SamCERA
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Notice of Public Meeting

The Board of Retirement

of the San Mateo County Employees' Retirement Association will meet on

Tuesday, July 29, 2014, at 10:00 A.M.

PUBLIC SESSION – The Board will meet in Public Session at 10:00 a.m.

1. **Call to Order, Roll Call and Miscellaneous Business**
   - 1.1 Election of Board Officers
   - 1.2 Appointment of Board Committees
2. **Oral Communications**
   - 2.1 Oral Communications From the Board
   - 2.2 Oral Communications From the Public
3. **Approval of the Minutes**
   - 3.1 Approval of Special Board Meeting Minutes, from June 3, 2014
4. **Approval of the Consent Agenda** *** (Set for 1:00 p.m. time certain for disability retirements only)**
   - 4.1 Disability Retirements
     - Hellen Allen
     - Jenny Foster
     - Susan Hartmann
     - Mary Klemish
     - Kimberly Vogt
   - 4.2 Service Retirements
   - 4.3 Continuances
   - 4.4 Deferred Retirements
   - 4.5 Member Account Refunds
   - 4.6 Member Account Rollovers
   - 4.7 Member Lump Sum Annuity Payment
   - 4.8 Approval of Resolution Extending Agreement With Hanson Bridgett
   - 4.9 Approval of Questions for Annual Review for Milliman, Inc.
   - 4.10 Acceptance of Semi-Annual Compliance Certification Statements
   - 4.11 Approval of Questions for Annual Review for Brown Armstrong Accountancy Corporation
   - 4.12 Acceptance of Annual Audit Status Report
   - 4.13 Approval of SamCERA's 2014-2015 Strategic Plan Update
5. **Benefit & Actuarial Services** ***(Set for 1:00 p.m. time certain)**
   - 5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
   - 5.2 Presentation of Milliman's Investigation of Experience Report FY 2012-2014
   - 5.3 Acceptance of Actuarial Auditor's Findings Regarding the Investigation of Experience Study Report FY 2012-2014
   - 5.4 Approval of Milliman's Investigation of Experience Report and Adoption of Report Recommendations
6. **Investment Services**
   - 6.1 Preliminary Monthly Performance Report for the Period Ending June 30, 2014
   - 6.2 Report on the Value Equity Manager Annual Reviews
   - 6.3 Report on the Growth Equity Manager Annual Reviews
   - 6.4 Approval of Resolution Extending Agreement with Strategic Investment Solutions, Inc.
7. **Board & Management Support**
   - 7.1 Quarterly Budget Report, for the Period Ending June 30, 2014
   - 7.2 Approval of Resolution Amending Interest Crediting Policy and Medicare Part B Funding *** (Set for 1:00 p.m. time certain)**

7.3 Approval of Resolution Revising Board of Retirement Regulations
*** (Set for 1:00 p.m. time certain)**

8. Management Reports

8.1 Chief Executive Officer's Report
8.2 Assistant Executive Officer's Report
8.3 Chief Investment Officer's Report
8.4 Chief Legal Counsel's Report

CLOSED SESSION – The Board may meet in closed session prior to adjournment

C1 Consideration of Disability Items, if any, Removed from the Consent Agenda

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Lamb, Katie	March 28, 2014	Crystal Springs Rehab. Center
Miyaki, Seiko	May 1, 2014	Probation
McCormick, Betty	May 8, 2014	Mental Health
King, Donald	May 21, 2014	Civil Service Commission
Gutfeld, Jacqueline	May 24, 2014	Beneficiary of Gutfeld, Jack
Woonacott, Richard	May 12, 2014	Beneficiary of Woonacott, Gloria
Wolowski, Heddie	May 31, 2014	Hospital
Jung, Fred	June 2, 2014	Information Services
Murphy, Michael	June 3, 2014	County Counsel
Henderson, Lawrence	June 15, 2014	Information Services
Andrejko, Selma	June 19, 2014	Social Services
Dishinger, Momoyo	June 21, 2014	Libraries
Simmons, Elaine	June 25, 2014	Beneficiary of Simmons, Harold

for Scott Hood, AEO
David Bailey, Chief Executive Officer

Posted: July 23, 2014

(* ALL ITEMS ON THE CONSENT AGENDA ARE APPROVED BY ONE ROLL CALL MOTION UNLESS A REQUEST IS MADE BY A BOARD MEMBER THAT AN ITEM BE WITHDRAWN OR TRANSFERRED TO THE REGULAR AGENDA. ANY ITEM ON THE REGULAR AGENDA MAY BE TRANSFERRED TO THE CONSENT AGENDA. ANY 4.1 ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER CLOSED SESSION; ALL OTHER ITEMS REMOVED FROM THE CONSENT AGENDA WILL BE TAKEN UP UNDER ITEM 5.1.)

THE BOARD MEETS AT <u>100 MARINE PARKWAY, SUITE 160</u>, WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY. Detailed directions are available on the "Contact Us" page of the website www.samcera.org. *Free Parking is available in all lots in the vicinity of the building. A copy of the Board of Retirement's open session agenda packet is available for review at the SamCERA offices and on our website unless the writings are privileged or otherwise exempt from disclosure under the provisions of the California Public Records Act. Office hours are Monday through Thursday 7 a.m. – 6 p.m.*

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 1.1

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Ad Hoc Nominating Committee Report and Election of 2014-2015 Board Officers

Staff Recommendation

Under this agenda item the Board Chair should:

1. Ask for:
   - a report from the chair of the ad hoc committee, and
   - a motion and second to place the committee's recommended slate of candidates in nomination;
2. Ask if there are any other nominations;
3. Call for a roll call vote for the officer positions for the 2014-15 fiscal year.

Background

Pursuant to the Regulations of the Board of Retirement, an election of board officers is to be held at the first meeting of each fiscal year. The board regulations regarding the election of officers are reprinted on the following page.

At the June 6, 2014, meeting, Board Chair Natalie Kwan Lloyd appointed the following committee:

Ad Hoc Nominating Committee for Board Officers
Sandie Arnott (Chair)
Al David
Natalie Kwan Lloyd
Eric Tashman

At the July 29, 2014, meeting, the committee chair (or a designated committee member) will report on the recommendations of the committee and place in nomination the names of the trustees the committee recommends for the three board officer positions.

EXCERPT FROM THE

REGULATIONS OF THE BOARD OF RETIREMENT

1.1. Election Of Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members chair for a term of one year or until his or her successor is duly elected and qualified. The Chair shall preside at all meetings of the Board, shall appoint all committees and shall perform all duties incidental to that office.

1.2. Election Of Vice Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members vice chair for a term of one year or until his or her successor is duly elected and qualified. In the Chair's absence or inability to act, the Vice Chair shall take the place and perform the duties of that office.

1.3. Election Of Secretary: At the first regular meeting in July, the Board of Retirement shall elect one of its members secretary for a term of one year or until his or her successor is duly elected and qualified. The Secretary shall attest to Resolutions and other such documents for the Board. In the Chair's and Vice Chair's absence or inability to act, the Secretary shall take the place and perform the duties of the Chair.

July 29, 2014 Agenda Item 1.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Announcement of the Appointment of Board Committees

Staff Recommendation

Staff recommends the Chair announce appointments to the Investment Committee, the Audit Committee, and the Ad Hoc Succession Planning Committee, as the Chair deems appropriate.

Background

The Board Chair is authorized by the Regulations of the Board of Retirement to appoint all committees.

> **"1.1 Election Of Chair:** At the first regular meeting in July, the Board of Retirement shall elect one of its members chair for a term of one year or until his or her successor is duly elected and qualified. The Chair shall preside at all meetings of the Board, **shall appoint all committees** *(emphasis added)* and shall perform all duties incidental to that office."

Committee assignments for FY13-14 were as follows:

- Investment Committee- Ben Bowler, Lauryn Agnew, Michal Settles and Albert David, Chair
- Audit Committee- Paul Hackleman, Natalie Kwan Lloyd, Sandie Arnott and Eric Tashman, Chair
- Ad Hoc Succession Planning Committee- Al David, Michal Settles, Ben Bowler, Paul Hackleman, Chair

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

July 29, 2014 **Agenda Item 3.1**

June 3, 2014 – Board Agenda

PUBLIC SESSION – The Board will meet in Public Session at 10:00 a.m.

1. **Call to Order, Roll Call and Miscellaneous Business**
   1.1 Appointment of Ad Hoc Nominating Committee for Board Officers
2. **Oral Communications**
   2.1 Oral Communications From the Board
   2.2 Oral Communications From the Public
3. **Approval of the Minutes**
4. **Approval of the Consent Agenda**
   4.1 Disability Retirements
   - Brian McKinley
   - Ana Sapling
   - Francine Wesley
   - Hellen Zhang

   4.2 Service Retirements
   4.3 Continuances
   4.4 Deferred Retirements
   4.5 Member Account Refunds
   4.6 Member Account Rollovers
   4.7 Trustees' Requests for Additional Educational Activities
   4.8 Overview of Annual Financial Audit
   4.9 Approval of Audit Engagement Letter
   4.10 Annual Review, Revision, & Reaffirmation of the Investment Committee Charter
   4.11 Ratification of Staff's Action to Acquire Fiduciary Liability Insurance
5. **Benefit & Actuarial Services**
   5.1 Consideration of Agenda Items, if any, Removed From the Consent Agenda
   5.2 Approval of Actuarial Assumptions for the June 30, 2014 Actuarial Valuation
6. **Investment Services**
   6.1 Preliminary Monthly Performance Report for the Period Ending April 30, 2014
   6.2 Quarterly Investment Performance Report for the Period Ending March 31, 2014
   6.3 Discussion and Selection of Risk Parity Manager
   6.4 Due Diligence Report Concerning Certain Existing Alternative Investments (Confidential Under Gov. Code §6254.26, to be heard in Closed Session, C2)
   6.5 Report on Core Equity Manager and Barrow Hanley Annual Reviews
   6.6 Discussion and Approval of Proposed Changes to the Investment Policy
   6.7 Educational Presentation Regarding Fixed Income Direct Lending
7. **Board & Management Support**
   7.1 Preliminary Quarterly Financial Report for Period Ending March 31, 2014
   7.2 Update on SamCERA's Technology Modernization Project
   7.3 Approval of Resolution Amending the Board's Education Policy
   7.4 Approval to Reschedule the July Meeting of the Board of Retirement
   7.5 Approval of SamCERA's 2014-15 Strategic Plan Update
8. **Management Reports**
   8.1 Chief Executive Officer's Report
   8.2 Assistant Executive Officer's Report
   8.3 Chief Investment Officer's Report
   8.4 Chief Legal Counsel's Report

CLOSED SESSION – The Board may meet in closed session prior to adjournment

C1 Consideration of Disability Items, if any, Removed from the Consent Agenda

C2 Due Diligence Report Concerning Certain Existing Alternative Investments (Confidential Under Gov. Code §6254.26)

C3 Public Employee Appointment in Accordance With Government Code Section 54957.
Title: Chief Executive Officer.

9. Report on Actions Taken in Closed Session

10. Adjournment in Memory of the Following Deceased Members:

Jackson, Rosalee	February 27, 2014	Youth and Family Services
Zapparoni, Ceide	April 4, 2014	County Counsel
Boyd, Elise	April 7, 2014	Probation
Gunderson, Martin	April 9, 2014	Sheriff's Office
Blanchard, Laurence	April 12, 2014	Adult and Aging Services
Gildner, Gloria	April 18, 2014	Beneficiary of Van Pelt, Chas
Bergman, Patricia	April 15, 2014	Controller's Office
Wendler, JoyAnn	April 24, 2014	Beneficiary of Wendler, Paul

1406.1 **Call to Order, Roll Call and Miscellaneous Business**

Call to Order: Ms. Natalie Kwan Lloyd, Chair, called the Special Meeting of the Board of Retirement to order at 10:00 a.m.

Roll Call:
Present: Lauryn Agnew, Sandie Arnott, Albert David, Paul Hackleman, Natalie Kwan Lloyd, David Spinello and Eric Tashman (arrived at 12:00 pm).
Excused: Ben Bowler, and Michal Settles.
Alternates present: Christopher Miller, Alma Salas.
Staff: David Bailey, Scott Hood, Michael Coultrip, Brenda Carlson, Gladys Smith, Mabel Wong, Lilibeth Dames, Elizabeth LeNguyen and Kristina Perez.
Consultants: Patrick Thomas, Jonathan Brody, Ping Zhu, and Faraz Shooshani (*all from SIS*).

1406.6.3 **Discussion and Selection of Risk Parity Manager:** Mr. Coultrip explained that the Risk Parity Manager finalist candidates, who were approved at the March meeting, would be giving presentations to the Board. The presentations would each be approximately 60 minutes long, with time included after the presentation for questions. Each firm's representatives appeared before the Board of Retirement, in the order listed below. They gave presentations about their respective strategies and answered questions from Board members.

10:00 a.m. **Bridgewater** – Joel Widden, Senior Relationship Manager

11:00 a.m. **PanAgora** – Eric Sorensen, Ph.D., President and CEO; Bryan Belton, CFA, Director, Multi-Asset; Michael Anderson, Director, Relationship Management

Following the presentations, the Board took a recess at 12:10 p.m., and reconvened at 12:22 p.m.

After reconvening the Board discussed their thoughts about the candidates' presentations; and went over the merits and discussed fees of both candidates.

Action: Mr. David moved to approve the selection of PanAgora as a Risk Parity Manager, and further moved to authorize the Chief Executive Officer to enter into an agreement with PanAgora, after due diligence is completed. The motion was seconded by Mr. Hackleman, and carried with a vote of 6-0-1, with trustees Agnew, Arnott, David, Hackleman, Kwan Lloyd, and Spinello all in favor; none opposed. Mr. Tashman abstained from voting on this matter, as he was not present for the candidates' presentations.

The meeting continued in the order of items below.

1406.6.1 **Preliminary Monthly Performance Report for the Period Ending April 30, 2014:** Mr. Coultrip discussed the preliminary monthly performance report with the Board. He reported that SamCERA's net preliminary return for April was +0.25% and the trailing twelve month return was +11.3% (+11.7% gross). This item was informational only and no action was taken.

1406.6.2 **Quarterly Investment Performance Report for the Period Ending March 31, 2014:** Mr. Coultrip and Mr. Thomas presented the Quarterly Investment Performance Report. Mr. Thomas and Mr. Brody went over the quarterly report, page by page, reviewing managers' performances and commenting on specific items. Topics discussed by Board members included active vs. passive management strategies, benchmarks, and hedge funds. This item was informational only and no action was taken.

The Board adjourned into closed session at 1:30 p.m. to discuss item 6.4 (C2), Due Diligence Report Concerning Certain Existing Alternative Investments. The meeting was reconvened to public session at 2:05 p.m.

1406.6.4 **Due Diligence Report Concerning Certain Existing Alternative Investments:** Ms. Carlson reported that there was no reportable action taken on this item.

1406.5.2 **Approval of Actuarial Assumptions for the June 30, 2014 Actuarial Valuation:** Mr. Bailey introduced Nick Collier, of Milliman, Inc. who reviewed the assumptions report with the Board. Mr. Collier went through Milliman's report and answered questions from the Board. The Board discussed lowering the assumed rate of return from 7.50% to 7.25% and talked about how that reduction would affect the members' and employers' costs. Jim Saco, Budget Director from the County Manager's Office commented favorably, as did Supervisor Dave Pine.
Action: Mr. David moved to approve the economic and demographic actuarial assumptions to be used in the June 30, 2014, actuarial valuation, including reducing the actuarial assumed rate of return from 7.50% to 7.25%, CPI from 3.25% to 3.00 %, and Wage Increase from 3.75% to 3.50%. The motion was seconded by Ms. Arnott and carried with a vote of 7-0, with Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman, all in favor, none opposed.

1406.6.5 **Report on Core Equity Manager and Barrow Hanley Annual Reviews:** Ms. Dames reported that staff met with SamCERA's Core Equity Manager and Barrow Hanley on May 1, 2014, and there were no significant concerns identified in the portfolio reviews. This item was informational only and no action was taken.

1406.6.6 **Discussion and Approval of Proposed Changes to the Investment Policy:** Mr. Coultrip reviewed a "clean" version of the Investment Policy, including proposed changes, with the Board. It was noted that the Risk Parity benchmark would remain the same, and that there were changes made to the section regarding securities lending.
Action: Mr. Hackleman moved to approve the changes to SamCERA's Investment Policy as presented, and Mr. David seconded the motion. The motion carried with a vote of 7-0, with Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman, all in favor, none opposed.

1406.6.7 **Educational Presentation Regarding Fixed Income Direct Lending:** Mr. Zhu from SIS gave a presentation to the Board on direct lending strategies and benefits. This item was informational only and no action was taken by the Board.

1406.4.0 **Approval of the Consent Agenda:** Ms. Kwan Lloyd asked if there were any items to be removed from the Consent Agenda. The disability application of Hellen Zhang was removed from the Consent Agenda.
Action: Mr. Hackleman moved to approve the remaining items on the Consent Agenda, and the motion was seconded by Ms. Agnew. The motion carried with a vote of 7-0, with trustees Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman all in favor; none opposed.

Consent Agenda

1406.4.1 **Disability Retirements**

a. The Board found that **Brian McKinley** is (1) permanently incapacitated for the performance of his usual and customary duties as a Deputy Sheriff, (2) found that his disability was a result of an injury arising out of and in the course of his employment, and (3) granted his application for a service-connected disability retirement.

b. The Board (1) accepted the proposed findings and recommendation of the Hearing Officer, John Simonsen, that **Ana Sapling** does not have a disabling medical condition, (2) found that Ana Sapling is able to perform her duties as a Systems Engineer, and (3) denied her application for a service-connected disability retirement.

c. The Board found that **Francine Wesley** is (1) not permanently incapacitated for the performance of her usual and customary duties as a Legal Office Specialist, and (2) denied her application for a non-service-connected disability retirement.

1406.4.2 **Service Retirements**

The Board ratified the actions as listed below for the following members regarding service retirements:

Member Name	**Effective Retirement Date**	**Department**
Aguirre, Linda	March 29, 2014	Human Services Agency
Antonini, Janice	March 29, 2014	Courts
Baldwin, Beverly	April 16, 2014	Environmental Health
Binns, Carol	March 29, 2014	Hospital
Boone, Jill	April 23, 2014	Deferred from Public Works
Boulding, Ife	March 29, 2014	Hospital
Briggs, Patrick	March 20, 2014	District Attorney's Office
Bywaters, Julie	April 24, 2014	Deferred from Courts
Camarao, Bonifacio	March 14, 2014	Deferred from Public Health
Dallimonti, Donald	March 31,2014	Sheriff's Office
Davenport, Thomas	March 29, 2014	Public Works
Day, Vickie	April 1, 2014	Hospital
Dela Cruz, Russell	March 15, 2014	Hospital
DelRosario, Emilio	March 29, 2014	Sheriff's Office
Dottery, Geoffrey	February 1, 2013	Deferred from Hospital
Ellette, Marian	March 31, 2014	Human Services Agency
Franklyn, Linda	March 29, 2014	Aging & Adult Services
Gan, Margaret	April 1, 2014	Human Services Agency
Gandhi, Dhiren	March 30, 2014	ISD
Gimotea, Susan	March 29, 2014	Assessor's Office
Hagler, Isaura	March 29, 2014	Human Services Agency
Hanlon, Mark	March 29, 2014	Sheriff's Office
Hardiman, Lenore	March 17, 2014	Hospital
Haw, Gan	March 2, 2014	Hospital
Hennessy, David	March 29, 2014	Sheriff's Office
Herrera-Zaman, Emilia	March 29, 2014	Hospital
Humphrey, Mary	March 29, 2014	ISD
Jansen, Nora	April 1, 2014	Hospital

1406.4.2 **<u>Service Retirements</u> (con't)**

Member Name	Effective Retirement Date	Department
Johnson, Beverly	April 1, 2014	Human Services Agency
Leung, David	March 29, 2014	Agricultural Weights & Measures
Levy, Nell	March 29, 2014	Human Services Agency
Lim, Michael	March 19, 2014	Probation
Lopez, William	April 1, 2014	Probation
Lucca, Vincenta	March 29, 2014	Department of Public Works
Martinez, Joseph	March 29, 2014	Sheriff's Office
Matarazzo, Steve	March 14, 2014	Deferred from Planning
Matsumoto, Karyl	April 1, 2014	Def'd. County Manager's Office
McKenna, Kathleen	April 1, 2014	Court Commissioner
Miller, Glenda	March 29, 2014	Probation
Miller, Gwendolyn	March 31, 2014	Libraries
Morris-Rankins, Susan	March 2, 2014	Libraries
Nardo, Frank	March 29, 2014	Courts
Nishita, Carol	April 1, 2014	Deferred from Social Services
Nissing, Deborah	March 13, 2014	Deferred from Hospital
Northrup, Linda	March 27, 2014	Aging & Adult Services
O'Brien, Rose	March 31, 2014	Public Health
Oliden, Frances	March 29, 2014	Family Health
Olsen, Gregory	March 2, 2014	Probation
Palomaria, Abema	April 12, 2014	Deferred from Hospital
Peterson, Dean	April 1, 2014	Environmental Health
Preza, Luzviminda	March 28, 2014	Hospital
Rangaswamy, Radha	March 31, 2014	Libraries
Rocha, Lesbia	March 8, 2014	Human Services Agency
Schoenfeld, Jerry	April 1, 2014	Hospital
Shropshire-Mobbs, Margaret	March 29, 2014	Family Health
Singh, Dhirendra	March 31, 2014	Sheriff's Office
Taylor, Rosemary	March 29, 2014	Correctional Health
Thompson, Lee	March 29, 2014	County Counsel
Tseng, Olive	March 29, 2014	Hospital
Valde, Tito	April 1, 2014	Hospital
Varela, Maria Elena	March 29, 2014	Courts
Voll, Denise	March 27, 2014	Deferred from Planning Dept.
Walker, Cheryl	March 29, 2014	Behavioral Health
Wee, John	March 28, 2014	Deferred from Courts

1406.4.3 **<u>Continuances</u>**

The Board ratified the actions as listed below for the following members regarding continuances:

Survivor's Name	Beneficiary of:
Pantoja, Carlos	Pantoja, Victoria
Ketchens, Annie Lee	Ketchens, John
Bloom, Lois	Bloom, Murray
Paull, Anne	Paull, Forrest
House, Edwin	House, Betty

1406.4.4 **Deferred Retirements**

The Board ratified the actions as listed below for the following members regarding deferred retirements:

Member Name	Retirement Plan Type
Trewin, John	G4 Vested
Bates, Robert	S4 Vested
Seubert, Matthes	G4 Vested
Sharpe, Maybelline	G4 Vested
Stevens, Barbara	G4 Vested
Anderson, Rosanna	G4 Vested – Auto Defer
Aragon, Maria	G4 Vested – Auto Defer
Austin, Mary	G4 Vested – Auto Defer
Delgad, Crispin	G4 Vested – Auto Defer
Dubois, Amie	G4 Vested – Auto Defer
Fernandez, Karla	G4 Vested – Auto Defer
Garcia, Amador	G4 Vested – Auto Defer
Hernandez, Patricia L.	G4 Vested – Auto Defer
Hill, Elizabeth M.	G4 Vested – Auto Defer
Jensen, Alicia S.	G4 Vested – Auto Defer
McElroy-White, Greta	G4 Vested – Auto Defer
Morales, Roina M.	G4 Vested – Auto Defer
Nielsen, Eirik C.	G4 Vested – Auto Defer
Pawlowsky, Eric	G4 Vested – Auto Defer
Peterson, Candyce C.	G4 Vested – Auto Defer
Phelan, Paul	P4 Vested – Auto Defer
Recotta, Marjorie H.	G4 Vested – Auto Defer
Rhodes, Karen	G4 Vested – Auto Defer
Shanks, Marie P.	G2 & 3 Vested – Auto Defer
Swaminathan, Meena	G4 Vested – Auto Defer
Thain, Lauri	G3 Vested – Auto Defer
Wachhorst, Wendy	G4 Vested – Auto Defer
Zamora, Niki	G4 Vested – Auto Defer

1406.4.5 **Member Account Refunds**

The Board ratified the actions as listed below for the following members regarding refunds:

Member Name	Retirement Plan Type
Kostic, Christina	G7 Non-vested
Signo, Meriam	G4 Vested
Balbuena, Paul	G5 Non-vested
Jones, Mlima	G7 Non-vested

1406.4.6 **<u>Member Account Rollovers</u>**
The Board ratified the actions as listed below for the following members regarding rollovers:

Member Name	Retirement Plan Type
Nubia, Nicholas	G4 Vested
Warner, Roberta	G4 Vested
Chawk, Gary	G7 Non-vested
Tang, Xiaohua	G4 Non-vested
Mejia, Salvador	G4 Non-vested

1406.4 **Other Consent Agenda items approved by the Board:**

1406.4.7 **Trustees' Requests for Additional Educational Activities:** The Board approved requests from Trustees Kwan Lloyd and Agnew to attend additional educational events and approved additional costs.

1406.4.8 **Overview of Annual Financial Audit:** The Board reviewed the schedule and structure of the FY 2013-2014, financial audit process.

1406.4.9 **Approval of Audit Engagement Letter:** The Board authorized the Chief Executive Officer and the Audit Committee Chair, Mr. Eric Tashman, to execute the Audit Engagement Letter for the June 30, 2014, Financial Statement Audit.

1406.4.10 **Annual Review, Revision, & Reaffirmation of the Investment Committee Charter:** The Board reviewed and reaffirmed the Investment Committee Charter.

1406.4.11 **Ratification of Staff's Action to Acquire Fiduciary Liability Insurance:** The Board approved staff's acquisition of fiduciary liability insurance on behalf of the Board for the period 5/27/14 to 5/27/15.

1406.5.1 **Consideration of Agenda Items, if any, Removed From the Consent Agenda:** The Board adjourned in to closed session at 3:40 p.m. to discuss the disability application of Hellen Zhang that was removed from the Consent Agenda. The Board reconvened in open session at 4:35 p.m. Ms. Carlson reported that by a vote of 5-2 (Agnew, Hackleman, Kwan Lloyd, Spinello and Tashman in favor; Arnott and David opposed) the Board approved the recommendation and found that Hellen Zhang is (1) permanently incapacitated for the performance of her usual and customary duties as an Accountant, (2) found that her disability was a result of an injury arising out of and in the course of her employment, and (3) granted her application for a service-connected disability retirement.

1406 C3 **Public Employee Appointment in Accordance With Government Code Section 54957. Title: Chief Executive Officer:** While in closed session the Board discussed this item. After reconvening, Mr. Bailey reported that an advertising budget and calendaring of the CEO recruitment interview dates had been discussed.

1406.1.1 **Appointment of Ad Hoc Nominating Committee for Board Officers:** The Chair announced the appointment of Trustees Tashman, Arnott, David and Kwan Lloyd as members of the Ad Hoc Nominating Committee, with Mr. David serving as Chair.

1406.2.1 **Oral Communications From the Board:** Trustees Kwan Lloyd, Spinello and Agnew all reported their attendance at the SACRS Spring Conference in Sacramento, May 13-16, 2014. Ms. Arnott reported her attendance at GFOA in Minneapolis, May 18-20, 2014.

1406.2.1 **Oral Communications From the Public:** Ms. Salas reported her attendance at GFOA in Minneapolis, May 18-20, 2014. Mr. Miller reported his attendance at Wharton in Philadelphia on May 4-8, 2014, and at the SACRS Spring Conference in Sacramento, May 13-16, 2014.

1406.3.0 **Approval of Minutes:** Ms. Kwan Lloyd asked of there were any changes or corrections to the minutes. None were noted.
Action: Mr. Hackleman made a motion to approve the special meeting minutes from April 29-30, 2014, and the motion was seconded by Mr. David. The motion carried with a vote of 7-0, with trustees Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman all in favor; none opposed.

1406.7.1 **Preliminary Quarterly Financial Report for Period Ending March 31, 2014:** Ms. Wong reviewed the quarterly financial report with the Board and noted an increase of $104.9 million, which included the County's supplemental contribution of $50 million. This item was informational only and no action was taken.

1406.7.2 **Update on SamCERA's Technology Modernization Project:** Will Morrow, LRWL Project Manager, reviewed the progress of SamCERA's Technology Modernization Project with the Board. He discussed the detailed work plan, risk plan and communication plan being implemented with the PASS vendor, Vitech. This item was for discussion only, and no action was taken.

1406.7.3 **Approval of Resolution Amending the Board's Education Policy**: Mr. Bailey reviewed changes to the Board's Education Policy, which consisted of an update to the list of approved education and conference providers. GMI Ratings was added to providers' list and several vendors, who no longer provide educational activities, were removed.
Action: Mr. Hackleman moved to approve the changes made to the Board's Education Policy, and the motion was seconded by Mr. David. The motion carried with a vote of 7-0, with trustees Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman all in favor; none opposed.

1406.7.4 **Approval to Reschedule the July Meeting of the Board of Retirement:** Mr. Bailey and Board members discussed moving the July meeting of the Board of Retirement to July 29, 2014 and changing the time to 10:00 a.m.
Action: Mr. Hackleman moved to change the July meeting date from July 22, 2014 to July 29, 2014, and for the meeting to begin at 10:00 a.m.; the motion was seconded by Ms. Agnew. The motion carried with a vote of 7-0, with trustees Agnew, Arnott, David, Hackleman, Kwan Lloyd, Spinello and Tashman all in favor; none opposed.

1406.7.5 **Approval of SamCERA's 2014-15 Strategic Plan Update:** Mr. Hood discussed the 2014-15 Strategic Plan Update with the Board. He went over the changes made to last year's report, and noted that the plan was revised to be more project- and goal-centered, rather than listing tasks; and a lead person has been added to each entry. He discussed the strategic plan process undertaken at the staff planning retreat.

1406.8.1 **Chief Executive Officer's Report:** Mr. Bailey reported that changes in the interest crediting policy would be discussed at the July Board meeting, and would reflect policies related to the County's additional contributions and how interest would be credited to those reserves. Mr. Bailey reported that SACRS is considering using SACRS funds to launch a public relations project to get more accurate information disseminated to the public about defined benefit plans. Mr. Bailey called attention to a draft letter from the Board and staff, thanking the County Board of Supervisors and other key persons in the County Manager's office regarding the supplemental contributions received from the County.

1406.8.2 **Assistant Executive Officer's Report**: Mr. Hood reported that progress continues on the construction of the second-floor office suite. He also reviewed the "Forward Looking Calendar" with the Trustees. Mr. Hood reminded the Board members to turn in their non-recourse fiduciary insurance payments of $25; and asked Board members to review and sign the County's electronic device use policy form and to check in with SamCERA's IT staff to have updates installed on their SamCERA iPads.

1406.8.3 **Chief Investment Officer's Report:** Mr. Coultrip informed the Board that staff would be conducting the Value Manager reviews on June 5, 2014. He reported that the conversion of SamCERA's custodial banking services to Northern Trust has been going well and progressing. Mr. Coultrip also informed the Board that, consistent with Board Resolution 12-13-04, which allows the CEO authority to make investment decisions for those Alternative investments of $25 million or less in consultation with the Board Chair and one member of the Investment Committee, Mr. Bailey authorized a re-up with Sycamore by committing $25 million to Sycamore II.

1406.8.4 **Chief Legal Counsel's Report:** Ms. Carlson reported that she filed the respondents' brief in the Montisano case and had attended SACRS in Sacramento in May, and would be attending the CALAPRS Attorneys' Roundtable on June 13, 2014.

1406.10 **Adjournment:** Mr. Bailey reflected on the passing of former San Mateo County Counsel and longtime employee, Mr. Mike Murphy, who passed away on June 3, 2014. Ms. Kwan Lloyd adjourned the meeting at 5:06 p.m. in memory of Mike Murphy and the following deceased members:

Jackson, Rosalee	February 27, 2014	Youth and Family Services
Zapparoni, Ceide	April 4, 2014	County Counsel
Boyd, Elise	April 7, 2014	Probation
Gunderson, Martin	April 9, 2014	Sheriff's Office
Blanchard, Laurence	April 12, 2014	Adult and Aging Services
Gildner, Gloria	April 18, 2014	Beneficiary of Van Pelt, Chas
Bergman, Patricia	April 15, 2014	Controller's Office
Wendler, JoyAnn	April 24, 2014	Beneficiary of Wendler, Paul

______________________________ ____________________________________

David Bailey
Chief Executive Officer

Kristina Perez
Retirement Executive Secretary

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Items 4.1- 4.6

To: Board of Retirement

From: Gladys Smith, Retirement Benefits Manager Gladys Smith

Subject: Approval of Consent Agenda Items 4.1 – 4.6

4.1 Disability Retirements

a) The Board find that **Hellen Allen** is (1) permanently incapacitated from the performance of her usual and customary duties as a Legal Word Processer, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

b) The Board find that **Jenny Foster** is (1) permanently incapacitated from the performance of her usual and customary duties as a Clinical Services Manager I, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

c) The Board (1) accept the proposed findings and recommendations of the Hearing Officer, Roy Abrams that **Ms. Susan Hartmann** is permanently incapacitated from the performance of her usual and customary duties as a Lead Office Assistant, (2) find that her disability was a result of an injury arising out of and in the course of her employment and, (3) grant her application for a service-connected disability retirement.

d) The Board find that **Mary Klemish** is (1) permanently incapacitated from the performance of her usual and customary duties as a Patient Services Assistant, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

e) The Board find that **Kimberly Vogt** is (1) permanently incapacitated from the performance of her usual and customary duties as a Communications Dispatcher II, (2) find that her disability was a result of an injury arising out of and in the course of her employment and (3) grant her application for a service-connected disability retirement.

4.2 Service Retirements

The Board ratifies the actions as listed below for the following members regarding service retirements:

Member Name	Effective Retirement Date	Department
Baldwin, Beverly	April 16, 2014	Environmental Health
Boone, Jill	April 23, 2014	Deferred from Public Works
Burgess, Janet	May 31, 2014	Tax Collector's Office
Bywaters, Julie	April 24, 2014	Deferred from Courts

Gekakis, Helen	June 1, 2014	Probation
Highlander, Judy	May 17, 2014	Courts
McMillan, Mary	July 27, 2013	County Manager's Office
Palomaria, Abema	April 12, 2014	Deferred from Hospital
Voris, Sheila	May 31, 2014	Human Services Agency

4.3 Continuances

The Board ratifies the actions as listed below for the following members regarding continuances:

Survivor's Name	Beneficiary of:
McCormick, John	Beneficiary of McCormick, Betty
Jung, Claire	Beneficiary of Jung, Fred
Murphy, Gayle	Beneficiary of Murphy, Michael

4.4 Deferred Retirements

The Board ratifies the actions as listed below for the following members regarding deferred retirements:

Member Name	Retirement Plan Type
Layman, Jill	G4 Vested
Mou, Amy	G5 Non Vested – Reciprocity
Phan, Jane	G7 Non Vested – Reciprocity
Miranda, Oscar	G4 Vested – Reciprocity
Argarin, Davey	G4 Non Vested – Reciprocity
Lambert, Michael	G4 Vested - Reciprocity
Mccomas, Megan	G4 Vested
Rosado, Aileen	G4 Vested – Auto Defer
Bertolozzi, Saima	G4 Vested with Reciprocity – Auto Defer
Wallace, Daniel	S4 Vested – Auto Defer
Tran, Hanh	G4 Vested - Reciprocity
Ortiz, Luis A.	P4 Vested
Whitlock, Eugene E.	G4 Vested - Reciprocity
Collins, Gloria	G4 Non Vested - Reciprocity

McMahon, Thomas	G4 Vested - Reciprocity
Holmlund, Christine B.	G4 Vested
Kwok, Kristine Y.	G4 Vested - Reciprocity

4.5 Member Account Refunds

The Board ratifies the actions as listed below for the following members regarding refunds:

Member Name	Retirement Plan Type
Garcia, Uriel	G4 Vested
Padilla Jr., Rosendo	P4 Vested
Jones, James	G7 Non-vested
Rupp, Vincent	G7 Non-vested
Koenig, Kelly	G4 Non-vested
Ruiz, Juan	G4 Non-vested
Quijada, Ana	G7 Non-vested
Cauyong, Consolacion	G4 Vested

4.6 Member Account Rollovers

The Board ratifies the actions as listed below for the following members regarding rollovers:

Member Name	Retirement Plan Type
Zapparoni, Ceide	G4 Non-vested
Martinez, Rosa	G4 Vested
Freirez, Elena	G4 Vested

4.7 Member Lump Sum Annuity Distributions

The Board ratifies the actions as listed below for the following members regarding Lump-sum Annuity Distributions:

Member Name	Retirement Plan Type
Bond, Lita	G4 Vested - Reciprocity

July 29, 2014 Agenda Item 4.8

To: Board of Retirement

From: David Bailey, Chief Executive Officer

Subject: Extension of Agreement Hanson Bridgett LLP for legal services

STAFF RECOMMENDATION

Approve resolution ratifying execution of the First Amendment to the Agreement with Hanson Bridgett LLP for legal services.

BACKGROUND

Currently, Judith W. Boyette of Hanson Bridgett LLP provides legal services for SamCERA in relation to maintaining SamCERA tax qualified status and other tax issues that arise from time to time. Ms. Boyette and her associates are presently assisting SamCERA with its new Internal Revenue Code Compliance regulations and preparation work for our submission of the upcoming 2016 tax determination letter.

DISCUSSION

SamCERA has been pleased with the legal services provided by Ms. Boyette and the Hanson Bridgett firm. The term of the existing agreement ended June 30, 2014. In order to ensure that there was no interruption of the ongoing legal services being performed relating to the proposed regulations, David Bailey, Chief Executive Officer, signed an amendment extending the agreement for a period of three years to June 30, 2017. The agreement can be terminated upon 30 days written notice.

The rates for the legal services stayed the same, in that the amendment provides that Ms. Boyette will be compensated at her current hourly rate of $470, which may be increased during the term of the agreement. Any such increases would be limited to Bay Area CPI. All charges would be service based. There is no retainer fee. The resolution provides that the Chief Executive Officer may execute subsequent amendments and minor modifications in an amount not to exceed $25,000 in the aggregate.

Att:
Resolution Ratifying Execution of First Amendment to Agreement with Hanson Bridgett LLP for Legal Services

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

RESOLUTION 14-15-

RESOLUTION RATIFYING EXECUTION OF FIRST AMENDMENT TO AGREEMENT WITH HANSON BRIDGETT LLP FOR LEGAL SERVICES

WHEREAS, Government Code §31529.9 provides that this Board may contract with attorneys in private practice or employ staff attorneys for legal services; and

WHEREAS, SamCERA currently receives legal services for tax issues and related matters from the law firm of Hanson Bridgett LLP; and

WHEREAS, Hanson Bridgett LLP is currently assisting SamCERA with its preparation for the submission of SamCERA's upcoming 2016 tax determination letter; and

WHEREAS, this Board has determined that it would be in the best interest of SamCERA to extend the current term of the Agreement for legal services from June 30, 2014, to June 30, 2017, and desires to ratify the execution of the First Amendment to the Agreement to provide for such term extension; now, therefore, be it

RESOLVED, the First Amendment to Agreement with Hanson Bridgett LLP for legal services executed by the Chief Executive Officer on behalf of SamCERA on June 23, 2014, is hereby ratified.

Be It Further

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute subsequent amendments and minor modifications in an amount not to exceed $25,000 in the aggregate.

July 29, 2014 Agenda Item 4.9

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Approval of Questions for Annual Review of SamCERA's Actuarial Firm – Milliman, Inc.

Staff Recommendation

Staff recommends the board review, suggest changes, and then approve the questions in the attached document entitled, "Questions for Annual Actuarial Consultant Evaluation."

