STAFF SERVICES**

**MEMBER BENEFIT & ACTUARIAL SERVICES**

- Implement the Benefit Services Plan, including individual member counseling
- Establish Eligibility & Process Applications for Membership & Benefits
- Provide for & Monitor Payment of Benefits & Refunds
- Accurately Maintain & Monitor Member & Benefit Databases
- Provide Timely, Accurate & Useful Services, Reports & Recommendations for

## Members, Retirees, Beneficiaries &amp; the Board

## INVESTMENT MANAGEMENT SERVICES

- Implement the Investment Plan
- Monitor Manager & Custodial Activity
- Project & Monitor Retirement Fund Cash Flows
- Provide Timely, Accurate & Useful Reports & Recommendations to the Board

## BOARD SUPPORT SERVICES

- Faithfully execute the Duties & Responsibilities Delegated by the Board
- Support the Board in its execution of its Powers & Duties
- Provide Timely, Accurate & Useful Information & Recommendations to the Board
- Direct the Benefits, Investments & Management Services Programs
- Provide Member Education, Public Information & Inter-Agency Services
- Propose, Implement & Monitor Internal Control Systems

## MANAGEMENT SERVICES

- Implement the Management Services Plan, including Human Resources, Information Systems, Fiscal, Accounting, Analytical, Facilities & Support Services
- Manage Contracts
- Maintain liaison with providers of County support services
- Direct Catastrophe Recovery Planning Be it further

**RESOLVED**, that the Board hereby expresses its intent to review annually the responsibilities and strategic services set forth herein.

ADOPTED by unanimous vote, August 25, 1995

AMENDED by unanimous vote, September 19, 1996

AMENDED by unanimous vote, February 26, 2002

**SamCERA's RISK MANAGEMENT PROGRAM:** Risk management is a pivotal fiduciary function. SamCERA's *Risk Management Matrix* compares the status of SamCERA's risk management efforts against the principles proposed by the ad hoc Risk Standards Working Group. The Risk Standards Working Group was formed following the Orange County bankruptcy by institutional investors, investment managers, custodians and consultants. The group defined twenty principles they felt should form the core of any risk management program. While these twenty principles have no official status, SamCERA finds in them a comprehensive benchmark against which to evaluate the Association's performance. Staff reviews the *Risk Management Matrix* quarterly and transmits the matrix to the Board at least annually. The *Risk Management Matrix* is used by the CEO in the allocation of resources to SamCERA's risk management program. The March 25, 2004 Risk Management Matrix is set forth on the following page:

EVALUATION OF SAMCERA'S RISK MANAGEMENT PRACTICES VS. THE  
 RISK STANDARDS FOR INSTITUTIONAL... INVESTORS PROPOSED BY THE RISK STANDARDS WORKING GROUP  
 Status Report as of March 23, 2004

| RISK STANDARD     | CURRENT STATUS   | NEXT STEPS   | DANGERS   |   |
|-------------------|--|--|---|---|
| <b>Management</b> |  |  |   |   |
| 1                 | Acknowledgment of Fiduciary Responsibility                                     | <ul style="list-style-type: none"> <li>Board Identification of Fiduciary Duties &amp; Delegations are well documented</li> <li>Annual Review of Mission Critical Policies, Investment Guidelines &amp; Contracts</li> <li>Annual review &amp; reaffirmation of Staff Delegations &amp; Fiduciary Code</li> </ul> | <ul style="list-style-type: none"> <li>Board continues annual reviews.</li> </ul>   | <ul style="list-style-type: none"> <li>Failure to Define &amp; Communicate Risk Controls</li> </ul>   |
| 2                 | Approved Written Policies, Definitions, Guidelines & Investment Documentation  | <ul style="list-style-type: none"> <li>Board Policies &amp; Guidelines are well documented</li> <li>Investment Contracts are explicit</li> <li>Emergency Procedures Manual Series complete</li> </ul>  | <ul style="list-style-type: none"> <li>Board continues annual reviews.</li> <li>CEO continues quarterly reviews &amp; refinements to manuals</li> </ul>   | <ul style="list-style-type: none"> <li>Unauthorized investment or benefit transaction due to ambiguity in Policies, Guidelines or Procedures</li> </ul> |
| 3                 | Independent Risk Oversight, Checks & Balances, Written Procedures and Controls | <ul style="list-style-type: none"> <li>Managers submit semi-annual Compliance Certifications</li> <li>County Controller's Office issues all disbursements</li> <li>Auditor provide opportunities for fresh perspectives</li> </ul>   | <ul style="list-style-type: none"> <li>CEO conducts formal Inventory of Critical Investment, Benefit &amp; Financial Procedures as last step in formal procedures documentation</li> </ul>                                      | <ul style="list-style-type: none"> <li>Internal Controls difficult in small organization; errors &amp; fraud may go undetected</li> </ul>               |
| 4                 | Clearly Defined Organizational Structure & Key Roles                           | <ul style="list-style-type: none"> <li>Human Resources Plan &amp; Delegations of Authority implemented</li> <li>Manager Structure not yet systematically analyzed by risk standards</li> </ul>   | <ul style="list-style-type: none"> <li>Board &amp; CEO continue to Monitor Staff Performance &amp; perform Annual Evaluations</li> <li>Board continues risk-return optimization efforts</li> </ul>                              | <ul style="list-style-type: none"> <li>Inadequate checks &amp; balances to insure compliance with risk standards, policies and procedures</li> </ul>    |
| 5                 | Consistent Application of Risk Policies  | <ul style="list-style-type: none"> <li>Board Internal Control Policy and Delegations of Authority govern</li> <li>CEO Delegations of Authority to staff govern</li> <li>Cross checks have worked well</li> <li>CEO sets <i>PensionGold</i> security levels</li> </ul>  | <ul style="list-style-type: none"> <li>CEO continues to schedule staff reviews of internal control practices</li> <li>AEO &amp; IFM to make certain new employees become fully trained in internal control practices</li> </ul> | <ul style="list-style-type: none"> <li>Inadequate checks &amp; balances to insure compliance with risk standards, policies and procedures</li> </ul>    |
| 6                 | Adequate Education, Systems  | <ul style="list-style-type: none"> <li>Trustees &amp; Staff have access to full range of relevant</li> </ul>   | <ul style="list-style-type: none"> <li>Board adopts formal <i>Business Continuity</i></li> </ul>  | <ul style="list-style-type: none"> <li>Excessive risk accepted as a</li> </ul>  |

| RISK STANDARD      |  | CURRENT STATUS   | NEXT STEPS  | DANGERS   |
|--------------------|--|--|---|---|
|                    | & Resources, Back-up & Disaster Recovery Plans                 | educational forums <ul style="list-style-type: none"> <li>Budget provides sufficient resources for optimal cost-effective operation</li> <li><i>Emergency Procedures</i> and <i>Business Continuity</i> Plans completed</li> <li>CEO leading effort to establish CALAPRS Mutual Aid Pact</li> </ul>  | <i>Plan</i> <ul style="list-style-type: none"> <li>CEO conducts full test of Plan within next 12 months</li> <li>SamCERA joins CALAPRS Mutual Aid Pact</li> </ul>   | result of inadequate education <ul style="list-style-type: none"> <li>Disaster results in failure to perform fiduciary duties</li> </ul>  |
| 7                  | Identification and Understanding of Key Risks                  | <ul style="list-style-type: none"> <li>Board Regulations, Plans and Policy Resolutions address all traditional risks</li> </ul>  | <ul style="list-style-type: none"> <li>CEO conducts annual reviews of staff procedures to ascertain that all essential functions are being performed and that all procedures are executed in conformance with sound internal control practices</li> </ul> | <ul style="list-style-type: none"> <li>Failure to realize that an essential function is not being performed.</li> <li>Failure to realize that an unidentified risk exists.</li> </ul> |
| 8                  | Setting Risk Limits  | <ul style="list-style-type: none"> <li><i>Investment Plan, Regulations, Contracts, Budget and Policies</i> define current limits</li> </ul>  | <ul style="list-style-type: none"> <li>Board monitors CEO's &amp; IFM's efforts to identify, define and recommend limits for each risk identified per #7</li> </ul>   | <ul style="list-style-type: none"> <li>Failure to take reasonable steps to manage individual risks in a timely manner.</li> </ul>   |
| 9                  | Routine Reporting, Exception Reporting & Escalation Procedures | <ul style="list-style-type: none"> <li>Monthly portfolio report provides asset allocation check</li> <li>Quarterly performance reports include essential risk characteristics of portfolio</li> <li>Managers provide exception reports</li> <li>Managers Compliance Certification process highlights problem areas</li> <li>Consultant assesses risks in quarterly reports &amp; annual reviews</li> </ul> | <ul style="list-style-type: none"> <li>Board &amp; CEO increase scrutiny of risk measures</li> <li>IFM expands monthly portfolio report to include measures of risk</li> </ul>  | <ul style="list-style-type: none"> <li>Failure to initiate appropriate action when risk levels are approaching unacceptable range</li> </ul>  |
| <b>Measurement</b> |  |  |   |   |
| 10                 | Valuation Procedures   | <ul style="list-style-type: none"> <li>Current securities valuation by Custodian is adequate for pension assets</li> </ul>   | <ul style="list-style-type: none"> <li>[This is a more significant issue for securities firms with</li> </ul>   | <ul style="list-style-type: none"> <li>Incorrect information leads to Asset</li> </ul>  |

| RISK STANDARD |   | CURRENT STATUS   | NEXT STEPS  | DANGERS  |
|---------------|---|--|---|--|
|               |   | <ul style="list-style-type: none"> <li>Valuation triggers Rebalancing</li> <li>Actuarial Valuation &amp; Experience Study is adequate for pension liabilities</li> </ul>   | leveraged capital at risk on a daily basis]   | <ul style="list-style-type: none"> <li>Allocation imbalance with opportunity costs</li> <li>Incorrect information leads to incorrect contribution rates</li> </ul> |
| 11            | Valuation Reconciliation, Bid/Offer Adjustments & Overrides | <ul style="list-style-type: none"> <li>Managers reconcile to Custodian records</li> <li>IFM reconciles all portfolios &amp; accounts monthly</li> <li>Consultant evaluates holdings quarterly</li> </ul>   |   | <ul style="list-style-type: none"> <li>Risk characteristics of securities in portfolio differ from manager's representations</li> </ul>                            |
| 12            | Risk Measurement & Risk/Return Attribution Analysis         | <ul style="list-style-type: none"> <li><i>Investment Plan</i> &amp; contracts set forth key investment risk concerns</li> <li>Consultant providing expanded risk analysis in quarterly performance reports</li> <li>Custodian reports on all exceptions</li> </ul> |   | <ul style="list-style-type: none"> <li>Manager's build portfolios inconsistent with <i>Investment Plan</i> &amp; alter total Fund exposure</li> </ul>              |
| 13            | Risk-Adjusted Return Measures                               | <ul style="list-style-type: none"> <li>Consultant provides quarterly risk-adjusted return analysis</li> </ul>  | <ul style="list-style-type: none"> <li>Board and staff devote additional time to reviewing and understanding the analysis</li> </ul>  | <ul style="list-style-type: none"> <li>Style drift alters asset allocation and generates excess volatility</li> </ul>  |
| 14            | Stress Testing  | <ul style="list-style-type: none"> <li>Integral to Asset / Liability Modeling Study</li> <li>Integral to Actuarial Assumptions</li> <li>Board revised Non-economic Assumptions per '02 Triennial Experience Study</li> <li>Board adopted MSA Corridor</li> </ul>   | <ul style="list-style-type: none"> <li>Board implements results of Asset / Liability Modeling Study</li> <li>Board reviews &amp; revises Economic Assumptions in '03</li> </ul> | <ul style="list-style-type: none"> <li>Asset allocation generates more volatility than expected</li> </ul>   |
| 15            | Back Testing  |  |   |  |