Summary

The questions in the attached document will be submitted to SamCERA's actuary, Milliman Inc., prior to the annual review, which will be scheduled for the September 30, 2014, board meeting.

An additional part of the annual review will be the result of a survey of trustees, staff and actuary regarding the performance of the actuarial firm. Similar to last year, this year's survey will be in electronic form. You will receive an email with a link to complete the survey. We hope this will make completion more convenient. If you'd like a hard copy of the survey, please let us know.

Staff will provide Milliman's responses to the questionnaire as well as the survey results at the September meeting.

Attachment

The questions in the attached document will be submitted to SamCERA's actuary, Milliman Inc.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Questions for Annual Actuarial Consultant Evaluation

Fiscal Year 2013-14

Organizational Update

1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more.
2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your management structure over the past eighteen months, and (b) clients gained or lost in the past eighteen months. All significant changes should be accompanied by an explanation. An organizational chart should accompany this response.
3) Provide a list of services available through your firm, including the number of staff supporting those services.
4) What are your firm's philosophy and current policy regarding new business?
5) Specify separately the individuals (up to five) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).
6) Update all significant personnel changes or expected changes to the "*SamCERA* Team".
7) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months?
8) Has an actuarial audit been performed on any of your firm's actuarial products in the past eighteen months? If yes, discuss the audit and the findings. Any material findings or recommendations must be accompanied by an explanation.
9) Describe the levels of insurance coverage maintained by your firm. E-mail a current certification of insurance to mwong@samcera.org.
10) Do you have a written policy on ethics? If so, please e-mail the policy to mwong@samera.org.
11) Describe the relative strength and longevity of your staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.
12) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?
13) Provide an overview of your firm's business continuity plan.

Actuarial Process

14) Provide a description, in detail, of your actuarial process.
15) Describe your peer review procedures in detail.
16) Does your firm engage in peer review with other actuarial firms?

Outlook

17) What issues are other clients concerned with in regards to products, services, education and governance?
18) Describe your assessment of the relationship between your firm and *SamCERA*. How can *SamCERA* better assist you in accomplishing the goals it has established for your firm? How can we better utilize your firm's capabilities?
19) What is your firm's experience regarding implementation of the enacted changes in GASB 67 and 68 accounting standards relative to the pension industry? Please list and discuss any proposal for *SamCERA* to consider.

Conclusion

20) Is there any information that would be timely pursuant to *SamCERA's* contract and this annual review?
21) Are your clients making significant changes in their asset mixes or economic and non-economic assumptions or other structural changes to the actuarial overview of their plans? Describe these changes.
22) What actuarial related changes should *SamCERA* consider?
23) Relative to your expertise, what trends are occurring in the retirement industry that *SamCERA* should be tracking?

July 29, 2014 Consent Agenda Item 4.10

TO: Board of Retirement

FROM: Lilibeth Dames, Retirement Investment Analyst

SUBJECT: Acceptance of Semi-Annual Compliance Certification Statements for Period Ending June 30, 2014

Staff Recommendation

Review and accept the semi-annual Compliance Certification Statements for SamCERA's non-alternative investment managers, as of June 30, 2014.

Background

The Compliance Certification Statement sets forth the status of certain pertinent guideline issues and provisions in SamCERA's Investment Policy. In accordance with the policy and as part of SamCERA's ongoing due diligence, the Compliance Certification Statement is completed by each of the association's non-alternative investment managers on a semi-annual basis to attest its compliance with the policy's provisions.

Discussion

The attached Compliance Certification Statements report that SamCERA's investment managers are in compliance with SamCERA's Investment Policy as of June 30, 2014. No firm reported significant developments in portfolio construction, investment approach, firm ownership or organizational structure. Nor were there any notable issues regarding industry or regulatory actions that impact SamCERA. The managers were also requested to provide data regarding the characteristics and composition of each of their portfolios. No prominent issues arose during the review. Any items that raise concern will be brought to the manager's attention and will be thoroughly vetted by staff.

Please note that the Compliance Certification Statement for Franklin Templeton was not received in time to be included in the mailing, but it will be included in the day-of folder for the July meeting or in the August board packet.

Attachments

Compliance Certification Statements (18)

A. *Domestic Equity: Barrow Hanley, BlackRock, Brown Advisory, Chartwell, DE Shaw, The Boston Company*
B. *International Equity - Developed: BlackRock, Baillie Gifford, Mondrian, Pyramis*
C. *Emerging Market Equity: Eaton Vance Parametric*
D. *Domestic Fixed Income: Angelo Gordon, Brigade, Brown Brothers Harriman, Pyramis, Western*
E. *Real Estate: INVESCO*
F. *Cash Overlay: The Clifton Group*

Barrow Hanley Diversified Large Cap Value – June 30, 2014

For the 6-month period ended June 30, 2014

Compliance Certification Statement

San Mateo County

Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, June 30, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: Yes If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: Yes If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: Yes If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: No If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: Yes If yes, please explain.
   In May 2014, Clare Burch, Operations Manager, retired after 30 years of service. At that time Betty Cummins was named Equity Operations Director and Stephanie Manter was named Manager of Equity Operations. During the past six months, Dhruv Khade was added as an Equity Trader and TJ Carter was added as an Equity Analyst. Additionally, Michael Nayfa and Terry Pelzel were added as assistant Portfolio Managers to the Diversified Large Cap Value team.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: No If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: No If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: No If yes, please explain.

9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. No

10. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: Yes If no, please explain.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. No

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: No If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section. N/A. We do not utilize derivatives.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the

firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: Yes If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: No If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.
   No. We do not manage cash for our clients.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)
   At June 30, 2014, the portfolio held the following:

Common Stock	*99.5%*
Preferred Stock	*0.0%*
Convertible Securities	*0.0%*
Cash & Equivalents	*0.5%*

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.
   At June 30, 2014, the firm's allocation within equities is below:

Large-Cap	*75%*
Mid-Cap	*11%*
Small-Cap	*4%*
*International**	*10%*

*Includes Global & Emerging Markets

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.
   At June 30, 2014, the portfolio held 7.8% ADR's and none were 144a securities. (Cash positions are not used in the calculation.)

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: No If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.
   At June 30, 2014, the largest security holding was Capital One Financial Corp. with a weighting of 2.8%. (Cash positions are not used in the calculation.)

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%.

   BHMS uses the GICS classification system for our portfolio analysis. At June 30, 2014, the largest industry weighting was Banks, which held a 13.3% weighting. (Cash positions are not used in the calculation.)

Signed by: Patricia B. Andrews
Title: Chief Compliance Officer
Dated: January 10, 2014
Name of Firm: Barrow, Hanley, Mewhinney & Strauss LLC

BlackRock S&P 500 Index – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: ___ If no, please explain.

2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: ___ If yes, please explain.

BlackRock, Inc. ("BlackRock") is the ultimate parent company for the proposed BlackRock contracting entity, BlackRock Institutional Trust Company, N.A. There have not been any major changes in firm ownership since 31 December 2013. BlackRock is independent in ownership and governance, with no single majority stockholder and a majority of independent directors. As of 31 March 2014, the PNC Financial Services Group, Inc. ("PNC") owned 21.8% of BlackRock and institutional investors, employees and the public held economic interest of 78.2%. With regard to voting stock, PNC owned 20.8% and institutional investors, employees and the public owned 79.2% of voting shares.

The BlackRock Equity Index Fund A is managed by BlackRock's Beta Strategies team. In the first quarter of 2014, Ed Corallo, Managing Director, portfolio manager, retired after 16 years with BlackRock. Alan Mason, a 22 year veteran of the firm, assumed the role of Head of Americas Beta Strategies Portfolio Management after Ed's retirement, overseeing the combined Index Asset Allocation ("IAA") and Index Equity teams.

There have not been any significant portfolio developments since 31 December 2013. BlackRock has followed the same investment philosophy of Total Performance Management for index equity strategies since 1971. The Fund is managed on a fully-replicated basis, where the portfolio's exposure to each security in the index is in line with its weight in the underlying index. This approach ensures close tracking relative to benchmark.

3. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: ___ If yes, please explain.

4. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: ___ If yes, please explain.

   As a global investment manager, BlackRock Institutional Trust Company is subject to regulatory oversight in numerous jurisdictions. BlackRock Institutional Trust Company's regulators routinely provide it with comment letters at the conclusion of these examinations in which they request that

BlackRock Institutional Trust Company correct or modify certain of its practices. In all such instances, BlackRock Institutional Trust Company has addressed, or is working to address, these requests to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

BlackRock Institutional Trust Company also receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. None of these matters has had or is expected to have any adverse impact on BlackRock Institutional Trust Company's ability to manage its clients' assets. Please refer to BlackRock's Form ADV and SEC disclosures for additional information on regulatory matters concerning BlackRock Institutional Trust Company or BlackRock as a whole. The recent fines related to BlackRock Inc. or BlackRock Institutional Trust Company include the following:

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a $250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

On 11 September 2012, the UK Financial Services Authority ("FSA") issued a Final Notice against BlackRock Investment Management (UK) Limited ("BIM"), following a settlement agreement reached between the FSA and BIM. The FSA found that BIM had breached certain provisions of the FSA's Client Money Rules and Principles, during the period 1 October 2006 to 31 March 2010, by not having trust letters in place for client money placed on money market deposit and not having adequate systems and controls for the identification and protection of client money in this respect. BIM agreed to a settlement payment of GBP 9,533,100 for the breach, which it had self-reported to the FSA in April 2010. The FSA final order acknowledged that no client of BIM (or BlackRock or any related affiliate) suffered any harm and that BIM had remedied the situation and put in place robust systems and controls relating to client money protection.

On 3 October 2012, BlackRock Inc. reached an agreement with the U.S. Department of Labor ("DOL") to reimburse clients $2,661,513 in connection with certain trades the DOL alleged violated Title I of the Employee Retirement Income Security Act ("ERISA"). BlackRock also agreed to pay to the DOL a $266,151 penalty.

On 9 January 2014, BlackRock Inc. reached a settlement with the New York Attorney General's office ("AG") pursuant to which the AG found BlackRock's use of analyst surveys violated New York's Martin Act and Executive Law. The settlement did not involve the payment of any fine or other penalty although BlackRock paid $400,000 to cover the AG's costs of investigation. BlackRock neither admitted nor denied the allegations, but agreed to stop using analyst surveys.
On 8 May 2014, the primary Italian securities regulator ("CONSOB") fined BlackRock Investment Management (UK) Limited ("BIM") 150,000 EURO (approximately $205,826 USD) for negligent market manipulation. The fine was based on BIM UK's filing, on behalf of the BlackRock group of companies, a large shareholder report regarding its holdings in Unicredit S.p.A. to CONSOB in December 2011, that turned out to be incorrect.

5. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*? Yes/No: ___ If no, please explain. Please provide a copy of your firm's proxy policy to Investments@samcera.org.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours? Yes/No: ___ If yes, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: ___If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

BlackRock has a Sourcing and Vendor Management Policy and program which are applicable to the evaluation, selection, contracting and management of our vendors and service providers. The basic components include a risk assessment to determine the inherent risks, due diligence on potential providers to determine appropriate selection, contracts which meet our business, commercial and risk requirements and on-going management of our providers including performance monitoring as well as risk and controls reviews.

The due diligence process is commensurate with the identified inherent risks and addresses the vendor's capabilities of providing the services, the vendors' risk controls and vendor's financial stability. Selection is based on the results of the due diligence and approved by the appropriate business and risk executives.

For provider relationships, the initial appointment is usually based on an RFP process or can be based on the experience of the provider through an established relationship. We visit the Administrator, Custodian and Transfer Agent annually.

BlackRock also maintains a monitoring and management framework over the outsourced activity, together with a separate Service Management Framework, which ensures that the service BlackRock receives from its provider is in line with the Service Level Agreements and acts as an escalation point.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: N/A If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: N/A If yes: Do the counter-parties have investment grade debt? Yes/No: N/A Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: N/A If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: N/A If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?
7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain. N/A, as the fund only holds futures.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain. N/A, as the fund only holds futures.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

BlackRock model using 3rd Party data inputs (ICAP, Reuters, Markit, etc.) – run by pricing group to confirm.
Also see valuation policy in 16 Things.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

A number of Index Funds hold long positions in security or commodity index futures to invest the dividends or other cash to be received by a Fund or cash positions held by a Fund (including for liquidity purposes) in lieu of holding long positions in securities or other assets, or to increase or decrease exposure to a particular commodity or asset class.

Also, please see the attached 16 Things.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

   The fund only invests in a Money Market Fund, which acts as a sweep vehicle for this BlackRock collective investment fund.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

Common Stock	*97.2238%*
Preferred Stock	*0%*
Convertible Securities	*0%*
Cash & Equivalents	*0.82%*

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

Large-Cap	*94.34%*
Mid-Cap	*4.75%*
Small-Cap	*0%*

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) 0% Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. 0% If greater than 10%, explain why.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: ___ If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

5. What is the largest percentage of the portfolio represented by a single security? Please specify the security and percentage amount. (Section 19.4 j) If any securities were above 5% at the time of purchase, please list and explain why. Apple – 3.29%

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? Specify the name of the industry and percentage amount (Section 10.3 a). Please specify all industries above 18.85% - Information Technology

Signed by: Rick A. Castro ______________________
Dated: July 14th, 2014
Name of Firm: BlackRock

Brown Advisory Large Cap Growth – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **YES** If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **YES** (Russell 1000 Growth) If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **YES** If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **NO** If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **YES** If yes, please explain.

   Tim Hathaway has assumed the role of Director of Equity Research, charged with managing our team of equity analysts and helping to ensure collaborative communication which is integral to our investment process here at Brown Advisory.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **NO** If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **NO** If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **NO** If yes, please explain.

9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **NO**

10. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: **YES** If no, please explain.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **NO**

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **NO** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **YES** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **NO** If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **NO** - The short term investments (cash) held in the account is invested by the custodian bank. If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

Common Stock	*96.8%*
Preferred Stock	*%*
Convertible Securities	*%*
Cash & Equivalents	*3.2%*

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

Large-Cap	*85.2%*
Mid-Cap	*12.3%*
Small-Cap	*%*

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) **0.00% - There are no ADRs currently in the portfolio.** Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: **NO** If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why. **Charles Schwab Corp. at 4.2%**

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%. **Brown Advisory uses GICS (Global Industry Classification Standard) classifications to define sector and industry weightings. Based on GICS, as of 6/30/14, the largest industry was Energy Equipment and Services (11.6%). Source: FactSet.**

Signed by: ______ DocuSigned by: D435C04EFC4E4E1... , Brett D. Rogers Chief Compliance Officer

Dated: 7/11/14

Name of Firm: Brown Advisory LLC

Certificate of Completion

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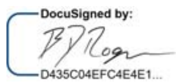
Brett D. Rogers brogers@brownadvisory.com Chief Compliance Officer Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Accepted: 1/15/2014 3:28:51 PM ET ID: 171e0cc3-9d1b-461f-aa40-5f44dbfeac7a	 Using IP Address: 198.228.226.253 Signed using mobile	Sent: 7/11/2014 4:10:36 PM ET Viewed: 7/11/2014 4:11:07 PM ET Signed: 7/11/2014 4:11:30 PM ET

In Person Signer Events	Signature	Timestamp

Editor Delivery Events	Status	Timestamp

Agent Delivery Events	Status	Timestamp

Intermediary Delivery Events	Status	Timestamp

Certified Delivery Events	Status	Timestamp

Carbon Copy Events	Status	Timestamp

Notary Events		Timestamp

Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	7/11/2014 4:10:36 PM ET
Certified Delivered	Security Checked	7/11/2014 4:11:07 PM ET
Signing Complete	Security Checked	7/11/2014 4:11:30 PM ET
Completed	Security Checked	7/11/2014 4:11:30 PM ET

Electronic Record and Signature Disclosure

Chartwell Investment Partners Small Cap Growth – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **Yes** If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **Yes** If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain. Has the firm's insurance coverage been increased? Yes/No: ___ If yes, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **No** If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **Yes** If yes, please explain.

   There have been no significant portfolio developments. As was previously communicated to SamCERA's investment management, effective March 5, 2014, Chartwell Investment Partners, L.P. was acquired by Chartwell Investment Partners, Inc. a newly formed Pennsylvania corporation and wholly owned subsidiary of TriState Capital Holdings, Inc. As we have structured the specific elements of the transaction to maintain Chartwell LP's entrepreneurial culture and operational independence, there will be no changes to employees or services to our clients. TriState will assist Chartwell's continued development of a wealth management distribution channel, which we believe is necessary to bring several, second generation products to scale.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **No** If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **No** If yes, please explain.

9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **No**

10. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: **Yes** If no, please explain.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **No.**

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **No** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain. **Not applicable.**

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain. **Not applicable.**

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.
   Not applicable.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain
   Not applicable.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month? **Not applicable.**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain. **Not applicable.**

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain. **Not applicable.**

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7)) **Not applicable.**

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain. **Not applicable.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain. **Not applicable.**

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **Not applicable.**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives. **Not applicable.**

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past <u>six</u> month<u>s</u>. (Appendix C(10 g)) Yes/No: ___ If yes, please explain. **Not applicable.**

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **Yes** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **No** If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **No** If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

   The portfolio's custodian, Northern Trust Company invests the cash in their money market fund as instructed by San Mateo County.

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

Common Stock	*95.54%*
Preferred Stock	*0%*
Convertible Securities	*0%*
Cash & Equivalents	*4.46%*

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

Large-Cap	*0%*
Mid-Cap	*0%*
Small-Cap	*96%*

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why.

   The percentage of the portfolio invested in ADR's is 3.8%. There are no 144A securities in the portfolio.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: **No** If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why.

   The largest percentage of the portfolio represented by a single security is 3.05%.

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%.

   The largest percentage of the portfolio represented by a single industry is 6.79%.

Signed by: LuAnn Molino
LuAnn Molino, Principal, Compliance & Client Administration
Dated: 07/11/14
Name of Firm: Chartwell Investment Partners

The Boston Company Small Cap Value – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: ___ If no, please explain. **YES**

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: ___ If no, please explain. **YES, the Russell 2000 Value remains the appropriate benchmark for the strategy of this portfolio.**

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: ___ If no, please explain. **YES, please see attached insurance matrix.**

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: ___ If yes, please explain. **NO**

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: ___ If yes, please explain. **YES**

   Effective April 1, 2014, The Boston Company successfully completed the previously announced transition of its back-office Operations and Information Technology functions to its affiliate BNY Mellon Asset Management Operations, LLC (AMO), under the umbrella of parent company, BNY Mellon. Approximately 60 employees were affected by this move. Our investment and client-service teams were not impacted.

   With a sophisticated infrastructure and process-oriented operating environment in place, AMO works closely with The Boston Company's investment professionals and provides full support to our firm through a service-level agreement. AMO also provides operational and technological back-office support and services to other select asset managers within BNY Mellon.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: ___ If yes, please explain. **NO**

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: ___ If yes, please explain. **NO**

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: ___ If yes, please explain. **NO**

9. Have there been any investment guideline breaches during the prior 6 months? If so, please provide more detail. **NO**

10. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: ___ If no, please explain. **YES**

Investment Management Fees

Is *SamCERA*'s investment management fee schedule higher than those charged other institutional clients who hold an account investment substantially similar to ours? If yes, please explain. **YES - TBCAM has clients invested in the strategy that have a lower investment management fee schedule than San Mateo. Generally, these clients either predate San Mateo's investment with TBCAM or they have invested greater assets in the strategy.**

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: ___If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section. **NA, there were no derivatives in this portfolio.**

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1

billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month? **NA, there were no derivatives in this portfolio.**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain. **NA, there were no derivatives in this portfolio.**

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain. **NA, there were no derivatives in this portfolio.**

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7)) **NA, there were no derivatives in this portfolio.**

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain. **NA, there were no derivatives in this portfolio.**

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **NA, there were no derivatives in this portfolio.**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives. **NA, there were no derivatives in this portfolio.**

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain. **NA, there were no derivatives in this portfolio.**

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: ___ If no, please explain. **YES**

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: ___ If yes, please explain. **NO**

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (Section 11.0)Yes/No: ___ If no, please explain. **NO**

Domestic Equity Portfolios (Large, Mid & Small)

1. Please state the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

Common Stock	*99.3%*
Preferred Stock	*%*
Convertible Securities	*%*
Cash & Equivalents	*0.7%*

2. Specify the large, mid and small capitalization exposure of the portfolios? (Section 19.4 j) Please specify percentages.

Large-Cap	*%*
Mid-Cap	*44.4%*
Small-Cap	*55.6%*

3. Specify the percentage of the portfolio that is invested in American Depository Receipts (ADR's). (Section 19.4 j) Also, specify the percentage of the portfolio invested in ADR securities that are 144A securities. If greater than 10%, explain why. **NONE**

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: ___ If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets **NO**

5. What is the largest percentage of the portfolio represented by a single security? (Section 19.4 j) Specify the name of the security and percentage amount. If any securities were above 5% at the time of purchase, please list and explain why. **The largest holding as of June 30, 2014 is 1.93% of the portfolio. No securities were above 5% at the time of purchase.**

6. Based on NAICS codes, what is the largest percentage of the portfolio represented by a single industry? (Section 10.3 a). Specify the industry and percentage amount. Please specify all industries above 15%. **We do not use NAICS codes. We use GICS for sector and industry. The largest GICS industry as of June 30, 2014 was 14.64% in Regional Banks.**

Signed by: Krisanne Padovani, Compliance Analyst
Dated: July 10, 2014
Name of Firm: The Boston Company Asset Management, LLC

BlackRock EAFE Index – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: ___ If no, please explain.

2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: ___ If yes, please explain.

BlackRock, Inc. ("BlackRock") is the ultimate parent company for the proposed BlackRock contracting entity, BlackRock Institutional Trust Company, N.A. There have not been any major changes in firm ownership since 31 December 2013. BlackRock is independent in ownership and governance, with no single majority stockholder and a majority of independent directors. As of 31 March 2014, the PNC Financial Services Group, Inc. ("PNC") owned 21.8% of BlackRock and institutional investors, employees and the public held economic interest of 78.2%. With regard to voting stock, PNC owned 20.8% and institutional investors, employees and the public owned 79.2% of voting shares.

The BlackRock EAFE Equity Index Fund is managed by BlackRock's Beta Strategies team. In the first quarter of 2014, Ed Corallo, Managing Director, portfolio manager, retired after 16 years with BlackRock. Alan Mason, a 22 year veteran of the firm, assumed the role of Head of Americas Beta Strategies Portfolio Management after Ed's retirement, overseeing the combined Index Asset Allocation ("IAA") and Index Equity teams.

There have not been any significant portfolio developments since 31 December 2013. BlackRock has followed the same investment philosophy of Total Performance Management for index equity strategies since 1971. The Fund is managed on a fully-replicated basis, where the portfolio's exposure to each security in the index is in line with its weight in the underlying index. This approach ensures close tracking relative to benchmark.

3. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: ___ If yes, please explain.

4. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: ___ If yes, please explain.

   As a global investment manager, BlackRock Institutional Trust Company is subject to regulatory oversight in numerous jurisdictions. BlackRock Institutional Trust Company's regulators routinely provide it with comment letters at the conclusion of these examinations in which they request that

BlackRock Institutional Trust Company correct or modify certain of its practices. In all such instances, BlackRock Institutional Trust Company has addressed, or is working to address, these requests to ensure that it continues to operate in compliance with applicable laws, statutes and regulations.

BlackRock Institutional Trust Company also receives subpoenas or requests for information in connection with regulatory inquiries and/or investigations by its various regulators, some of which are ongoing. None of these matters has had or is expected to have any adverse impact on BlackRock Institutional Trust Company's ability to manage its clients' assets. Please refer to BlackRock's Form ADV and SEC disclosures for additional information on regulatory matters concerning BlackRock Institutional Trust Company or BlackRock as a whole. The recent fines related to BlackRock Inc. or BlackRock Institutional Trust Company include the following:

On 8 March 2012, BlackRock Institutional Trust Company, N.A. ("BTC") entered into an Offer of Settlement (the "Agreement") with the CFTC and consented to the entry of an Order, which makes findings and imposes remedial sanctions against BTC. Without admitting or denying wrongdoing, BTC agreed to the imposition of a $250,000 penalty and the entry of the Order to resolve allegations by the CFTC that two trades by BTC violated Section 4c(a)(1) of the Commodity Exchange Act and CFTC Regulation 1.38(a). BTC also agreed to refrain from any further violations of the above-mentioned statutory provisions. The CFTC did not allege that any clients of BTC, BlackRock or any related affiliate were harmed in any way in the execution of these two trades.

On 11 September 2012, the UK Financial Services Authority ("FSA") issued a Final Notice against BlackRock Investment Management (UK) Limited ("BIM"), following a settlement agreement reached between the FSA and BIM. The FSA found that BIM had breached certain provisions of the FSA's Client Money Rules and Principles, during the period 1 October 2006 to 31 March 2010, by not having trust letters in place for client money placed on money market deposit and not having adequate systems and controls for the identification and protection of client money in this respect. BIM agreed to a settlement payment of GBP 9,533,100 for the breach, which it had self-reported to the FSA in April 2010. The FSA final order acknowledged that no client of BIM (or BlackRock or any related affiliate) suffered any harm and that BIM had remedied the situation and put in place robust systems and controls relating to client money protection.

On 3 October 2012, BlackRock Inc. reached an agreement with the U.S. Department of Labor ("DOL") to reimburse clients $2,661,513 in connection with certain trades the DOL alleged violated Title I of the Employee Retirement Income Security Act ("ERISA"). BlackRock also agreed to pay to the DOL a $266,151 penalty.

On 9 January 2014, BlackRock Inc. reached a settlement with the New York Attorney General's office ("AG") pursuant to which the AG found BlackRock's use of analyst surveys violated New York's Martin Act and Executive Law. The settlement did not involve the payment of any fine or other penalty although BlackRock paid $400,000 to cover the AG's costs of investigation. BlackRock neither admitted nor denied the allegations, but agreed to stop using analyst surveys.
On 8 May 2014, the primary Italian securities regulator ("CONSOB") fined BlackRock Investment Management (UK) Limited ("BIM") 150,000 EURO (approximately $205,826 USD) for negligent market manipulation. The fine was based on BIM UK's filing, on behalf of the BlackRock group of companies, a large shareholder report regarding its holdings in Unicredit S.p.A. to CONSOB in December 2011, that turned out to be incorrect.

5. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*? Yes/No: ___ If no, please explain. Please provide a copy of your firm's proxy policy to Investments@samcera.org.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours? Yes/No: ___ If yes, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: ___If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

The proposed Fund is managed on a fully replicated basis, where a portfolio's exposure to each security in the index is in line with its weight in the underlying index. Futures contracts may be employed to equitize cash flows. These flows are generated from client activity, dividends, interest received and other cash flows associated with securities in the portfolio. Futures contracts are purchased to provide immediate market exposure proportionate to cash accruals and investable cash within the portfolio. The goal is to reduce cash drag that would result from any uninvested cash or accruals in the portfolio. Derivatives are not used in any speculative or arbitrage capacity, but only for cash equitization. Cash levels in the portfolio are generally less than 1%.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.

   BlackRock has a Sourcing and Vendor Management Policy and program which are applicable to the evaluation, selection, contracting and management of our vendors and service providers. The basic components include a risk assessment to determine the inherent risks, due diligence on potential providers to determine appropriate selection, contracts which meet our business, commercial and risk requirements and on-going management of our providers including performance monitoring as well as risk and controls reviews.

   The due diligence process is commensurate with the identified inherent risks and addresses the vendor's capabilities of providing the services, the vendors' risk controls and vendor's financial stability. Selection is based on the results of the due diligence and approved by the appropriate business and risk executives.

   For provider relationships, the initial appointment is usually based on an RFP process or can be based on the experience of the provider through an established relationship. We visit the Administrator, Custodian and Transfer Agent annually.

   BlackRock also maintains a monitoring and management framework over the outsourced activity, together with a separate Service Management Framework, which ensures that the service BlackRock receives from its provider is in line with the Service Level Agreements and acts as an escalation point.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: N/A If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: N/A If yes: Do the counter-parties have investment grade debt? Yes/No: N/A Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: N/A If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: N/A If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain. N/A, as the fund only holds futures.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain. N/A, as the fund only holds futures.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

    BlackRock model using 3rd Party data inputs (ICAP, Reuters, Markit, etc.).

    Also, see valuation policy in the attached 16 Things.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

A number of Index Funds hold long positions in security or commodity index futures to invest the dividends or other cash to be received by a Fund or cash positions held by a Fund (including for liquidity purposes) in lieu of holding long positions in securities or other assets, or to increase or decrease exposure to a particular commodity or asset class.

Also, please see the attached 16 Things.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past <u>six</u> month<u>s</u>. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

The fund only invests in a Money Market Fund, which acts as a sweep vehicle for this BlackRock collective investment fund.

International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities. (Section 19.4 j):

Foreign Ordinary Shares	*0%*
ADR's	*0.0081%*
Cash & Equivalents (Foreign)	*0%*
Cash & Equivalents (Domestic)	*.1323%*

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

Large-Cap	*85.43%*
Mid-Cap	*14.55%*
Small-Cap	*0%*

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: ___ If no, please explain.

The importance of risk control at BlackRock is one of our greatest competitive advantages. All BlackRock's index strategies utilize risk control at every stage of the investment process, from the creation of expected return forecasts through the portfolio construction and trade execution processes. We pursue the risk control objective by minimizing all investment (and operational) risks that are not associated with added returns.

BlackRock's research and portfolio management teams have extensive background in the development and use of risk models, their construction, behavior, limitations, and appropriate uses, and utilize risk models from Barra. We also use proprietary risk controls in the portfolios when we have identified a source of incidental risk that is not fully addressed by the Barra risk models.

The portfolio managers review exception-based reports for compliance with internal and client guidelines on a daily basis. We use an automated screen, whereby portfolio managers' final trade lists are cross-checked against a database containing fund guidelines and client restrictions on separate accounts prior to being released to the trading room. Duties are segregated and supervision is appropriate to each type of activity. Through these efforts, BlackRock is able to ensure that the portfolio remains risk-controlled, fully invested and positioned at all times to achieve optimal performance.

In addition, all Index portfolios are monitored monthly by an Investment Review Committee ("IRC"). This committee formally reviews portfolio performance and its attribution. The IRC is an internal committee composed of senior management, portfolio managers, performance analysts and risk specialists, who meet monthly to discuss investment policy and other operational issues that relate to the management of our funds. The IRC is responsible for reviewing all BlackRock funds to ensure that they are operating according to their fund mandates. All fund exceptions are reported to the IRC.

Beta Strategies team works closely with RQA to ensure portfolio risks are consistent across mandates and each client's formal risk guidelines. RQA provides independent risk oversight leveraging BlackRock's enterprise risk and investment system, Aladdin®. Aladdin integrates fixed income and equity risk analytics with a sophisticated trading platform that supports straight-through processing of investments from trade entry to compliance to operations to administration to reporting.

A team of RQA professionals has specialized knowledge of index equity strategies and works side-by-side with portfolio managers to ensure that all portfolio risks are well understood and appropriately managed. RQA works with portfolio managers on both day-to-day activities and special projects designed to improve our models and practices.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: ___ If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

5. Does the portfolio currently employ a currency hedging strategy? Yes/No: ___

Signed by: Rick A. Castro ______________________
Dated: July 14th, 2014
Name of Firm: BlackRock

Baillie Gifford Overseas International Growth – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: __Yes_ If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: _Yes__ If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: _Yes__ If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: _No__ If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: _No__ If yes, please explain.

   We transitioned your portfolio from EAFE Plus Focus to ACWI ex-US Focus in early January, per your request. The portfolio management team and approach has not changed, although your chosen benchmark has changed to the MSCI ACWI ex-US index.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: _No__ If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: _No__ If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: _No__ If yes, please explain.

9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: _Yes__ If no, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: _No_ If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. ~~Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.~~

3. ~~If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.~~

4. ~~For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.~~

5. ~~For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.~~

6. ~~Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?~~

7. ~~Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.~~

8. ~~List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.~~

~~Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.~~

9. ~~State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))~~

10. ~~For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.~~

11. ~~Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.~~

12. ~~Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))~~

13. ~~Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.~~

14. ~~State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.~~

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: _Yes__ If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: _No__ If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: _No__ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities. (Section 19.4 j):

   As at 30 June, 2014

Foreign Ordinary Shares	*89.5%*
ADRs	*9.3%*
Cash & Equivalents (Foreign)	*0.9%*
Cash & Equivalents (Domestic)	*0.3%*

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

   As at 30 May, 2014

Large-Cap	*69.2%*
Mid-Cap	*26.2%*
Small-Cap	*4.6%*

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: Yes If no, please explain.

   As bottom up investors, the sector and country weightings of the portfolios are a residual of the process. For diversification purposes we monitor these weightings through the use of position guidelines relative to the benchmark. These positions are reviewed by the Portfolio Construction Group. They are as follows:

   Position relative to MSCI ACWI ex-US index:
   Sector *+/-10%*
   Countries *+/- 10%*
   Stocks *+/- 5%*

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: Yes If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets

   As at 30 June, 2014 there was 17.7% of your portfolio invested in Emerging Markets companies.

5. Does the portfolio currently employ a currency hedging strategy? Yes/No: No

Signed by: [signature]

Dated: 10 July 2014

Name of Firm Baillie Gifford Overseas LTD.

Mondrian Investment Partners International Value – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **Yes** If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **Yes** If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **No** If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **Yes** If yes, please explain.

   Russell Mackie (Senior Portfolio Manager, International Equities) will be moving internally to a London-based senior management role leading our Client Service and Marketing operations outside of North America. Russell will take up this role towards the end of 2014 after a carefully managed transition.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **No** If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **No** If yes, please explain.

9. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA* and in a manner consistent with the Board's proxy policies? (Section 22.0) Yes/No: **Yes** If no, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **Yes** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **Yes** If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **Yes** If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **No** If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **No** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

   The use of derivatives at Mondrian is limited to forward currency contracts for defensive hedging purposes. These contracts are currently traded exclusively through your custodian.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: **N/A** If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **No** If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: **N/A** If no, please explain.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **Yes** If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **N/A**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    Mondrian enters into forward currency contracts for defensive hedging purposes. These contracts are unleveraged and fully covered. As they are traded with your custodian, we believe there should be no issues with liquidity.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **No** If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **Yes** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **No** If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **No** If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

International Equity Portfolios - Developed

1. Specify the percentage of the portfolio held in each of the following types of securities. (Section 19.4 j):

Foreign Ordinary Shares	*76.25%*
ADR's	*2.19%*
MIP Limited Partnership	*20.37%*
Cash & Equivalents (Foreign)	*0.53%*
Cash & Equivalents (Domestic)	*0.66%*

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

Large-Cap.11bn	*87.2%*
Mid-Cap 3.5 – 11bn	*9.8%*
Small-Cap <3.5bn	*1.4%*

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: **Yes** If no, please explain.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: **Yes** If yes, please specify the percentage(s) of the portfolio invested in emerging and/or frontier markets
20.37% of the portfolio was invested in emerging markets via Mondrian Investment Partners Limited Partnership units.
5. Does the portfolio currently employ a currency hedging strategy? Yes/No: **Yes for defensive purposes.**

Signed by:
Dated: 9th July 2014
Name of Firm: Mondrian Investment Partners Limited

Compliance Certification Statement

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of SamCERA's investment managers on a semi-annual basis. These statements must be e-mailed to SamCERA's office (investments@samcera.org) by Monday, July 14, 2014.

Select International Small Cap Plus

Firm Name	**Pyramis Global Advisors Trust Company (PGATC)**
Product Name	**Pyramis Select International Small Cap Plus**
Asset Class	**International Equity**
Respondent / Contact	**Mark Botelho, Senior Account Executive**
Address	**900 Salem Street, Smithfield, RI 02917**
Telephone	**401-292-**
E-Mail Address	**Mark.botelho@pyramis.com**

GENERAL COMPLIANCE ISSUES

1. **Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3)**

Yes

If no, please explain.

2. **Has the firm's insurance coverage been sustained? (Section 19.4(c))**

Yes

If no, please explain.

3. **Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j))**

Yes

If yes, please explain.

Since the beginning of 2014, the following changes have taken place within Pyramis at the corporate level:

- Pam R. Holding joined Pyramis on January 7, 2013 in the role of head of Portfolio Management. Effective January 1, 2014, Pam R. Holding assumed the role of Chief Investment Officer after the retirement of previous CIO Young Chin.
- Effective February 27, 2014, Ronald O'Hanley stepped down as president of Asset Management. Charlie Morrison, president of Fidelity's Fixed Income division, succeeded Ronald, and assumed the role of president of Asset Management on February 28, 2014.
- Nancy Prior, president of Money Markets and Short Duration Bonds, was named president of Fixed Income and vice chairman of Pyramis Global Advisors on March 7, 2014. She is succeeding Charlie Morrison, who was named president of Asset Management in February 2014. Nancy will continue to oversee day-to-day management of the Money Market group, and Bob Brown, president of Bonds, will assume oversight of the Short Duration Bond group.
- Joe Nedder, COO of Pyramis, assumed the position as head of Asset Management human resources in May of 2014. Wilson Owens, who had been leading Pyramis' Investment Management operations, assumed Joe's COO responsibilities.
- Upon the departure of FMR Co President Jacques Perold in May of 2014, Bill Dailey, Chief Financial Officer of Asset Management, assumed Jacques' responsibilities as Chief Operating Officer of Asset Management. His role as CFO was filled by Jean Raymond.

4. Have there been any changes in the firm's investment approach? (Section 19.4(e))

No

If yes, please explain.

5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a))

Please see below.

If yes, please explain.

From time to time, in the normal course of its business, the Firm and/or its affiliates may receive inquiries (including subpoenas and voluntary requests for information) from regulatory authorities or law enforcement, a regulator may conduct an onsite examination, or a regulator may commence an investigation. The Firm does not make public comment about such inquiries, examinations or investigations unless and until enforcement proceedings are initiated. To the extent the Firm's securities affiliates have been sanctioned, fined, or cited by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), or any other regulatory body, any such sanction, fine or citation has been disclosed in its affiliates' Forms BD and/or Forms ADV in accordance with the requirements of such forms.

We also note that the FDIC issued a civil money penalty of $1,564.08 against the Firm. This penalty was connected to an allegation that the Firm failed to ensure that authorized withdrawal limits on the Firm's designated account, as of June 30, 2009, were appropriately set to take into account the Firm's increased deposit insurance assessment for the quarter ending March 31, 2009.

6. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA?* (Section 22.0)

Yes. All proxies have been answered in a manner consisted with the Pyramis Proxy Voting Guidelines.

If no, please explain. Please provide a copy of your firm's proxy policy to Investments@samcera.org.

DERIVATIVE INVESTMENTS

1. **Are derivatives used in the management of the investment strategy?**

No

If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

The portfolio may make limited use of derivative instruments to manage and invest cash inflows. They are not used for hedging purposes.

2. **Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.**

3. **If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain.**

4. **For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.**

5. **For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain.**

6. **Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?**

7. **Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.**

8. **List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.**

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

INVESTMENT MANAGER GUIDELINES

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0)

Yes

If no, please explain.

Not applicable.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?

Not applicable.

If yes, please explain.

CASH & EQUIVALENTS

1. Does the firm directly invest in short term fixed income investments?

No

If yes, do the investments comply with the policies? (Section 11.0)

Not applicable.

If no, please explain.