|                  |  |   |   |   |
|------------------|--|---|---|---|
| 16               | Assessing Model Risk   | <ul style="list-style-type: none"> <li>• Triennial Experience Study (99 &amp; 02)</li> <li>• Asset / Liability Modeling Study (99 &amp; 02)</li> <li>• Optimization Study (00 &amp; 03)</li> <li>• Annual Valuations (99 00 01 02)</li> <li>• Actuarial Audit (99)</li> </ul>   | <ul style="list-style-type: none"> <li>• Compare results of Actuarial studies with comparable plans</li> <li>• Compare results of Asset / Liability Modeling Study with comparable plans' asset allocation &amp; assumptions</li> </ul> | <ul style="list-style-type: none"> <li>• Asset allocation generates more volatility than expected</li> <li>• Incorrect information leads to incorrect contribution rates</li> </ul> |
| <b>Oversight</b> |  |   |   |   |
| 17               | Due Diligence, Policy Compliance & Guideline Monitoring                  | <ul style="list-style-type: none"> <li>• Board reviews all policies, guidelines &amp; contracts annually.</li> <li>• Staff &amp; managers review quarterly</li> <li>• Manager stipulates to compliance with contract and files Compliance Certifications</li> </ul>   | <ul style="list-style-type: none"> <li>• Board adopts &amp; implements Due Diligence Policies &amp; Procedures program for monitoring managers, consultants &amp; staff</li> </ul>  | <ul style="list-style-type: none"> <li>• Non-compliance activities resulting in direct losses or opportunity costs</li> </ul>   |
| 18               | Comparison of Manager Strategies to Compensation and Investment Activity | <ul style="list-style-type: none"> <li>• Manager stipulates to compliance with contract and files Compliance Certifications</li> <li>• Consultant enhanced Risk/Return Attribution Analysis in quarterly reports</li> </ul>   | <ul style="list-style-type: none"> <li>• Strengthen holdings-based Risk/Return Attribution Analysis program to evaluate stated strategy, results and compensation</li> </ul>  | <ul style="list-style-type: none"> <li>• Style drift or unearned compensation result in under performance &amp; Asset Allocation discontinuities</li> </ul>                         |
| 19               | Independent Review of Methodologies, Models & Systems                    | <ul style="list-style-type: none"> <li>• Independent Actuary (99 Audit)</li> <li>• Independent Consultant (99 &amp; 03 ALM Study)</li> <li>• Independent Auditor</li> <li>• Independent Investment Managers</li> <li>• Independent Global Custodian (New in 99)</li> <li>• Participate in SIS, Kuhn &amp; CEM data bases</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing review of all benefit policies &amp; procedures with other '37 Act and CALAPRS' Systems</li> </ul>   | <ul style="list-style-type: none"> <li>• Perpetuation of policies or practices which are inconsistent with generally accepted fiduciary standards</li> </ul>                        |
| 20               | Review Process for New Activities  | <ul style="list-style-type: none"> <li>• Board, Consultant, or Staff proposes new activity</li> <li>• Consultant or Staff evaluates proposal</li> <li>• Board approves new activity based on all relevant considerations</li> </ul>   | <ul style="list-style-type: none"> <li>• Maintain adherence to current process for initiating new activities in accordance with <i>Code of Fiduciary Conduct</i> Resolution</li> </ul>  | <ul style="list-style-type: none"> <li>• Initiating an activity which falls outside of the Board's normal risk parameters, without assessment of risk-return tradeoffs</li> </ul>   |

**SamCERA's BUDGET INITIATIVES 2003-2004**  
**STATUS REPORT AS OF APRIL 27, 2004**

**I. Member Benefit Services Plan**

- a) Evaluate the distribution of *SamCERA's* Annual Member Statements via an electronic process: **Levy Ray & Shoup, Inc has provided an update to web member services to allow members to print their own statements online. The product is now live on the Intranet.**
- b) Convert to Vignette, San Mateo County's Web System Administration System: ***SamCERA's* website has been converted however the county has not rolled out the new release. An updated Vignette release is expected in the last quarter.**
- c) Implement web publication of *SamCERA's* new employee pamphlet, dissolution of marriage and retirement preparation pamphlets: **Posted to the web.**
- d) Evaluate additional member seminars emphasizing financial planning strategies for members at an early stage in their career: Staff has not scheduled additional financial planning seminars, while it evaluates alternative methods for providing member education. **The County's Deferred Compensation providers have begun providing informational seminars to the active membership.**
- e) Evaluate web-based presentations to supplement member educational programs, including new employee orientation, financial planning seminars and brown bag presentations: **Staff is completing a self-directed new employees' presentation.**
- f) Evaluate video presentation of information: **The county has dropped plans to create video versions of new employee orientation.**
- g) Continue expansion of interactive forms available through *SamCERA's* web site: **Staff has added the interactive workshop registration form. Definition of forms will be part of the Electronic Document Management System (EDMS) set up.**
- h) Evaluate mass correspondence and/or distribution strategies: **Refer to I. a)**
- i) Issue targeted newsletters and post them on *SamCERA's* web site: **March newsletter distributed and posted to web site.**
- j) Implementation of new 2% @ 55 benefit formula and related projects: **Implemented 2% @ 55 for General members and 3% @ 55 for Probation/Safety members. Edited PensionGold and Web Member Services to handle the new formulas as well as 2% @ 55 1/2 and 3% @ 50.**
- k) Continue the program of upgrading Plan 3 Service Credit: **Upgrading of Plan 3 service credit continues. PensionGold has been enhanced to calculate and process the upgrade of plan 3 service to plan 4.**
- l) Review Member Benefit Services for risk exposure and Report to Board: **Scheduled for late in the fiscal year.**
- m) Issue a Popular Annual Financial Report (PAFR) for the Membership: **PAFR distributed in January 2004 and posted to web site.**
- n) Review of MaryAnn Gutoff's Contract, expiration 8/31/2003: **Ms. Gutoff's Contract was extended until 6/30/04.**

**II. Actuarial Services Plan**

- a) Revise Economic & Actuarial Assumptions, if appropriate: **Completed with adoption of the Actuarial Evaluation on 9/22/2003.**
- b) Complete 6/30/03 Actuarial Valuation and post on web site: **Actuarial Valuation adopted on 9/22/2003 and posted on web site.**
- c) Provide Technical Support to County and unions regarding retirement issues: **Continuing to provide support in the areas of AB55 (ARC Time), activated military reservists and contributions, contribution rates and IRC §415 limits, lists for EPS for Ventura-related research.**
- d) Evaluate SamCERA's reserve structure, including relevant cash flows: **Postponed.**
- e) Initiate Reserve Modeling and Scenario Analysis: **Postponed.**