INTERNATIONAL EQUITY PORTFOLIOS - DEVELOPED

1. Specify the percentage of the portfolio held in each of the following types of securities (Section 19.4 j)

Foreign Ordinary Shares	98.7%
ADR's	0.0%
Cash & Equivalents (Foreign)	0.0%
Cash & Equivalents (Domestic)	1.3%

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

Large-Cap	%
Mid-Cap	%
Small-Cap	%

The Select International Small Cap Plus portfolio's market capitalization allocation as of June 30, 2014 is provided in the table below. Please note the data provided excludes cash.

	Weight (%)
5b to 10b	13.6
2b to 5b	42.5
1b to 2b	24.8
0.5b to 1b	13.2
0.2b to 0.5b	3.9
Below 0.2b	0.7

3. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j)

Yes

If no, please explain.

Not applicable.

4. Does the portfolio invest in emerging and/or frontier markets? Yes/No: ___ If yes, please specify the allocation of the portfolio invested in emerging and/or frontier markets

The portfolio invests in emerging markets. As of June 30, 2014, the portfolio's allocation to emerging markets was 21.7%.

5. Does the portfolio currently employ a currency hedging strategy?

No

Signed by:
Dated:
Name of Firm

Eaton Vance Parametric Emerging Markets – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **No** If no, please explain.

   Emerging Markets is a specialized subset of International Equity, but not currently addressed in Section 6.3 of the Investment Policy Statement. An appropriate benchmark for the Emerging Markets portfolio is the MSCI Emerging Markets (net of dividend withholding taxes) Total Return Index.

2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain.

3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **No** If yes, please explain.

4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain.

5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **No** If yes, please explain.

6. Have proxy ballots been voted in accordance with the best economic interest of *SamCERA*? Yes/No: **Yes** If no, please explain. Please provide a copy of your firm's proxy policy to Investments@samcera.org.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **Yes** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

The portfolio's use of derivatives is limited to equity-substitution securities (also known as participation notes, or "P-Notes") for the purpose of gaining underlying equity exposures only where the portfolio is unable to invest directly in the local market.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **Yes** If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **Yes** If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **Yes** If yes:

   Do the counter-parties have investment grade debt? Yes/No: **Yes**

   Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes:

   Do the counter-parties have investment grade debt? Yes/No: **Yes**

   Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **Yes** If no, please explain.

   What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure.

   The largest single counter-party is J.P. Morgan Securities LLC. The exposure to this counter-party is 0.77% of the portfolio's weight.

   Have there been any changes to the investment manager's list of approved counter-parties over the past month? **No**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated in *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain.

Has the firm developed any new purposes for derivative investments? Yes/No: **No** If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: **N/A (none)** If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **No** If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: **N\A (none)** If no, please explain.

11. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) **N/A**

12. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    The liquidity of P-Notes is that of the underlying local security. The delta of these P-Notes is 1.00 by design, which is to say that the price of the P-Note changes in the same direction and magnitude as its corresponding underlying local security.

    The additional risk associated with these derivative instruments (P-Notes) is counter-party risk. Where possible, we will mitigate counter-party risk by employing multiple counter-parties for access via P-Notes.

13. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **No** If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **Yes** If no, please explain.

2. Has the fund engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **No** If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **No**

International Equity Portfolios - Emerging

1. Specify the percentage of the portfolio held in each of the following types of securities (Section 19.4 j):

Foreign Ordinary Shares	*89.22%*
GDR's	*2.59%*
ADR's	*5.99%*
Derivatives	*1.53%*
Cash & Equivalents (Foreign)	*0.19%*
Cash & Equivalents (Domestic)	*0.48%*

2. Specify the large, mid and small capitalization exposure of the portfolios. (Section 19.4 j)

Market Cap (USD x 1,000,000)	*Weight*
> 50000	*8.99%*
15000 - 50000	*26.17%*
7500 – 15000	*18.57%*
1500 – 7500	*33.00%*
750 – 1500	*7.92%*
400 – 750	*2.94%*
0 – 400	*2.41%*

3. Specify the allocation to frontier markets and to non-benchmark holdings in the portfolio (list both by country).

   As of 6.30.14 the allocation to frontier markets was 15%. Non-benchmark holdings comprised 28% of the portfolio. Detailed reports are attached.

4. Is the firm monitoring the country, currency, sector and security selection risks associated with its portfolio? (Section 19.4 j) Yes/No: **Yes** If no, please explain.

5. Does the portfolio currently employ a currency hedging strategy? Yes/No: **No**

Signed by: **Deborah Lamb, Chief Compliance Officer**
Dated: **7/22/14**
Name of Firm: **Parametric Portfolio Associates LLC**

Angelo Gordon STAR Fund – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: ***N/A*** If no, please explain.
   The fund targets an absolute return. AG START Fund is not a relative return strategy.

2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: ***YES*** If no, please explain.

3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: ***YES*** If yes, please explain.
   Lawrence Schloss joined Angelo, Gordon in 2013 as President of the firm and a member of the firm's executive committee.

4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: ***No*** If yes, please explain.

5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: ***No*** If yes, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: ***YES*** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ***Yes, to the best of our understanding of the policy.*** If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ***Yes*** If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ***Yes*** If yes: Do the counter-parties have investment grade debt? Yes/No: ***Yes*** Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ***Yes*** If no, please explain.
   We may not be trading directly with the broker-dealer.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ***Yes*** If yes: Do the counter-parties have investment grade debt? Yes/No: ***Yes*** Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ***Yes*** If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ***Yes*** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ***Yes*** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ***No*** If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ***Yes*** If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

   IOs:
   CMBS 23322BCX4: 0.01%
   CMBS 23322BFC7: 0.02%
   CMBS 3137B5KY8: 0.38%
   RMBS 36156NAE5: 0.20%
   CMBS 43786YAP0: 0.01%

   POs:
   RMBS 05525HAE7: 0.28%
   RMBS 05525HAG2: 0.48%
   RMBS 05525HAL1: 0.13%
   RMBS 05525HAN7: 0.11%

RMBS 05525HAS6: 0.18%
RMBS 05525HAW7: 0.18%
RMBS 05525HAY3: 0.07%

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

   There are no inverse floating rate notes and bonds. There are no structured notes; the Fund does have positions in CDOs.

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ***Yes*** If no, please explain.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ***Yes, to the best of our understanding of the policy.*** If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)).

    Please refer to the attached copy of the firm's Valuation Policy.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    The fund invests in interest rate swaps which are generally very liquid.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.
    New regulations that impact the use of derivatives have been proposed or finalized but we do not believe that there has been a material change to legal and regulatory risk.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: ***Yes*** If no, please explain.
   We believe it is well diversified within the mandate of the fund.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: ***Yes*** If yes, please explain.
   The fund can use leverage.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: ___ If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.
   To the best of our understanding of the policy, the short term investments comply.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3):

Certificates of Deposit	*%*
Commercial Paper	*%*
Other High Grade Short-term securities	*%*
U.S. Government & Agency securities	*%*
Corporate Bonds	*%*
Mortgage- and asset-backed securities	*100%*
Yankee bond securities	*%*

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: ***No*** If no, please explain.
   The focus is on absolute return, not a return relative to a benchmark.

3. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: ***N/A*** If no, please explain.

4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio?
   Yes, the investment guidelines permit investments in below investment grade assets.

5. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: ***Yes*** (Section 11.3(b)) Please specify the bond issue and percentage amount. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify the name of the industry and percentage amount.
   RMBS 36155LAA8: 8.69%(based on percentage of total mv)

6. ***What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))***
   43.5% (approximately – based on total mv)

Signed by:

Adam Freedman
Deputy Chief Compliance Officer and Associate General Counsel
Dated: July 15, 2014
Name of Firm: Angelo, Gordon & Co.

Brigade Capital Management Opportunistic Credit – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) **Yes***/No: ___ If no, please explain.

   *** There is no guarantee that the portfolio's investment objective will be achieved or that the portfolio will not suffer losses.**

2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) **Yes**/No: ___ If no, please explain.

3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) **Yes**/No: ___ If yes, please explain.

   Brigade Capital Management, LLC ("Brigade") converted from a Delaware limited liability company to a Delaware limited partnership effective as of July 1, 2014.

   Benjamin Renshaw, who was portfolio manager of Brigade Capital Switzerland AG (a wholly-owned subsidiary of Brigade which operates out of Zurich, Switzerland) ("Brigade Switzerland") for the past two and half years, decided to retire as of March 31, 2014. Mr. Renshaw will remain on as an employee of Brigade Switzerland through the end of 2014.

   Brigade formed a controlled affiliate that will operate out of London, UK ("Brigade UK"). Once Brigade UK becomes duly registered with the FCA, it will provide research services to Brigade, and may also exercise discretionary trading authority with respect to funds and accounts managed by Brigade from time to time to the extent such trading authority is delegated to it by Brigade. In addition, Brigade intends to form a wholly owned subsidiary that will operate out of Tokyo, Japan, which will provide research services to Brigade.

4. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/**No**: ___ If yes, please explain.

5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/**No**: If yes, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? **Yes**/No: ___If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) **Yes***/No: ___ If no, please explain.

   *** The portfolio's derivative investments are consistent with the investment policies as set forth in the portfolio's offering documents.**

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) **Yes**/No: ___ If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) **Yes**/No: ___ If yes: Do the counter-parties have investment grade debt? **Yes**/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? **Yes**/No: ___ If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) **Yes**/No: ___ If yes: Do the counter-parties have investment grade debt? **Yes**/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? **Yes**/No: ___ If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) **Yes**/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

   As of June 30, 2014, the portfolio had 69% exposure to Goldman Sachs, which acts as the portfolio's primary custodian. During the past month, the firm did not enter into any new prime brokerage or ISDA relationship on behalf of the portfolio. However, please note that executing brokers are added and/or removed on an on-going basis.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) **Yes**/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/**No**: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. **Yes**/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

   Not applicable as the portfolio did not hold any limited allocation derivative investments as of June 30, 2014.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/**No**: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) **Yes***/No: ___ If no, please explain.

    *** The firm assesses risk across all investment products and portfolios on an on-going basis with the assistance of its Risk Committee.**

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) **Yes**/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

    Not applicable as the portfolio did not hold any limited allocation derivative investments as of June 30, 2014. However, if the portfolio were to hold such positions, listed options are generally priced using market quotations from the following third party sources:

    - **Listed equity options: Bloomberg bid price (primary method); Bloomberg last trade (secondary method); broker quotes (tertiary method)**
    - **Listed commodity options: Bloomberg last trade (primary method); broker quotes (secondary method); fair value model (tertiary method)**

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    Swaps, and certain options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. The market for credit derivatives is somewhat illiquid and there are considerable risks that it may be difficult to either buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay.

    Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. There are risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

    In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes provisions that require increased regulation of derivatives markets. The Dodd-Frank Act has introduced mandatory execution and clearing of certain swaps, as well as new recordkeeping and reporting requirements. This increased regulation may increase the costs of entering into certain transactions. As key provisions of the Dodd-Frank Act require rulemaking by the SEC and the U.S. Commodity Futures Trading Commission, not all of which has been finalized as yet, portfolio shareholders should expect future changes in the regulatory environment for derivatives.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/**No**: ___ If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) **Yes***/No: ___ If no, please explain.

   *** The portfolio's construction is consistent with the investment guidelines as set forth in the portfolio's offering documents.**

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? **Yes***/No: ___ If yes, please explain.

*** While the portfolio generally operates un-levered in the traditional sense, the portfolio's guidelines permit a limited amount of leverage depending on market conditions. The portfolio's assets are invested, and are allowed to be invested by its guidelines, in commodities. In addition, although not part of its primary investment strategy, the portfolio may from time to time engage in short selling consistent with its guidelines.**

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? **Yes**/No: ___ If yes, do the investments comply with the policies? (Section 11.0) **Yes**/No: ___ If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3):

Certificates of Deposit	*0.00%*
Commercial Paper	*0.00%*
Other High Grade Short-term securities	*0.00%*
U.S. Government & Agency securities	*4.58%*
Bank Loans	*31.71%*
Corporate Bonds	*49.80%*
Mortgage- and asset-backed securities	*2.01%*
Yankee bond securities	*0.00%*
Structured Credit (inc. CDX hedges)	*2.11%*
Derivatives	*-7.97%*
Cash	*6.10%*
Accounting Adjustments	*11.66%*

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) **Yes***/No: ___ If no, please explain.

   *** The firm evaluates and monitors its investment decisions for the portfolio on an on-going basis and in accordance with the portfolio's offering documents.**

3. Does the firm conduct horizon analysis testing? (Section 19.4 j) **Yes***/No: ___ If no, please explain.

   *** The firm's analysts may conduct horizon analysis testing as part of the firm's investment process, which includes idea generation, research, screening, relative value analysis, strategy selection, execution and monitoring.**

4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio?

   Yes. Positions are held in the portfolio consistent with the portfolio's investment objectives and guidelines as set forth in its offering documents.

5. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/**No**: ___ (Section 11.3(b)) Please specify the bond issue and percentage amount. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify the name of the industry and percentage amount.

   No, there was no such industry.

6. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))

   Approximately 40% of the securities held in the portfolio are Rule 144A securities, and approximately 33% of the securities held in the portfolio are Rule 144A life securities.

Signed by:
Dated: July 14, 2014
Name of Firm: Brigade Capital Management, LP

Brown Brothers Harriman Inflation Indexed Securities – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **YES** If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **YES** If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **YES** If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **NO** If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **YES** If yes, please explain.

   Effective January 1, 2014, the Corporate Banking, M&A Advisory, Private Equity (Capital Partners), and Wealth Management businesses merged into a new line of business (LOB) called Private Banking. Effective April 1, 2014, Erica Bens internally transferred to the BBH Investment Management line of business as Director of Risk and Governance, a newly created role.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **NO** If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **YES** If yes, please explain.

   At the request of SamCERA, BBH maintains a duration hedge in its TIPS portfolio resulting in a relative duration variance of approximately 2.5 to 3 years. The size of this hedge is unique to the SamCERA portfolio.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **YES** If yes, please explain.

   BBH is a private bank authorized under the laws of the State of New York primarily regulated by the New York State Banking Department ("NYSBD") and a member of the Financial Industry Regulatory Authority ("FINRA"). As a bank, BBH conducts an investment advisory business which is exempt from registration with the Securities and Exchange Commission ("SEC").

   In 2013, FINRA conducted an examination of BBH, which included a Financial Operations, Sales Practice and AML review. Any observations/recommendations with respect to the Financial Operations and Sales Practice elements of the review have either been addressed or are being addressed within expected target dates. The AML review focused on the firm's policies and procedures relating to the surveillance and processing of U.S. low-priced securities on behalf of certain of our bank clients located outside of the United States. The examination concluded in early 2014. Without admitting or denying the findings, BBH entered into a settlement agreement with FINRA addressing the areas of concern raised by FINRA and paying a fine to FINRA. There are no limitations on BBH's ability to conduct business as a result of the settlement. However, as part of the settlement agreement with FINRA and BBH's internal review, BBH filed a Corrective Action Statement which noted, among other things, that BBH has made changes to its processes and procedures for handling low-priced securities for the firm's bank intermediary clients, including additional policies and procedures to enhance compliance with its obligations under Section 5 of the Securities Act of 1933, and enhanced employee training with respect to low priced securities transactions and the standards for filing SARs. This settlement relates only to the Investor Services line of business and has no impact on BBH's financial status or our ability to serve as investment manager.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **YES** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **YES** If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **YES** If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **YES** If yes: Do the counter-parties have investment grade debt? Yes/No: **YES** Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **YES** If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **YES** If yes: Do the counter-parties have investment grade debt? Yes/No: **YES** Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **YES** If no, please explain.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **YES** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. **The notional value of the currency forward with State Street is $1,416,967. We define counterparty risk as the outstanding amount owed to us by counterparties. As of June 30, 2014, the net gain/loss of the portfolio's currency forward position is -$22,204.** Have there been any changes to the investment manager's list of approved counter-parties over the past month? **NO**

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **YES** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: **NO** If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

   We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **NO** If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: **N/A** If no, please explain.

    We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **YES** If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

    We have not invested in "limited allocation derivative investments" in the SamCERA portfolio.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    BBH uses two derivative instruments in its Inflation Indexed Strategy, U.S. Treasury futures and foreign exchange forward contracts. U.S. Treasury futures are utilized in what we refer to as a long breakeven position, where an expected increase in breakeven inflation rates is targeted. The futures provide a hedge against higher interest rates. In the SamCERA portfolio, U.S. Treasury futures are utilized to maintain the duration of the TIPS portfolio consistent with that of the Barclay's Aggregate Index. Foreign exchange forward contracts are utilized to mitigate the currency risk associated with tactical positions in non-U.S. inflation linked debt.

    U.S. Treasury futures are among the most liquid investments and because they are exchange traded are not subject to counterparty risk. The foreign exchange market is highly liquid with several trillion dollars of currency traded daily and a wide variety of active market participants worldwide. Within the foreign exchange market, the currencies of the forwards used in the SamCERA portfolio (EUR and GBP versus USD) are among the most actively traded.

    Hedging activity or use of forward currency contracts may reduce the risk of loss from currency revaluations, but also may reduce or limit the opportunity for gain and involves counter party risk, which is the risk that the contracting party will not fulfill its contractual obligation to deliver the currency contracted for at the agreed upon price. Because typically no money changes hands at the outset of a forward currency contract, the counter party risk is limited to the profit or loss on the contract, it is not the notional value of the contract.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past <u>six months</u>. (Appendix C(10 g)) Yes/No: **NO** If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **YES** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **NO** If yes, please explain.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **NO** If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3)

As of 06/30/14:	
Cash/Receivable	**1.39%**
Certificates of deposit	**0.00%**
Commercial paper	**0.00%**
High grade short-term securities	**0.00%**
US Government & Agency Sec.	**96.82%**
Corporate Bonds	**0.00%**
MBS & ABS	**0.00%**
Yankee Bonds	**0.00%**
Non-US Sovereign Debt	**1.79%**

1. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: **YES** If no, please explain.

2. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: **NO** If no, please explain.

   Horizon analysis testing is not part of our normal portfolio analysis process but we can provide it upon request.

3. Are any holdings below investment grade? **NO** (Section 11.3(b)) If yes, why are they held in the portfolio?

4. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: **NO** (Section 11.3(b)) Please specify the bond issue and percentage amount. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify the name of the industry and percentage amount.

5. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c)) **0% as of 06/30/14**

Signed by: John Ackler
Dated: July 8, 2014
Name of Firm: Brown Brothers Harriman & Co.

Compliance Certification Statement

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of SamCERA's investment managers on a semi-annual basis. These statements must be e-mailed to SamCERA's office (investments@samcera.org) by Monday, July 14, 2014.

Select International Small Cap Plus

Firm Name	**Pyramis Global Advisors Trust Company (PGATC)**
Product Name	**Pyramis Broad Market Duration**
Asset Class	**Investment Grade Fixed Income**
Respondent / Contact	**Mark Botelho, Senior Account Executive**
Address	**900 Salem Street, Smithfield, RI 02917**
Telephone	**401-292-**
E-Mail Address	**Mark.botelho@pyramis.com**

GENERAL COMPLIANCE ISSUES

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3)

Yes.

If no, please explain.

Not applicable.

2. Has the firm's insurance coverage been sustained? (Section 19.4(c))

Yes.

If no, please explain.

Not applicable.

3. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j))

Yes.

If yes, please explain.

Since the beginning of 2014, the following changes have occurred within Pyramis at the corporate level and in the Bond Division of our Fixed Income group:

- Charlie Morrison, president of Fixed Income, assumed the role of president of Asset Management, effective February 28, 2014.
- Nancy Prior, president of Money Markets and Short Duration Bonds, was named president of Fixed Income and vice chairman of Pyramis Global Advisors on March 7, 2014. She is succeeding Charlie Morrison, who was named president of Asset Management in February 2014. Nancy will continue to oversee day-to-day management of the Money Market group, and Bob Brown, president of Bonds, will assume oversight of the Short Duration Bond group.
- Jacques Perold stepped down as president of FMR Co in May of 2014. He was succeeded by Bill Dailey, who assumed the position of Chief Operating Officer upon Jacques' departure.

4. Have there been any changes in the firm's investment approach? (Section 19.4(e))

No.

If yes, please explain.

Not applicable.

5. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No

Please see below.

If yes, please explain.

From time to time, in the normal course of its business, the Firm and/or its affiliates may receive inquiries (including subpoenas and voluntary requests for information) from regulatory authorities or law enforcement, a regulator may conduct an onsite examination, or a regulator may commence an investigation. The Firm does not make public comment about such inquiries, examinations or investigations unless and until enforcement proceedings are initiated. To the extent the Firm's securities affiliates have been sanctioned, fined, or cited by the Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), or any other regulatory body, any such sanction, fine or citation has been disclosed in its affiliates' Forms BD and/or Forms ADV in accordance with the requirements of such forms.

We also note that the FDIC issued a civil money penalty of $1,564.08 against the Firm. This penalty was connected to an allegation that the Firm failed to ensure that authorized withdrawal limits on the Firm's designated account, as of June 30, 2009, were appropriately set to take into account the Firm's increased deposit insurance assessment for the quarter ending March 31, 2009.

Derivative Investments

1. Are derivatives used in the management of the investment strategy?

Yes.

If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

Please see below.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C)

Yes.

If no, please explain.

Not applicable.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5))

Yes.

If no, please explain.

Not applicable.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5))

Yes.

If yes: Do the counter-parties have investment grade debt?

Yes.

Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances?

Yes.

If no, please explain.

Not applicable.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5))

Yes.

If yes: Do the counter-parties have investment grade debt?

Yes.

Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances?

Yes.

If no, please explain.

Not applicable.

6. Is individual counter-party exposure well diversified? (Appendix C(5))

Yes.

If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6))

Yes

If no, please explain.

Not applicable.

Has the firm developed any new purposes for derivative investments?

No.

If yes, please explain.

Not applicable.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives.

DESCRIPTION	% MV	LB CLASS 1 DESC	LB CLASS 2 DESC
CMEC IRS 3ML 9/17/24	0.18	DERIVATIVES	SWAPS
CMEC IRS 4.0% 9/17/44	-0.17	DERIVATIVES	SWAPS
CMEC IRS 3ML 9/17/44	0.15	DERIVATIVES	SWAPS
CMEC IRS 3ML 9/17/19	-0.02	DERIVATIVES	SWAPS
CMEC IRS 3.25% 9/17/24	-0.19	DERIVATIVES	SWAPS
CMEC IRS 2.25% 9/17/19	0.02	DERIVATIVES	SWAPS
CMEC IRS 3ML 9/17/16	0.03	DERIVATIVES	SWAPS
CDS SWAP Notional Offset	-0.01	DERIVATIVES	SWAPS
CMEC IRS 1.0% 9/17/16	-0.03	DERIVATIVES	SWAPS

Yes, our firm has and will continue to monitor and evaluate the exposure to market value losses that may occur from these securities.

If no, please explain.

State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain.

No

9. State if any restricted derivative investments are held in *SamCERA's* portfolios.

No.

If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8))

Yes.

If no, please explain.

Not applicable.

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9))

Yes.

If no, please explain.

Not applicable.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

Fidelity Pricing & Cash Management Services (FPCMS) utilizes a combination of sources for derivatives pricing. Wall Street brokers are our primary sources for swaps. Bloomberg is our primary pricing source for futures.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

All derivative instruments used in the portfolio are liquid. Given the minimum role they play in the portfolio and the extensive research conducted by the Pyramis Counterparty Risk Team and the large team of in-house and external lawyers that support these efforts, we feel the legal and regulatory risks are minimal.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g))

Yes.

If yes, please explain.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was adopted in 2010 to create a more effective regulatory structure, address a number of regulatory gaps, and increase market transparency and accountability in the financial system. Dodd-Frank was intended, among other things, to create a comprehensive regulatory framework for derivative instruments, and to increase market accountability and transparency in the financial system. Regulatory implementation of a number of important rules has taken effect during the first half of 2013. In particular, certain derivatives transactions that customarily trade over-the-counter must now trade through a clearinghouse. This migration to clearing has had a meaningful impact on market access, pricing, reporting, and counterparty risk. We have taken the necessary steps on behalf of our clients to accommodate the current rule changes and will continue to work to prepare for future regulatory changes.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0)

Yes.

If no, please explain.

Not applicable.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities?

No.

If yes, please explain.

Not applicable.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments?

Yes.

If yes, do the investments comply with the policies? (Section 11.0)

Yes.

If no, please explain.

Not applicable.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3):

Certificates of Deposit	%
Commercial Paper	%
Other High Grade Short-term securities	0.34%
U.S. Government & Agency securities	36.11%
Corporate Bonds	31.48%
Mortgage- and asset-backed securities	32.07%
Yankee bond securities	%

2. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3)

Yes.

If no, please explain.

Not applicable.

3. Does the firm conduct horizon analysis testing? (Section 19.4 j)

Yes

If no, please explain.

Not applicable.

4. Are any holdings below investment grade? (Section 11.3(b)) If yes, why are they held in the portfolio?

0.80% of holdings are currently below investment grade. They were originally purchased at investment grade, and have since been downgraded. The investment team has reviewed their upside potential and we still feel the securities have value as current holdings in the portfolio.

5. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio?

No.

(Section 11.3(b)) Please specify the bond issue and percentage amount. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Please specify the name of the industry and percentage amount.

6. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))

4.3% as of June 30, 2014.

Signed by:

Dated:

Name of Firm

Western Asset Management U.S. Core Plus – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm acted as a fiduciary and invested its assets for the sole benefit of *SamCERA*? (Section 19.4(a)) Yes/No: **Yes** If no, please explain.

2. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **Yes** If no, please explain.

3. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **Yes** If no, please explain.

4. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **No** If yes, please explain.

5. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **Yes** If yes, please explain.

   There have been no significant portfolio developments or major changes in the firm ownership structure, however the following organizational structure changes did occur:

   In March 2014, Western Asset announced the promotion of Mr. Chia-Liang Lian to Co-Head of the Emerging Markets Debt Team, reporting to Mr. S. Kenneth Leech, Chief Investment Officer of Western Asset. The appointment is effective in April 2014. The appointment will create a two-year succession plan for the EMD investment effort. Mr. Lian will serve as Co-Head alongside Mr. Keith Gardner, who intends to retire in April 2016. Western Asset also promoted Mr. Desmond Soon, CFA, one of the Singapore investment team members, to Co-Head of Investment Management, Asia, also effective April 2014.

   On March 21, 2013, Mr. Stephen A. Walsh, Western Asset's Chief Investment Officer (CIO), announced his plans to retire in March 2014. During this transition period, Mr. Walsh and Mr. S. Kenneth Leech, formerly the Firm's CIO Emeritus, served as Co-CIOs effective March 31, 2013. Mr. Leech is CIO effective March 31, 2014. Mr. Leech previously served as Western Asset's CIO from 1998 to 2008, and since that time has led the Firm's global macro effort as the Chairman of the Global Investment Strategy Committee. In addition, Mr. Leech has been managing global portfolios and is a key strategist on the Firm's US Broad Strategy Committee. Bringing him back as CIO continues the long history of strategic leadership which has guided Western Asset for over 40 years.

6. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **No** If yes, please explain.

7. Do *SamCERA's* guidelines require your firm to manage the portfolio significantly differently than other similar portfolios? (Section 9.1) Yes/No: **No** If yes, please explain.

8. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **Yes** If yes, please explain.

   In January 2014, Western Asset, the SEC and the DOL mutually agreed to resolve two matters. The first related to an improper purchase of a corporate security in early 2007 for ERISA clients when the security's terms prohibited purchases by ERISA clients. The settlements centered around the purchases and the subsequent handling of the issue when it was identified. Without admitting or denying the findings, Western Asset agreed to sanctions, including the payment of a $1,000,000 fine to each of the SEC and the DOL. The second related to violations of the Investment Advisers Act, Investment Company Act and ERISA in connection with certain trades that were alleged to be cross trades. Without admitting or denying the findings, Western Asset agreed to sanctions, including the payment of a $1,000,000 fine to the SEC and a fine of $607,717 to the DOL. Western Asset also made compensatory payments to impacted clients in connection with each of these matters.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: **Yes** If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: **Yes** If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: **Yes** If no, please explain.

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: **Yes** If yes: Do the counter-parties have investment grade debt? Yes/No: **Yes** Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: **Yes** If no, please explain.

   Western Asset's Broker Review Committee ("the Committee") maintains an Approved List of counterparties for client transactions. Each counterparty is reviewed by members of Western Asset's credit group prior to approval. Credit review includes analysis of the counterparty's capital adequacy, profitability, liquidity and other factors as may be appropriate. In addition to the credit review, counterparties are evaluated on execution capability, pricing, responsiveness, specialist credentials, research and back-office capabilities. The Committee reviews additions to the Approved Lists quarterly with a thorough re-evaluation of all counterparties annually.

   The majority of Western Asset's trades involve limited counterparty credit risk. Once a trade is done and settled the Firm's exposure to the broker is over. Counterparty credit risk is only created when Western Asset relies on the broker to make future payments or forward settle a trade beyond the normal period. While this is obvious for multi-year swaps transactions, there are other transactions that also create counterparty credit risk. When aggregating Western Asset's total credit exposure to each counterparty, it is important to also take into account all of these transactions.

Western Asset seeks to reduce risk and promote diversification in its use of counterparties when using credit default swaps as in all areas of investment. The use of multiple counterparties lends itself to a more competitive bidding process, and therefore promotes best execution. Counterparty creditworthiness is a key factor that Western Asset's front office reviews before entering into a derivative agreement.

Subsequent to a trade, Western Asset's Swaps Team monitors swap exposure on a periodic basis (e.g., daily, weekly) based on the terms of the credit support annex (CSA) and instructs cash and/or security movements via the custodian bank to satisfy the collateral requirements in order to mitigate counterparty risk.

Western Asset has a CSA with each counterparty with whom the Firm trades. The CSA protects the client's marked-to-market exposure against each counterparty for amounts exceeding the minimum collateral transfer threshold. The minimum transfer amount established in each CSA varies by counterparty but generally ranges from $250,000 to $750,000.

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: **No** If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month?

   Counterparty selection is a balance of diversification versus best execution. The lack of counterparty diversification in the SamCERA portfolio can be attributed to the relatively small amount of exposure on the whole, seven basis points of the portfolio's market value. This can lead to one position making up the majority of the counter party risk. With that said, we are concerned about concentration risks that breach 3% of the portfolio's MV, and currently no counterparty approaches that threshold.

   The portfolio's largest exposure is to the Royal Bank of Scotland Group, PLC.

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: **Yes** If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: **No** If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: **Yes** If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. Yes/No: **No** If more than 5%, please explain.

   Please see the limited allocation derivatives file attached to find all limited derivatives as of 6/30/2014.

   Western Asset uses derivatives only when allowed by client guidelines. The Firm's derivatives strategy is overseen by the Broad Market Committee under the oversight of the Chief Investment Officer, utilizing reporting provided by the Risk Management Department. Derivative risk is addressed through avoiding leverage and limiting exposure. Under no circumstances does Western Asset use leverage in its derivatives strategy. The Legal & Compliance Department monitors derivative usage and their adherence to guidelines continuously. Notional exposure limits are monitored daily. Western Asset uses industry-leading Charles River Development's ComplianceMaster (CRD) as well as PCR, an in house derivative position monitoring system, to monitor derivative quantitative limits. Where an issue is identified, it is escalated to the portfolio manager and the client service executive assigned to the account. In addition, the Risk Management Department frequently monitors the extent of derivatives used by the Firm. Exposure limitations are addressed in the standard Derivatives Philosophy and Guidelines attached.

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: **No** If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7))

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: **Yes** If no, please explain.

    Stress testing, as part of Western Asset's ongoing risk management process, is performed continuously to its portfolios in order to assess their behavior under a variety of interest rate and spread scenarios. The correlation assumptions used in these simulations are continually revised on the basis of historical experience and the judgment of senior investment professionals. Correlations can also be equal to one in certain scenarios. The objective of scenario analysis is to help ensure that portfolio risk is well-diversified and that tracking error will not exceed expectations. Scenario analyzes include a full revaluation of all securities. This is to help Investments professionals to understand the behavior of the portfolios under different tail metrics. Portfolio managers receive a report which estimates the likely performance behavior of all portfolios under their supervision under a variety of what-if scenarios (e.g., if interest rates rise 50 or 100 bps, if the yield curve steepens or flattens, if spreads widen by 50 bps).

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: **Yes** If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b))

    Prices for derivatives vary depending by the specific derivative instrument. Exchange traded futures and options are priced using closing prices from the primary exchange they are traded upon. Over-the-counter derivatives such as interest rate swaps, credit default swaps, and options are priced by a pricing vendor (Markit) where possible, otherwise by obtaining current prices from Bloomberg and/or broker/dealers. All third party vendors, brokers, security hierarchies and deviations from those hierarchies must be approved by the Pricing Committee before the Pricing Group is allowed to make any changes. Western Asset has a formal pricing policy, which outlines the pricing process in greater detail and is provided in Appendix A.

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives.

    Western Asset's management style focuses on adding incremental value without taking on excessive risk. To ensure that the Firm's use of derivative instruments is consistent with this investment philosophy, Western Asset has developed the following guidelines—listed below along with a brief description of their rationale—which form the basis of every decision to employ derivatives in the Firm's investment portfolios:

    - The duration contribution of derivatives will not bring the portfolio's duration outside the portfolio's specific duration band.
    - Where a portfolio enters into forward foreign exchange contracts the aggregate underlying exposure of the portfolio attained through such contracts shall not exceed 100% of the portfolio's market value.
    - A portfolio's gross exposure to forward foreign exchange contracts shall not exceed 50% with any single counterparty and net exposure shall not exceed 25% with any single counterparty. Net exposure is defined as the value (in account base currency terms) of open forward foreign exchange purchase contracts less forward foreign exchange sale contracts. Gross exposure is defined as the value (in account base currency terms) of open forward foreign exchange purchase contracts plus forward foreign exchange sale contracts.
    - The net notional exposure to index and credit default swaps will count at their full notional value as exposure to the underlying asset. Concentration limits for a particular name or asset class will apply based on the net sum of its cash and derivative security holdings.

- Short (written) options positions will always be covered, either with current security holdings, other options or futures positions. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives (e.g., floaters and inverse floaters), or b) offset by other portfolio positions (e.g., IOs and long duration bonds).
- Futures and options contracts will be limited to liquid instruments actively traded on major exchanges or, if over-the-counter, executed with major dealers.
- Swap contracts are considered over-the-counter contracts between two parties and have counterparty credit risk different from exchange traded derivatives. Western Asset tries to limit its counterparty risk by executing swaps with the strongest financial counterparties. The vast majority of these counterparties are rated is A- or better. In addition, collateral agreements will be in place to trigger margin movement whenever the current mark-to-market amount to be paid or received by either counterparty exceeds a threshold amount.
- Finally, under no circumstances will the derivative positions change the characteristics of the portfolio so that it violates any guideline set forth in the Investment Management Agreement.

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past six months. (Appendix C(10 g)) Yes/No: **No** If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified, and made in liquid securities? (Section 5.0) Yes/No: **Yes** If no, please explain.

2. Has the firm engaged in short selling, use of leverage or margin and/or investments in commodities? Yes/No: **Yes** If yes, please explain.

   As of 6/30/2014 there were short positions (short options) held in the portfolio. There were no investments in commodities as of 6/30. Short (sold) options are allowed in accordance to the Investment Management Agreement; Exhibit C dated October 25, 2004.

   Western Asset's standard approach to leverage is to cover forward securities and the mark-to-market value of interest rate swaps with cash and cash equivalent securities. Next the Firm's investment professionals look to cover short and long futures, short puts, short calls and the notional value short credit default swaps with any excess cash not covering forwards, offsetting derivatives or investment grade liquid assets in the account. This methodology of determining leverage/coverage is consistent with the standards used for monitoring coverage requirements as prescribed under Section 18 of the Investment Company Act of 1940. Western Asset has used derivatives in portfolios since 1988, and most of the Firm's clients allow for derivatives authority.

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **Yes** If yes, do the investments comply with the policies? (Section 11.0) Yes/No: **Yes** If no, please explain.

Domestic Fixed Income Portfolios

1. State the percentage of the portfolio held in each of the following types of securities (Section 11.3)

Category	% of Portfolio
Cash & Cash Equivalents	**-3.30%**
Certificates of Deposit	6.92%
Commercial Paper	0.00%
Other high grade short-term securities	0.00%
Trade Date Cash	-10.22%
US Government and Agencies	**14.10%**
Corporate Bonds	**38.70%**
Mortgage & Asset Backed	**44.30%**
Yankee Bonds	**6.20%**

1. Is the firm monitoring its active investment management decisions relative to the Retirement Association's investment benchmark? (Section 6.3) Yes/No: **Yes** If no, please explain.

2. Does the firm conduct horizon analysis testing? (Section 19.4 j) Yes/No: **Yes** If no, please explain.

   Western Asset's investment management team estimates horizon excess returns under various market scenarios, including best, worst and likely cases. Particular attention is paid to diversifying strategies under each scenario. The horizon for risk management is the same as that for investment management, as the risk effort is closely integrated into the investment process. The firm's tracking error model calculates predicted tracking errors based on 18 months of historical data. Western Asset also generates scenario analysis results daily for representative accounts. These results estimate horizon durations given various interest rate shocks. The horizon is generally instantaneous as Western Asset evaluates one day extreme movements in rates for duration hedging purposes. The Firm's systems allow for any time horizon and can output a wide array of horizon performance or analytics related statistics.

3. Are any holdings below investment grade? (Section 11.3(b)) Yes/No: **Yes** If yes, why are they held in the portfolio?

   Yes, Total below investment grade exposure is 10.538% as of 6/30/2014. Held per Exhibit B dated 9/30/2013

4. Excluding U. S. Government and Agency bond holdings, did any individual bond issue represent more than 5% of the market value of the portfolio? Yes/No: **No** (Section 11.3(b)) Please specify the bond issue and percentage amount. At the time of purchase, was there any single industry, based on NAICS codes, which represented more than 15% of the market value of the account. Yes/No: **No** Please specify the name of the industry and percentage amount.

5. What percentage of the portfolio is held in Rule 144A securities? (Section 11.3(c))

   144A exposure is at 11.101% as of 6/30/2014

Signed by: Charles Colby
Dated: July 8, 2014
Name of Firm: Western Asset Management Co.

INVESCO Core Real Estate – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Are *SamCERA's* market benchmarks in the respective asset class areas acceptable to the firm? (Section 6.3) Yes/No: **YES** If no, please explain.

2. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: **YES** If no, please explain.

3. Does the firm consider any of *SamCERA's* investment objectives unreasonable? (Section 6.0) Yes/No: **NO** If yes, please explain.

4. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: **YES** If yes, please explain.

5. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: **NO** If yes, please explain.

6. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: **NO** If yes, please explain.

Investment Manager Guidelines

1. Are portfolio holdings well-diversified? (Section 5.0) Yes/No: **YES** If no, please explain.

2. Has the firm used leverage? Yes/No: **YES** If yes, please explain.

   Yes. The maximum leverage amount for the Fund is 35%. As of March 31, 2014, the Fund's leverage was 21.8%

Cash & Equivalents

1. Does the firm directly invest in short term fixed income investments? Yes/No: **NO** If yes, do the investments comply with the policies? (Section 11.0) Yes/No: ___ If no, please explain.

Real Estate Portfolios

1. Is the portfolio diversified as to region, property type, industry, and economic base? (12.3(a)2) Yes/No **YES** If no, do the investments comply with the policies?

2. Is the portfolio achieving a total time-weighted rate of return, net of fees, which equals or exceeds, the NFI ODCE index? (12.2) Yes/No ___ If no, please explain.

   The Fund's net returns exceed the net NFI ODCE index on a 7-year and since inception basis. The Fund's net 3-year and 5-year returns are below the index.