- f) Review of William M. Mercer's Contract, expiration 6/30/2004: Selection of new actuary scheduled for April 2004. **The Board is nearing completion of an RFP process for actuarial services**

### III. Investment Management Services Plan

- a) Codify risk-monitoring procedures: **A due diligence policy was adopted in October 2003.**
- b) Implement conclusion originating from the studies of *SamCERA's* Asset / Liability Model and Manager Structure: **Implementation of the approved manager structure for domestic and international equities will begin in the first quarter of 2004. Implementation of the approved manager structure for fixed income and real estate will begin in the second quarter of 2004**
- c) Review and amend, if necessary, *SamCERA's* Investment Plan: **Review of the Investment Plan will occur at the conclusion of the Manager Structure. This review will most likely occur in the first quarter of next fiscal year.**
- d) Perform Investment Manager search(es) as/if necessary: **Refer to III b) The Board will be interviewing finalist for domestic small cap value and growth mandates in April. Interviews for international core value and core growth mandates and domestic large & small cap enhanced indexes are scheduled to take place in May and June respectively.**
- e) Review and implement, if necessary, inclusion of risk evaluations with the monthly reports: **The monthly performance report will be re-engineered after implementation of active management. This should occur in September or October of 2004.**
- f) Implement a Due Diligence Policy to enhance portfolio & performance monitoring programs: **A due diligence policy was adopted in October 2003.**
- g) Strengthen investment manager monitoring program: **This is an ongoing initiative.**
- h) Perform annual review of all Investment Managers, Investment Consultants and the Global Custodian: **The annual reviews for the Investment Managers have been completed. The annual review for the Investment Consultant and Custodian are scheduled for June and July. Those reviews may be delayed due to the heavy schedules resulting from the manager search process.**
- i) Review of Barclays Global Investors' Contract, expiration 1/27/2004: **The contract was renewed on 11/30/2003 for an additional three-year period.**
- j) Review of Deutsche Asset Management's Contract, expiration 3/31/2004: **The contract was renewed on March 31, 2004.**
- k) Review of State Street Bank & Trust's Contract, expiration 4/30/2004: **The contract review is in process it should be finalized in April 2004.**
- l) Initiate review of Strategic Investment Solution's Contract, expiration 8/31/2004: **The contract review is scheduled for board presentation in July 2004:**

### IV. Board Support Services

- a) Evaluate *SamCERA's* Total Plan Risk: **The evaluation ongoing and is in process.**
- b) Strengthen Internal Control / Audit Documentation: **Ms. Wong's duties now include internal review and audit functions. Procedures are written as new reviews or audits are initiated.**
- c) Complete the Annual Independent Audit of *SamCERA's* Financial Statements: **The CAFR, including the audited financial statements was approval in October 2003.**
- d) Publish seventh Annual Comprehensive Annual Financial Report to *SamCERA's* Members and post on web site: **Refer to IV. c). The CAFR has been published and posted to the web.**
- e) Conduct two trustee elections: **Elections Notice has been distributed by County Elections Officer.**
- f) Review the Board's essential policy resolutions: **The annual review of the Board's policy resolution has been completed.**
- g) Continue development of *SamCERA's* budget document and post to web site: **The 2003/2004 Budget Document is posted on the web. The 2004/2005 Budget is scheduled for adoption in April 2004.**

### V. Management Services Plan

- a) Conduct the second full test of Emergency Procedures & Business Continuity Plans: **Test conducted in December. Resolved an issue with inability to log in to PensionGold. Other programs worked fine.**

- b) Refine Emergency Procedures & Business Continuity Plans: **Extended MaryAnn Guthoff's Contract to update Emergency Procedures Manual.**
- c) Enhance Monthly Financial Reports: **Notes to the Monthly Financials will be added this year.**
- d) Ensure that *SamCERA's* technological infrastructure is secure and capable of supporting current and new applications: **Staff is continually monitoring *SamCERA's* technological infrastructure and applications.**
- e) Complete cost-effectiveness evaluation of current and alternative benefits administration systems' platforms: **Recommendation to Board to review again in Fiscal Year '05-'06.**
- f) Evaluate & implement integrated document creation, storage, retrieve and disposal procedures: **Linea Solutions has completed its analysis of EDMS marketplace and PensionGold compatible systems.**
- g) Evaluate the life cycle replacement of servers, personal computers, laptops, printers and other electronic products and software: **Continuous review of equipment business life. Developing methods to extend the life of some equipment through hardware upgrades and different utilization in conjunction with planned equipment additions.**
- h) Test EDP Redundancy quarterly: **Done through log in on RWC2 (backup server in ISD) and comparing dates of files. Backup happens nightly so data is no older than 24 hours. *SamCERA* has stopped using TSM to upload data to RWC2 and uses a separate program to push data from the production server to RWC2. City of Fresno is about to commence remodel project. When remodel is completed, Fresno & *SamCERA* are prepared to house emergency back-up PensionGold servers for one another.**
- i) Perform ongoing evaluation of communications technologies & applications: **Evaluation is ongoing.**
- j) Formalize internal audit functions: **Refer to IV b)**

#### VI. Human Resources Plan

- a) Initiate Management Succession Planning process: **A process has been developed, which utilizes the experience and expertise of EPS.**
- b) Convert to OPAL for on-line personnel reporting: **Completed in July.**
- c) Conduct Annual Performance Reviews with Each Employee: **Evaluations on all employees are current.**
- d) Complete Compensation Study: **The study will be proposed after reviewing the staffing structure.**
- e) Continue Professional Development & Training: **This is an ongoing initiative.**
- f) Establish new position(s) and classification(s) as necessary: **Staff is reviewing the staffing structure.**
- g) Complete an ergonomics audit: **Not scheduled at this time.**

**SamCERA's BUDGET INITIATIVES 2004-2005:****I. Member Benefit Services Plan**

- a) Complete implementation of the Venture Retro Benefits Plan:
- b) Implement 2.0% at 55 & ½ for General Members and 3.0% at 50 for Safety Members:
- c) Apply governance related to *SamCERA's* Domestic Partners as required:
- d) Execute governance related to AB55 (ARC Time) as required:
- e) Initiate the Excess Benefits Plan:
- f) Evaluate the distribution of *SamCERA's* Annual Member Statements via an electronic process:
- g) Provide enhanced new employee orientation, financial planning seminars and brown bag presentations:
- h) Improve interface between Members and information provided on *SamCERA's* web site:
- i) Expand interactive forms available through *SamCERA's* web site:
- j) Issue targeted newsletters as warranted:
- k) Issue a second Popular Annual Financial Report for the Membership:
- l) Expand the use of e-mails with Active & Retired Members:
- m) Add Plan Three estimates on *SamCERA's* web site.

**II. Actuarial Services Plan**

- a) Build the data interface with *SamCERA's* new Actuary:
- b) Revise Economic & Actuarial Assumptions, if appropriate:
- c) Complete 6/30/04 Actuarial Valuation and post on web site:
- d) Provide Technical Support to County and unions regarding retirement issues:

**III. Investment Management Services Plan**

- a) Implement conclusion originating from the studies of *SamCERA's* Asset / Liability Model and Manager Structure;
- b) Perform Investment Manager search(es) as necessary:
- c) Review and amend, if necessary, *SamCERA's* Investment Plan:
- d) Review and implement, if necessary, inclusion of risk evaluations with the monthly reports:
- e) Include attribution analysis in the program for monitoring investment managers:
- f) Perform annual review of all Investment Managers, Investment Consultants and the Global Custodian:
- g) Review of Strategic Investment Solution's Contract, expiration 8/31/2004:

**IV. Board Support Services**

- a) Evaluate *SamCERA's* Total Plan Risk:
- b) Complete the Annual Independent Audit of *SamCERA's* Financial Statements:
- c) Publish eighth Annual Comprehensive Annual Financial Report to *SamCERA's* Members and post on web site:
- d) Conduct two trustee elections:
- e) Review the Board's essential policy resolutions:
- f) Enhance *SamCERA's* budget document and budget process:
- g) Post Board Agenda Items on *SamCERA's* web site:
- h) Evaluate & implement methods of providing the trustees with electronic delivery of agenda materials:

**V. Management Services Plan**

- a) Conduct a Strategic Planning Session & Develop Strategic Planning Documentation:
- b) Conduct a fourth full test of Emergency Procedures & Business Continuity Plans:
- c) Refine Emergency Procedures & Business Continuity Plans:
- d) Ensure that SamCERA's technological infrastructure is secure and capable of supporting current and new applications:
- e) Implement integrated document creation, storage, retrieve and disposal procedures(Electronic Document Management System or EDMS):
- f) Evaluate the life cycle replacement of servers, personal computers, laptops, printers and other electronic products and software:
- g) Test data redundancy on a rotational basis at least quarterly:
- h) Continue enhancements to Pension Gold:
- i) Independent review of system security:
- j) Provide Web Member Service through the internet:
- k) Provide various formats to survey members regarding SamCERA's Performance (web site, e-mail, & hard copy):
- l) Review Gutoff Contract for technical writing :
- m) Execute Ventura Implementation Resource Plan:
- n) Develop & execute a monthly staff activity plan:

**VI. Human Resources Plan**

- a) Review Management Succession Planning process:
- b) Conduct Annual Performance Reviews with Each Employee:
- c) Continue Professional Development & Training:
- d) Provide one permanent & four provisional employees to work on the implementation of the Ventura resolution; Excess Benefits Plan; 2% at 55.5; 3% at 5; AB55-ARC Time; Domestic Partner; and electronic document management system:
- e) Align SamCERA staff compensation with that of its peers

**SamCERA's ADMINISTRATIVE BUDGET RESOLUTION FOR 2003-2004:**

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
**Fiscal Year 2003-2004 Budget**

RESOLUTION 02-03-13

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), on May 27, 2003 adopts the administrative budget for the fiscal year 2003-2004.*

**WHEREAS**, Government Code §31580.2 vests authority in the Board of Retirement to *...annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund;* and

**WHEREAS**, Government Code §31580.2 requires that *...the expense incurred in any year shall not exceed eighteen-hundredths of 1 percent of the total assets of the retirement system;* and

**WHEREAS**, the Retirement Fund had total assets with a market value of approximately \$1,106.7 million on February 28, 2003; and

**WHEREAS**, the Investment & Finance Manager has recommended a budget for the next fiscal year, which the Board has reviewed and revised as necessary. Therefore, be it

**RESOLVED**, that the Board hereby adopts the following Budget to cover the entire expense of the administration of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

| <b>Budget Item</b>  | Fiscal 2003-2004<br>(000) | Basis Points<br>(Information Only) |
|---------------------|---------------------------|------------------------------------|
| Salaries & Benefits | \$1,127.0                 |                                    |
| Services & Supplies | 837.5                     |                                    |
| Fixed Assets        | <u>30.0</u>               |                                    |
| <b>TOTAL</b>        | <b>\$1,994.5</b>          | ~16.0 Estimate                     |

**RESOLVED**, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved Budget in accordance with his Delegation of Authority; be it further

**RESOLVED**, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the annual maintenance and enhancement of *PensionGold Version 1*; be it further

**RESOLVED**, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the purchase fiduciary liability insurance coverage with the assistance of the County's Risk Manager; be it further

**RESOLVED**, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.

**SamCERA's ADMINISTRATIVE BUDGET RESOLUTION FOR 2004-2005 – PROPOSED:**

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Fiscal Year 2004-2005 Budget**

RESOLUTION 03-04-

*THIS RESOLUTION, adopted by the Board of Retirement (Board) of the San Mateo County Employees' Retirement Association (SamCERA), on April 27, 2004 adopts the administrative budget for the fiscal year 2004-2005.*

**WHEREAS**, Government Code §31580.2 vests authority in the Board of Retirement to *...annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund;* and

**WHEREAS**, Government Code §31580.2 requires that *...the expense incurred in any year shall not exceed eighteen-hundredths of 1 percent of the total assets of the retirement system;* and