- **Underperformance in the 5 year time period- largely attributable to the timing of abnormal valuation events.** The five year time period stretches back to 2Q 09, the quarter in which the Fund began appraising 100% of the property portfolio each quarter. Although the pace of valuations had been accelerated in prior quarters to reflect changing market conditions, a catch-up quarter was required in which the entire portfolio was valued and marked down to market (17% depreciation for the quarter). We are able to isolate the impact of this abnormal quarter- over the trailing 19 quarter time period (dropping off 2Q 09), the Fund delivered outperformance of 16 basis points.

- **Underperformance in the 3 year time period- below average LTV vs. ODCE.** Over the last 3 years, a time period which has recorded significant valuation recovery, the Fund's leverage position has been approximately 300 basis points (or 15%) below the average LTV within the index. We believe that the impact of lower than average leverage on the Fund accounts for more than the 41 basis points of current underperformance. We anticipate our attribution will confirm this over the next few weeks. Although the impact of leverage likely covers the entire amount of underperformance in the 3 year time period, leverage was not the only factor that detracted from performance. Isolated stock selection events (Holland) also detracted from performance.

3. Does the core fund concentration exceed 40% (by value) in any single property type or 35% in any single metropolitan statistical area, determined as of the date of the acquisition of the property? (12.3(a)2) Yes/No **NO** If yes, please explain.

4. Is the portfolio leverage within the 35% of overall loan to value guideline (12.3(d)) Yes/No **YES** If no, please explain.

Mary C. Carroll

Signed by: Compliance Director

Dated: 7/14/14

Name of Firm Invesco Real Estate

The Clifton Group Cash Overlay – June 30, 2014

Compliance Certification Statement
San Mateo County
Employees' Retirement Association

In accordance with the Investment Objectives and Policy Statement, the following compliance worksheet will be completed by each of *SamCERA's* investment managers on a semi-annual basis. These statements must be e-mailed to *SamCERA's* office (Investments@samcera.org) by **Monday, July 14, 2014**.

General Compliance Issues

1. Has the firm's insurance coverage been sustained? (Section 19.4(c)) Yes/No: ___ If no, please explain.

2. Have there been any significant portfolio developments, major changes in firm ownership, organizational structure and personnel? (Section 19.4(j)) Yes/No: ___ If yes, please explain.

3. Have there been any changes in the firm's investment approach? (Section 19.4(e)) Yes/No: ___ If yes, please explain.

4. Have there have been any industry or regulatory disciplinary actions taken against the firm? (Section 19.4(a)) Yes/No: ___ If yes, please explain.

Investment Management Fees

1. Is *SamCERA*'s investment management fee schedule less favorable than those charged other institutional clients who hold an account investment substantially similar to ours? Yes/No: ___ If yes, please explain.

Derivative Investments

1. Are derivatives used in the management of the investment strategy? Yes/No: ___ If Yes, please answer the remaining questions in this section. If No, please skip the remaining questions in this section.

2. Are derivative investments in compliance with *SamCERA's* investment policies? (Appendix C) Yes/No: ___ If no, please explain.

3. If the firm entered into a non-exchange traded derivative, was the general nature and associated risks of the counter-party fully evaluated? (Appendix C(5)) Yes/No: ___ If no, please explain. N/A

4. For non-exchange traded derivative transactions, were the counter-parties broker/dealers? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Are the counter-parties registered with the SEC and do they have net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain. N/A

5. For non-exchange traded derivative transactions, were the counter-parties financial institutions (banks)? (Appendix C(5)) Yes/No: ___ If yes: Do the counter-parties have investment grade debt? Yes/No: ___ Do the counter-parties have total assets in excess of $1 billion, and significant net capital to protect against potential adverse market circumstances? Yes/No: ___ If no, please explain. N/A

6. Is individual counter-party exposure well diversified? (Appendix C(5)) Yes/No: ___ If no, please explain. What is the largest exposure to a single counter-party within the portfolio? Please specify the name of the counter-party and the amount of exposure. Have there been any changes to the investment manager's list of approved counter-parties over the past month? N/A

7. Are the investment purposes for a derivative investment consistent with the four purposes stated *SamCERA's* policies? (Appendix C(6)) Yes/No: ___ If no, please explain. Has the firm developed any new purposes for derivative investments? Yes/No: ___ If yes, please explain.

8. List all limited allocation derivative investments individually and the percentage of the portfolio's assets represented by each investment. (Appendix C(7)) State if the firm has evaluated the exposure to market value losses that can occur from each of these derivatives. Yes/No: ___ If no, please explain. State if these derivative investments in total represent more than 5% of the portfolio's market value. If more than 5%, please explain. N/A

9. State if any restricted derivative investments are held in *SamCERA's* portfolios. Yes/No: ___ If any are held, state the percentage of the portfolio's assets held in such derivatives and why the firm is not in compliance with the investment policies. (Appendix C(7)) N/A

10. For derivative investments with allocation limits, has the firm tested and measured these investments' sensitivities to changes in key risk factors? (Appendix C(8)) Yes/No: ___ If no, please explain. N/A

11. Have all derivative investments been made in a manner consistent with the derivative investment process specified in the policy statement? (Appendix C(9)) Yes/No: ___ If no, please explain.

12. Specify the security pricing sources used when developing portfolio market value exposures for limited allocation derivatives. ((Appendix C(10 b)) N/A

13. Provide a statement regarding the liquidity of the derivative investments. Provide a general statement discussing the legal and regulatory risks associated with the portfolio manager's investments in derivatives. statement attached

14. State if the legal and regulatory risk associated with portfolio derivative investments have changed over the past <u>six</u> month<u>s</u>. (Appendix C(10 g)) Yes/No: ___ If yes, please explain.

Signed by:
Dated: July 8, 2014
Name of Firm Parametric Portfolio Associates LLC

Compliance Certification Statement

San Mateo County Employees' Retirement Association

#13. Holdings within the San Mateo County Employees' Retirement Associate account consist of highly liquid exchange traded futures. These futures are standardized contracts that must adhere to listing requirements established by each exchange. Futures are regulated by the NFA and CFTC. As a registered Commodity Trading Advisor, Parametric Portfolio Associates LLC is subject to various reporting and regulatory requirements

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 4.11

To: Board of Retirement

From: Mabel Wong, Retirement Finance Officer Mabel

Subject: Approval of Questions for Annual Review of SamCERA's Independent Financial Auditor – Brown Armstrong Accountancy Corporation

Staff Recommendation

Staff recommends the board review, suggest changes, and then approve the questions in the attached document entitled, "Questions for Annual Independent Auditor Evaluation."

Summary

The questions in the attached document will be submitted to SamCERA's independent auditor, Brown Armstrong Accountancy Corporation, prior to the annual review, which will be scheduled for the October 28, 2014, board meeting.

An additional part of the annual review will be the result of a survey of trustees, staff and auditor regarding the performance of the audit firm. Similar to last year, this year's survey will be in electronic form. You will receive an email with a link to complete the survey. We hope this will make completion more convenient. If you'd like a hard copy of the survey, please let us know.

Staff will provide Brown Armstrong's responses to the questionnaire as well as the survey results at the October meeting.

Attachment

The questions in the attached document will be submitted to SamCERA's independent financial auditor, Brown Armstrong Accountancy Corporation.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Questions for Annual Independent Auditor Evaluation
Fiscal Year 2013-2014

Organizational Update

1) What is the ownership structure of your firm? Identify all owners with 5% ownership or more.
2) Provide an update on your firm's organization, with particular emphasis on (a) changes to your management structure over the past eighteen months, and (b) public clients gained or lost in the past eighteen months. All significant changes should be accompanied by an explanation. An organizational chart should accompany this response.
3) Provide a list of services available through your firm, including the number of staff supporting those services.
4) What are your firm's philosophy and current policy regarding new business?
5) Specify separately the individuals (up to five) who you feel are key to the success of your firm. If the list has changed in the last eighteen months, identify and explain the change(s).
6) Update all significant personnel changes to the "SamCERA Team."
7) Has your firm or any of its employees been involved in regulatory or litigation actions related to your business in the past eighteen months?
8) Has a peer review been performed on any of your firm's audit products? If yes, discuss the review and the findings. Any material findings or recommendations must be accompanied by an explanation.
9) Describe the levels of insurance coverage maintained by your firm. E-mail a current certification of insurance to mwong@samcera.org.
10) Do you have a written policy on ethics? If so, please e-mail the policy to mwong@samera.org.
11) Describe the relative strength and longevity of your staff. Are any of your operations outsourced? If the answer is yes, provide details regarding the firm(s) with which your firm has contracted.
12) What are your mission critical systems? Has your firm experienced any problems with these systems in the past eighteen months? When were these systems implemented and when were they last upgraded? Do you anticipate any changes to these systems in the next eighteen months?
13) Provide an overview of your firm's business continuity plan.

Audit Process

14) Provide a description, in detail, of your audit process.
15) What changes to the process resulted from going paperless?
16) Describe your internal peer review procedures in detail.
17) Does your firm engage in peer review with other audit firm? Please provide details.

Outlook

18) What issues are other clients concerned with in regards to products, services, education and governance?
19) What is your firm's experience regarding implementation of the enacted changes in GASB 67 and 68 accounting standards relative to the pension industry? Please list and discuss each proposal SamCERA should consider.
20) Describe your assessment of the relationship between your firm and SamCERA. How can SamCERA better assist you in accomplishing the goals it has established for your firm? How can we better utilize your firm's capabilities?

Conclusion

21) Is there any information that would be timely pursuant to SamCERA's contract and this annual review?
22) Are your clients making significant changes in their asset mixes or economic and non-economic assumptions? Describe these changes.
23) What audit related changes should SamCERA consider?
24) Relative to your expertise, what trends are occurring in the retirement industry that SamCERA should be tracking?

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 4.12

TO: Board of Retirement

FROM: Mabel Wong, Finance Officer Mabel

SUBJECT: Report on Status of FY 2013-14 Annual Financial Audit

Staff Recommendation
Staff recommends that the board accept staff's report on the current status of the June 30, 2014 Financial Audit conducted by SamCERA's auditor, Brown Armstrong Accountancy Corporation.

Background
Government Code Section 31593 mandates that "The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition." The board's external auditor, Brown Armstrong Accountancy Corporation, is a Certified Public Accounting firm hired to perform an audit of SamCERA's financial statements. The objective of this audit is to express an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. In addition the audit includes reports on internal controls related to the financial statements and compliance with laws, regulations, and the provisions of contractual agreements.

Discussion
A Brown Armstrong audit team led by Ms. Ashley Casey conducted interim audit work in SamCERA's office the week of June 23th. Our audit manager, Brooke Baird, went on an extended medical leave in late June. Brown Armstrong has re-assigned Amanda Dickerson as SamCERA's audit manager for the FY2014 audit. Amanda worked with SamCERA's audit several years ago, and has a wealth of 1937 act experience; her resume is attached. The audit team will return the week of August 25th for final fieldwork. Staff is working the auditors on a couple open items regarding a retiree's benefit calculation and an active member's age of entry issue.

Attachment
Amanda Dickerson's resume.

Resume of Amanda Fedewa Dickerson, CPA

Audit Manager
Brown Armstrong
Accountancy Corporation

Academic Background:

California State University, Bakersfield
Bachelor of Science
Business and Public Administration, Concentration in Accounting

Summary of Experience:

Financial Institutions:
Mission Bancorp
Mojave Dessert Bank

Retirement Systems:
Marin County Employees' Retirement Association
San Mateo County Employees' Retirement Association
Merced County Employees' Retirement Association
Kern County Employees' Retirement Association
San Diego County Employees' Retirement Association
Ventura County Employees' Retirement Association
Imperial County Employees' Retirement System
Tulare County Employees' Retirement Association

University & Community College Foundation & Auxiliary Organizations:
San Luis Obispo Community College District
Kern Community College District

School Districts:
Inyo County Office of Education
Chowchilla Union High School District
Tehachapi Unified School District
Richgrove Unified School District
Delano Unified School District
Yosemite High School District
Sierra Sands Union School District
Saugus Union School District
Castaic Union School District

Non Profit:
Kern Bridges Youth Home
Kern County Bar Association - Indigent Defense Program
Goodwill Industries of South Central California

Cities:
City of Tulare
City of Hanford
City of Santa Barbara
City of Bakersfield
City of Madera
City of Chowchilla

Health Care:
Good Samaritan Hospital

Transit Districts:
San Joaquin Regional Transit District
Santa Cruz Metropolitan Transit District
Riverside Transit Agency
Golden Empire Transit District
Kern Council of Governments

Counties:
Kern County
Kings County
Santa Barbara County
Riverside County

Extractive Industries:
Berry Petroleum, Inc.
Tri Valley Corporation
Makoil, Inc.

Water Districts:
Port Hueneme Water Agency
Mojave Public Utilities District
Kern Water Bank Authority

Professional Associations:

American Institute of Certified Public Accountants
California Society of Certified Public Accountants

Continuing Education:

Effect of Clarified Standards on Audits of Governmental Entities and Not-for-Profit Organizations, 2014
Identifying and Correcting the Most Common Audit Inefficiencies, 2014
Perfecting Analytical Procedures, 2014
Year End Government and Nonprofit Update, 2014
Audit and GASB Update, 2013 - 2014
GAAP Update, 2014
Accounting and Auditing Update, 2014
California Frauds, Scams, and Scandals, 2014
School Districts Conference, 2013
Fraud in Financial Statements, 2013
Improve Your Understanding of Sampling in a Single Audit Environment, 2013
Everyday Ethics, 2013

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 4.13

TO: Board of Retirement

FROM: Scott Hood, Assistant Executive Officer

SUBJECT: Approval SamCERA's 2014-15 Strategic Plan Update

Staff Recommendation

Staff recommends the Board approve the attached update to the SamCERA Strategic Plan.

Background

This item appears again this month but on the Consent Agenda. At June's meeting this agenda item called for the Board's approval of the update to the Strategic Plan. After the presentation of the item and discussion no vote was taken. Formal approval of the update to the Strategic Plan is requested of the Board at this time.

San Mateo County Employees' Retirement Association

Strategic Plan

2014-15 UPDATE

Executive Summary

This is an update of SamCERA's Strategic Plan, which covers the fiscal year 2014-15.

Some projects identified in this plan will extend beyond that time period. The update includes this summary and the Action Plan Matrix, which lists and describes the projects staff will pursue during the year. All the steps in the Strategic Planning process leading up to the writing of the report were conducted as usual this year. All staff held a retreat in April 2014 and discussed the strengths, weaknesses, opportunities and threats facing SamCERA. The result of these discussions is the Action Plan Matrix below.

This year's Action Plan Matrix also includes two new categories: (1)"Lead," which identifies the individual responsible for coordinating that particular action item, and (2) "End State," which describes the conditions which must be met before that action item can be considered "done."

Staff will provide a full review and rewrite the plan for the 2015-16 fiscal year.

During the 2014-15 fiscal year SamCERA will continue to pursue its three major goals, all of which are derived from and consistent with SamCERA's mission statement.

SamCERA Mission

SamCERA exists to serve as loyal fiduciary for its members and as prudent administrator of the retirement system.

Asset Management Goal

Prudently manage the assets in order to appropriately fund the actuarial liabilities of the retirement system, to ensure the ability to pay all earned benefits while minimizing the costs to employers.

Major projects under this goal include transitioning to a new custodial bank, revising the Investment Policy, building a risk dashboard to better understand the risks in SamCERA's portfolio, and ensuring that SamCERA properly implements new Government Accounting Standards Board (GASB) statements.

Customer Services Goal

Provide caring, fair, accurate, timely and knowledgeable professional services and information to members and other stakeholders.

Over the coming years, meeting this goal will involve providing input to the Enterprise Content Management (ECM) and Pension Administration Software System (PASS) vendors in order to assure that the new systems provide users and members with new tools that improve efficiency, accuracy and customer service.

Operations Goal

Constantly improve the effectiveness and efficiency of SamCERA's operations.

This will involve updates to some of SamCERA's core technologies, including the creation of a new SamCERA website with integrated Web Member Services. It will also include filing a new tax determination letter with the IRS, to ensure that the laws governing SamCERA are consistent with federal guidelines.

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Each goal has a number of specific projects designed to help achieve it. The projects incorporate ideas generated during all staff retreats beginning in 2005. The 2014-15 plan is SamCERA's ninth under the Government Finance Officers' Association (GFOA) Strategic Planning approach. There are now 32 projects for the staff to initiate and/or complete during the 2014-15 fiscal year. That said, the count of 32 tasks broadly understates the tasks ahead for the staff during the next few years as SamCERA continues with its Technology Modernization Project.

During the previous plan year, the staff completed 27 projects. Projects that were not completed but still relevant are continued on this current plan. In the previous 9 years, staff has completed a total of 178 projects, all over and above their regular duties.

2014-15 Action Plan Matrix

Ranking: A=Must be started and/or completed in FY. B=Should be completed in FY. C=Should be started in FY.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-1	Ops.	B	SamCERA's Website is well appreciated by members, but could be improved. Website data is hard to update and design is out of date. Navigation could be improved.	Create new website with Web Member Services integrated. Add site map to website (during website redesign). Use focus group to inform design? Work on technology and procedures to allow web updates from staff. Next Event: Select vendor to implement new website.	IT/Comm./Legal	Tariq	**Continue in FY 14-15**. Colin Bishop and Darius Nagal met regarding design, look and feel. Proposal evaluation is underway.	New website is live and integrated with Web Member Services.
14-2	Ops./Cust. Serv.	B	Today, SamCERA retirees receive paper advices each month with the amount of their monthly payment and deductions. This is a costly method of supplying this information.	Consider methods to convert to provision of monthly payment information via an electronic method. Will look at putting advice information on web member services. Plan is that after implementation: • Current retirees will opt in; • New retirees will opt out; • Each retiree will receive a minimum of one paper advice per year at year end and whenever a change takes place Next Event: Develop timeline, including communication plan, for implementation.	Ben./Admin.	Gladys	**Continue in 14-15.** LRS has been asked to create an on-screen pay advice that looks like a typical pay advice. Estimate from LRS received in August 2013. Make e-advice the default. Opt in for paper. Plan for notice in newsletter.	Members can get their advices online.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-3	Ops.	A	SamCERA must be prepared to react to all types of emergencies that might affect the ability of the association to fulfill its responsibilities.	Staff will: Create a committee to meet every two months to review and recommend steps to improve safety and emergency preparedness. Annually review and update the Safety and Emergency Plans. Continue to hold table-top exercises at Staff Meetings. Document the technology emergency plan (for PensionGold, backups, etc.). Document the retiree payroll plan (PensionGold, moving funds, creating and sending files). Keep the emergency contacts information up to date. Next Event: Committee to develop task list/milestones for coming year.	Admin./All Divisions	Scott	**Continue in FY 14-15**. Created a Safety and Emergency Planning Committee in fall 2012. Committee is updating plan. All should update phone with contact numbers.	SamCERA is prepared to react to all emergencies.
14-4	Cust. Serv.	A	Web Member Services allows members with access to the County Intranet to view information about their accounts. To date, security concerns have prevented SamCERA from making this information also available to retired members via the Internet.	Proceed with tests of security protections for WMS provided via the Internet. Next Event: Rollout, with communication plan, and develop penetration testing plan (post production)	IT	Tariq	**Continue in FY 14-15**. Updated WMS was rolled-out in June. Member response has been strong, with a nearly 20-fold increase in hits to the WMS site. Security testing set for spring 2014 prior to allowing to web access.	WMS is available on the Internet.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-5	Cust. Serv.	A	Disability forms and pamphlet are not current.	Review and update board disability regulations (**COMPLETE**), application forms and form letters. Identify which steps in the process take the most time. The new PASS will support this effort. Update the Disability pamphlet. Use workflow as tool to facilitate processing. [consider breaking this into smaller tasks – we may have BPR workflow for this, per Tariq … additionally, we need to add other elements under the Technology Modernization Project umbrella, including SharePoint, Office 365, and board packet software] Next Event: Update Disability Pamphlet and Disability Forms. Integrate disability workflow into the PASS.	Ben./Legal/Comm.	Gladys	Some parts **COMPLETE**, others **Continue in FY 14-15**. Backlog has been reduced and processing more streamlined. Additional work continuing and will include tools in PASS to assist these efforts. Updated disability pamphlet is pending. Regulation change approved by Board to delete active member death provision and revise wording of right to a hearing.	Disability forms and pamphlet are published.
14-6	Cust. Serv.	A	With new plans and tiers of members, the complexity of benefits processing has increased significantly. Forms used for benefits processing is one area where better form control will be needed.	All correspondence is to have bar codes. 60 forms have been included in the PASS project. Next Event: Work with LRWL to prioritize this list early in the process.	Comm./Ben./Legal	Gladys	**Continue in FY 14-15**. Bar coding added to process of scanning all member documents. Progress being made putting forms on website.	Finalize list of forms to be integrated into PASS.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-7	Asset Mgmt.	A	SamCERA has significantly increased the diversification of its fund resulting in an increase in investment management firms from 10 in 2009 to 33 as of 2012. Additional firms will be added as SamCERA builds out its private equity portfolio. The addition of firms and the introduction of private equity firms has increased the need for staff interaction, monitoring and review of each firm's activities.	Staff will analyze the staffing of the Investment Division and make a recommendation to the Board. Determine job description for new position. [add BPR discussion] Next Event: Meet with HR to develop job description and timeline for implementation.	Inv./Admin.	Mike	**Continue in FY 14-15**. Funds for an additional position are included in the 2014-15 budget. Likely implementation in first half of FY 14-15.	Hire additional investment staff.
14-8	Asset Mgmt.	A	SamCERA's Investment Policy has not had a significant review for several years.	The CIO is working with the Retirement Board to review the Investment Policy. Next Event: Agendize and discuss at subsequent Board meetings.	Inv.	Mike	**Continue in FY 14-15**. CIO working with Board to revise policy.	Board approves revised investment policy.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-9	Asset Mgmt./Ops.	A	The Government Accounting Standards Board has issued new statements that affect retirement plans including SamCERA. Statement No. 67, Financial Reporting for Pension Plans, revises existing guidance for the financial reports of most pension plans.	Implementation date: July 1, 2014. Per GASB, "The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014." SamCERA must work with its actuarial and auditing firms, as well as the County of San Mateo, Superior Courts of San Mateo, and Mosquito District to make sure that implementation of these new rules is performed in an accurate and timely manner. Next Event: Task Force meeting to discuss results of Dry Run.	Fin.	Mabel	**Continue in FY 14-15**. SamCERA is leading a working group of employers and actuarial and financial auditing consultants to conduct a "dry run" of the new GASB processes.	SamCERA complies with implementation date and GASB 67 is implemented.
14-10	Asset Mgmt./Ops.	B	Statement No. 68, Accounting and Financial Reporting for Pensions, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.	Implementation date: July 1, 2015. SamCERA must work with its actuarial and auditing firms, as well as the County of San Mateo, Superior Courts of San Mateo, and Mosquito District to make sure that implementation of these new rules is performed in an accurate and timely manner. Next Event: Task Force meeting to discuss results of Dry Run.	Fin.	Mabel	**Continue in FY 14-15**. SamCERA is leading a working group of employers and actuarial and financial auditing consultants to conduct a "dry run" of the new GASB processes.	SamCERA complies with implementation date and GASB 67 is implemented. Information needed for Employer Reporting in GASB 68 will be available from the plan's valuation and Comprehensive Annual Financial Report.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-11	Asset Mgmt.	A	San Mateo County is implementing a new payroll system. SamCERA receives data from the system with each bi-weekly payroll issuance. It is important that the new payroll system integrate well with SamCERA's current and future technology.	Ensure SamCERA is kept in the loop regarding the implementation of the new payroll system. Ensure that programming rules are kept intact. Ensure existing files don't change. Continue discussion with County regarding PIPS. Next Event: PIPS Solutions Committee Meeting.	IT/Fin.	Tariq	**Continue in FY 14-15**. SamCERA is included in bi-weekly PIPS Solution Committee meetings. Staff will continue to monitor until new payroll system is implemented. In Oct. staff asked Controller for payroll reports for SamCERA to be included in Workday project scope.	Import file from Workday will be transformed to work with Pension Gold, and also be directly imported into PASS.
14-12	Cust. Serv.	C	We don't know if our forms are user-friendly.	Make it a practice to review forms with staff after new forms have been in use for some time to see if there are frequent errors. Change forms accordingly. Ultimately want PASS to audit forms as the member fills them out. Next Event: Determine prioritized forms list.	Comm./Ben./Legal	Gladys	**Continue in FY 14-15.** A survey of retirees, actives and staff who have used forms is in the works as of July 2013. As of Sept. 2013, survey being distributed as Point of Service survey.	We have survey results to determine if forms are user-friendly.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-13	Cust. Serv.	C	We need more opportunities to provide counseling to members.	• Set-up Offsite Drop-In - Locations County Campus Medical Center Health Services Alameda de las Pulgas (Family Health) Fair Oaks HSA – 1 Davis Dr. Courts location • Article in newsletter about Drop-Ins for departments • Wellness/Safety – Inform group about availability to do presentation at departments ➢ Every other month in a different location [do we want to break this category down in smaller components?] ➢ Additional ideas: (1) we can provide attendees at drop-in session with fliers for upcoming SamCERA classes; (2) we should be more clear about what members will get at drop-in sessions (better info in fliers, etc) Next Event: Develop drop-in schedule and incorporate into newsletter and website.	Ben./Comm.	Gladys	**COMPLETED but Continue in FY 14-15**. Projects begun in July 2013. Drop-ins and off-sites held at Medical Center, HSA offices, and Mosquito District. Planning to visit Fair Oaks. Will also plan for orientations when new hiring for new jail occurs.	We have increased and improved the quality of contact with members.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-14	Cust. Serv.	B	Member education is a key to successful retirement planning and the most effective use of SamCERA benefits. Many members are without financial management knowledge. We should provide different types of education to members.	Continue strengthening member education programs. Include: Regular attendance at training/meetings of payroll clerks, use of website and advices to notify members of new information, update of the Survivor Handbook, use of more focus groups for publications, web site, etc. Next Event: Develop plan and timeline.	Ben./Comm.	Scott	**Continue in FY 14-15.** Progress made.	Develop Member Education Master Plan.
14-15	Ops.	B	SamCERA needs a procedure to update the website when policies are adopted or revised.	Post our governing documents to website. Next Event: Identify current list of policies. Create web page and links.	Legal	Brenda	**Continue in 14-15**. In progress.	All current policies posted to website.
14-16	Cust. Serv.	A	No counseling room; privacy needed for counseling.	Work on overall configuration of office, including adding counseling room. Next Event: Complete plan for converting old kitchen into copier room. Meet with KRJ to design and furnish new space, develop plan to relocate existing furnishings.	Ben./Admin.	Gladys	In progress.	Counseling room complete.
14-17		A	Upgrade Great Plains and reporting tools.	Next Event: Select vendor and ensure implementation minimizes disruption with year-end closing activities.	IT/Fin.	Tariq	In progress.	Great Plains is upgraded.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
14-18	Ops./ Cust. Serv.	A	San Mateo County is making plans to become an "Agile Organization." Clarify that a 'Term' employee is a temporary employee.	SamCERA needs to clarify that a 'Term' employee is a temporary employee. … involve Mosquito and Courts in this discussion. Next Event: Introduce Board Regulations that make this clear.	Legal/Ben.	Scott	**Continue in 14-15.** Some discussions with County HR already held. Working to schedule another meeting with HR, Courts and Mosquito.	Board approves regulation change defining term employee.
14-19	Ops.	C	Staff salary growth is limited due to the absence of COLA increases and the limited career progression paths available at SamCERA.	Look at salaries and job descriptions in other systems to determine if SamCERA remains competitive. Are there additional benefits to offer employees? Discuss special district option. Look at other ways to make the work environment pleasant. Include evaluations of how much complexity has been added to each position since the last salary survey. Next Event: On hold until HR completes CEO salary study.	Admin.	Scott	**Continue in 14-15** if economy continues to improve. AEO will lead salary research. Initial survey showed SamCERA is not out of line with sister systems in the Bay Area.	HR provides results of salary survey.
14-20	Ops.	B	Past MOUs have contained provisions that have been difficult for SamCERA to implement or administer. AFSCME, SEIU, CNA are being negotiated this FY.	SamCERA should work with negotiators and get information early in the process to help avoid mistakes in new MOUs and allow SamCERA to properly advise negotiators. Work with County HR and Courts to set a process going forward. Suggest a Technical Committee to include SamCERA representation. Next Event: Develop meeting schedule with HR for negotiations. Continue educational meetings with employee groups.	Admin./Legal/Ben./Fin.	Gladys	**Continue in 14-15.** Initial meeting held in April 2014 with HR and County Counsel. SamCERA is participating in meetings with employee groups.	Contracts have been signed with input from SamCERA.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
15-1	Ops.	A	No offsite disaster recovery location for critical technology.	Next Event: Consider options then develop plan.	IT	Tariq	Edward Ick is developing a replication and recovery plan. First phase will be to replicate to the County data center, second phase will be to replicate elsewhere.	Thorough disaster recovery and business continuance plan for critical technology is operational at another site.
15-2	Cust. Serv.	B	Releasing POS survey results	Next Event: Develop a plan to release results.	Ben./Comm.	Gladys		We release survey results.
15-3	Ops.	B	SamCERA should be aware of pension legislation.	Next Event: Determine reliable sources of pension-related information	Legal	Brenda		Staff is aware of pending legislation and laws that may impact the fund and members.
15-4	Asset Mgmt.	A	Medicare Part B is not included in the Interest Crediting Policy.	Discussed at Board meeting 4/30. Next Event: Updating of Interest Crediting Policy will form the baseline for the next discussion with the Board.	Admin./Legal	David		Investment Crediting Policy addresses Medicare Part B.
15-5	Ops.	A	Potentially new board members in coming FY	Update trustee manual. Next Event: Review current manual, prioritize items for updating.	Admin./Legal	Scott		SamCERA trustee manual is updated.
15-6	Ops.	A	Tax determination letter needs to be filed	Next Event: Team needs to develop a plan and timeline.	Legal/Fin./Admin.	Scott		SamCERA files its tax determination letter.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
15-7	Asset Mgmt./Ops.	A	Actuarial audit	Next Event: Provide data files and financial information to Milliman and Segal on target dates; respond to questions and request from Milliman and Segal in a timely manner. Ensure movement of data from Milliman to Segal.	Fin./Inv.	Mabel	In progress, from May to September.	Actuarial audit findings reported to Board of Retirement.
15-8	Cust. Serv./Ops.	B	Procedure for Deductions Not Taken needs to be updated	Next Event: Schedule meeting to review and amend existing underpayment and overpayment regulations and staff procedures.	Fin./Ben./Legal	Mabel		Board approves over/under payments with a resolution or amendment.
15-9	Asset Mgmt./Ops.	A	Custodial bank transition	Next Event: Negotiate contract, publish plan.	Inv./Fin./ Legal	Mike		Northern Trust is SamCERA's custodial bank.
15-10	Asset Mgmt.	B	We need to better understand the risks in our portfolio	We are building a risk dashboard. Next Event: Review examples, develop an implementation plan and timeline.	Inv.	Mike	Shared with Board risk dashboard prototype during April 2014 Retreat. Board requested receiving risk metrics annually during future retreats. In addition, staff will get risk data semi-annually from SIS for monitoring purposes. Working with SIS to finalize data points to be included in Risk Dashboard.	SIS will provide risk dashboard data on semi-annual basis ending 6/30 and 12/31.

ID#	GOAL	RANK	TOPIC	PLANNED ACTIONS	DIVISIONS INVOLVED	LEAD	TIMING / STATUS	END STATE
15-11	Asset Mgmt.	B	Finish ALM Implementation	Next Event: Search for Risk Parity strategy to complement AQR; Search for Opportunistic Credit strategy; Search for Hedge Fund strategy to complement AQR Delta	Inv.	Mike	Risk Parity Finalist will be selected during June Board meeting. During June Board meeting an educational session on Fixed Income Direct Lending will be provided. HF search will be conducted in the 2nd half of the year.	Implementation of risk parity, opportunistic credit, and hedge fund strategies.
15-12	Asset Mgmt.	B	SamCERA's new target policy has a higher allocation to international equity, increasing the plan's potential exposure to currency fluctuations.	Next Event: SIS will present an educational session on currency risks and hedging during a future Board meeting. SIS and staff will analyze SamCERA's currency exposure and inherent risks to determine whether to recommend a currency hedging policy be implemented.	Inv.	Mike	During Q3.	Analyze need for currency hedging program.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 5.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Presentation of Milliman's Investigation of Experience Report FY2012-14

Staff Recommendation

Staff recommends the Board members discuss the Investigation of Experience report and its recommendations. No action is required under this agenda item.

Discussion

There are three actuarial agenda items scheduled for the July 29 board meeting. Under the first item, 5.2, Nick Collier of Milliman, will present the findings of the Investigation of Experience Report for FY2012-14. It will be followed by item 5.3 in which the Chief Executive Officer will present a summary of the Actuarial Auditor's (Segal's) Findings regarding the Triennial Investigation of Experience report. Segal's actuaries, Paul Angelo and Andy Yeung, will provide an in-depth presentation of the audit report and address any questions at the August Board meeting. Both Mr. Angelo and Mr. Yeung have a schedule conflict on July 29. Under item 5.4, the Board will be asked to approve the Investigation of Experience Report and adopt the recommendations in the report. The report has addressed changes recommended by Segal.

The purpose of the experience report is to communicate the results of Milliman's review of the actuarial methods and the economic and demographic assumptions to be used in the 2014 Actuarial Valuation. The valuation will be presented to the Board at its September 30 meeting.

SamCERA instructs it actuarial firm to perform an experience study every third year. While the experience study is based on both economic and demographic data, the demographic data showing the experience of the membership over the last three years is particularly reviewed.

In the attached experience report, Milliman has incorporated economic assumption changes adopted by the Board in its June meeting. In addition, Milliman is recommending several changes in demographic assumptions: a slight reduction in retirement rate, an increase in disability applications, a slight update to the probability of eligible survivors, and an adjustment of the expected age difference between member and survivor for female members.

From a cost perspective, the most significant change is the adopted economic change of assumed earnings from 7.50% to 7.25%. This change has the largest financial impact on the employer's contribution rate and on the funded ratio of the system. The combined proposed demographic changes result in a minor increase in contribution rate.

The impacts of the proposed changes, if they had been put in place for the prior (June 30, 2013) actuarial valuation, are shown in the chart below. The proposed changes would tend to increase the expected county contribution rate and decrease the Funded Ratio of the system.

The actual financial impact will vary somewhat and will be combined with the impacts of investment returns and deferred earnings in the actuarial valuation report scheduled for review at the September board meeting.

	Actuarial Accrued Liability	Employer Normal Cost Rate	UAAL Rate	Total Emp. Contribution Rate
June 30, 2013 Valuation	**$ 3,572,750**	**11.19%**	**26.28%**	**37.47%**
Demographic Assumptions				
Rates of Service Retirement	$ (1,803)	-0.02%	-0.04%	-0.06%
Eligible survivor assumptions	$ (1,579)	-0.03%	-0.04%	-0.07%
Rates of Disability Retirement	$ (740)	0.23%	0.00%	0.23%
Subtotal Demographic Change	$ (4,122)	0.18%	-0.08%	0.10%
June 30, 2013 Valuation with Changes	**$ 3,568,628**	**11.37%**	**26.20%**	**37.57%**
Proposed Economic Changes				
7.25% Interest, 3.00% CPI	$ 63,467	0.45%	1.50%	1.95%
Combined Change (Demographic + Econ.)	$ 59,345	0.63%	1.42%	2.05%
June 30, 2013 Valuation with Changes	**$ 3,632,095**	**11.82%**	**27.70%**	**39.52%**

The recommended assumptions would also result in a slight increase in the member contribution rates. The relative increase would be less than 0.30% for most members, and less than 0.60% for Plan 7 members. On page 9 of the report, Milliman provides sample rates for a member entering the system at age 35.

Attachment

Milliman's Investigation of Experience Report for FY2012-14.

San Mateo County Employees' Retirement Association

Investigation of Experience
July 1, 2011 – April 30, 2014

July 21, 2014

By

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July 21, 2014

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, CA 94065-5208

Dear Members of the Board:

It is a pleasure to submit this report of our investigation of the experience of the San Mateo County Employees' Retirement Association for the period July 1, 2011 through April 30, 2014. The results of this investigation are the basis for the actuarial assumptions and methods to be used in the actuarial valuation to be performed as of June 30, 2014.

The purpose of this report is to communicate the results of our review of the actuarial methods and the economic and demographic assumptions to be used in the completion of the upcoming valuation. Several of our recommendations represent changes from the prior methods or assumptions and are designed to better anticipate the emerging experience of SamCERA.

We have provided financial information showing the estimated impact of the recommended assumptions, if they had been reflected in the June 30, 2013 actuarial valuation. We believe the recommended assumptions provide a reasonable estimate of anticipated experience affecting SamCERA. Nevertheless, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as the following:

- Plan experience differing from the actuarial assumptions,
- Future changes in the actuarial assumptions,
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as potential additional contribution requirements due to changes in the plan's funded status), and
- Changes in the plan provisions or accounting standards.

Due to the scope of this assignment, we did not perform an analysis of the potential range of such measurements.

In preparing this report, we relied without audit on information (some oral and some in writing) supplied by SamCERA's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. In our examination, after discussion with SamCERA and certain adjustments, we have found the data to be reasonably consistent and comparable with data used for other purposes. Since the experience study results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our determinations might need to be revised.

This investigation of experience report recommends assumptions to be used in the valuation to provide an estimate of the System's financial condition as of a single date. The valuation can neither predict the System's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of System benefits, only the timing of System contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Milliman's work is prepared solely for the internal business use of SamCERA. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

(a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
(b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

We would like to acknowledge the help in the preparation of the data for this investigation given by the SamCERA staff. We look forward to our discussions and the opportunity to respond to your questions and comments at your next meeting.

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

Respectfully submitted,

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

Craig Glyde, ASA, EA, MAAA
Consulting Actuary

NJC/CJG/fyb

San Mateo County Employees' Retirement Association
Investigation of Experience (2011-2014)

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San Mateo County Employees' Retirement Association
Investigation of Experience (2011-2014)

Section 1: Executive Summary

Overview

Any actuarial valuation is based on certain underlying assumptions. Determining the adequacy of the contribution rate is highly dependent on the assumptions that the actuary uses to project the future benefit payments and then to discount the value of future benefits to determine the present values. Thus, the assumptions are critical in assisting the system in adequately pre-funding for the benefits prior to retirement.

To assess the reasonableness of the assumptions used in the valuation, they should be studied regularly. This process is called an investigation of experience (or experience study).

Summary of Results

This section describes the key findings of this investigation of experience of the San Mateo County Employees' Retirement Association (SamCERA) for the period July 1, 2011 through April 30, 2014. We are recommending several changes to the demographic assumptions. Although the demographic changes are relatively minor, reflecting these changes will have some immediate financial impact, as discussed at the end of this section. We previously recommended economic assumptions that were adopted at the June 2014 Board of retirement meeting. We will refer to our recommended assumptions, including the recently adopted economic assumptions, as the "proposed" assumptions.

The table on the following page shows a summary of our recommendations for all assumptions and methods studied.

Assumption	Recommendation
Inflation	Decrease by 0.25% (previously adopted)
Investment Return	Decrease by 0.25% (previously adopted)
General Wage Growth	Decrease by 0.25% (previously adopted)
Payroll Increase Assumption	Decrease by 0.25% (previously adopted)
Funding Method	No Change
Merit Salary Scale	No Change
Death while Active	No Change
Retirement	Small Changes
Disability	Increase rates
Termination	No Change
Probability of Refund	No Change
Mortality	No Change
Prob. Elig. Survivor	Decrease probability for males
Reciprocity	No Change

Summary (continued)

If adopted, the new assumptions would result in an increase in the County contribution rate and a decrease in the Funded Ratio calculated in the next valuation, as compared to the current assumptions. Almost all of the expected increase would be due to the new economic assumptions which were recently adopted. A further discussion is included in the Financial Impact section at the end of the Executive Summary.