**WHEREAS**, the Retirement Fund had total assets with a market value of approximately \$1,456.7 million on February 29, 2004; and

**WHEREAS**, the Investment & Finance Manager has recommended a budget for the next fiscal year, which the Board has reviewed and revised as necessary. Therefore, be it

**RESOLVED**, that the Board hereby adopts the following Budget to cover the entire expense of the administration of the retirement system for the period specified, which expenses shall be charged against the earnings of the retirement fund:

| <b>Budget Item</b>  | Fiscal 2004-2005<br>(000) | Basis Points<br>(Information Only) |
|---------------------|---------------------------|------------------------------------|
| Salaries & Benefits | \$1, 378.0                |                                    |
| Services & Supplies | 1,006.0                   |                                    |
| Fixed Assets        | <u>15.0</u>               |                                    |
| <b>TOTAL</b>        | <b>\$2,399.0</b>          | ~15.9 Estimate                     |

**RESOLVED**, that the Chief Executive Officer is hereby authorized to implement the expenditure of funds authorized by this approved Budget in accordance with his Delegation of Authority; be it further

**RESOLVED**, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the annual maintenance and enhancement of *PensionGold Version 1*; be it further

**RESOLVED**, that, his Delegation of Authority notwithstanding, the Chief Executive Officer is hereby specifically authorized to approve the expenditure of funds from this budget for the purchase fiduciary liability insurance coverage with the assistance of the County's Risk Manager; be it further

**RESOLVED**, that the Controller or the Custodian is hereby authorized to disburse funds on behalf of the Board for expenditures which are in accordance with this adopted Budget.

**SamCERA's ADMINISTRATIVE SERVICES LINE ITEM BUDGET:**

| <b>San Mateo County Employees' Retirement Association<br/>Proposed Fiscal Year 2004– 2005 Administrative Budget</b> |                                |                                    |                                  |                     |
|---|--------------------------------|------------------------------------|----------------------------------|---------------------|
| <b>Expenditure Object</b>   | <b>FY 2002-2003<br/>Actual</b> | <b>FY 2003-2004<br/>As Adopted</b> | <b>FY 2004-2005<br/>Proposed</b> | <b>%<br/>Change</b> |
| Salaries  | \$797,000                      | \$807,000                          | \$960,275                        | 19.0%               |
| Benefits  | \$245,000                      | \$320,000                          | \$417,725                        | 30.5%               |
| <b>Salaries &amp; Benefits</b>  | <b>\$1,042,000</b>             | <b>\$1,127,000</b>                 | <b>\$1,378,000</b>               | <b>22.3%</b>        |
| Board Expense   | \$8,000                        | \$8,000                            | \$8,000                          | 0.0%                |
| Insurance (General & Fiduciary)   | \$60,000                       | \$95,000                           | \$95,000                         | 0.0%                |
| Medical Evaluation  | \$20,000                       | \$20,000                           | \$20,000                         | 0.0%                |
| Member Education  | \$15,000                       | \$25,000                           | \$10,000                         | -60.0%              |
| Education & Conference  | \$29,500                       | \$26,000                           | \$26,000                         | 0.0%                |
| Transportation & Lodging  | \$54,700                       | \$59,150                           | \$59,150                         | 0.0%                |
| Software License & Maintenance  | \$60,000                       | \$78,000                           | \$228,000                        | 192.3%              |
| Property & Equipment  | \$28,000                       | \$30,000                           | \$50,000                         | 66.7%               |
| General Office Supplies   | \$15,000                       | \$15,000                           | \$15,000                         | 0.0%                |
| Postage & Printing  | \$50,000                       | \$50,000                           | \$50,000                         | 0.0%                |
| Leased Facilities   | \$133,500                      | \$80,500                           | \$85,500                         | 6.2%                |
| County Services   | \$228,000                      | \$244,450                          | \$280,900                        | 14.9%               |
| Audit Services (1)  | \$26,000                       | \$38,400                           | \$38,400                         | 0.0%                |
| Other Administration  | \$285,300                      | \$68,000                           | \$40,000                         | -41.2%              |
| <b>Services &amp; Supplies</b>  | <b>\$1,013,000</b>             | <b>\$837,500</b>                   | <b>\$1,005,950</b>               | <b>20.1%</b>        |
| <b>Fixed Assets</b>   | <b>\$0</b>                     | <b>\$30,000</b>                    | <b>\$15,000</b>                  | <b>-50.0%</b>       |
| <b>Grand Total</b>  | <b>\$2,055,000</b>             | <b>\$1,994,500</b>                 | <b>\$2,398,950</b>               | <b>20.3%</b>        |

(1) Audit Services were stated within County Services prior to FY2003-2004.

**Salaries & Benefits** - This category includes the addition of one employee classified as a Retirement Analyst. It also includes funding to establish a position classification of 'Assistant Executive Officer'. For the past 18 months, Mr Hood has served as the Assistant Executive Officer but without the benefit of the position classification. Additionally, funding is included for the Information Technology Analyst Position to be upgraded to an Information Technology Manager Position. By the end of the fiscal year, Mr Ali's scope of responsibilities will nearly double with the additional management of the Electronic Document Management System and the corresponding redundant server. The category also includes monies earmarked for permanent employees to assist with the implementation of the newly negotiated benefit structure, Plan 3 Conversions and the possible conclusion of Ventura and related research. During the coming fiscal year, SamCERA with the assistance of the San Mateo County Employees & Public Service Department will complete a Staff Compensation Study.

**Services & Supplies** - The line item expenditures in *Services & Supplies* and *Fixed Assets* relate to the Budget Initiatives detailed above. Notable increases to the current year appropriations occur in Insurance, Member Education and Software & Maintenance. At this writing we do not have the actual increase for fiduciary insurance, but believe a 15% increase is probable. Staff is developing new courses for member education aimed at Members just joining the Association. Staff is also exploring mini-seminars to refresh Members knowledge regarding the Association.

The Other Administration Services & Supplies line item represents the remaining balance on SamCERA's contract to prepare member education materials for publication and update staff emergency procedure manuals.

SamCERA purchases certain services from the County of San Mateo. The costs of those services are listed below.