Economic Assumptions

Section 2 discusses the economic assumptions: price inflation, general wage growth (includes price inflation and productivity) and the investment return assumption. As with virtually all actuarial assumptions, there is not one right answer; however, we do believe there is evidence that the lower investment return assumption recently adopted by the Board is appropriate for SamCERA. The set of economic assumptions we are recommending be used for the next valuation include a reduction in the investment return assumption to 7.25%, as well as a 0.25% reduction in the price and wage inflation.

The most compelling reason to lower the investment return assumption is the lower expectation for future investment returns. There is only about a 45% probability that the currently scheduled 7.50% assumption is achieved over the next 10 years. Note that these probabilities are based on an average of a number of investment consultants' capital market assumptions, which predict an expected return based on SamCERA's asset allocation of approximately 7.00% over a 10-year time horizon. SamCERA's investment consultant (SIS) predicts a slightly higher return of 7.30% (7.50% prior to netting out administrative expenses).

The investment return assumption used in the prior valuation still falls in the best-estimate range under the current actuarial standards of practice; however, since our analysis shows there is less than a 50% probability that a 7.50% investment return (net of administrative and investment expenses) will be achieved over the next 10 years, we recommend that the investment return assumption be lowered to 7.25%. It should also be noted that a new actuarial standard of practice relating to economic assumptions will be applicable for SamCERA's June 30, 2015 actuarial valuation. This standard includes a more restrictive range for a reasonable assumption that 7.50% may not meet.

As detailed in Section 2, the expectation is for lower price inflation in both the short and long term. In particular, there has been a sustained period of low inflation: 2.4% average increase over the 20-years ending in 2013. Looking forward, there is a continued expectation of low price inflation, as evidenced by the capital market assumptions used by investment consultants and the current (July 2014) implied inflation expectation of approximately 2.4% based on the difference in yield between 30-year TIPS and a regular 30-year treasury bond.

Economic Assumptions (continued)

The recommended price inflation assumption is 3.00% (down from 3.25% in the prior valuation). The recently adopted economic assumptions also include a corresponding reduction in the wage inflation assumption to 3.50%, as there is a high correlation between price and wage inflation.

We are not recommending a change to the assumed cost-of-living adjustment (COLA) for retiree benefits, except for Plan 1 General and Safety members where the COLA assumption is equal to the inflation assumption, and would therefore be reduced by 0.25%.

Actuarial Methods and Miscellaneous Assumptions

Section 3 discusses the actuarial methods and other miscellaneous assumptions used in the valuation and administration of the system.

We are recommending minor changes in this area as follows:

- The assumptions for probability of eligible survivor, and age difference between member and survivor should be slightly revised.
- A change to the member contribution rates should be made to reflect the recently adopted economic assumptions. The impact of this is discussed later in this section.
- A change to the factors used for determining optional benefits and service purchase costs, as well as the Plan 3 early retirement age factors, should be considered to reflect the recently adopted economic assumptions.

Demographic Assumptions

Sections 4-9 discuss the demographic assumptions. Unlike the economic assumptions, which are more global in nature, the demographic assumptions are based heavily on recent SamCERA experience. Demographic assumptions are used to predict future member behavior (e.g., when will a member retire? How long will the member live?).

Based on the results of this study, we are recommending changes to the retirement assumption – minor changes to service retirement and somewhat larger changes to disability retirement.

From a cost perspective, the most significant demographic change that we are recommending is the increase in the disability rates, although the impact is still expected to be relatively minor. The financial impact is discussed at the end of this section.

Demographic Assumptions (continued)

When reviewing the sections on demographic assumptions, please note the following:

- Our analysis uses the Actual-to-Expected (A/E) ratio to measure how well the current assumptions fit actual experience. For example, if the service retirement A/E is 80%, it indicates that there were 20% fewer service retirements than expected, and that we should consider decreasing the assumption. By decreasing the expected rates, this results in a higher ratio, in this case closer to 100%.
- Due to scheduling considerations, the data provided to us by SamCERA was as of April 30, 2014. This was necessary to complete both the experience investigation and the valuation in time for inclusion in the Comprehensive Annual Financial Report (CAFR). Thus, the study period was two years and 10 months instead of the three years implied by the "triennial" description. We do not believe this two-month difference has a material impact on the results.
- When we refer to "Safety" members in this report, we are including both Safety and Probation members.
- When we refer to the "proposed" assumptions, these are the assumptions that we are recommending. These include the recently adopted economic assumptions. The current assumptions are also referred to as the "expected" assumptions.
- For many of the assumptions, we show detailed graphs of our analysis showing the actual experience for the study (blue bar), the actual experience from the prior study (green bar), the current assumption (red line), and the new proposed assumptions.

The recommended rates are shown in detail in Appendix A.

Individual Salary Increases due to Promotion and Longevity (Merit)

Section 4 discusses the individual salary increases due to promotion and longevity – the merit component of salaries. Overall, the results of our last two salary studies show increases somewhat lower than what the current rates predicted. We are not recommending any changes to this assumption. See Section 4 for more details on this analysis.

Mortality

The mortality assumption is used to predict the life expectancy of both members currently in pay status (referred to as retired mortality) and those expected to receive a benefit in the future (referred to as active mortality). Due to a lack of statistically significant experience data for deaths from active status, the assumptions for active mortality are set to be consistent with the assumptions for retired mortality.

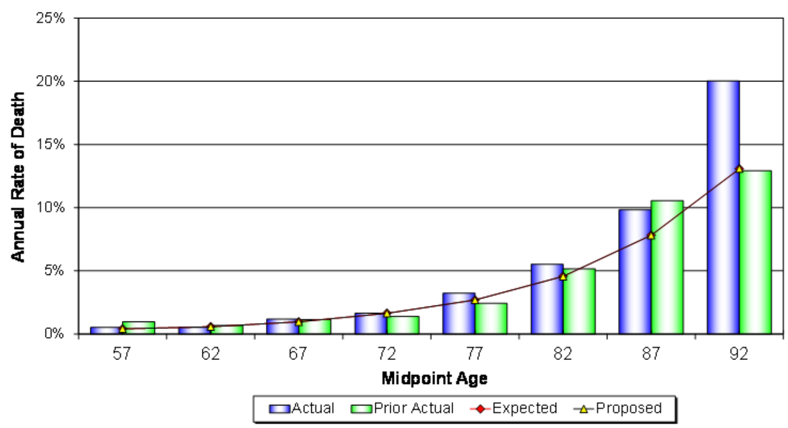
Mortality (continued)

Overall, the actual number of deaths for the current group of retirees (both service and disabled) was greater than that predicted by the assumptions. This is indicated by an actual-to-expected (A/E) ratio of 127%. That is, there were 27% more deaths than the current assumptions would have predicted.

Generally, an A/E ratio of 127% would lead us to recommend a change in the assumption. In this case, the change would be to recommend a mortality table that assumes higher rates of mortality. However, this experience is contrary to the wider experience of mortality trends in recent years, and the widely held belief that these trends (and mortality improvements) will continue. We also believe that some margin should be built into mortality assumptions to account for the trend of increasing life expectancies.

For these reasons, we believe that this period's experience may not be reflective a long-term trend in mortality rates, and we recommend no change to the mortality assumption at this time. However, we will be monitoring this closely and will consider it again at the next investigation of experience in 2017.

The following graph shows rates of mortality in current and prior study periods, as well as the expected rates of mortality for all service and disabled retirees. The expected rates are represented by the yellow line. Since we are not recommending a change in the rates, the yellow and red lines are the same. Note that the blue bars (actual rates from the current) study tend to be taller than the green bars (actual rates from the prior study). This indicates that there was generally an increase in the mortality rates since the prior study.



Under the current assumptions, the Actual-to-Expected (A/E) ratio is 130% for all service retirees, indicating that there were more deaths than predicted. The A/E ratio for disabled retirees is 100%, indicating that there was exactly the expected number of deaths. Further analysis is shown in Section 5 of this report.

Mortality (continued)

For active mortality (the probability of death while actively employed), we are recommending no change to the current assumption. The current assumption uses a standard mortality table for active employees, with adjustments similar to those made to the mortality for SamCERA's retired members.

Service Retirement

Overall, the actual number of service retirements was less than what the assumptions predicted for both General members and Safety/Probation members. The following chart shows the results for all members eligible for retirement.

Service Retirements					
Class	**Actual**	**Expected**	**Act / Exp**	**Proposed**	**Act / Prop**
General	366	405	90%	404	91%
Safety	41	52	79%	48	85%
Total	407	457	89%	452	90%

Retirement and termination rates may be influenced by recessionary economic environments. While we do believe that some of the reduction in retirement rates may be due in part to a longer-term trend, it is likely that these rates are being temporarily influenced by the recent recession. We are therefore recommending only minor changes to more closely match the assumption to the incidence of service retirement at specific ages. Further analysis is shown in Section 6 of this report.

Disability Retirement

Overall, the actual number of disability retirements was greater in total than the assumptions predicted. It is our understanding that this is primarily related to the reduced time for the processing of disabled retirements. The following chart shows the results for General and Safety disability retirements.

Disability Retirements					
Class	**Actual**	**Expected**	**Act / Exp**	**Proposed**	**Act / Prop**
General	55	30	183%	45	122%
Safety	11	8	138%	10	110%
Total	66	38	174%	55	120%

As indicated by the increased number of expected disabilities under the proposed rates (55 proposed versus 38 expected under the current assumptions), we are recommending higher rates of disability retirement for General and Safety members. Further analysis is shown in Section 7 of this report.

Termination

The actual number of terminations for both General and Safety/Probation members was higher than the assumptions predicted. The following chart shows the results for the two groups.

Termination			
Class	**Actual**	**Expected**	**Act / Exp**
General	733	555	132%
Safety	43	41	105%
Total	776	596	130%

During the study period, a private entity took over a county long-term care facility. This resulted in approximately 200 County employees going to work for the private entity, and therefore showing up as terminations in this study. This is likely the cause of the actual terminations exceeding the expected number. We believe the current rates are appropriate and are recommending no change to the assumption. Further analysis is shown in Section 8 of this report.

Probability of Refund upon Vested Termination

The actual number of refunds for vested members at termination was slightly lower than expected for General members, and slightly higher than expected for Safety members.

Probability of Refund			
Group	**Actual**	**Expected**	**Act / Exp**
General Male/Female	149	167	89%
Safety Male/Female	10	9	111%

We are recommending no change to the rates of refund. Further analysis is shown in Section 9 of this report.

Financial Impact of the Recommended Assumptions

The following exhibit shows the expected financial impact the proposed changes would have on SamCERA's funding. Note that the proposed changes would increase the expected County contribution rate and decrease the Funded Ratio of the system, primarily due to the recently adopted economic assumptions.

The financial impact was evaluated by performing additional valuations with the June 30, 2013 valuation data and reflecting the proposed assumption changes. The actual financial impact will vary somewhat for the June 30, 2014 valuation due to year-to-year changes in the member population. In particular, although the estimated total contribution rate based on the June 30, 2013 valuation with the proposed assumptions is greater than 38.00% (the rate the County is currently committed to pay over the next several years under the Memorandum of Understanding), the projected rate for the June 30, 2014 valuation would still be expected to be less than 38.00% with the new assumptions due to the scheduled recognition of deferred asset gains under the smoothing method.

	Actuarial Accrued Liability	Employer Normal Cost Rate	UAAL Rate	Total Emp. Contribution Rate
June 30, 2013 Valuation	**$ 3,572,750**	**11.19%**	**26.28%**	**37.47%**
Demographic Assumptions				
Rates of Service Retirement	$ (1,803)	-0.02%	-0.04%	-0.06%
Eligible survivor assumptions	$ (1,579)	-0.03%	-0.04%	-0.07%
Rates of Disability Retirement	$ (740)	0.23%	0.00%	0.23%
Subtotal Demographic Change	$ (4,122)	0.18%	-0.08%	0.10%
June 30, 2013 Valuation with Changes	**$ 3,568,628**	**11.37%**	**26.20%**	**37.57%**
Proposed Economic Changes				
7.25% Interest, 3.00% CPI	$ 63,467	0.45%	1.50%	1.95%
Combined Change (Demographic + Econ.)	$ 59,345	0.63%	1.42%	2.05%
June 30, 2013 Valuation with Changes	**$ 3,632,095**	**11.82%**	**27.70%**	**39.52%**

Impact of the Recommended Assumptions on Member Contribution Rates

If adopted, the recommended assumptions would result in an increase in the member contribution rates. The following are sample member rates for entry age 35 based on the 2013 valuation, but using the recommended assumptions for 2014.

Sample Changes in Member Basic Rates due to Proposed Economic Assumption Changes (Based on June 30, 2013 Actuarial Valuation*)

	Entry Age	Current	Proposed	Increase
General Members - County				
Plans 1 & 2	35	7.42%	7.60%	0.18%
Plan 4	35	7.12%	7.31%	0.19%
Plan 5	35	6.14%	6.29%	0.15%
Plan 7	35	7.58%	7.93%	0.35%
PDA Members (Reflects Employer Pick-up)				
Plans 1 & 2	35	8.08%	8.28%	0.20%
Plans 4, 5 & 6	35	7.75%	7.96%	0.21%
Plan 7	35	13.78%	14.31%	0.53%
Probation Managers				
Plans 1 & 2	35	10.09%	10.35%	0.26%
Plans 4, 5 & 6	35	9.68%	9.95%	0.27%
Plan 7	35	13.78%	14.31%	0.53%
Safety Members				
Plans 1 & 2	35	10.09%	10.35%	0.26%
Plans 4, 5 & 6	35	9.68%	9.95%	0.27%
Plan 7	35	14.28%	14.82%	0.54%

** Final FYB 2015 member rates will be determined based on the June 30, 2014 valuation.*

We show basic member rates for Plans other than Plan 7 due to the complications of various cost share and COLA share member rate permutations. Plan 7 rates are sample total member rates. The final member rates will be determined with the 2014 valuation.

Revised Assumptions and Methods

Appendix A illustrates the Summary of Actuarial Assumptions as it will appear in the June 30, 2014 valuation report if all recommended assumptions and methods are adopted. Proposed changes in assumptions are highlighted in yellow.

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Section 2: Economic Assumptions

Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, provides guidance to actuaries giving advice on selecting economic assumptions for measuring obligations under defined benefit plans. Because no one knows what the future holds, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes. These estimates are based on a mixture of past experience, future expectations, and professional judgment. The actuary should consider a number of factors, including the purpose and nature of the measurement, and appropriate recent and long-term historical economic data. However, the standard explicitly advises the actuary not to give undue weight to recent experience.

Recognizing that there is not one "right answer", the current standard calls for the actuary to develop a best estimate range for each economic assumption, and then recommend a specific point within that range. Each economic assumption should individually satisfy this standard. Furthermore, with respect to any particular valuation, each economic assumption should be consistent with every other economic assumption over the measurement period.

In our opinion, the economic assumptions recommended in this report have been developed in accordance with ASOP No. 27. The following table shows our recommendations.

It should be noted that there are recent revisions to ASOP 27 that will be effective for the June 30, 2015 valuation and later. These revisions will impact how an actuary determines a reasonable assumption. In particular, the current standard allows for the selection of an assumption that falls within the best-estimate range; whereas, the new standard narrows this to be reasonable only if it has no significant bias (i.e., it is neither significantly optimistic nor pessimistic). The standard does allow for a provision for adverse deviation. Ultimately, we believe that an assumption that was on the high end of the best-estimate range that satisfies the current standard would no longer be reasonable under the new standard.

Economic Assumptions (continued)

We have not directly reflected any revisions that will be effective with the new standard, but we believe that the recently adopted economic assumptions would satisfy both the current and new actuarial standard for the selection of economic assumptions. This section will discuss the economic assumptions. In brief, they are as follows (changes shown in bold):

Economic Assumption	Current Assumption (Annual Rate)	Proposed (Annual Rate)
Consumer Price Inflation	3.25%	**3.00%**
Investment Return[1]	7.50%	**7.25%**
Wage Growth (includes inflation and productivity)	3.75%	**3.50%**
Real Wage Inflation (wage growth less price inflation)	0.50%	0.50%
Payroll Growth	Assumed to be the same as Wage Growth	

[1] *Net of administration and investment expenses.*

1. Price Inflation

Use in the Valuation

When we refer to inflation in this report, we are referring to price inflation. The inflation assumption has an indirect impact on the results of the actuarial valuation through the development of the assumptions for investment return, general wage increases, and the payroll increase assumption. It also has a direct impact on the valuation results as it will be used to determine the expected future COLA payments.

The long-term relationship between inflation and investment return has long been recognized by economists. The basic principle is that the investors demand a “real return” – the excess of actual investment returns over inflation. If inflation rates are expected to be high, investors will demand investment returns that are also expected to be high enough to exceed inflation, while lower inflation rates will result in lower demanded expected investment returns, at least in the long run.

The 2013 valuation assumption for inflation was 3.25% per year. In the recently adopted economic assumptions, the inflation assumption was lowered to 3.00%

Historical Perspective

The data for inflation shown below is based on the national Consumer Price Index, US City Average, All Urban Consumers (CPI-U) as published by the Bureau of Labor Statistics. The data for periods ending in December of each year is documented in Exhibit 1 at the end of this section.

Although economic activities in general and inflation in particular, do not lend themselves to prediction on the basis of historical analysis, historical patterns and long term trends are a factor to be considered in developing the inflation assumption.

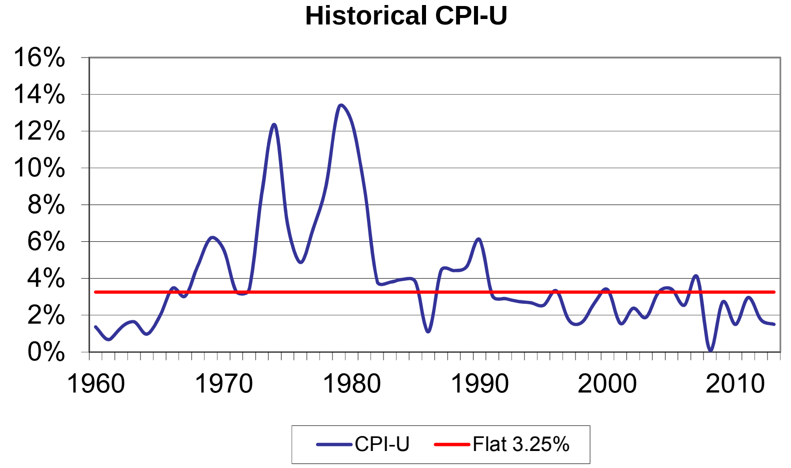
There are numerous ways to review historical data, with significantly differing results. The tables below show the compounded annual inflation rate for various 10-year periods, and for the 75-year period ended in December 2013.

Decade	CPI Increase
2004-2013	2.4%
1994-2003	2.4%
1984-1993	3.7%
1974-1983	8.2%
1964-1973	4.1%
Prior 75 Years	
1939-2013	3.8%

These are national statistics. For comparison, the average CPI increase for the Bay Area has been 4.0% for the same 75-year period.

Historical Perspective (Continued)

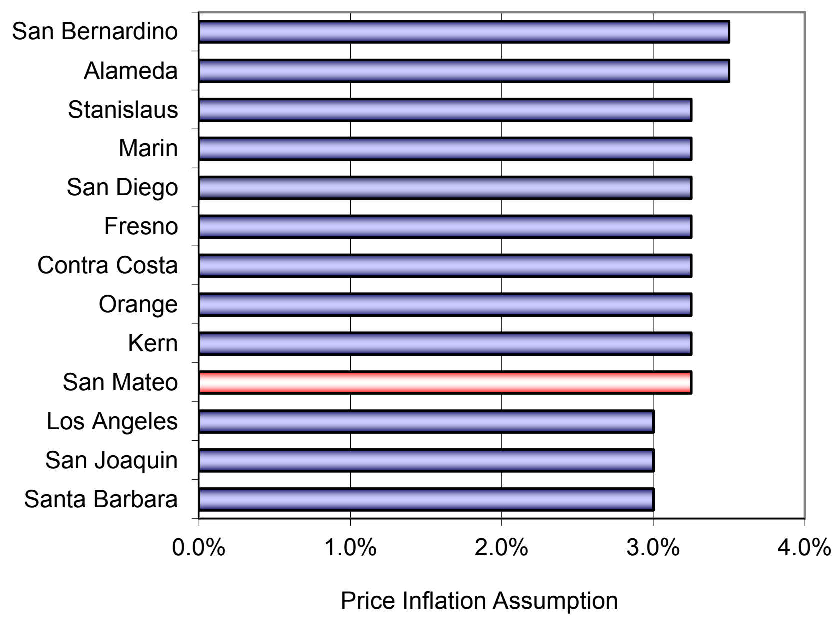
The following graph shows historical national CPI increases. Note that the actual CPI increase has been consistently below 3.25% since 1991.



Peer System Comparison

According to the *Public Fund Survey* (a survey of approximately 100 statewide systems), the average inflation assumption for statewide systems has been steadily declining. As of the most recent study, the two most common assumptions are 3.00% and 3.50%.

Looking at other selected '37 Act systems, the current (2013 valuation) inflation assumption is in the mainstream.



Forecasts of Inflation

Since the U.S. Treasury started issuing inflation indexed bonds, it is possible to determine the approximate rate of inflation anticipated by the financial markets by comparing the yields on inflation indexed bonds with traditional fixed government bonds. Current market prices as of July 2014 suggest investors expect inflation to be about 2.4% over the next 30 years. This rate is close to the amount forecast by Strategic Investment Solutions (SIS), SamCERA's investment consultant, 2.3%. It should be noted that SIS' forecast is for approximately 10 years.

Many economists have been forecasting inflation lower than the prior valuation assumption of 3.25% for several years. Economists are generally considering shorter time periods (10 years or less) than may be appropriate for a pension valuation. To find an economic forecast with a time frame long enough to suit our purposes, we looked at the expected increase in the CPI by the Office of the Chief Actuary for the Social Security Administration. In the 2013 Trustees Report, the projected average annual increase in the CPI over the next 75 years under the intermediate cost assumptions was 2.80%. The reasonable range was stated as 1.80% to 3.80%.

Best Estimate Range and Recommendation

The consumer price inflation assumption impacts SamCERA's funding as it is used to project the COLA payments. It is also used as a component of both the investment return assumption and the wage growth assumptions. We believe that the current assumption of 3.25% per year is on the higher end of the best estimate range. Given the future expectations of inflation, we recommended lowering the assumption to 3.00% which was adopted in June.

Consumer Price Inflation	
2013 Valuation Assumption	3.25%
Best Estimate Range	2.00% – 3.50%
Recommended Assumption	3.00%

Exhibit 2-1 US City Average, All Urban Consumers (CPI-U) - December

December of:	Index	Increase	December of:	Index	Increase
1928	**17.1**				
1929	17.2	0.6%	**1974**	51.9	12.3%
1930	16.1	-6.4	**1975**	55.5	6.9
1931	14.6	-9.3	**1976**	58.2	4.9
1932	13.1	-10.3	**1977**	62.1	6.7
1933	13.2	0.8	**1978**	67.7	9.0
1934	13.4	1.5	**1979**	76.7	13.3
1935	13.8	3.0	**1980**	86.3	12.5
1936	14.0	1.4	**1981**	94.0	8.9
1937	14.4	2.9	**1982**	97.6	3.8
1938	14.0	-2.8	**1983**	101.3	3.8
1939	14.0	0.0	**1984**	105.3	3.9
1940	14.1	0.7	**1985**	109.3	3.8
1941	15.5	9.9	**1986**	110.5	1.1
1942	16.9	9.0	**1987**	115.4	4.4
1943	17.4	3.0	**1988**	120.5	4.4
1944	17.8	2.3	**1989**	126.1	4.6
1945	18.2	2.2	**1990**	133.8	6.1
1946	21.5	18.1	**1991**	137.9	3.1
1947	23.4	8.8	**1992**	141.9	2.9
1948	24.1	3.0	**1993**	145.8	2.7
1949	23.6	-2.1	**1994**	149.7	2.7
1950	25.0	5.9	**1995**	153.5	2.5
1951	26.5	6.0	**1996**	158.6	3.3
1952	26.7	0.8	**1997**	161.3	1.7
1953	26.9	0.7	**1998**	163.9	1.6
1954	26.7	-0.7	**1999**	168.3	2.7
1955	26.8	0.4	**2000**	174.0	3.4
1956	27.6	3.0	**2001**	176.7	1.6
1957	28.4	2.9	**2002**	180.9	2.4
1958	28.9	1.8	**2003**	184.3	1.9
1959	29.4	1.7	**2004**	190.3	3.3
1960	29.8	1.4	**2005**	196.8	3.4
1961	30.0	0.7	**2006**	201.8	2.5
1962	30.4	1.3	**2007**	210.0	4.1
1963	30.9	1.6	**2008**	210.2	0.1
1964	31.2	1.0	**2009**	215.9	2.7
1965	31.8	1.9	**2010**	219.2	1.5
1966	32.9	3.5	**2011**	225.7	3.0
1967	33.9	3.0	**2012**	229.6	1.7
1968	35.5	4.7	**2013**	233.0	1.5
1969	37.7	6.2			
1970	39.8	5.6			
1971	41.1	3.3			
1972	42.5	3.4			
1973	46.2	8.7			

2. Wage Growth

Use in the Valuation

Estimates of future salaries are based on two types of assumptions: 1) general wage increase and 2) merit increase. Rates of increase in the general wage level of the membership are directly related to inflation, while individual salary increases due to promotion and longevity occur even in the absence of inflation. The promotion and longevity assumptions, referred to as the merit scale, will be reviewed with the other demographic assumptions.

The current and recently adopted assumption is for 0.50% wage growth above the inflation assumption.

Historical Perspective

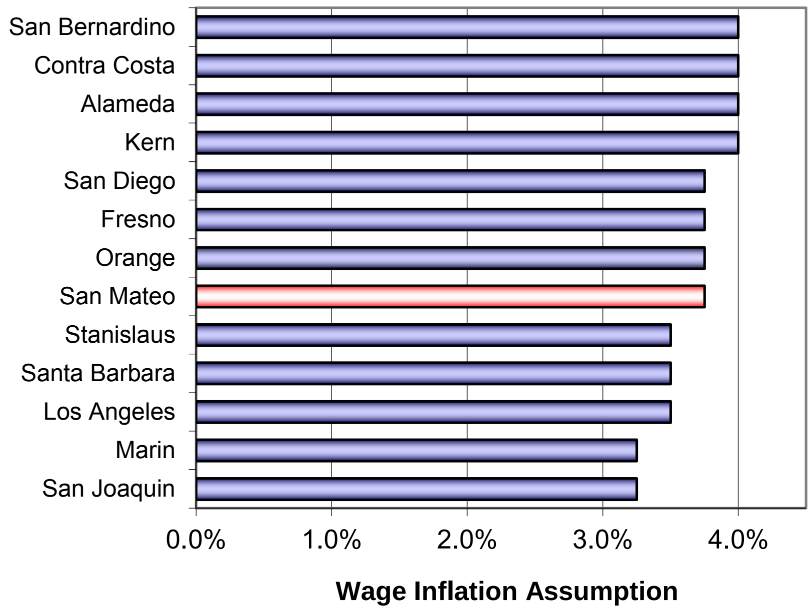
We have used statistics from the Social Security Administration on the National Average Wage back to 1951. For years prior to 1951, we studied the Total Private Nonagricultural Wages as published in *Historical Statistics of the U.S., Colonial Times to 1970*.

There are numerous ways to review this data. For consistency with our observations of other indices, the table below shows the compounded annual rates of wage growth for various 10-year periods and for the 75-year period ended in 2013. The excess of wage growth over price inflation represents “productivity” (or the increase in the standard of living, also called the real wage inflation rate).

Decade	Wage Growth	CPI Increase	Real Wage Inflation
2004-2013	2.9%	2.4%	0.5%
1994-2003	3.9%	2.4%	1.5%
1984-1993	4.3%	3.7%	0.6%
1974-1983	7.2%	8.2%	-1.0%
1964-1973	5.6%	4.1%	1.5%
Prior 75 Years			
1939-2013	5.2%	3.8%	1.4%

Peer System Comparison

Looking at other selected '37 Act systems, the current (2013 valuation) wage growth assumption is in the mainstream.



Forecasts of Future Wages

Wage inflation has been projected by the Office of the Chief Actuary of the Social Security Administration. In the 2013 Trustees Report, the long-term annual increase in the National Average Wage is estimated to be 1.1% higher than the Social Security intermediate inflation assumption of 2.8% per year. The range of the assumed real wage growth in the 2013 Trustees Report was from 0.6% to 1.7% per year.

Reasonable Range and Recommendation

We believe that a range between 0.00% and 1.25% is reasonable for the actuarial valuation. We recommend that the long-term assumed real wage inflation rate remain at 0.50% per year. Note that over the last 50 years, real wage inflation has averaged 0.60% per year.

Real Wage Inflation Rate	
2013 Valuation Assumption	0.50%
Best Estimate Range	0.00% – 1.25%
Recommended Assumption	0.50%

The wage growth assumption is the total of the consumer price inflation assumption and the real wage inflation rate. If the real wage inflation assumption remains 0.50% and the price inflation is set at 3.00%, this would result in a total wage growth assumption of 3.50%.

Payroll Increase Assumption

In addition to setting salary assumptions for individual members, the aggregate payroll of SamCERA is expected to increase, without accounting for the possibility of an increase in membership (our current and recommended assumption is that no growth in membership will occur).

The 2013 valuation payroll increase assumption is equal to the general wage growth assumption of 3.75%. It is our general recommendation to continue to set these two assumptions to be equal, unless there is a specific circumstance that would call for an alternative assumption. Under the recently adopted economic assumptions, the payroll increase assumption was decreased to 3.50%.

Growth in Membership

We propose continuing the assumption that no future growth in membership will occur. This assumption affects the Unfunded Actuarial Accrued Liability (UAAL) amortization payment rate. With no assumed growth in membership, future salaries are assumed to grow due to wage growth increases. If increases should occur because of additional members, there will be a larger pool of salaries over which to spread the UAAL, if any, resulting in an actuarial gain. This current assumption is consistent with GASB parameters.

It should be noted that membership growth could be affected by the County's "Agile" pilot program, which fills some positions with employees who would not participate and SamCERA. To the extent this occurs, membership growth may be negative. In the short-term, this is likely to be offset by employees added at the new jail, but the impact of the Agile program on membership should be monitored going forward.

3. Investment Return

Use in the Valuation

The investment return assumption is one of the primary determinants in the calculation of the expected cost of the System's benefits, providing a discount of the future benefit payments that reflects the time value of money. This assumption has a direct impact on the calculation of liabilities, normal costs, member contribution rates, and the factors for optional forms of benefits. The 2013 valuation investment return assumption for SamCERA was 7.50% per year, net of administrative and investment-related expenses.

Method to Determine Best-Estimate Range for Investment Return

To determine the best estimate range for the investment return assumption, we have used the average capital market assumptions of a number of investment consultants and the target asset allocation adopted by the SamCERA Board. SamCERA's target asset allocation is summarized in the following chart:

Asset Class	Target Allocation
US Large Cap Equity	24.0%
US Small Cap Equity	6.0%
Developed International Equity	15.0%
Emerging Market Equity	5.0%
US Core Fixed Income	10.0%
Developed International Fixed Income	3.0%
High Yield Debt	3.0%
Emerging Market Debt	2.0%
TIPS	2.0%
Private Equity	7.0%
Absolute Return / Hedge Funds	4.0%
Commodities	3.0%
Infrastructure	2.0%
Real Estate	6.0%
Risk Parity	8.0%
	100.0%

Method to Determine Best-Estimate Range for Investment Return (continued)

Actuarial Standard of Practice No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations." The Standard defines the Best-Estimate Range as "the narrowest range within which the actuary reasonably anticipates that the actual results, compounded over the measurement period, are more likely than not to fall."

By assuming the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year, we can develop expected percentiles for the long-term distribution of annualized returns based on an average of the expectations of the investment consultants.

Using properties of the lognormal distribution, we calculate the 25^{th} and 75^{th} percentiles of the long-term total return distribution. This becomes our best-estimate range because 50% of the outcomes are expected to fall within this range and it is centered about the median.

Capital Market Assumptions

As previously noted, the capital market assumptions used in our analysis were the average of the capital market assumptions used by several investment consultants (SIS, Cliffwater, JP Morgan, Callan, RV Kuhns, Wurts, NEPC, and Milliman). The average expectations for investment return and standard deviation of investment return is summarized in the following chart:

Asset Class	Expected Return	Standard Deviation
US Large Cap Equity	8.3%	16.8%
US Small Cap Equity	9.0%	20.9%
Developed International Equity	9.2%	19.2%
Emerging Market Equity	11.9%	27.5%
US Core Fixed Income	3.9%	5.1%
Developed International Fixed Income	3.3%	8.9%
High Yield Debt	6.0%	11.1%
Emerging Market Debt	6.5%	11.8%
TIPS	3.8%	6.0%
Private Equity	12.1%	27.1%
Absolute Return / Hedge Funds	6.3%	8.9%
Commodities	6.1%	20.0%
Infrastructure	8.6%	21.1%
Real Estate	7.4%	14.3%
Risk Parity	8.6%	13.7%

Administrative and Investment-Related Expenses

The investment return used for the valuation is assumed to be net of all administrative and investment-related expenses. The following table shows the ratio of expenses to the SamCERA Plan assets over the last 10 fiscal years ending June 30. The expense ratio is calculated as the applicable expense amount divided by the ending asset balance at fair market value.

		Investment		Administrative	
Year Ended	Market Assets	Expense	Expense Ratio	Expense	Expense Ratio
2004	$1,233.3	$4.2	0.34%	$1.9	0.15%
2005	$1,579.5	$7.3	0.46	$2.2	0.14
2006	$1,799.0	$8.5	0.47	$2.1	0.12
2007	$2,131.6	$10.7	0.50	$2.6	0.12
2008	$2,010.7	$10.9	0.54	$3.2	0.16
2009	$1,565.6	$11.1	0.71	$3.3	0.21
2010	$1,753.2	$8.9	0.51	$3.4	0.19
2011	$2,271.1	$16.6	0.73	$3.6	0.16
2012	$2,323.6	$20.9	0.90	$5.0	0.22
2013	$2,702.5	$21.9	0.81	$4.9	0.18

(all amounts shown in $ millions)

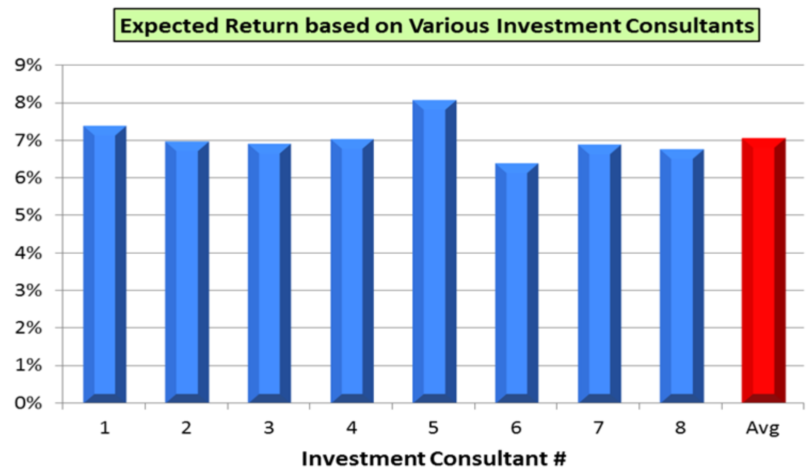
For purposes of our analysis of the investment return assumption, we have assumed that investment expenses are 0.0%, because our understanding is that the capital market assumptions have effectively already been adjusted to account for most investment expenses. For administrative expenses, we assume an ongoing expense of 0.20% of market assets.

The expense assumption does not have a direct impact on the actuarial valuation results, but it does provide a measure of gross return on investments that will be needed to meet the actuarial assumption used for the valuation. For example, under the new investment return assumption of 7.25%, SamCERA needs to earn a gross return (after adjustment for investment expenses) on its assets of 7.45% in order to net the 7.25% for funding purposes.

Method to Determine Best-Estimate Range for Investment Return (continued)

The capital market assumptions were combined with the target asset allocation policy to generate expected rates of return which were then reduced for estimated administrative expenses of 0.20%.

A comparison of the expected returns (net of administrative and investment expenses), based on SamCERA's target asset allocation and the capital market assumptions of other investment consultants, is shown below.



As shown above in the capital market assumptions section, the expected rate of return is subject to significant year-to-year volatility as measured by the standard deviation. Volatility over time will lower the mean rate of return but diversification by asset class will reduce the volatility and narrow the range of expected total returns for the entire portfolio. The results are summarized below:

Expected Investment Return

(after reflecting administrative and investment expenses)

Horizon In Years	Percentile Results for Nominal Rate of Return 95th	75th	50th	25th	5th
1	-11.8%	-1.1%	7.0%	15.9%	29.9%
5	-1.8%	3.3%	7.0%	10.9%	16.7%
10	0.7%	4.4%	7.0%	9.8%	13.8%
20	2.5%	5.2%	7.0%	9.0%	11.8%
30	**3.3%**	**5.5%**	**7.0%**	**8.6%**	**10.9%**

Method to Determine Best-Estimate Range for Investment Return (continued)

Based on our application of lognormal return distributions to the average capital market assumptions, the geometric mean return is 7.0%. However, due to the volatility associated with the asset allocation, the range of probable outcomes is quite large. For example, in the first year there is a 5% chance the rate of return will be less than -11.8% and a 5% chance it will be greater than 29.9%. As the time horizon lengthens, the range of the cumulative average results narrows. Note that these are net returns, after adjusting for investment expenses.

Over a 30-year time horizon, we estimate there is a 25% chance the nominal rate of return will be less than 5.5% and a 25% chance the return will be greater than 8.6% (bold numbers on the bottom line in the table above). Therefore, we can say the return is just as likely to be within the range from 5.5% to 8.6% as not.

Based upon the analysis discussed above, we conclude that the best-estimate range based on the capital market assumptions described is the expected average annual rates of return between the 25th and 75th percentile projected out 30 years of 5.5% to 8.6%.

Best Estimate Range and Recommendations Based on Current Market Expectations

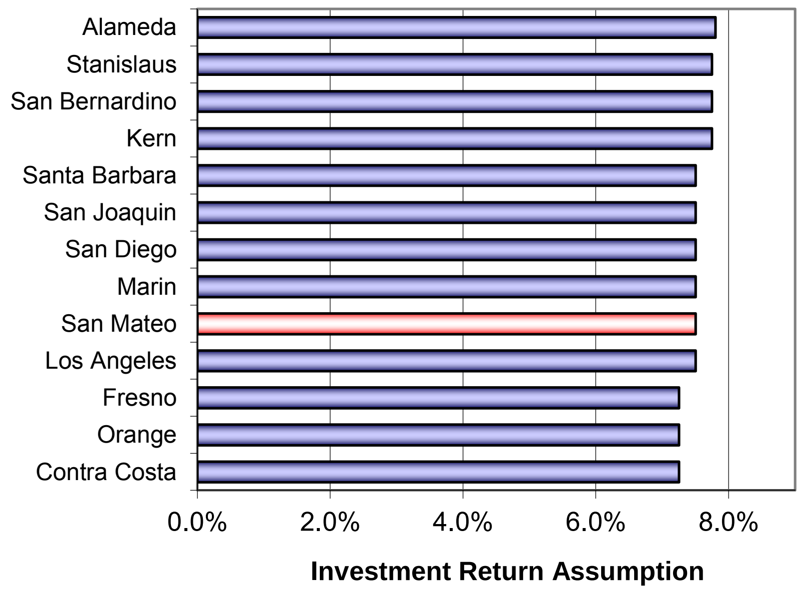
Based upon the analysis discussed above, there is a 46% chance that the net return will be 7.25% or more over a 30-year period. In other words, a net return of 7.25% is at the 46th percentile for a 30-year investment horizon. Similarly, there is a 41% chance that the net return will be 7.50% or more over a 30-year period.