**Fixed Assets** - SamCERA will life cycle its two servers, acquire a new server for business continuity, and the old servers will be utilized for document management where speed is not the most important aspect.

| County Services                    | FY 2002-2003<br>Actual | FY 2003-2004<br>(Approved) | FY 2004-2005<br>Proposed |
|------------------------------------|------------------------|----------------------------|--------------------------|
| Information Services Department    | \$65,000               | \$55,000                   | \$58,500                 |
| Employee & Public Services         | \$33,000               | \$55,000                   | \$63,000                 |
| County Counsel                     | \$65,000               | \$70,000                   | \$80,000                 |
| Auditor/Controller's Office        | \$50,000               | \$23,450                   | \$38,400                 |
| <i>Audit Services</i>              | \$26,000               | \$0                        | \$0                      |
| <i>General Accounting Services</i> | \$15,000               | \$14,300                   | \$28,900                 |
| <i>Disbursement Services</i>       | \$9,000                | \$9,150                    | \$9,500                  |
| Department of Hospitals & Clinics  | \$32,000               | \$32,000                   | \$32,000                 |
| Elections Office                   | \$9,000                | \$9,000                    | \$9,000                  |
| <b>Total</b>                       | <b>\$254,000</b>       | <b>\$244,450</b>           | <b>\$280,900</b>         |

*Information Services Department* – This Department provides services related to the flow and storage of data. SamCERA's major expenditures with this department are for network connectivity with the County, business systems support, batch production related to active membership payroll and contribution information and telephone activity. SamCERA utilizes the County of San Mateo's phone network and is billed through ISD.

*Employee & Public Service* – SamCERA pays EPS a retainer fee for services provided by Benefits, Risk Management, Personnel Services, Equal Employment Opportunity, Employee/labor Relations, Training/Organizational Development, Purchasing and Mail Services. This budget includes money to engage EPS to assist with a Staff Compensation Study.

*County Counsel* – The County Counsel's Office provides various legal services. Those services include but are not limited to advice to the Board regarding matters before them and advice to SamCERA staff regarding benefit issues and other matters. County Counsel staff represents SamCERA in disability retirement application procedures and the separation of accounts in member divorce proceeding. This Office also represents SamCERA in litigation that may arise from Board actions.

*Auditor/Controller's Office* - The Auditor/Controller's staff provide services in two service areas, general accounting, and disbursement services.

General Accounting Services SamCERA's Trust Fund resides on the books of the County. The County's accounting system and banking system is used to track cash flows through the Trust Fund. SamCERA utilizes the County's accounts payable and purchase order system.

Disbursement Services The Controllers remittance processing services to issue approximately 275 retiree benefits checks and approximately 3,100 direct deposits.

*Department of Hospitals and Clinics* - Doctors from the Department of Hospitals and Clinics provide medical expertise for the Board. The assigned doctor provides advice regarding medical matters before the Board and advice to SamCERA staff regarding benefit issues and other matters. The Department advises SamCERA in disability retirement application procedures.

*Election Office* - This Office oversees the Association's Trustee election process.

**Fixed Assets** - *SamCERA* intends to purchase two new servers next fiscal year.

**Software License and Maintenance**- This item includes the cost to procure and install an Electronic Document Management System. This item was to be included in an amendment to FY 03-04 budget, however the study by Linea Solutions, Inc had not been completed in time to allow for the budget to be amended to begin the project before the end of the fiscal year.

**SamCERA's PROFESSIONAL SERVICES BUDGET:** Government Code §31596.1 states that *The expenses of investing its money shall be borne solely by the system. The following types of expenses shall not be considered a cost of administration of the retirement system, but shall be considered a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the board:*

- (a) *The costs, as approved by the board, of actuarial valuations and services rendered pursuant to §31453.*
- (b) *The compensation of any bank or trust company performing custodial services.*
- (c) *When an investment is made in deeds of trust and mortgages, the fees stipulated in any agreement entered into with a bank or mortgage service company to service such deeds of trust and mortgages.*
- (d) *Any fees stipulated in an agreement entered into with investment counsel for consulting or management services in connection with the administration of the board's investment program, including the system's participation in any form of investment pools managed by a third party or parties.*
- (e) *The compensation to an attorney for services rendered pursuant to §31607 or legal representation rendered pursuant to §31529.1.*

The Board has entered into the following contracts pursuant to §31596.1:

| Service Provider                              | Service                                | FY 2002-2003<br>Actual | FY 2003-2004<br>(Estimated) | FY 2004-2005<br>Proposed |
|---|--|------------------------|-----------------------------|--------------------------|
| William M. Mercer                             | Actuarial Consulting                   | \$150,900              | 55,000                      | \$75,000                 |
| Strategic Investment Solutions                | Investment Consulting                  | \$175,000              | 175,000                     | \$175,000                |
| Stein & Lubin LLP                             | Legal Services                         | 0                      | 5,000                       | 0                        |
| Barclays Global Investors (BGI)               | Indexed Portfolio Management           | \$267,255              | 310,000                     | \$302,000                |
|   | <i>Russell 1000 Index Fund</i>         | \$104,424              | \$120,000                   | \$118,000                |
|   | <i>Russell 2000 Index Fund</i>         | \$90,265               | \$107,000                   | 0                        |
|   | <i>US Debt Index Fund</i>              | \$72,566               | \$83,000                    | \$82,000                 |
| Deutsche Asset Management                     | Domestic Fixed Income Management       | \$439,365              | \$435,000                   | \$455,000                |
| New Manager                                   | Domestic Fixed Income Management       | 0                      | 0                           | \$310,000                |
| New Manager                                   | Domestic Large Cap Enhanced            | 0                      | 0                           | \$900,000                |
| New Manager                                   | Domestic Small Cap Growth              | 0                      | 0                           | \$440,000                |
| New Manager                                   | Domestic Small Cap Value               | 0                      | 0                           | \$440,000                |
| New Manager                                   | Domestic Small Cap Enhanced            | 0                      | 0                           | \$440,000                |
| Bank of Ireland Asset Management              | Active International Equity Management | \$680,165              | 740,000                     | 0                        |
| New Manager                                   | International Growth Manager           | 0                      | 0                           | \$435,000                |
| New Manager                                   | International Value Manager            | 0                      | 0                           | \$435,000                |
| INVESCO Realty Advisors                       | Real Estate Management                 | \$485,374              | 330,000                     | \$400,000                |
| State Street Bank & Trust                     | Global Custody                         | \$117,171              | \$120,000                   | 120,000                  |
| TOTAL ESTIMATED CONTRACT FEES                 |  | \$2,315,230            | \$2,170,000                 | \$4,927,000              |
| <i>Estimated Market Value as of June 30th</i> |  | \$1,233 Million        | \$1,450 Million             | \$1,570 Million          |
| Average Basis Points                          |  | 18.77                  | 14.97                       | 31.38                    |

**SamCERA's VENTURA LINE ITEM BUDGET:**

On August 14, 1997, the Supreme Court of the State of California issued a decision in the matter of *Ventura County Deputy Sheriff's Association vs. Board of Retirement of the Ventura County Employees' Retirement Association* which held that compensation paid in cash, even if not earned by all employees in the same grade or class, must be included in compensation earnable and final compensation on which an employee's retirement benefit is based. This California Supreme Court decision became final on October 1, 1997.

The *Ventura* decision was silent on two critical issues: terminal pay and retroactivity. These issues will be decided as a result of a current lawsuit, *Teamsters Local 856 vs. Board of Retirement, San Mateo County*. During the 2001 fiscal year, the trial court considered and rejected claims by petitioners that *Ventura* mandated the inclusion of terminal pay, third party payments, and employer pickups of employee contributions in the calculation of final compensation. During the 2002 fiscal year, the trial court considered and accepted claims by petitioners that *Ventura* should be applied retroactively and that the pensions of all retirees and their beneficiaries, regardless of when they retired, must be recalculated. Appeals of the trial court's decisions have been filed by both petitioners and defendants with the California Court of Appeals.

The Association retained an actuary to estimate the financial impact of a range of possible decisions in the *Teamsters Local 856* litigation. In the event Teamsters Local 856 prevails, the Association estimates that as of the June 30, 1998 Actuarial Valuation, the possible increase in the unfunded actuarial accrued liability ranges between \$180.3 million and \$264.9 million. However, if the Superior Court decision on the current litigation stands, the actuary estimates that the contingent liability totaled \$16.2 million as of June 30, 2002, with interest on the liability compounding at 7% simple per annum. A \$32,145,000 reserve has been established to set aside funds for this contingent liability.

| <b>San Mateo County Employees' Retirement Association</b>                         |                                 |                  |  |
|---|---------------------------------|------------------|--|
| <b>Proposed Ventura Budget for the period April 1, 2004 through June 30, 2005</b> |                                 |                  |  |
|   | <b>Expenditure Object</b>       | <b>Proposed</b>  |  |
|   | Salaries                        | \$173,835        |  |
|   | Benefits                        | \$87,025         |  |
|   | <b>Salaries &amp; Benefits</b>  | <b>\$260,860</b> |  |
|   | Property and Equipment          | \$8,000          |  |
|   | General Office Supplies         | \$1,000          |  |
|   | Leased Facilities               | \$29,000         |  |
|   | Member Communication            | \$5,000          |  |
|   | Production of Manuals           | \$6,000          |  |
|   | Software Licensing              | \$10,000         |  |
|   | Programming Support- County ISD | \$22,000         |  |
|   | Programming Support-LRS         | \$8,500          |  |
|   | County Services- Legal Fees     | \$14,000         |  |
|   | <b>Services &amp; Supplies</b>  | <b>\$103,500</b> |  |
|   | <b>Fixed Assets</b>             | <b>\$0</b>       |  |
|   | <b>Grand Total</b>              | <b>\$364,360</b> |  |

**Salaries & Benefits** - This category includes salary, overtime and extra-help monies for personnel working on the Ventura implementation. *SamCERA* needs to bring on qualified and trainable personnel who can perform research and spreadsheet calculations in order to assist *SamCERA* in paying those deserving members the correct amount due. This amount includes pay and benefits for two retirement analysts and two office specialists.

**Property and Equipment** – This item includes acquiring two micro fiche/film reader/imagers. These items allow researchers to read and view either microfiche or microfilm with an interchangeable carrier. These machines, when used with a personal computer allow the user to save an image of a microfilm or microfiche frame as an electronic copy. In order to review or print out at a later time. This item also includes additional furniture such as tables, lamps, chairs, file cabinets. Such items are available through the County's surplus property office and can be acquired with little or no cost. The office also has some microfiche viewers that can be utilized in a view only mode, also available for little or no cost. This item also includes a new printer that can be utilized by the *Ventura* workgroup.

**General Office Supplies-** This includes the office supplies necessary for the workgroup to operate. This includes paper, ink cartridges, folders etc.

**Leased Facilities-**Additional space will be required to handle the additional workforce and equipment. Oracle has offered their 9,000 square foot space on the second floor of our building for a total cost of \$4,000 until July 31, 2004 when their lease expires. After that we would have to make an arrangements with Jones, Lange, Lasalle to rent space until June 30th of 2005 at 1.75 per square foot using approximately 1200 square feet.

**Member Communication-**This includes the all costs related to the development and production of information to provide members as to the status of the project.

**Production of Manuals-** This includes all costs associated with the production of manuals describing the different methodologies for researching member data depending on the source of the data, and the methodology for calculating all monies due to a member. The primary source of the manuals will be MaryAnn Guttoff, currently under contract to produce emergency procedure for *SamCERA*.

**Software Licensing-**This item is the price to procure a license to utilize IBM's DB2 database.

**Programming Support-**ISD may need to program an interface for the PIPS and Pre PIPS data so that data can be retrieved, additionally ISD will need to develop a query so that certain data can be extracted from the master databases and put into a database for our use. LRS will need to provide programming support to create a program to append updated data to PensionGold's Payroll master file so that payments can be automatically entered into PensionGold, rather than manually entered.

**Legal Fees** - This item is to reimburse County Counsel for work associated with *SamCERA's* implementation of the *Ventura* resolution, such as reviewing progress, making reports to the courts and other attorney's involved.