Based on the above, we recommended lowering the investment return assumption to 7.25%, which was adopted by the Board. This is also consistent with our earlier recommendation to lower the inflation assumption from 3.25% to 3.00%.

Peer System Comparison

According to the *Public Fund Survey*, the average investment return assumption for statewide systems has been slowly declining. As of the most recent study, the average rate is just about 7.9%

Looking at other selected '37 Act systems, SamCERA's current assumption (2013 valuation) of 7.50% is the most common.



Excess Earnings

Section 31592.2 of the 1937 Act provides the Retirement Board with the authority to set aside surplus earnings of the retirement fund which are in excess of the total interest credited to reserves, provided this surplus exceeds 1.00% of the total assets of the retirement system.

If the Board determines that the fund should share excess earnings with members when times are good, but the fund is not able to collect additional revenue when investment returns lag expectations, there will be a reduction in the investment return available to fund SamCERA's regular pension benefits. Thus, if the Board adopts a policy, either formal or informal, to use excess earnings for anything other than the regular pension benefits, we would consider the impact on the investment return assumption and possibly recommend a reduction. As of this time, we are not recommending any adjustment.

Other Factors for Board Consideration

Since economic assumptions are subjective in nature, it is our recommendation that the Board be fully comfortable with the implications of the economic assumptions, particularly with the investment return assumption. There is “actuarial risk” associated with the economic assumptions, just as there is an investment risk associated with a given portfolio mix.

Actuarial assumptions are used to measure and budget future costs. Changing assumptions will not change the actual cost of future benefits. Aggressive assumptions anticipate good future experience ahead of time and factor it into budget estimates. Conservative assumptions, on the other hand, tend to recognize good experience only after it happens.

The choice of assumptions depends on a system’s risk tolerance. The final determination on whether or not a set of assumptions is either conservative or aggressive will only be borne out by future experience.

All other things being equal, a lower investment return assumption provides stronger funding, and a higher investment return assumption results in weaker funding. Therefore, in our opinion, systems that are already funding at a low level (e.g., a rolling 30-year amortization of the UAAL) should consider incorporating conservatism in their investment return assumption. SamCERA has a strong contribution policy (15-year layered amortization of the UAAL), so we believe it is not as important to include a level of conservatism in the investment return assumption, although it should still be considered.

The investment return assumption also impacts member contribution rates, as well as the costs of service purchases and other optional forms of payment. Therefore, although the investment return assumption does not directly impact the ultimate cost of benefits, it does impact the split between the employers and the members.

Conclusion

Based on the capital market assumptions, we find there is only about a 41% probability that the current (2013 valuation) investment return assumption of 7.50% will be met over the long term. Therefore, we believe the recent reduction in the investment return assumption to 7.25%, when combined with SamCERA's strong contribution policy (discussed above), is a reasonable long-term investment return assumption.

Investment Return (net of investment expenses)	
2013 Valuation Assumption	7.50%
Best Estimate Range	5.5% – 8.6%
Recommended Assumption	7.25%

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Section 3: Actuarial Methods and Miscellaneous Assumptions

Valuation Methods

As part of the triennial investigation, we have reviewed the valuation methods and other issues related to the actuarial assumptions.

- **Cost Method:** The actuarial valuation is prepared using the entry age actuarial cost method (CERL 31453.5). We believe that this cost method is appropriate for SamCERA's valuation. It is also the cost method that will be required for GASB Statements 67 and 68. We recommend no change.
- **Funding Method (amortization of UAAL):** The current method uses a 15-year closed period layered approach. This method is consistent with guidelines published by the California Actuarial Advisory Panel (CAAP). We recommend no change.
- **Valuation of Assets:** We believe that the current asset valuation method which smoothes gains and losses over five years (actually 10 six-month periods) and includes an 80% to 120% corridor is appropriate for SamCERA's valuation. A five-year smoothing period is used by a majority of large public retirement systems. This method is also consistent with guidelines published by CAAP. We recommend no change.
- **Adjustment to Plan 3 Normal Cost Rate:** The current method increases the Plan 3 Normal Cost rate to account for Plan 3 members being eligible to transfer to Plan 2, Plan 4 or Plan 5 (depending on entry date) after five years of service. Under this method, the Plan 3 Normal Cost rate is 50% of the unadjusted Plan 3 Normal Cost rate and 50% of the Plan 4 Normal Cost rate. We believe this method continues to be appropriate and recommend no change.
- **Plan 3 Retirement Age Factors:** Plan 3 retirement age factors are intended to provide an early retirement benefit that is the actuarial equivalent of an age 65 benefit. Specifically, CERL 31497.3(f) states: "The ERA (early retirement age) factors set forth in this subdivision shall be used until adjusted by the board in accordance with the interest and mortality tables adopted by the board." Since the interest rate has changed, we recommend the Board consider adopting new ERA factors to reflect the lower interest rate. The expected impact would be a small increase in the ERA factors, resulting in slightly larger future benefits than under the current factors.

Valuation Methods (continued)

Miscellaneous Assumptions

- **Reciprocity:** Members who terminate may go to work for a reciprocal employer. This can result in an increase in the member's final compensation used in the calculation of their SamCERA benefit. We currently assume that 35% of future General terminated vested members and 45% of future Safety terminated vested members retire with a reciprocal employer. We reviewed this assumption and are not recommending a change. The results of the study are as follows:

Probability of Reciprocal Employer					
Class	All Terms >= 5 Years	Recip.	Actual	Expected	Proposed
General	668	205	31%	35%	35%
Safety	64	27	42%	45%	45%

- **Probability of Eligible Survivor:** Eligible surviving beneficiaries (spouses or qualified domestic partners of members) generally receive a 60% continuance of the member's benefit (100% continuance for service-connected disabilities and 50% for Plan 3 members). The valuation assumes a certain percentage of members will have an eligible survivor at retirement. We studied this assumption and are recommending a change to the probability of an eligible survivor for males. The results of the study are as follows:

Retirees with Eligible Survivor					
Gender	Actual	Expected	Act / Exp	Proposed	Act / Pro
Male	70%	80%	88%	75%	93%
Female	52%	55%	95%	55%	95%

- **Survivor age difference:** We are also recommending a change to the assumption of the age difference between members and their eligible survivors. The current assumption is that survivors are three years younger than male members and three years older than female members. Based on our analysis of survivor data, we recommend that the assumption for survivors of female members is changed so that the survivor is assumed to be two years older than the member to match actual experience. We recommend no change to the assumption for survivors of male members.

Non-Valuation Methods

- **Operating Tables:** We recommend the operating tables be updated to reflect the new economic assumptions.

- **Member Contribution Rates:** The proposed changes to the investment return assumption will impact the basic member contribution rates. New member rates will need to be calculated during the June 30, 2014 actuarial valuation. Additionally, the Cost-of-Living portion of the member rates will be updated at that time. A sample of the estimated impact to member rates due of these proposed changes is shown in the chart below.

Sample Changes in Member Basic Rates due to Proposed Economic Assumption Changes (Based on June 30, 2013 Actuarial Valuation*)

	Entry Age	Current	Proposed	Increase
General Members - County				
Plans 1 & 2	35	7.42%	7.60%	0.18%
Plan 4	35	7.12%	7.31%	0.19%
Plan 5	35	6.14%	6.29%	0.15%
Plan 7	35	7.58%	7.93%	0.35%
PDA Members (Reflects Employer Pick-up)				
Plans 1 & 2	35	8.08%	8.28%	0.20%
Plans 4, 5 & 6	35	7.75%	7.96%	0.21%
Plan 7	35	13.78%	14.31%	0.53%
Probation Managers				
Plans 1 & 2	35	10.09%	10.35%	0.26%
Plans 4, 5 & 6	35	9.68%	9.95%	0.27%
Plan 7	35	13.78%	14.31%	0.53%
Safety Members				
Plans 1 & 2	35	10.09%	10.35%	0.26%
Plans 4, 5 & 6	35	9.68%	9.95%	0.27%
Plan 7	35	14.28%	14.82%	0.54%

** Final FYB 2015 member rates will be determined based on the June 30, 2014 valuation.*

We show basic member rates for Plans other than Plan 7 due to the complications of various cost share and COLA share member rate permutations. Plan 7 rates are sample total member rates. The final member rates will be determined with the 2014 valuation.

- **Implementation:** For the Plan 3 ERA factors, the operating tables and the member contribution rates, we recommend the implementation date be July 1, 2015.

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Section 4: Salary Increases Due to Promotion and Longevity (Merit)

Estimates of future salaries are based on assumptions for two types of increases:

1) Increases in each individual's salary due to promotion or longevity, which occur even in the absence of inflation (merit increases); and
2) Increases in the general wage level of the membership, which are directly related to inflation and increases in productivity.

Results

In Section 2 we discuss the second of these rates, the general wage inflation, which is 3.50% under the proposed assumptions.

Exhibit 4-1 shows the actual merit increases, plus the general wage growth assumption, over the period July 1, 2011-June 30, 2013. Increases were higher earlier in a member's career (lower service) and then decreased over time, consistent with the current assumptions. Overall, the actual increases were less than predicted by the current assumptions.

Note that this period is slightly shorter than the period over which all other assumptions were studied. We felt that studying salary increases for a partial final year (ending April 30, 2014) would result in a less accurate analysis of salary increase patterns over the study period.

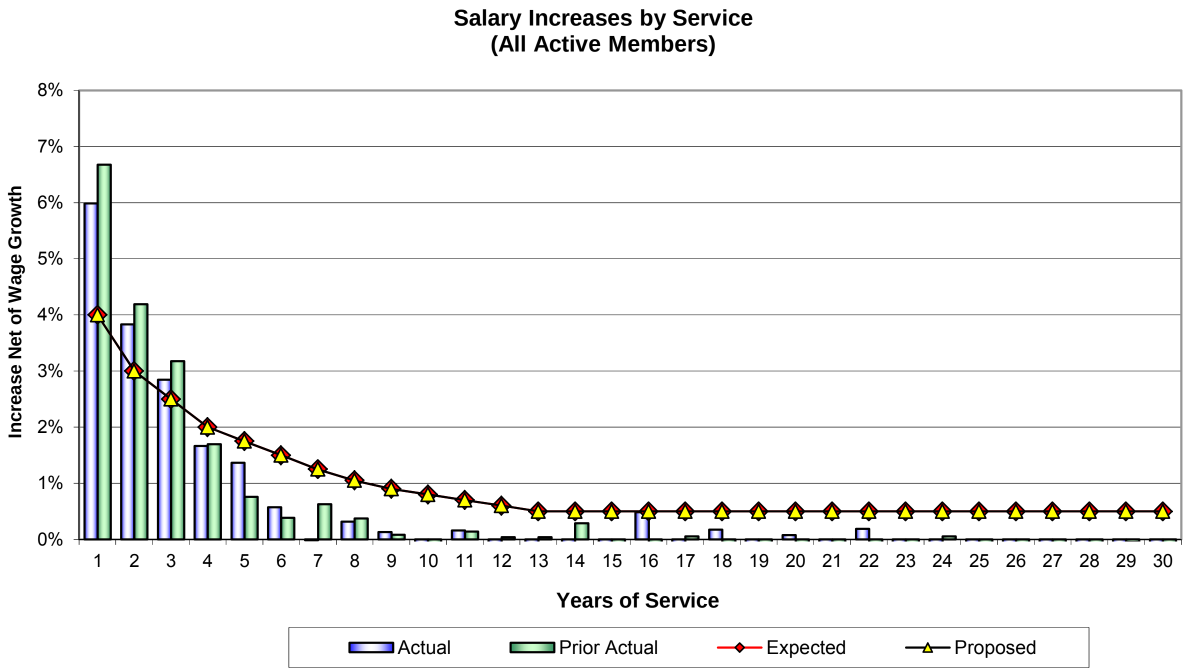
We also studied the merit patterns of Safety and General members separately, as we have seen differences between the two groups in other systems. There were some differences for SamCERA; in particular, the merit increases for Safety members generally exceeded the assumption after 10 years of service. We discussed this with SamCERA staff, and they were not aware of factors that would cause this difference. We will continue to monitor this in future studies.

Recommendation

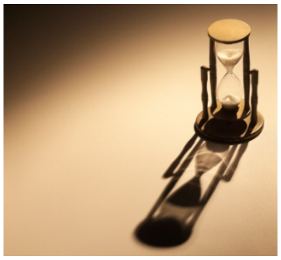
Based on the results of this, and the prior two experience studies, we are not recommending a change in the merit component of the salary increase assumptions.

Exhibit 4-1 Total Annual Rates of Increase in Salary Due to Merit and Longevity

(Excluding the General Wage Growth Assumption)



Section 5: Mortality



In this section we look at the results of the study of actual and expected death rates of retired members. We studied rates of mortality among healthy and disabled retired members. Valuation mortality is a critical assumption, since, if members live longer than expected, we will be understating the true cost of the future plan obligations.

Results

Overall, we found there were more deaths than the current rates predicted: 325 actual to 256 expected for a total ratio of 127%. We generally like to see some margin for future improvements in mortality (i.e., actual number greater than expected by about 15% or so).

Generally, an A/E ratio of 127% would lead us to recommend a change in the assumption. In this case, the change would be to recommend a mortality table that assumes higher rates of mortality. However, this experience is contrary to the wider experience of mortality trends in recent years, and the widely held belief that these trends (and mortality improvements) will continue. We also believe that some margin should be built into mortality assumptions to account for the trend of increasing life expectancies.

For these reasons, we believe that this period's experience may not be reflective a long term trend in mortality rates, and we recommend no change to the mortality assumption at this time. However, we will be monitoring this closely and will consider it again at the next investigation of experience in 2017.

The following is a comparison of the actual-to-expected deaths of retired members by class and gender for the study period.

Results (continued)

Retiree Mortality					
Service Retirement					
	Deaths			Actual to	Actual to
Group	Actual	Expected	Proposed	Expected	Proposed
General Male	94	77	77	122%	122%
General Female	189	141	141	134%	134%
Safety Male	16	13	13	123%	123%
Safety Female	2	1	1	200%	200%
Total Svc Ret	**301**	**232**	**232**	**130%**	**130%**
Disability Retirement					
	Deaths			Actual to	Actual to
Group	Actual	Expected	Proposed	Expected	Proposed
General Male	6	8	8	75%	75%
General Female	15	12	12	125%	125%
Safety Male	2	3	3	67%	67%
Safety Female	1	1	1	100%	100%
Total Dis Ret	**24**	**24**	**24**	**100%**	**100%**
Grand Total	**325**	**256**	**256**	**127%**	**127%**

Results are shown graphically on the following pages. Note that analysis of Safety females is not shown in graph form due to the small number of actual and expected deaths.

Recommendation

We are recommending no changes to the retired mortality assumption.

Exhibit 5-1 Mortality for Service Retirees General Males

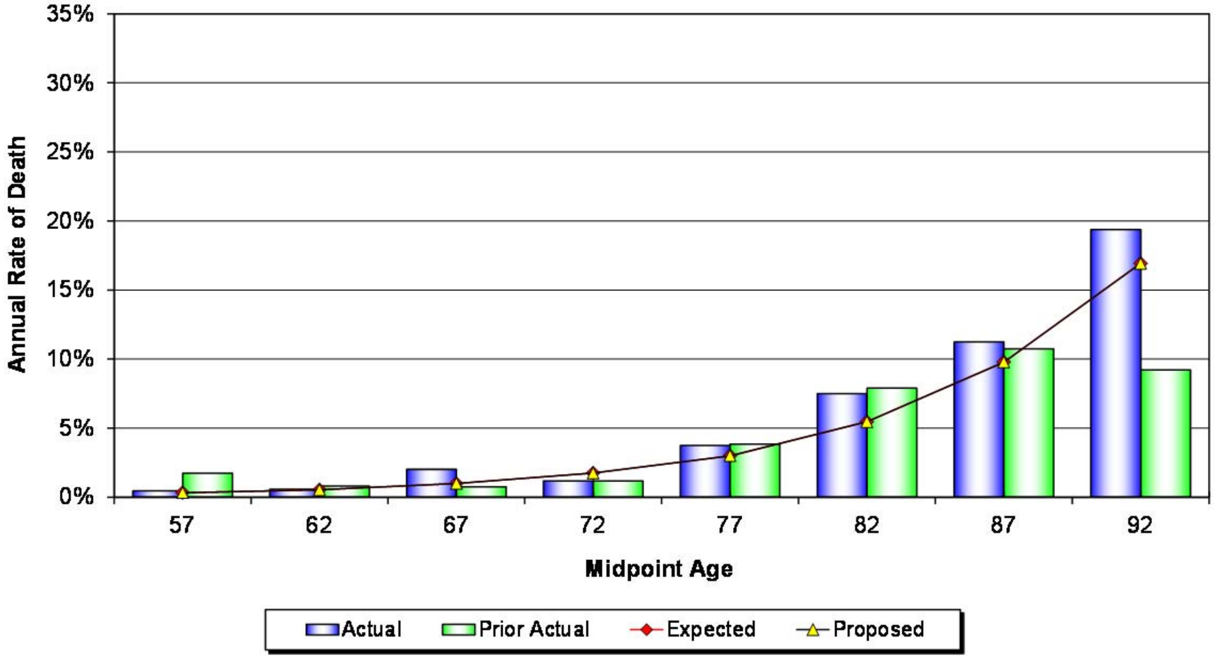


Exhibit 5-2 Mortality for Service Retirees General Females

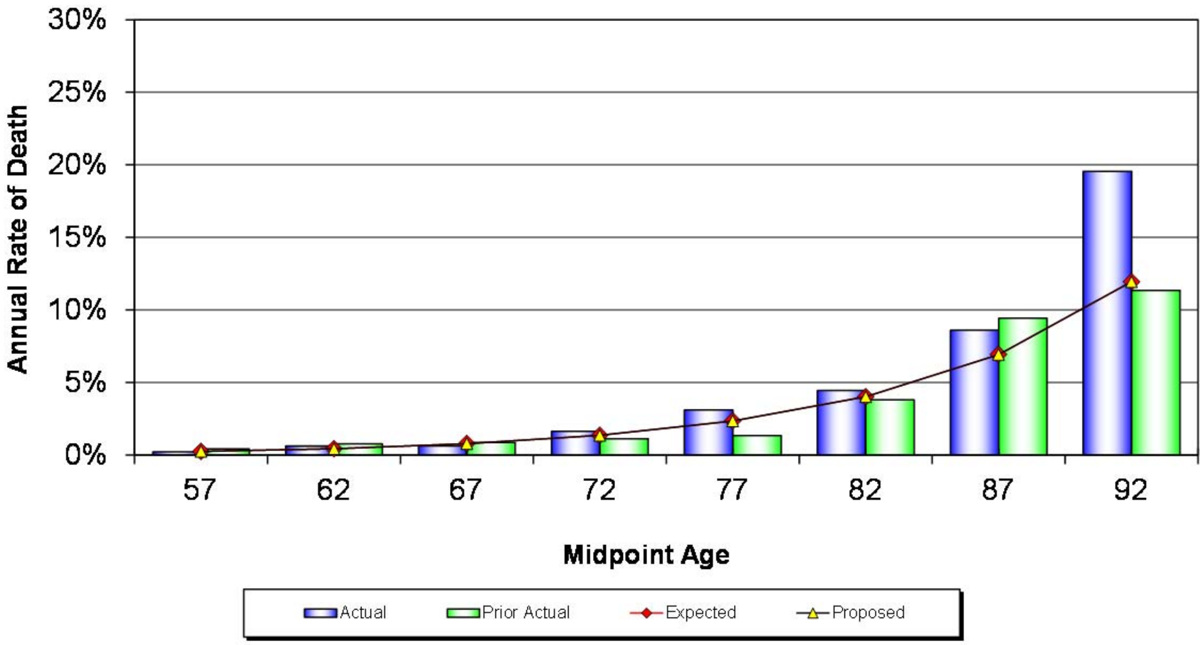


Exhibit 5-3 Mortality for Service Retirees Safety Males

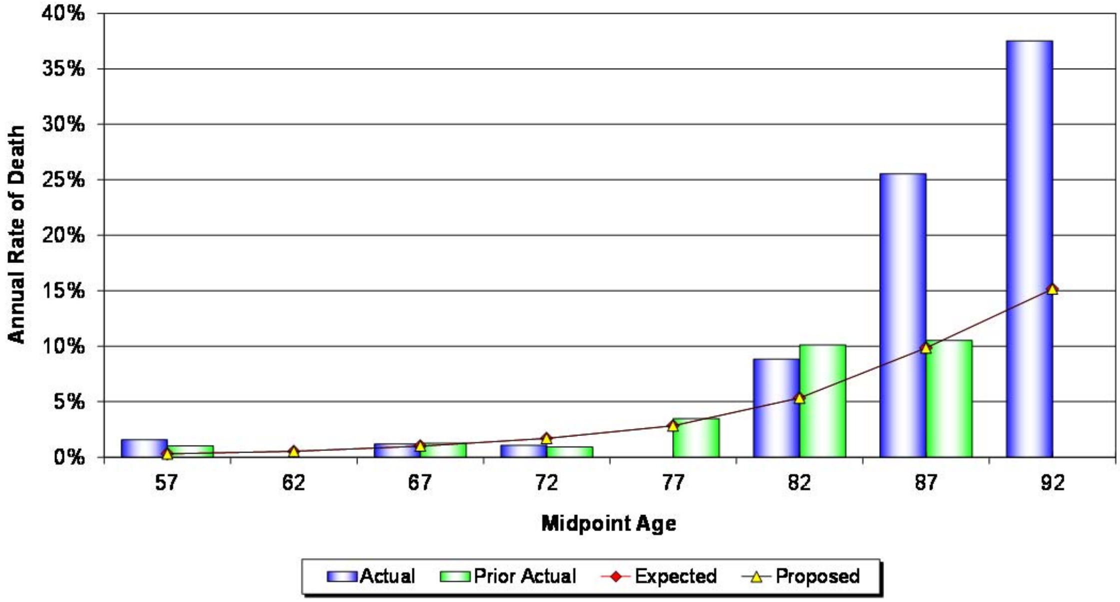


Exhibit 5-4 Mortality for Disabled Retirees General Males

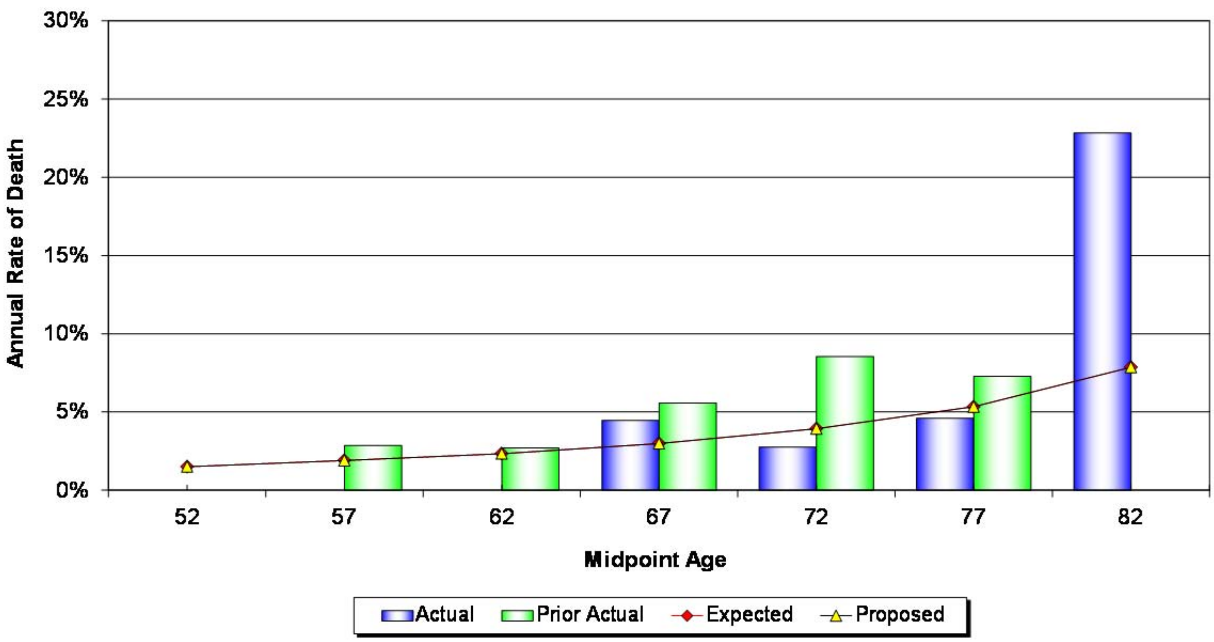


Exhibit 5-5 Mortality for Disabled Retirees
General Females

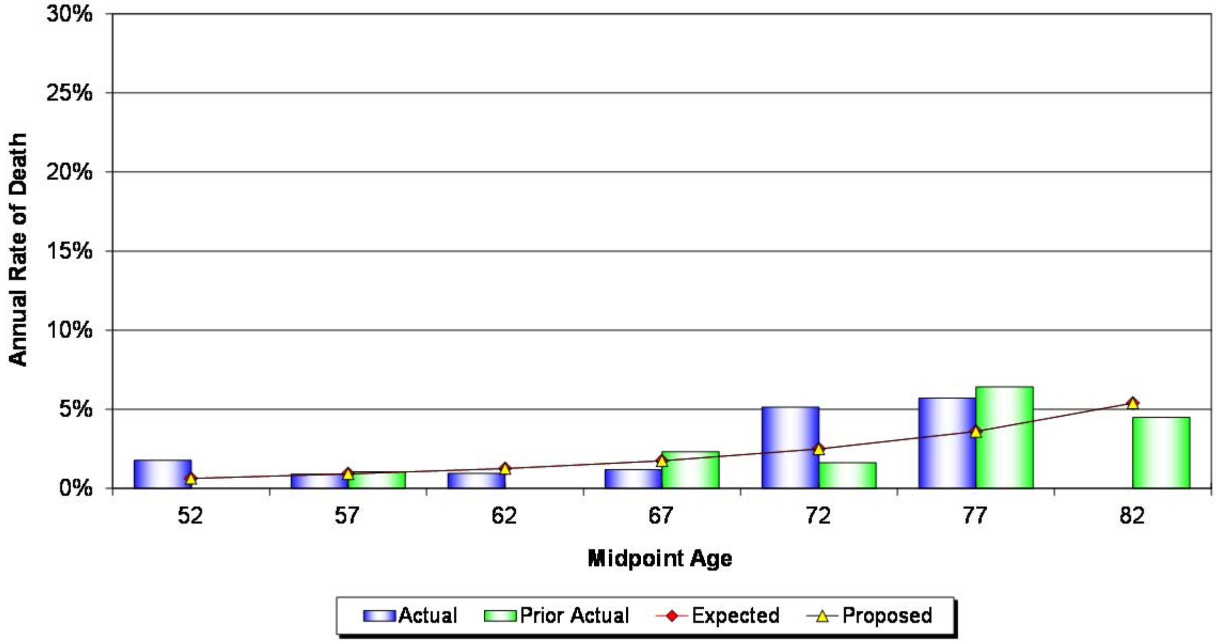
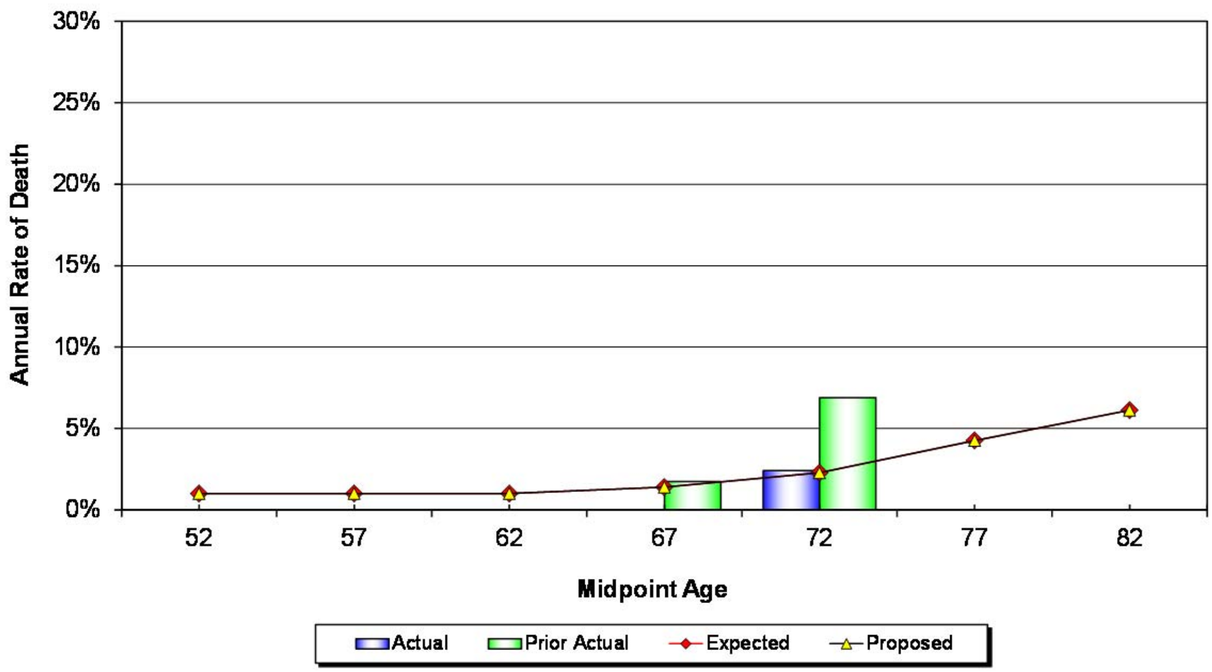


Exhibit 5-6 Mortality for Disabled Retirees
Safety Males



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Section 6: Service Retirements

Exhibits 6-1 through 6-3 show the actual and expected rates of service retirement. Our analysis of rates of service retirement was by attained age.

Exhibits 6-1 through 6-3 study retirements for the following groups:

- Exhibit 6-1: General Members – Males
- Exhibit 6-2: General Members – Females
- Exhibit 6-3: Safety/Probation Members – Males and Females

Results

For General and Safety/Probation members, the total actual retirements from active service were less than the assumptions predicted.

As shown below, the total number of retirements (407) was only 89% of the total number expected (457).

Service Retirements			
Class	**Actual**	**Expected**	**Act / Exp**
General	366	405	90%
Safety	41	52	79%
Total	407	457	89%

Recommendation

We have seen a slight long-term downward trend in retirement rates among public systems. During the prior Investigation of Experience study SamCERA experienced significantly lower rates of retirement and termination than expected. We discussed in the prior report how this was likely partially a result of the recessionary economic environment during that study period. In this study we see rates of service retirement higher than during the prior study period and closer to the assumptions.

Accordingly, we recommend only slightly revised service retirement rates for General and Safety/Probation members. With these revisions, the proposed retirement rates more closely follow the age pattern of actual retirements.

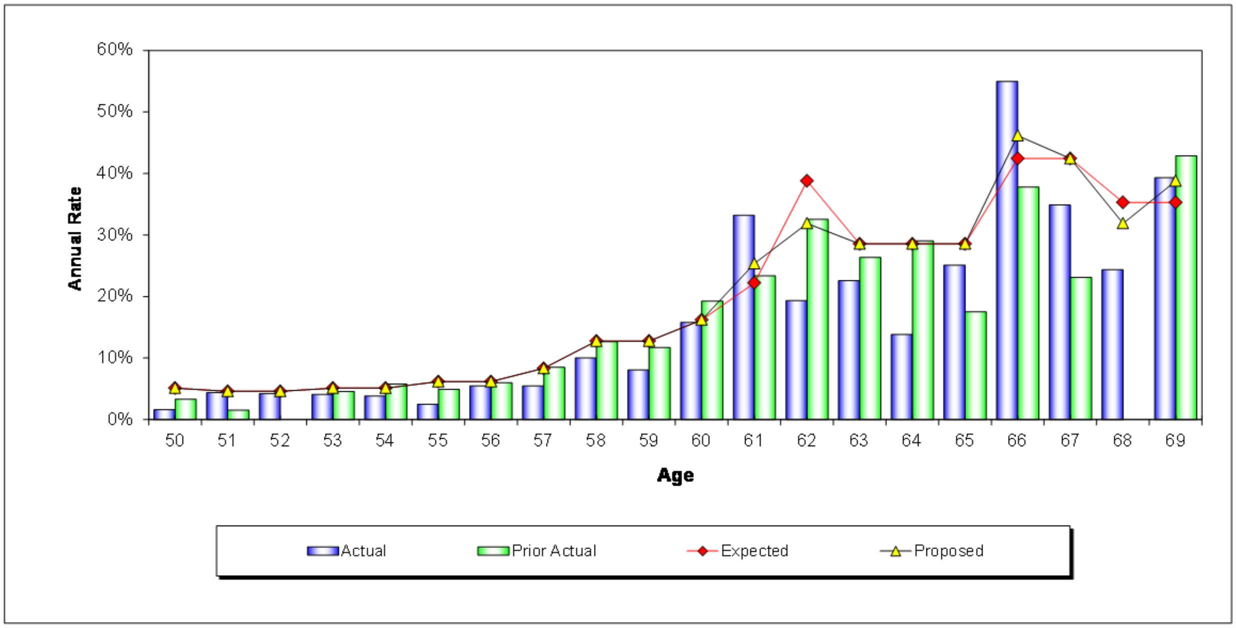
Recommendation (continued)

A comparison of the actual and expected retirements under the recommended assumptions is shown in the table below.

Service Retirements -- Proposed			
Class	**Actual**	**Proposed**	**Act / Prop**
General	366	404	91%
Safety	41	48	85%
Total	407	452	90%

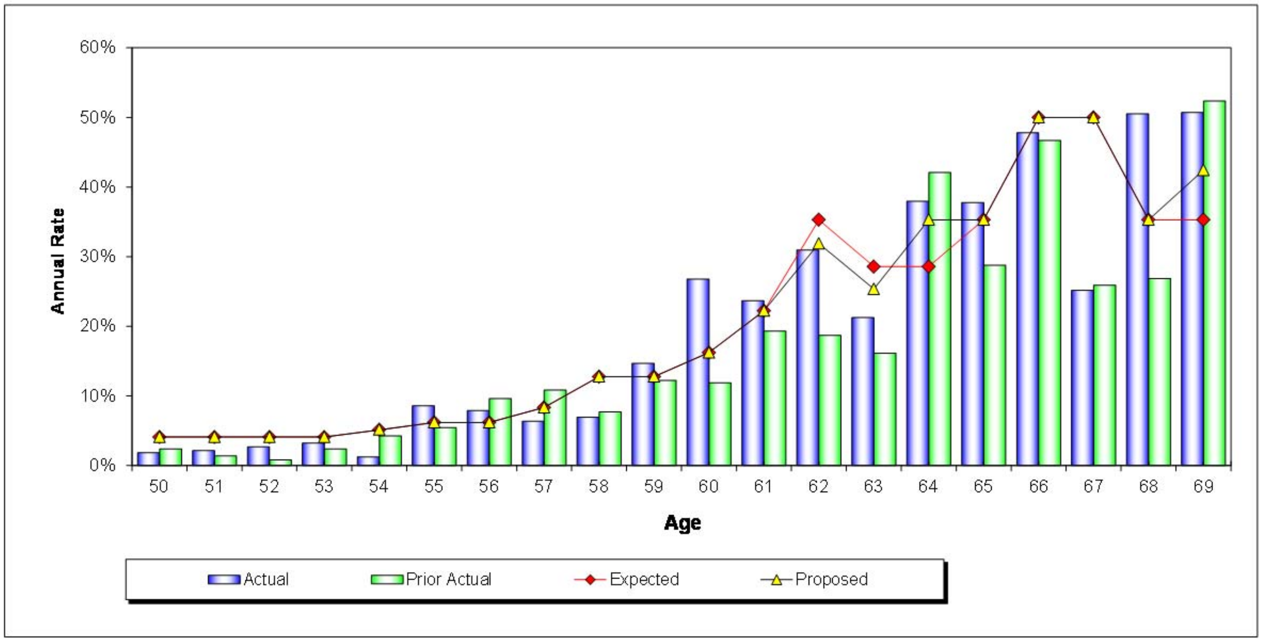
There were not enough Plan 3 service retirements to perform a statistically meaningful study; therefore we are recommending no change to these rates.

Exhibit 6-1 Retirement Rates
General Males



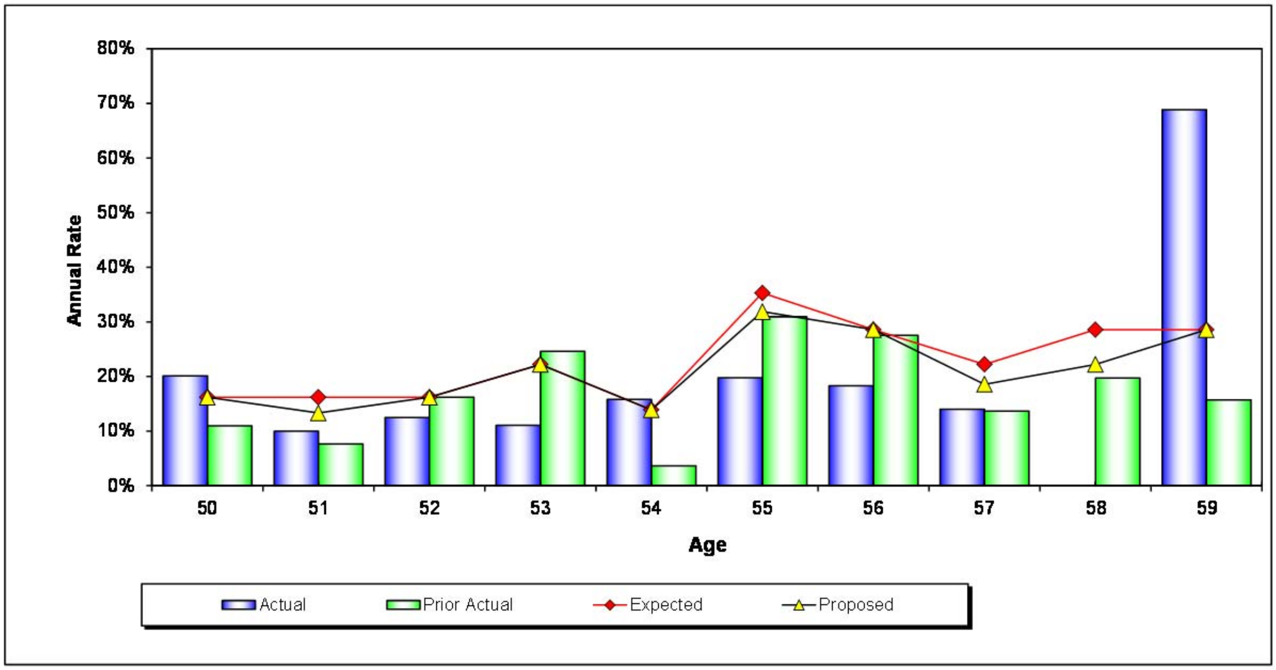
Ages 50-69	Expected	Actual	Proposed
Total Count	**141**	**113**	**140**
Actual / Expected	**80%**		**81%**

Exhibit 6-2 Retirement Rates
General Females



Ages 50-69	Expected	Actual	Proposed
Total Count	**264**	**253**	**264**
Actual / Expected	**96%**		**96%**

Exhibit 6-3 Retirement Rates
Safety Males/Females



Ages 50-59	Expected	Actual	Proposed
Total Count	**52**	**41**	**48**
Actual / Expected	**79%**		**85%**

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Section 7: Disability Retirement

SamCERA allows a member to start receiving benefits prior to eligibility for service retirement if they become disabled. There are two types of disability:

- Nonservice-Connected Disability: This is available to a disabled member only if he has satisfied the vesting requirement.
- Service-Connected Disability: This is available only to members who are disabled for the performance of duty. There is no service requirement, and the service-connected disability benefit generally pays a larger benefit than nonservice-connected disability.

Results

We have found that in many systems, including SamCERA, there is generally at least a six-month lag between the actual occurrence of a disability retirement and the subsequent approval and reporting of that same retirement. To account for this, we studied the period July 1, 2010 to June 30, 2013.

The total adjusted number of disability retirements (service-connected and nonservice-connected combined) was greater than expected for General members (55 actual versus 30 expected). There were 11 actual Safety disabilities, compared to eight expected disabilities.

Disability Retirements			
Class	**Actual**	**Expected**	**Act / Exp**
General	55	30	183%
Safety	11	8	138%
Total	66	38	174%

Results – Comparison of Service and Ordinary Disability

The total disability rates are split between ordinary and service disability in accordance with the approximate relative number of each reported in the experience data for General and Safety members. The proportions of disabilities attributable to each cause in the study period are shown in the following chart.

Split between Service and Non-Service Connected Disability					
Class	**Svc**	**Non-Svc**	**Total**	**Svc/Total**	**Exp Svc %**
General	35	20	55	64%	60%
Safety	10	1	11	91%	100%

Recommendation

We are recommending increasing the rates of disability retirement for General and Safety/Probation members.

We recommend continuing to use a 60%/40% split between service-connected and nonservice-connected disabilities for General members, and an assumption of 100% service-connected disability for Safety/Probation members.

Disability Retirements					
Class	**Actual**	**Expected**	**Act / Exp**	**Proposed**	**Act / Prop**
General	55	30	183%	45	122%
Safety	11	8	138%	10	110%
Total	66	38	174%	55	120%

Section 8: Other Terminations of Employment

This section of the report summarizes the results of our study of terminations of employment for reasons other than death, service retirement, or disability. Rates of termination vary by years of service – the greater the years of service, the less likely a member is to terminate employment.

The current assumptions also vary by gender for General members, with females having a slightly higher probability of terminating than males.

Results

Overall, the actual number of terminations was higher than expected for both General and Safety members.

Termination -- General Members			
Gender	**Actual**	**Expected**	**Act / Exp**
Male	225	181	124%
Female	508	374	136%
Total	733	555	132%

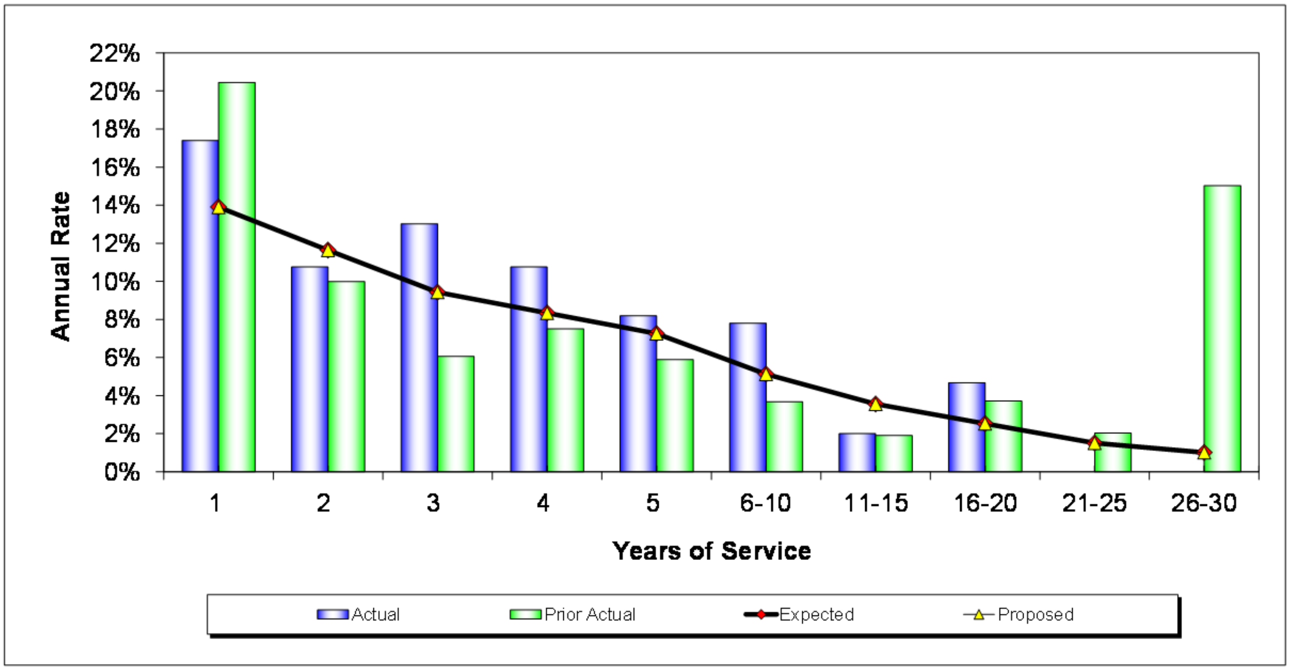
Termination - Safety Members			
Gender	**Actual**	**Expected**	**Act / Exp**
Male/Female	43	41	105%

Recommendation

As mentioned in the prior Investigation of Experience report, we believe the recessionary economic environment resulted in lower rates of termination during that period. We believe that the improving economic environment may be leading to higher rates of termination in the current period as some members who would have left employment if not for the recession have now done so. As such, we believe the current termination study results are also likely influenced by the recession, albeit in the opposite manner. We therefore reviewed the experience over the current and prior study periods in formulating a recommendation for our termination assumption and observed that, on average, the current rates are appropriate over the entire period.

Accordingly, we are recommending no changes to the rates of termination. We will continue to monitor this carefully over the next study period and consider the experience again at the next triennial study.

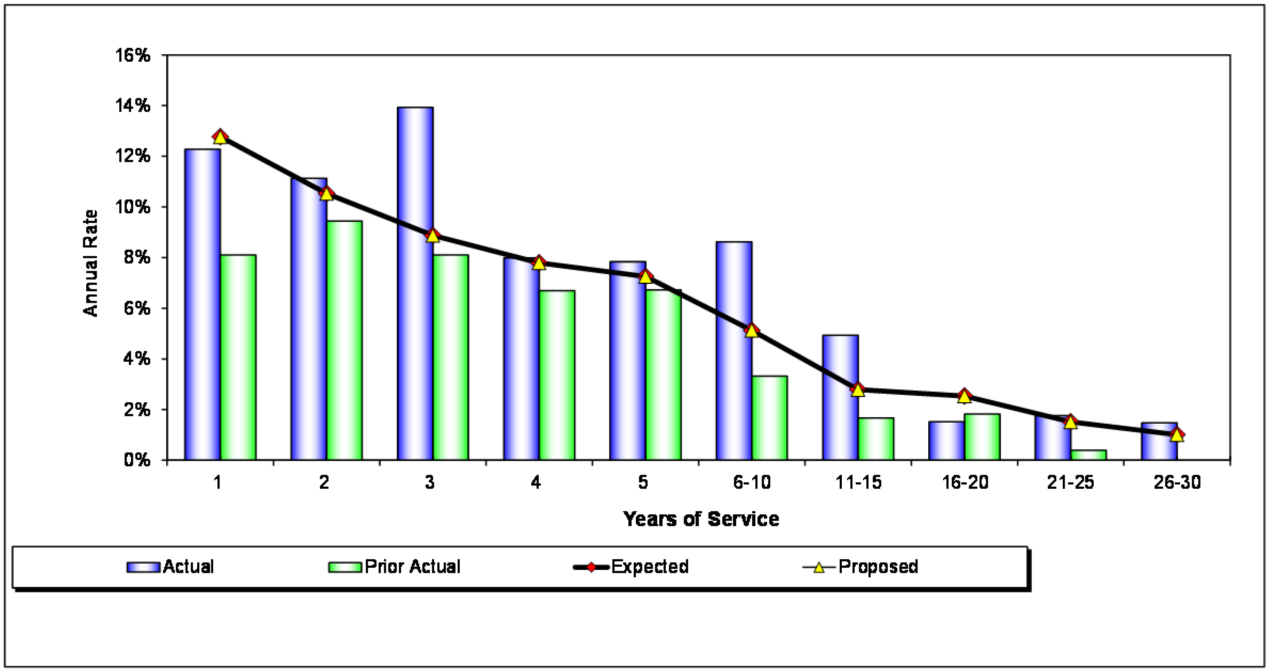
Exhibit 8-1 Termination by Years of Service* – General Males



	2011 - 2014 Data		
	Expected	Actual	Proposed
Total Count	181	225	181
Actual / Expected	124%		124%

**Excludes retirement-eligible members.*

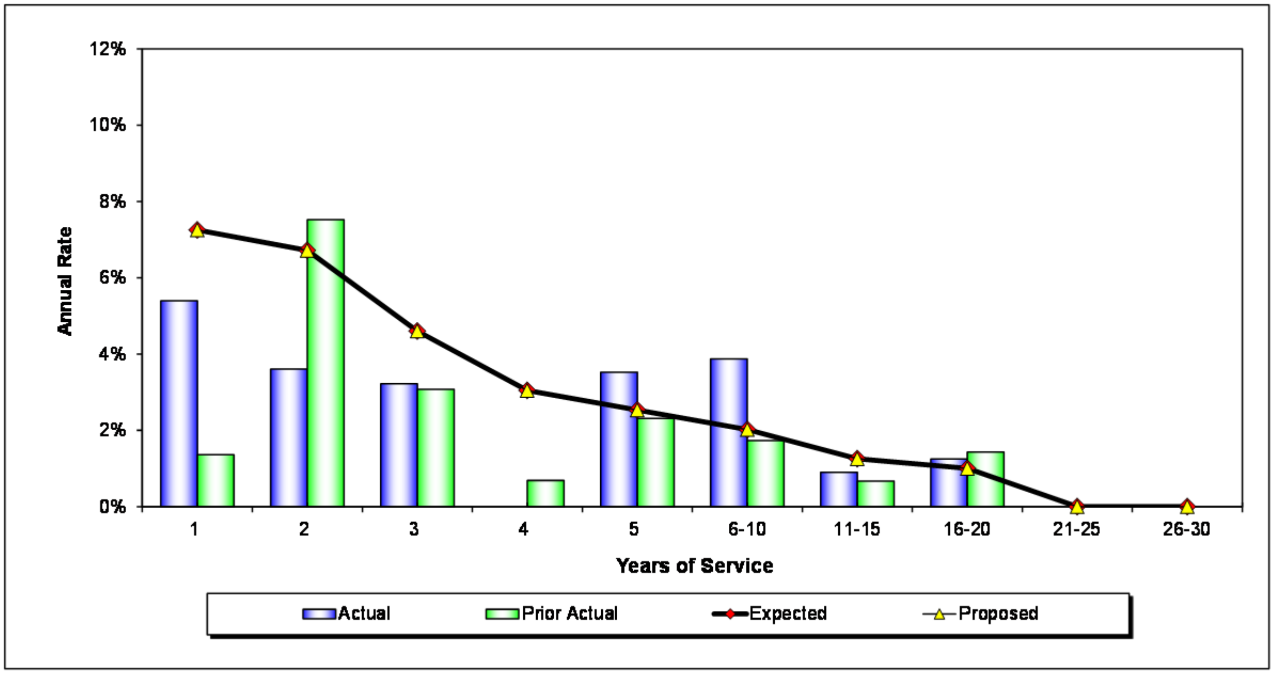
Exhibit 8-2 Termination by Years of Service* – General Females



	2011 - 2014 Data		
	Expected	Actual	Proposed
Total Count	374	508	374
Actual / Expected	136%		136%

**Excludes retirement-eligible members.*

Exhibit 8-3 Termination by Years of Service* – Safety



	2011 - 2014 Data		
	Expected	**Actual**	**Proposed**
Total Count	**41**	**43**	**41**
Actual / Expected	**105%**		**105%**

**Excludes retirement-eligible members.*

Section 9: Probability of Refund Upon Vested Termination

This section of the report deals with the rates at which employees elect a refund of their contributions upon termination of service. It only considers vested members who are not yet eligible for service retirement. Under the current assumptions, members who terminate with fewer years of service have a greater probability of electing to withdraw their contributions. All non-vested members are assumed to take a refund at termination.

Results

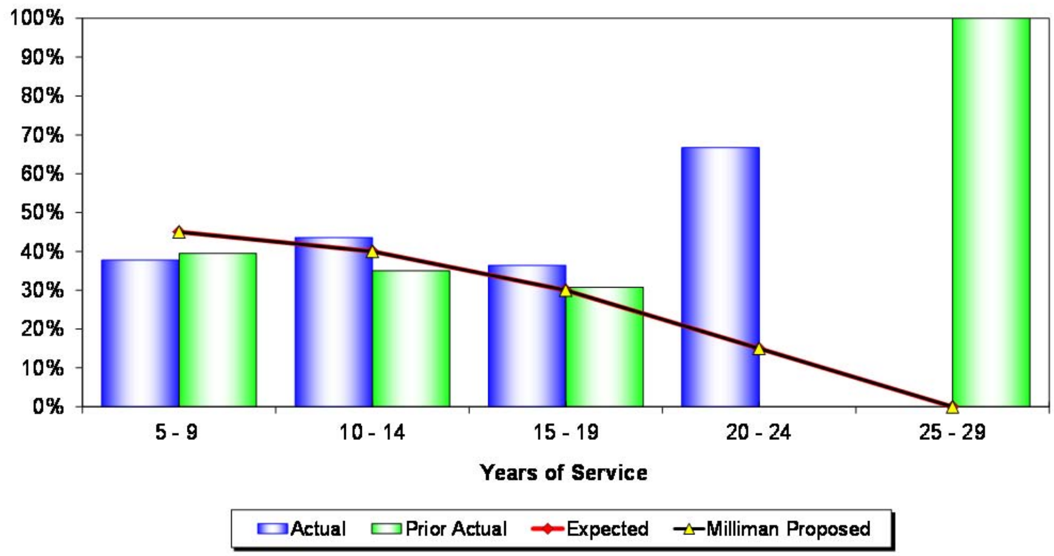
Exhibit 9-1 summarizes the results of our study. The results are generally consistent with the assumptions.

Probability of Refund					
Class	**Actual**	**Expected**	**Act / Exp**	**Proposed**	**Act / Prop**
General	149	167	89%	167	89%
Safety	10	9	111%	9	111%
Total	159	176	90%	176	90%

Recommendation

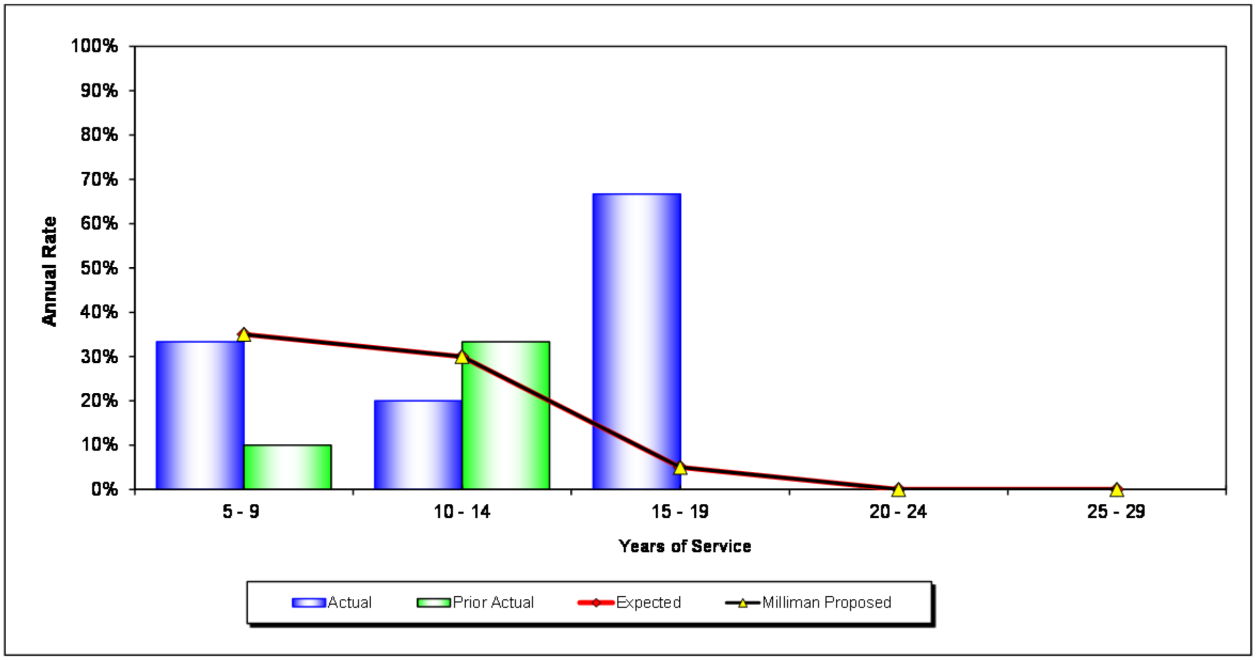
Based on the experience, we are recommending no change to the rates at which members withdraw their contributions from SamCERA.

Exhibit 9-1 Probability of Refund upon Vested Termination – General



	2011 - 2014 Data		
	Expected	Actual	Proposed
Total Count	167	149	167
Actual / Expected	89%		89%

Exhibit 9-2 Probability of Refund upon Vested Termination – Safety



	2011 - 2014 Data		
	Expected	Actual	Proposed
Total Count	9	10	9
Actual / Expected	111%		111%

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Appendix A: Actuarial Procedures and Assumptions

The actuarial procedures and assumptions to be used in the June 30, 2014 valuation are described in this section. The assumptions were reviewed and changed as a result of the 2014 Investigation of Experience Study. Assumptions that have been changed, or are recommended to be changed, since the June 30, 2013 valuation are highlighted in yellow in the section that follows.

The actuarial assumptions used in the valuations are intended to estimate the future experience of the members of SamCERA and of SamCERA itself in areas that affect the projected benefit flow and anticipated investment earnings. Any variations in future experience from that expected from these assumptions will result in corresponding changes in the estimated costs of SamCERA's benefits.

Table A-1 summarizes the assumptions. The mortality rates are taken from the sources listed.

Tables A-2 and A-3 show how members are expected to leave retired status due to death.

Table A-4 presents the probability of refund of contributions upon termination of employment while vested.

Table A-5 presents the expected annual percentage increase in salaries.

Tables A-6 to A-11 present the probabilities a member will leave the system for various reasons.

NOTE: Assumptions for Probation members are assumed to be the same as Safety members unless otherwise noted.

Actuarial Cost Method

The actuarial valuation is prepared using the entry age actuarial cost method (CERL 31453.5). Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit (until maximum retirement age).

For members who transferred from Plan 3 to another General plan, entry age is based on the transfer date.

The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the Unfunded Actuarial Accrued Liability (UAAL). The UAAL as of June 30, 2008 is amortized as a level percentage of the projected salaries of present and future members of SamCERA over the remaining period from the valuation date to June 30, 2023. This is commonly referred to as a “closed amortization method”. Actuarial gains and losses after the June 30, 2008 valuation are amortized over new closed 15-year periods from their respective valuation dates.

Beginning with the June 30, 2010 actuarial valuation, the San Mateo County Mosquito and Vector Control District adopted the same “enhanced” benefit formula that applies to Plan 1, 2 & 4 County General members and the same member rates currently being paid by County General members from those plans. However, because the Mosquito and Vector Control District does not participate in cost sharing on the member rates, it will have a separate normal cost rate and expected member contribution rate from the County General group.

The normal cost rate is calculated separately for County General and for the Mosquito and Vector Control District. These normal cost rates will differ from each other for two reasons:

1) The demographics within the two groups will vary (specifically, the groups will have different average entry ages), and
2) The expected refund of contributions, which is a component of the normal cost, will differ between the County and the Mosquito and Vector Control District, since the District does not participate in cost sharing on the member rates.

Records and Data

The data used in this valuation consist of financial information and the age, service, and income records for active and inactive members and their survivors. All of the data were supplied by SamCERA and are accepted for valuation purposes without audit.

Replacement of Terminated Members

The ages and relative salaries at entry of future members are assumed to follow a new entrant distribution based on the pattern of current members. Under this assumption, the normal cost rates for active members will remain fairly stable in future years unless there are changes in the governing law, the actuarial assumptions or the pattern of the new entrants.

Growth in Membership

For benefit determination purposes, no growth in the membership of SamCERA is assumed. For funding purposes, if amortization is required, the total payroll of covered members is assumed to grow due to the combined effects of future wage increases of current active members and the replacement of the current active members by new employees. No growth in the total number of active members is assumed.

Internal Revenue Code Section 415 Limit

The Internal Revenue Code Section 415 maximum benefit limitations are not reflected in the valuation for funding purposes. Any limitation is reflected in a member’s benefit after retirement.

Internal Revenue Code Section 401(a)(17)

The Internal Revenue Code Section 401(a)(17) maximum compensation limitation is not reflected in the valuation for funding purposes. Any limitation is reflected in a member’s benefit after retirement.

Employer Contributions

The employer contribution rate is set by the Retirement Board based on actuarial valuations.

Member Contributions

The member contribution rates vary by entry age (except for Plan 7) and are described in the law. Code references are shown in Appendix B of the valuation report. The methods and assumptions used are detailed later in this section.

The individual member rates by entry age, plan, and class are illustrated in Appendix D of the valuation report.

Valuation of Assets

The assets are valued using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. The expected market value is the prior year’s market value increased with the net increase in the cash flow of funds, all increased with interest during the past fiscal year at the expected investment return rate assumption.

Investment Earnings and Expenses

The future investment earnings of the assets of SamCERA are assumed to accrue at an annual rate of 7.25% compounded annually, net of both investment and administrative expenses. This rate was adopted effective June 30, 2014.

Postretirement Benefit Increases

Postretirement increases are described in Appendix B. Assumed increases for valuation purposes are:

	General	Safety	Probation
Plan 1	3.00%	3.00%	2.90%
Plan 2	2.65%	2.65%	2.65%
Plan 3	0.00%	N/A	N/A
Plans 4, 5 & 7	1.90%	1.90%	1.90%
Plan 6	N/A	1.90%	1.90%

Assumed Plan 1 General and Safety COLAs are set at the inflation (CPI) assumption of 3.00% per year. Since Plan 2 does not have a COLA bank, it is expected that increases will be limited in some years. This reduces the overall expected rate and is reflected in a lower assumed increase.

Interest on Member Contributions

The annual credited interest rate on member contributions is assumed to be 7.25% compounded semi-annually for an annualized rate of 7.38%. This rate was adopted effective June 30, 2014 for valuation purposes, although the change in member crediting was not effective until July 1, 2015.

Future Salaries

The rates of annual salary increase assumed for the purpose of the valuation are illustrated in Table A-5. In addition to increases in salary due to promotions and longevity, this scale includes an assumed 3.50% per annum rate of increase in the general wage level of the membership.

Increases are assumed to occur mid-year. The mid-year timing reflects that salary increases occur throughout the year, or on average mid-year.

SamCERA supplied two types of compensation data:
1) pensionable pay from the most recent bi-weekly pay period; and 2) pensionable pay from the prior year. We annualized bi-weekly pay (by multiplying by 26) and then used the greater of the two amounts.

Social Security Wage Base

Plan 3 members have their benefits offset by an assumed Social Security Benefit. For valuation funding purposes, we need to project the Social Security Benefit. We assume the current Social Security provisions will continue and the annual Wage Base will increase at the rate of 3.00% per year. Note, statutory provisions describe how to compute a member's offset amount at time of termination or retirement.

Retirement

The retirement rates vary by age and are shown by plan in Tables A-6 through A-11.

All General members who attain or who have attained age 70 and all Safety members who have attained age 60 are assumed to retire immediately. Additionally, if a member's benefit is equal to or greater than the 100% of compensation limit, they are also assumed to retire immediately. For purposes of the valuation, immediate retirement is assumed at:

- Age 62 with 38 years of service (General, except Plan 3 and Plan 7)
- Age 67 with 40 years of service (General Plan 7)
- Any age with 33 years of service (Safety & Probation, except Plans 5 and 6)
- Age 55 with 33 years of service (Safety & Probation Plan 5)
- Age 55 with 38 years of service (Safety & Probation Plan 6)
- Age 57 with 38 years of service (Safety & Probation Plan 7)

Deferred vested members are assumed to retire at the later of current age and:

- Age 55 (General Members, except Plan 3 and Plan 7)
- Age 65 (General Plan 3 Members)
- Age 62 (General Plan 7 Members)
- Age 50 (Probation and Safety members)

The retirement rates were adopted June 30, 2014.

Disablement

The rates of disablement used in the valuation are also illustrated in Tables A-6 through A-11.

The disability rates were adopted June 30, 2014.

Mortality – Other Than Disabled Members

The same postretirement mortality rates are used in the valuation for active members, members retired for service, and beneficiaries. These rates are illustrated in Table A-2. Beneficiary mortality is assumed to be the same as for healthy members. Beneficiaries are assumed to be of the opposite sex and have the same mortality as General members.

General Males	RP-2000 Healthy Combined Mortality Table for Males with adjustment for White Collar workers. Ages are set back three years.
Safety Males	Same as General.
General Females	RP-2000 Healthy Combined Mortality Table for Females with adjustment for White Collar workers. Ages are set back three years.
Safety Females	Same as General.

The rates of retired mortality were adopted June 30, 2011 and re-adopted June 30, 2014.

Mortality – Disabled Members

For disabled members, the mortality rates used in the valuation are illustrated in Table A-3.

General Males	Average of RP-2000 Healthy Combined Mortality Table for Males with adjustment for White Collar workers and the RP-2000 Disabled Annuitant Mortality Table for Males, both set back three years.
Safety Males	RP-2000 Healthy Combined Mortality Table for Males with adjustment for White Collar workers (minimum is 1.0%).
General Females	Average of RP-2000 Healthy Combined Mortality Table for Females with adjustment for White Collar workers and the RP-2000 Disabled Annuitant Mortality Table for Females, both set back three years.
Safety Females	RP-2000 Healthy Combined Mortality Table for Females with adjustment for White Collar workers (minimum is 1.0%).

The rates of mortality were adopted June 30, 2011 and re-adopted June 30, 2014.

Other Employment Terminations

Tables A-6 to A-11 show, for all ages, the rates assumed in this valuation for future termination from active service other than for death, disability or retirement. These rates do not apply to members eligible for service retirement.

Terminating employees may withdraw their contributions immediately upon termination of employment and forfeit the right to further benefits, or they may leave their contributions with SamCERA. Former contributing members whose contributions are on deposit may later elect to receive a refund, may return to work or may remain inactive until becoming eligible to receive a retirement benefit under either SamCERA or a reciprocal retirement system. All terminating members who are not eligible for vested benefits are assumed to withdraw their contributions immediately.

The rates of termination were adopted June 30, 2011 and re-adopted June 30, 2014.

Probability of Refund

Table A-4 gives the assumed probabilities that vested members will withdraw their contributions and elect a refund immediately upon termination and the probability the remaining members will elect a deferred vested benefit. For Plan 3, 100% of members are assumed to elect a vested benefit. All non-vested members are assumed to elect a refund and withdraw their contributions.

The probability of refund assumptions were adopted June 30, 2011 and re-adopted June 30, 2014.

Probability of Eligible Survivor

For members not currently in pay status, 75% of all males and 55% of all females are assumed to have eligible survivors (spouses or qualified domestic partners). Survivors are assumed to be three years younger than male members and two years older than female members. Survivors are assumed to be of the opposite sex as the member. There is no explicit assumption for children's benefits. We believe the survivor benefits based on this assumption are sufficient to cover children's benefits as they occur.

Valuation of Current Deferred Members

Current non-vested members who have terminated active employment are assumed to take a refund of their contributions.

Current vested members who have terminated active employment are assumed to keep their accounts with SamCERA and retire as specified in this section. An adjustment is made to the salary data provided for these individuals, as it is our understanding that the salary data may not be complete in many cases. The adjustment is based on the average pay for all members of the active group divided by average pay for the deferred group. The average pay for the active group is based on the average pay over the last five-year period using the information supplied in the CAFR.

Reciprocal Benefits

35% of future deferred vested General members and 45% of future deferred vested Safety members are assumed to immediately join a reciprocal agency. For future reciprocal members, salaries are assumed to increase at the same rate as if they had remained in active employment with SamCERA. For current deferred vested members, eligibility is based on the data supplied by SamCERA and future salaries are assumed to increase at 4.02% annually.

Part-Time Employees

For valuation purposes, part-time employees are assumed to continue working the same number of hours in the future.

Member Contribution Rate Assumptions

The following assumptions summarize the procedures used to compute member contribution rates based on entry age:

In general, the member rate is determined by the present value of the future benefit (PVFB) payable at retirement age, divided by the present value of all future salaries payable between age at entry and retirement age. For these purposes, per the CERL:

A. The annuity factor used for General members is based on a 33% / 67% blend of the male and female annuity factors using current valuation assumptions and no COLA. For Safety members it is based on an 83% / 17% blend of the male and female annuity factors using current valuation assumptions.

B. The annuity factor used in determining the present value of future benefits (PVFB) at entry age is equal to the life only annuity factor at 7.25%.

C. The Final Compensation is based on the salary paid in the year prior to attaining the retirement age.

   Example: For a Plan 4 Member who enters at age 54 or earlier, the Final Compensation at retirement (age 55) will be the monthly average of the annual salary for age 54.

D. For purposes of calculating the value of the member's future contribution, interest is assumed to be credited at 7.25% semiannually (7.38% annual rate).

E. Member Rates are assumed to increase with entry age, except in Plan 7. There are a few exceptions at the higher entry ages where the calculated rate is less than the previous entry age. In these cases the member contribution rate is adjusted so that it is no less than the value for the previous entry age.

F. Member Rates for members of the California Nurses Association, members of the Union of American Physicians and Dentists and members of the Probation and Detention Association in Plans 1, 2, and 4 are loaded to account for a 25% COLA share. The COLA loads are applied to the otherwise applicable basic member rates, prior to the addition of cost-sharing. The loads were determined based on 2012 information and were applied as follows:

   Plan 1 General members: 20.87% load
   Plan 2 General members: 16.40% load
   Plan 4 General members: 11.18% load

   Plan 1 Probation members: 31.29% load
   Plan 2 Probation members: 31.29% load
   Plan 4 Probation members: 20.39% load

Member Contribution Rate Assumptions (continued)

G. General members rehired on or after August 7, 2011, Safety members rehired on or after January 8, 2012 and Probation members rehired on or after July 10, 2011 in Plans 1, 2, and 4 are loaded to account for a 50% COLA share. The COLA loads are applied to the otherwise applicable basic member rates, prior to the addition of cost-sharing. The loads were determined based on 2012 information and were applied as follows:

Plan 1 General members: 41.75% load
Plan 2 General members: 32.79% load
Plan 4 General members: 22.36% load

Plan 1 Safety members: 62.54% load
Plan 2 Safety members: 50.00% load
Plan 4 Safety members: 32.81% load

Plan 1 Probation members: 62.57% load
Plan 2 Probation members: 62.57% load
Plan 4 Probation members: 40.78% load

H. Member rates for members in Plans 5 and 6 are loaded to account for 50% COLA share. The COLA loads are applied to the otherwise applicable basic member rates, prior to the addition of cost-sharing where applicable. The loads were determined based on 2012 information and were applied as follows:

Plan 5 General members: 21.30% load

Plan 5 Probation members: 37.02% load
Plan 6 Probation members: 33.36% load

Plan 5 Safety members: 30.07% load
Plan 6 Safety members: 26.88% load

Table A-1: Summary of Valuation Assumptions as of June 30, 2014

I.	Economic assumptions	
	A. General wage increases	3.50%
	B. Investment earnings	7.25%
	C. Growth in active membership	0.00%
	D. CPI inflation assumption	3.00%
II.	Demographic assumptions	
	A. Salary increases due to service	Table A-5
	B. Retirement	Tables A-6 to A-11
	C. Disablement	Tables A-6 to A-11
	D. Mortality for active members prior to termination	Tables A-6 to A-11

Basis-- RP-2000 Employees Table with age adjustments:

Class of Members	Age Adjustment
General – Males	-3 years
General – Females	-3 years
Safety – Males	-3 years
Safety – Females	-3 years

E. Mortality for active members after termination and service retired members — Table A-2

Basis – RP-2000 Healthy Combined Mortality Table with adjustment for White Collar workers:

Class of Members	Age Adjustment
General – Males	-3 years
General – Females	-3 years
Safety – Males	-3 years
Safety – Females	-3 years

Table A-1: Summary of Valuation Assumptions as of June 30, 2014 (continued)

F. Mortality among disabled members — Table A-3

Basis – Average of RP-2000 Healthy Combined Mortality Table with adjustment for White Collar workers and RP-2000 Disabled Annuitant Mortality Table:

Class of Members	Age Adjustment	Minimum Rate
General – Males	-3 years	None
General – Females	-3 years	None

Basis – RP-2000 Healthy Combined Mortality Table with adjustment for White Collar workers:

Class of Members	Age Adjustment	Minimum Rate
Safety – Males	none	1.00%
Safety – Females	none	0.40%

G. Mortality for beneficiaries — Table A-2

Basis – Beneficiaries are assumed to be of the opposite sex and have the same mortality as General members.

H. Other terminations of employment — Tables A-6 to A-11

I. Refund of contributions on vested termination — Table A-4

Table A-2: Mortality for Members Retired for Service

Age	General Male	General Female	Safety Male	Safety Female
20	0.030%	0.018%	0.030%	0.018%
25	0.037%	0.019%	0.037%	0.019%
30	0.038%	0.022%	0.038%	0.022%
35	0.043%	0.036%	0.043%	0.036%
40	0.071%	0.053%	0.071%	0.053%
45	0.103%	0.076%	0.103%	0.076%
50	0.158%	0.123%	0.158%	0.123%
55	0.250%	0.192%	0.250%	0.192%
60	0.409%	0.332%	0.409%	0.332%
65	0.731%	0.599%	0.731%	0.599%
70	1.404%	1.094%	1.404%	1.094%
75	2.387%	1.878%	2.387%	1.878%
80	4.236%	3.155%	4.236%	3.155%
85	7.493%	5.337%	7.493%	5.337%
90	13.019%	9.248%	13.019%	9.248%

Table A-3: Mortality for Members Retired for Disability

Age	General Male	General Female	Safety Male	Safety Female
20	1.144%	0.382%	1.000%	0.400%
25	1.147%	0.382%	1.000%	0.400%
30	1.148%	0.384%	1.000%	0.400%
35	1.150%	0.391%	1.000%	0.400%
40	1.164%	0.399%	1.000%	0.400%
45	1.180%	0.411%	1.000%	0.400%
50	1.335%	0.509%	1.000%	0.400%
55	1.703%	0.769%	1.000%	0.400%
60	2.106%	1.099%	1.000%	0.468%
65	2.615%	1.503%	1.106%	0.865%
70	3.424%	2.114%	1.928%	1.519%
75	4.664%	3.082%	3.363%	2.572%
80	6.725%	4.555%	5.941%	4.308%
85	9.840%	6.783%	10.467%	7.419%
90	14.271%	10.350%	17.827%	12.615%

Table A-4: Immediate Refund of Contributions Upon Termination of Employment (Excludes Plan 3)

Years of Service	General	Safety
0	100%	100%
1	100%	100%
2	100%	100%
3	100%	100%
4	100%	100%
5	45%	35%
6	45%	35%
7	45%	35%
8	44%	34%
9	43%	33%
10	42%	32%
11	41%	31%
12	40%	30%
13	38%	25%
14	36%	20%
15	34%	15%
16	32%	10%
17	30%	5%
18	27%	4%
19	24%	3%
20	21%	0%
21	18%	0%
22	15%	0%
23	12%	0%
24	9%	0%
25	6%	0%
26	3%	0%
27	0%	0%
28	0%	0%
29	0%	0%
30 & Up	0%	0%

Table A-5: Annual Increase in Salary

Years of Service	Due to Promotion and Longevity	Total Annual Increase*
<1	6.00%	9.71%
1	4.00%	7.64%
2	3.00%	6.61%
3	2.50%	6.09%
4	2.00%	5.57%
5	1.75%	5.31%
6	1.50%	5.05%
7	1.25%	4.79%
8	1.05%	4.59%
9	0.90%	4.43%
10	0.80%	4.33%
11	0.70%	4.22%
12	0.60%	4.12%
13	0.50%	4.02%
14	0.50%	4.02%
15	0.50%	4.02%
16	0.50%	4.02%
17	0.50%	4.02%
18	0.50%	4.02%
19	0.50%	4.02%
20 or More	0.50%	4.02%

** The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.50% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.*

Appendix A: Rates of Separation From Active Service
Tables A-6 to A-11

A schedule of the probabilities of termination of employment due to the following causes can be found on the following pages:

Service Retirement:	Member retires after meeting age and service requirements for reasons other than disability.
Withdrawal:	Member terminates and elects a refund of member contributions, or a deferred vested retirement benefit.
Service Disability:	Member receives disability retirement; disability is service related.
Ordinary Disability:	Member receives disability retirement; disability is not service related.
Service Death:	Member dies before retirement; death is service related.
Ordinary Death:	Member dies before retirement; death is not service related.

Each rate represents the probability that a member will separate from service at each age due to the particular cause. For example, a rate of 0.0300 for a member's service retirement at age 50 means we assume that 30 out of 1,000 members who are age 50 will retire at that age.

Each table represents the detailed rates needed for each SamCERA plan by sex:

Table A-6: General Plan 1, 2, 4, 5 & 7 Males
A-7: General Plan 1, 2, 4, 5 & 7 Females
A-8: General Plan 3 Males
A-9: General Plan 3 Females
A-10: Safety and Probation Plans 1, 2, 4, 5, 6 & 7 Males
A-11: Safety and Probation Plans 1, 2, 4, 5, 6 & 7 Females

San Mateo County Employees' Retirement Association

Table A-6: Rate of Separation From Active Service General Plans 1, 2, 4, 5 & 7 – Male

Age	Service Retirement*	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
18	0.0000	0.0004	0.0003	N/A	0.0003	0	0.1300
19	0.0000	0.0004	0.0003	N/A	0.0003	1	0.1100
20	0.0000	0.0004	0.0003	N/A	0.0003	2	0.0900
21	0.0000	0.0004	0.0003	N/A	0.0003	3	0.0800
22	0.0000	0.0004	0.0003	N/A	0.0003	4	0.0700
23	0.0000	0.0004	0.0003	N/A	0.0003	5	0.0633
24	0.0000	0.0004	0.0003	N/A	0.0004	6	0.0567
25	0.0000	0.0004	0.0003	N/A	0.0004	7	0.0500
26	0.0000	0.0004	0.0003	N/A	0.0004	8	0.0470
27	0.0000	0.0004	0.0003	N/A	0.0004	9	0.0440
28	0.0000	0.0004	0.0003	N/A	0.0004	10	0.0410
29	0.0000	0.0005	0.0003	N/A	0.0004	11	0.0380
30	0.0000	0.0005	0.0004	N/A	0.0004	12	0.0350
31	0.0000	0.0005	0.0004	N/A	0.0004	13	0.0330
32	0.0000	0.0006	0.0004	N/A	0.0004	14	0.0310
33	0.0000	0.0007	0.0004	N/A	0.0004	15	0.0290
34	0.0000	0.0007	0.0005	N/A	0.0005	16	0.0270
35	0.0000	0.0007	0.0005	N/A	0.0006	17	0.0250
36	0.0000	0.0008	0.0005	N/A	0.0006	18	0.0230
37	0.0000	0.0009	0.0006	N/A	0.0007	19	0.0210
38	0.0000	0.0010	0.0006	N/A	0.0008	20	0.0190
39	0.0000	0.0010	0.0007	N/A	0.0008	21	0.0170
40	0.0000	0.0011	0.0008	N/A	0.0009	22	0.0150
41	0.0000	0.0012	0.0008	N/A	0.0010	23	0.0140
42	0.0000	0.0013	0.0009	N/A	0.0010	24	0.0130
43	0.0000	0.0014	0.0009	N/A	0.0011	25	0.0120
44	0.0000	0.0014	0.0010	N/A	0.0011	26	0.0110
45	0.0000	0.0016	0.0010	N/A	0.0012	27	0.0100
46	0.0000	0.0016	0.0011	N/A	0.0013	28	0.0100
47	0.0000	0.0017	0.0012	N/A	0.0014	29	0.0100
48	0.0000	0.0018	0.0012	N/A	0.0015	30 & Above	0.0000
49	0.0000	0.0019	0.0012	N/A	0.0016		
50	0.0500	0.0019	0.0013	N/A	0.0017		
51	0.0450	0.0020	0.0013	N/A	0.0019		
52	0.0450	0.0020	0.0013	N/A	0.0020		
53	0.0500	0.0021	0.0014	N/A	0.0021		
54	0.0500	0.0022	0.0014	N/A	0.0023		
55	0.0600	0.0022	0.0014	N/A	0.0024		
56	0.0600	0.0022	0.0015	N/A	0.0026		
57	0.0800	0.0023	0.0015	N/A	0.0028		
58	0.1200	0.0025	0.0016	N/A	0.0030		
59	0.1200	0.0026	0.0017	N/A	0.0033		
60	0.1500	0.0027	0.0018	N/A	0.0036		
61	0.2250	0.0029	0.0019	N/A	0.0040		
62	0.2750	0.0030	0.0020	N/A	0.0044		
63	0.2500	0.0030	0.0020	N/A	0.0049		
64	0.2500	0.0030	0.0020	N/A	0.0054		
65	0.2500	0.0030	0.0020	N/A	0.0059		
66	0.3750	0.0030	0.0020	N/A	0.0065		
67	0.3500	0.0030	0.0020	N/A	0.0070		
68	0.2750	0.0030	0.0020	N/A	0.0076		
69	0.3250	0.0030	0.0020	N/A	0.0081		
70	1.0000	0.0000	0.0000	N/A	0.0000		

** 100% probability of retirement is assumed at ages 62 and above with 38 or more years of service (67/40 for Plan 7).*

Table A-7: Rate of Separation From Active Service General Plans 1, 2, 4, 5 & 7 – Female

Age	Service Retirement*	Service Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
18	0.0000	0.0004	0.0003	N/A	0.0002	0	0.1200
19	0.0000	0.0004	0.0003	N/A	0.0002	1	0.1000
20	0.0000	0.0004	0.0003	N/A	0.0002	2	0.0850
21	0.0000	0.0004	0.0003	N/A	0.0002	3	0.0750
22	0.0000	0.0004	0.0003	N/A	0.0002	4	0.0700
23	0.0000	0.0004	0.0003	N/A	0.0002	5	0.0633
24	0.0000	0.0004	0.0003	N/A	0.0002	6	0.0567
25	0.0000	0.0004	0.0003	N/A	0.0002	7	0.0500
26	0.0000	0.0004	0.0003	N/A	0.0002	8	0.0455
27	0.0000	0.0004	0.0003	N/A	0.0002	9	0.0410
28	0.0000	0.0004	0.0003	N/A	0.0002	10	0.0365
29	0.0000	0.0004	0.0003	N/A	0.0002	11	0.0320
30	0.0000	0.0004	0.0003	N/A	0.0002	12	0.0275
31	0.0000	0.0004	0.0003	N/A	0.0002	13	0.0270
32	0.0000	0.0005	0.0003	N/A	0.0002	14	0.0265
33	0.0000	0.0005	0.0003	N/A	0.0003	15	0.0260
34	0.0000	0.0005	0.0004	N/A	0.0003	16	0.0255
35	0.0000	0.0006	0.0004	N/A	0.0003	17	0.0250
36	0.0000	0.0007	0.0004	N/A	0.0004	18	0.0230
37	0.0000	0.0007	0.0005	N/A	0.0004	19	0.0210
38	0.0000	0.0007	0.0005	N/A	0.0005	20	0.0190
39	0.0000	0.0008	0.0005	N/A	0.0005	21	0.0170
40	0.0000	0.0008	0.0006	N/A	0.0006	22	0.0150
41	0.0000	0.0009	0.0006	N/A	0.0006	23	0.0140
42	0.0000	0.0009	0.0006	N/A	0.0006	24	0.0130
43	0.0000	0.0011	0.0007	N/A	0.0007	25	0.0120
44	0.0000	0.0011	0.0008	N/A	0.0008	26	0.0110
45	0.0000	0.0013	0.0008	N/A	0.0009	27	0.0100
46	0.0000	0.0014	0.0009	N/A	0.0009	28	0.0100
47	0.0000	0.0015	0.0010	N/A	0.0010	29	0.0100
48	0.0000	0.0020	0.0013	N/A	0.0011	30 & Above	0.0000
49	0.0000	0.0025	0.0016	N/A	0.0012		
50	0.0400	0.0029	0.0020	N/A	0.0013		
51	0.0400	0.0034	0.0023	N/A	0.0014		
52	0.0400	0.0039	0.0026	N/A	0.0016		
53	0.0400	0.0041	0.0027	N/A	0.0017		
54	0.0500	0.0043	0.0028	N/A	0.0018		
55	0.0600	0.0044	0.0030	N/A	0.0020		
56	0.0600	0.0046	0.0031	N/A	0.0021		
57	0.0800	0.0048	0.0032	N/A	0.0023		
58	0.1200	0.0048	0.0032	N/A	0.0025		
59	0.1200	0.0048	0.0032	N/A	0.0028		
60	0.1500	0.0048	0.0032	N/A	0.0030		
61	0.2000	0.0048	0.0032	N/A	0.0033		
62	0.2750	0.0048	0.0032	N/A	0.0036		
63	0.2250	0.0048	0.0032	N/A	0.0039		
64	0.3000	0.0048	0.0032	N/A	0.0043		
65	0.3000	0.0048	0.0032	N/A	0.0047		
66	0.4000	0.0048	0.0032	N/A	0.0050		
67	0.4000	0.0048	0.0032	N/A	0.0054		
68	0.3000	0.0048	0.0032	N/A	0.0058		
69	0.3500	0.0048	0.0032	N/A	0.0062		
70	1.0000	0.0000	0.0000	N/A	0.0000		

** 100% probability of retirement is assumed at ages 62 and above with 38 or more years of service (67/40 for Plan 7).*

Table A-8: Rate of Separation From Active Service General Plan 3 – Male

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death
18	0.0000	N/A	N/A	N/A	0.0003
19	0.0000	N/A	N/A	N/A	0.0003
20	0.0000	N/A	N/A	N/A	0.0003
21	0.0000	N/A	N/A	N/A	0.0003
22	0.0000	N/A	N/A	N/A	0.0003
23	0.0000	N/A	N/A	N/A	0.0003
24	0.0000	N/A	N/A	N/A	0.0004
25	0.0000	N/A	N/A	N/A	0.0004
26	0.0000	N/A	N/A	N/A	0.0004
27	0.0000	N/A	N/A	N/A	0.0004
28	0.0000	N/A	N/A	N/A	0.0004
29	0.0000	N/A	N/A	N/A	0.0004
30	0.0000	N/A	N/A	N/A	0.0004
31	0.0000	N/A	N/A	N/A	0.0004
32	0.0000	N/A	N/A	N/A	0.0004
33	0.0000	N/A	N/A	N/A	0.0004
34	0.0000	N/A	N/A	N/A	0.0005
35	0.0000	N/A	N/A	N/A	0.0006
36	0.0000	N/A	N/A	N/A	0.0006
37	0.0000	N/A	N/A	N/A	0.0007
38	0.0000	N/A	N/A	N/A	0.0008
39	0.0000	N/A	N/A	N/A	0.0008
40	0.0000	N/A	N/A	N/A	0.0009
41	0.0000	N/A	N/A	N/A	0.0010
42	0.0000	N/A	N/A	N/A	0.0010
43	0.0000	N/A	N/A	N/A	0.0011
44	0.0000	N/A	N/A	N/A	0.0011
45	0.0000	N/A	N/A	N/A	0.0012
46	0.0000	N/A	N/A	N/A	0.0013
47	0.0000	N/A	N/A	N/A	0.0014
48	0.0000	N/A	N/A	N/A	0.0015
49	0.0000	N/A	N/A	N/A	0.0016
50	0.0000	N/A	N/A	N/A	0.0017
51	0.0000	N/A	N/A	N/A	0.0019
52	0.0000	N/A	N/A	N/A	0.0020
53	0.0000	N/A	N/A	N/A	0.0021
54	0.0000	N/A	N/A	N/A	0.0023
55	0.0300	N/A	N/A	N/A	0.0024
56	0.0300	N/A	N/A	N/A	0.0026
57	0.0300	N/A	N/A	N/A	0.0028
58	0.0300	N/A	N/A	N/A	0.0030
59	0.0300	N/A	N/A	N/A	0.0033
60	0.0300	N/A	N/A	N/A	0.0036
61	0.0600	N/A	N/A	N/A	0.0040
62	0.1500	N/A	N/A	N/A	0.0044
63	0.1000	N/A	N/A	N/A	0.0049
64	0.1500	N/A	N/A	N/A	0.0054
65	0.3000	N/A	N/A	N/A	0.0059
66	0.3000	N/A	N/A	N/A	0.0065
67	0.3000	N/A	N/A	N/A	0.0070
68	0.3000	N/A	N/A	N/A	0.0076
69	0.3000	N/A	N/A	N/A	0.0081
70	1.0000	N/A	N/A	N/A	0.0000

Years of Service	Other Terminations
0	0.1300
1	0.1100
2	0.0900
3	0.0800
4	0.0700
5	0.0633
6	0.0567
7	0.0500
8	0.0470
9	0.0440
10	0.0410
11	0.0380
12	0.0350
13	0.0330
14	0.0310
15	0.0290
16	0.0270
17	0.0250
18	0.0230
19	0.0210
20	0.0190
21	0.0170
22	0.0150
23	0.0140
24	0.0130
25	0.0120
26	0.0110
27	0.0100
28	0.0100
29	0.0100
30 & Above	0.0100

Table A-9: Rate of Separation From Active Service General Plan 3 – Female

Age	Service Retirement	Service Disability	Ordinary Disability	Service Death	Ordinary Death
18	0.0000	N/A	N/A	N/A	0.0002
19	0.0000	N/A	N/A	N/A	0.0002
20	0.0000	N/A	N/A	N/A	0.0002
21	0.0000	N/A	N/A	N/A	0.0002
22	0.0000	N/A	N/A	N/A	0.0002
23	0.0000	N/A	N/A	N/A	0.0002
24	0.0000	N/A	N/A	N/A	0.0002
25	0.0000	N/A	N/A	N/A	0.0002
26	0.0000	N/A	N/A	N/A	0.0002
27	0.0000	N/A	N/A	N/A	0.0002
28	0.0000	N/A	N/A	N/A	0.0002
29	0.0000	N/A	N/A	N/A	0.0002
30	0.0000	N/A	N/A	N/A	0.0002
31	0.0000	N/A	N/A	N/A	0.0002
32	0.0000	N/A	N/A	N/A	0.0002
33	0.0000	N/A	N/A	N/A	0.0003
34	0.0000	N/A	N/A	N/A	0.0003
35	0.0000	N/A	N/A	N/A	0.0003
36	0.0000	N/A	N/A	N/A	0.0004
37	0.0000	N/A	N/A	N/A	0.0004
38	0.0000	N/A	N/A	N/A	0.0005
39	0.0000	N/A	N/A	N/A	0.0005
40	0.0000	N/A	N/A	N/A	0.0006
41	0.0000	N/A	N/A	N/A	0.0006
42	0.0000	N/A	N/A	N/A	0.0006
43	0.0000	N/A	N/A	N/A	0.0007
44	0.0000	N/A	N/A	N/A	0.0008
45	0.0000	N/A	N/A	N/A	0.0009
46	0.0000	N/A	N/A	N/A	0.0009
47	0.0000	N/A	N/A	N/A	0.0010
48	0.0000	N/A	N/A	N/A	0.0011
49	0.0000	N/A	N/A	N/A	0.0012
50	0.0000	N/A	N/A	N/A	0.0013
51	0.0000	N/A	N/A	N/A	0.0014
52	0.0000	N/A	N/A	N/A	0.0016
53	0.0000	N/A	N/A	N/A	0.0017
54	0.0000	N/A	N/A	N/A	0.0018
55	0.0400	N/A	N/A	N/A	0.0020
56	0.0400	N/A	N/A	N/A	0.0021
57	0.0400	N/A	N/A	N/A	0.0023
58	0.0400	N/A	N/A	N/A	0.0025
59	0.0400	N/A	N/A	N/A	0.0028
60	0.0400	N/A	N/A	N/A	0.0030
61	0.0600	N/A	N/A	N/A	0.0033
62	0.1500	N/A	N/A	N/A	0.0036
63	0.1000	N/A	N/A	N/A	0.0039
64	0.1500	N/A	N/A	N/A	0.0043
65	0.3000	N/A	N/A	N/A	0.0047
66	0.3000	N/A	N/A	N/A	0.0050
67	0.3000	N/A	N/A	N/A	0.0054
68	0.3000	N/A	N/A	N/A	0.0058
69	0.3000	N/A	N/A	N/A	0.0062
70	1.0000	N/A	N/A	N/A	0.0000

Years of Service	Other Terminations
0	0.1200
1	0.1000
2	0.0850
3	0.0750
4	0.0700
5	0.0633
6	0.0567
7	0.0500
8	0.0455
9	0.0410
10	0.0365
11	0.0320
12	0.0275
13	0.0270
14	0.0265
15	0.0260
16	0.0255
17	0.0250
18	0.0230
19	0.0210
20	0.0190
21	0.0170
22	0.0150
23	0.0140
24	0.0130
25	0.0120
26	0.0110
27	0.0100
28	0.0100
29	0.0100
30 & Above	0.0100

Table A-10: Rate of Separation From Active Service Safety & Probation Plans – Male

Age	Plans 1, 2, 4 Service Retirement*	Plans 5, 6, 7 Service Retirement**	Service Disability	Ordinary Disability	Service Death	Ordinary Death
18	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
19	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
20	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
21	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
22	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
23	0.0000	0.0000	0.0017	0.0000	0.0010	0.0003
24	0.0000	0.0000	0.0017	0.0000	0.0010	0.0004
25	0.0000	0.0000	0.0017	0.0000	0.0010	0.0004
26	0.0000	0.0000	0.0017	0.0000	0.0010	0.0004
27	0.0000	0.0000	0.0017	0.0000	0.0010	0.0004
28	0.0000	0.0000	0.0018	0.0000	0.0010	0.0004
29	0.0000	0.0000	0.0019	0.0000	0.0010	0.0004
30	0.0000	0.0000	0.0020	0.0000	0.0010	0.0004
31	0.0000	0.0000	0.0021	0.0000	0.0010	0.0004
32	0.0000	0.0000	0.0022	0.0000	0.0010	0.0004
33	0.0000	0.0000	0.0023	0.0000	0.0010	0.0004
34	0.0000	0.0000	0.0024	0.0000	0.0010	0.0005
35	0.0000	0.0000	0.0025	0.0000	0.0010	0.0006
36	0.0000	0.0000	0.0026	0.0000	0.0010	0.0006
37	0.0000	0.0000	0.0028	0.0000	0.0010	0.0007
38	0.0000	0.0000	0.0029	0.0000	0.0010	0.0008
39	0.0000	0.0000	0.0030	0.0000	0.0010	0.0008
40	0.0000	0.0000	0.0031	0.0000	0.0010	0.0009
41	0.0000	0.0000	0.0032	0.0000	0.0010	0.0010
42	0.0000	0.0000	0.0033	0.0000	0.0010	0.0010
43	0.0000	0.0000	0.0034	0.0000	0.0010	0.0011
44	0.0000	0.0000	0.0036	0.0000	0.0010	0.0011
45	0.0000	0.0000	0.0037	0.0000	0.0010	0.0012
46	0.0000	0.0000	0.0039	0.0000	0.0010	0.0013
47	0.0000	0.0000	0.0040	0.0000	0.0010	0.0014
48	0.0000	0.0000	0.0046	0.0000	0.0010	0.0015
49	0.0000	0.0000	0.0052	0.0000	0.0010	0.0016
50	0.1500	0.0500	0.0058	0.0000	0.0010	0.0017
51	0.1250	0.0500	0.0064	0.0000	0.0010	0.0019
52	0.1500	0.0500	0.0070	0.0000	0.0010	0.0020
53	0.2000	0.0500	0.0082	0.0000	0.0010	0.0021
54	0.1300	0.1000	0.0095	0.0000	0.0010	0.0023
55	0.2750	0.2750	0.0107	0.0000	0.0010	0.0024
56	0.2500	0.2750	0.0120	0.0000	0.0010	0.0026
57	0.1700	0.2750	0.0132	0.0000	0.0010	0.0028
58	0.2000	0.2750	0.0119	0.0000	0.0010	0.0030
59	0.2500	0.2750	0.0106	0.0000	0.0010	0.0033
60	1.0000	1.0000	0.0000	0.0000	0.0000	0.0000

Years of Service	Other Terminations
0	0.0700
1	0.0650
2	0.0450
3	0.0300
4	0.0250
5	0.0233
6	0.0217
7	0.0200
8	0.0185
9	0.0170
10	0.0155
11	0.0140
12	0.0125
13	0.0120
14	0.0115
15	0.0110
16	0.0105
17	0.0100
18	0.0080
19	0.0060
20 & Above	0.0000

** 100% probability of retirement is assumed at ages 50 and above with 33 or more years of service for Safety and Probation Plans 1, 2, and 4.*

*** 100% probability of retirement is assumed at ages 55 and above with 33 or more years of service for Safety and Probation Plan 5, and at ages 55 and above with 38 or more years of service for Safety and Probation Plan 6 (57/38 for Plan 7).*

Table A-11: Rate of Separation From Active Service Safety & Probation Plans – Female

Age	Plans 1, 2, 4 Service Retirement*	Plans 5, 6, 7 Service Retirement**	Service Disability	Ordinary Disability	Service Death	Ordinary Death
18	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
19	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
20	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
21	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
22	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
23	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
24	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
25	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
26	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
27	0.0000	0.0000	0.0017	0.0000	0.0010	0.0002
28	0.0000	0.0000	0.0018	0.0000	0.0010	0.0002
29	0.0000	0.0000	0.0019	0.0000	0.0010	0.0002
30	0.0000	0.0000	0.0020	0.0000	0.0010	0.0002
31	0.0000	0.0000	0.0021	0.0000	0.0010	0.0002
32	0.0000	0.0000	0.0022	0.0000	0.0010	0.0002
33	0.0000	0.0000	0.0023	0.0000	0.0010	0.0003
34	0.0000	0.0000	0.0024	0.0000	0.0010	0.0003
35	0.0000	0.0000	0.0025	0.0000	0.0010	0.0003
36	0.0000	0.0000	0.0026	0.0000	0.0010	0.0004
37	0.0000	0.0000	0.0028	0.0000	0.0010	0.0004
38	0.0000	0.0000	0.0029	0.0000	0.0010	0.0005
39	0.0000	0.0000	0.0030	0.0000	0.0010	0.0005
40	0.0000	0.0000	0.0031	0.0000	0.0010	0.0006
41	0.0000	0.0000	0.0032	0.0000	0.0010	0.0006
42	0.0000	0.0000	0.0033	0.0000	0.0010	0.0006
43	0.0000	0.0000	0.0034	0.0000	0.0010	0.0007
44	0.0000	0.0000	0.0036	0.0000	0.0010	0.0008
45	0.0000	0.0000	0.0037	0.0000	0.0010	0.0009
46	0.0000	0.0000	0.0039	0.0000	0.0010	0.0009
47	0.0000	0.0000	0.0040	0.0000	0.0010	0.0010
48	0.0000	0.0000	0.0046	0.0000	0.0010	0.0011
49	0.0000	0.0000	0.0052	0.0000	0.0010	0.0012
50	0.1500	0.0500	0.0058	0.0000	0.0010	0.0013
51	0.1250	0.0500	0.0064	0.0000	0.0010	0.0014
52	0.1500	0.0500	0.0070	0.0000	0.0010	0.0016
53	0.2000	0.0500	0.0082	0.0000	0.0010	0.0017
54	0.1300	0.1000	0.0095	0.0000	0.0010	0.0018
55	0.2750	0.2750	0.0107	0.0000	0.0010	0.0020
56	0.2500	0.2750	0.0120	0.0000	0.0010	0.0021
57	0.1700	0.2750	0.0132	0.0000	0.0010	0.0023
58	0.2000	0.2750	0.0119	0.0000	0.0010	0.0025
59	0.2500	0.2750	0.0106	0.0000	0.0010	0.0028
60	1.0000	1.0000	0.0000	0.0000	0.0000	0.0000

Years of Service	Other Terminations
0	0.0700
1	0.0650
2	0.0450
3	0.0300
4	0.0250
5	0.0233
6	0.0217
7	0.0200
8	0.0185
9	0.0170
10	0.0155
11	0.0140
12	0.0125
13	0.0120
14	0.0115
15	0.0110
16	0.0105
17	0.0100
18	0.0080
19	0.0060
20 & Above	0.0000

** 100% probability of retirement is assumed at ages 50 and above with 33 or more years of service.*

*** 100% probability of retirement is assumed at ages 55 and above with 33 or more years of service for Safety and Probation Plan 5, and at ages 55 and above with 38 or more years of service for Safety and Probation Plan 6 (57/38 for Plan 7).*

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 5.3

TO: Board of Retirement

FROM: Scott Hood, Assistant Executive Officer

SUBJECT: Acceptance of Actuarial Auditor's Findings Regarding the Investigation of Experience Report FY 2012-2014

Staff Recommendation

Staff will present Segal's "Actuarial Review of 2014 Investigation of Experience" and its recommendations. No action is required under this agenda item.

Discussion

At its February 25th meeting, the Board of Retirement authorized the CEO to contract with The Segal Co. to perform actuarial auditing services including an audit of the Triennial Investigation of Experience report and the Annual Actuarial Valuation.

Segal has reviewed the Experience Report provided by Milliman, Inc. In its review Segal states:

> "Our overall assessment of Milliman's actuarial work for SamCERA is that all major actuarial functions are being appropriately addressed. Milliman has employed generally accepted actuarial practices and principles in studying plan experience, selecting assumptions, computing employer contribution rates, and presenting the results of their work. However, we believe that adopting separate merit and promotional assumptions for General and Safety (including Probation) members should result in a better allocation of the cost of providing benefits between those membership groups."

Segal made some recommendations to Milliman to improve future experience reports. These recommendations are summarized on pages 26 and 27 of the Segal Report. In Staff's discussions with Milliman about the report, Milliman agreed with Segal in many respects and will continue to monitor the experience over the next three years to determine if the recommendations are supported by a continuation of the trends, the most notable being the merit increase difference between Safety and General members. Milliman agrees that different merit and promotional assumptions may be appropriate but not until the data demonstrates the necessity over the next period of experience.

Segal also opined in its report on the actuarial assumption changes recommended by Milliman. Segal stated that:

> "We believe that the actuarial assumptions as recommended by Milliman to the Board are reasonable for use in SamCERA's actuarial valuation."

The CEO will summarize the Segal report. Neither Paul Angelo nor Andy Yeung from Segal Co. will be present during this agenda item, however they will be present at the August meeting for further discussion of their report.

Attachment

Actuarial Review of 2014 Investigation of Experience

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Actuarial Review of 2014 Investigation of Experience

Segal Consulting
100 Montgomery Street, Suite 500
San Francisco, CA 94104

JULY 2014

Segal Consulting

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

July 21, 2014

Board of Retirement
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood Shores, California 94065

Re: Actuarial Review of 2014 Investigation of Experience

Dear Members of the Board:

We are pleased to present the results of this review of the 2014 investigation of experience for the San Mateo County Employees' Retirement Association (*SamCERA*). The purpose of this review is to verify the recommendations on the economic and non-economic assumptions made by Milliman in their draft report dated July 7, 2014 and to offer comments on the methodology and the results of their investigation.

This review was conducted by Paul Angelo, a Fellow of the Society of Actuaries, Member of the American Academy of Actuaries, and an Enrolled Actuary under ERISA, and Andy Yeung, an Associate of the Society of Actuaries, Member of the American Academy of Actuaries, and an Enrolled Actuary under ERISA. This review was conducted in accordance with the standards of practice prescribed by the Actuarial Standards Board.

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

We appreciate the opportunity to be of service to *SamCERA* and we are available to answer any questions you may have on this report.

Sincerely,

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

Andy Yeung, ASA, MAAA, FCA, EA
Vice President and Associate Actuary

AB/hy

cc: Nick J. Collier, ASA, EA, MAAA
Craig Glyde, ASA, EA, MAAA

5322770v2/13476.102

This report has been prepared by Segal Consulting to present a review of the 2014 investigation of experience performed by Milliman for *SamCERA* for the period July 1, 2011 through April 30, 2014 based on their draft report dated July 7, 2014.

In reviewing the actuarial assumptions, we found that Milliman has employed generally accepted actuarial practices and principles in studying and selecting those assumptions. We believe that, except as noted below, those actuarial assumptions as recommended by Milliman are reasonable for use in *SamCERA*'s upcoming actuarial valuation as of June 30, 2014. The focus of the review is to comment on those items which, in our opinion, are subject to improvement, so as to contribute to the improvement of the valuation process.

Our overall assessment of Milliman's actuarial work for *SamCERA* is that all major actuarial assumptions are being appropriately reviewed. However, based on our observation of the salary experience in our last audit for each of the General and Safety (including Probation) plans over the prior two-year period (from July 1, 2008 to June 30, 2010) as well as over the current two-year period from July 1, 2011 to June 30, 2013, we would strongly recommend that the Board consider adopting separate merit and promotional salary increase assumptions for each of the General and Safety members as that should result in a better allocation of the cost of providing benefits between the two membership groups.

Our observations and recommendations are summarized as follows:

- Currently, the same merit and promotional salary increase assumptions are used for both the General and the Safety (including Probation) members in the actuarial valuation. Milliman is recommending no change in the current assumptions based on their review of the combined General and Safety salary experience over a two-year period (from July 1, 2011 to June 30, 2013).

  In our review of the 2011 investigation of experience, we recommended that Milliman consider reviewing the salary experience as part of the next study to determine if separate merit and promotional salary increase assumptions for General and Safety would be justified. That recommendation was based on our experience from working with other county retirement systems as we found that experience sometimes supports the establishment of a different set of merit and promotional salary increase assumptions for each of the General and Safety plans. We noted that the salary experience over the two-year period (from July 1, 2008 to June 30, 2010) for *SamCERA* was quite different between the General and Safety members.

In the 2014 investigation of experience, Milliman studied the merit experience for the General and Safety members separately, and confirmed that difference between the two groups at *SamCERA* (they also commented on the existence of such difference in other systems). However, Milliman did not recommend separate merit assumptions for General and Safety groups citing that such difference could be just a short-term fluctuation and not a long-term trend.

We strongly believe based on our observations from the prior and the current experience study periods that separate General and Safety assumptions are warranted for the current study as that should result in a better allocation of the cost of providing benefits between the General and Safety membership groups[1]. In addition, we would recommend that Milliman document the merit experience not only for the all active members, but also for General and Safety separately in their 2014 experience study report.

- Milliman has derived the investment return assumption by applying *SamCERA*'s target asset allocation in a model developed by Milliman's investment practice and using the average capital market assumptions collected by Milliman from eight investment consultants.

  We concur with Milliman's use of an average from a sample of capital market assumptions instead of only one investment consultant's assumptions. This should mitigate the undesired outcome of having the expected investment returns dependent on which investment consultant is employed by a retirement plan.

[1] *If separate merit and promotional assumptions were to be applied, there would be an increase in the employer and employee contribution rates for the Safety plans and a decrease in the employer and employee contribution rates for the General plans.*

- For the investment return assumption, Milliman recommends reducing the current assumption of 7.50% to 7.25%, net of administrative and investment related expenses. This recommendation is mainly driven by the lower level of assumed price inflation (which is only 2.15% based on the average inflation assumption built into the capital market assumptions from the eight investment consultants used by Milliman). That inflation assumption is offset to some degree by a new expense assumption used by Milliman in the current experience study that assumes a 0.00% net investment expense (as opposed to an assumption of 0.80% used in their 2011 investigation of experience for both administrative and investment expenses) based on the presumption that the capital market assumptions provided by the eight investment consultants have already been adjusted to be net of these investment expenses.

  As an independent check, Segal has applied the model that we use for other California public retirement systems to review the recommended investment return assumption. Based on the application of our model, we believe that the level of risk implicit in the 7.25% investment return assumption, along with the 3.00% price inflation assumption that Milliman recommends for developing *SamCERA*'s benefit liabilities is higher than the comparable risk measure from the 2011 audit. However, we note that our preference is to move in incremental steps when changing the inflation and investment return assumptions. Thus, we support the 7.25% recommendation and do not recommend reducing the investment return assumption even further in this study.

  It should be noted that individual actuarial firms use different models with different criteria and parameters to determine the investment return assumption, and the model used by Segal is different from that used by Milliman. We believe that the most significant difference between our model and Milliman's model is that we develop a discount rate based on expected or mean arithmetic average returns, which correspond to an expected or mean level of future assets. In contrast, Milliman is developing a discount rate based on median geometric average returns, which correspond to a median level of future assets. It turns out that, if you want to be at least 50% sure of having sufficient future assets to match your future liabilities, you need to use a lower discount rate than if you instead want to "expect" to have sufficient future assets to match those liabilities. We *discuss this admittedly counter-intuitive result in more detail in our report. The other differences are: (1) Segal would base the investment return on the same 3.00% price inflation assumption as is used in projecting SamCERA's benefit liabilities (i.e., salary increase for actives and COLA for retirees) and (2) an adjustment of 0.8% to reflect investment expenses in developing investment return assumption. These two considerations are discussed below.*

- Historically, the investment return assumption recommended by Milliman and approved by the Board has on the average a greater that 50% chance of being exceeded by the expected experience over the next 30 years as anticipated by Milliman's model. However, we want to reiterate the observation made by Milliman in their report that the 7.25% recommended assumption in the current experience study has a less than 50% chance of being exceeded over the next 30 years according to their model. However, that less than 50% probability would improve somewhat if Milliman were to make the following adjustments that we believe they should consider in their model used to develop the 7.25% assumption.

  1) <u>Adjustment to include at least some investment expenses</u>
     Investment expenses[2] have historically been subtracted explicitly by Milliman from the indexed (or passively managed) returns in developing the investment return assumption which in turn lowered the expected investment return assumption. Note that we generally would not recommend an explicit assumption in the development of the investment return assumption that would anticipate additional returns ("alpha") from active management.[3] We further note that about \$6 million[4] of the expense paid in 2012/2013 was for investment and actuarial consulting, custodian banking, taxes, interest, dividends and other expenses that either were not directly in pursuit of "alpha" returns or were expenses that had not been netted out of the capital market assumptions. We recommend that Milliman

[2] *For SamCERA, the total of all investment expenses has averaged about 0.80% of the market value of SamCERA's portfolio as of June 30, 2013.*
[3] *This is consistent with the current Actuarial Standard of Practice No. 27, Section 3.6.3.e, which states: "Investment Manager Performance – Anticipating superior (or inferior) investment manager performance may be unduly optimistic (pessimistic). Few investment managers consistently achieve significant above-market returns nets of expenses over long periods."*
[4] *\$6 million was about 0.23% of the market value SamCERA's portfolio as of June 30, 2013.*

review their methodology in conjunction with the revised ASOP 27 before the June 30, 2015 valuation. We believe that the revised ASOP 27 could, in fact, be interpreted as allowing for the exclusion of active investment expenses, but not necessarily the passive investment expenses and activities (such as the $6 million described above) that are not directly related to the pursuit of additional "alpha" returns or have not been netted out of the capital market assumptions.

2) <u>Adjustment to use 3.0% inflation assumption to develop the 7.25% investment return assumption</u>

   Milliman uses the average capital market assumptions from eight investment consultants in their model which includes an average 2.15% inflation assumption, built in the average capital market assumptions by those investment consultants. However, the inflation component of Milliman's recommended assumptions used to project *SamCERA*'s benefit obligations (i.e., salary increases for actives and COLA for retirees) is 3.0%. We believe it would be more consistent to use the average real return (net of inflation used by the investment consultants) and increase that by the 3.0% inflation assumption as recommended by Milliman. That change would bring the investment return up by 0.85%. As was discussed before, we would also recommend an offsetting change to take into account some (passive expenses of 0.23%) or all (total expenses of 0.80%) of the investment expenses discussed in (1).

The net result of (1) and (2) may be an increase in the median return, which would increase the confidence level of the 7.25% assumption.

- The Governmental Accounting Standards Board (GASB) has adopted Statements 67 and 68. GASB Statement 67 which governs *SamCERA*'s financial reporting is effective for plan year 2013/2014, while GASB Statement 68 governs the employers' financial reporting and is effective for *SamCERA* employer's fiscal year 2014/2015. The new Statements specify requirements for measuring both the pension liability and the annual pension expense incurred by the employers. The new GASB requirements are only for financial reporting and do not affect how the Association determines funding requirements for its employers. GASB requires that the investment return assumption for financial reporting be net of investment expenses but not net of (i.e., without reduction for) administrative expenses. Currently, *SamCERA*'s investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

While *SamCERA* could continue to develop its funding investment return assumption net of both investment and administrative expenses, that would mean that the Association would then have two slightly different investment return assumptions, one for funding and one for financial reporting. To avoid this apparent discrepancy, and to maintain the consistency of liability measures described later, we believe that it would be preferable to use the same investment return assumption for both funding and financial reporting purposes. This means that the assumption for funding purposes would be developed on a basis that is net of only investment expenses.

We recommend that Milliman work with *SamCERA* to resolve this issue for the June 30, 2014 valuation (or alternatively before the next valuation as of June 30, 2015) after reviewing the issue regarding the implicit allocation of the cost for administrative expenses between the member and the employer that is discussed in more detail later in our report.

- To review the principal non-economic assumptions for reasonability, we have created our own database for this experience study based on data files that were used by Milliman in their June 30, 2011, 2012 and 2013 valuations. For the experience from July 1, 2013 to April 30, 2014, we have used the same data files provided by *SamCERA* to Milliman that were created specifically to capture the experience of the last 10 months of the experience study period.

- In order to review the recommended increase in the disability assumptions, at our request, Milliman provided us with a list of the actual members they used in their study. It included 72 disability awards instead of the 79 originally shown in the draft 2014 investigation of experience. That difference of 7 disability awards is due to a change made by Milliman in their method for this study and should have included the removal of an adjustment they made with the prior method. After reviewing that file, we were able to confirm all awards except for another 7, which should be classified as pre-retirement deaths and not as disability awards. Even though we recommend Milliman show only 65 disability awards in the 2014 investigation of experience report, we concur with Milliman's recommended disability assumptions.

- Milliman recommended no changes to the mortality assumptions. The actual to expected ratio for healthy and disabled retirees for *SamCERA* as a whole increased from 114% in the 2011 investigation of experience to 127% in the 2014 investigation of experience. We agree that even though the ratio of 127% is higher than the ratio normally used to anticipate future mortality improvement (115% is cited as generally used by Milliman and 110% is generally used by Segal), it could still be reasonable for Milliman to not recommend a change in the current mortality assumptions if they believe that anticipating a higher level of future improvement is appropriate. However, instead of applying an age setback[5] to the RP-2000 mortality tables, Milliman should consider incorporating in the next investigation of experience a projection scale[6] that reflects more up-to-date trend for improvements in mortality. Although the actual to expected ratio would remain similar to that under the current mortality assumption, a projection scale might better anticipate future pattern of mortality improvement at certain ages.

- For the service retirement assumption, Milliman may want to consider extending the analysis shown in the report to include General members retiring at ages 70 to 75 and Safety members to age 65.

[5] *A 3-year setback is recommended by Milliman for healthy General and Safety members resulting in an expectation of a somewhat uniform level of improvement in mortality at most ages. For example, under that adjustment, the mortality rates for someone at age 57 is used for a SamCERA retiree at age 60.*

[6] *Using the projection scales would result in relatively higher level of improvement in mortality at ages immediately following retirement.*

In addition, Milliman may want to consider reducing the General Plan 5 and Plan 7 retirement rates below age 65 and reducing even more the General Plan 7 retirement rates below age 55. These plans offer benefits that are very different from General Plans 1, 2 and 4, yet they have the same retirement rates as used for General Plans 1, 2 and 4.

- Beside the principal demographic assumptions, there are some ancillary assumptions that also have to be made in the valuation. Those assumptions include: (i) the probability of deferred members expected to be employed by another reciprocal retirement system[7], (ii) the probability of members with spouses/domestic partners eligible for the 60% (100% on service connected disability or service connected death) automatic continuance benefit and (iii) the expected age at retirement for the deferred vested members.

  Milliman is recommending a change to item (ii) while leaving unchanged items (i) and (iii). There is no detail provided supporting their recommendations for item (iii). Milliman has since provided us with that data pursuant to our request. We would recommend Milliman include the detail supporting their recommendations. Milliman should also consider including in the body of the report the salary increase assumption they recommend for deferred vested members (as discussed in, footnote (7) of this report).

- In preparing the recommended actuarial assumptions for some of our county retirement system clients, we sometimes include an assumption to anticipate the conversion of unused sick leave to retirement service credit at retirement.

  We understand from reviewing material available online that the employers at *SamCERA* may permit the employees to convert unused sick leave to contributions for purchasing

[7] *This should also include the assumption used by Milliman to project the salary increases while the deferred member is working at another reciprocal employer. Of note is that this assumption is only referenced in the Appendix section but no development of this assumption is provided in the body of the 2014 investigation of experience report.*

health benefits. To the extent that members in *SamCERA* may convert unused sick leave to retirement service credit but such conversion may be mitigated by conversion to contributions for purchasing health benefit, we would nonetheless recommend a disclosure to that effect in the experience study.

We are in the process of replicating Milliman's calculation of the liabilities and the contribution rates for *SamCERA*. We will be including, as part of that review, a determination of the liabilities and the contribution rates (using data as of June 30, 2014) based on the final assumptions recommended by Milliman and adopted by the Board for the June 30, 2014 valuation.

The staff at Milliman has been very knowledgeable, cooperative and helpful in the course of our review.

PURPOSE AND SCOPE OF THE ACTUARIAL REVIEW

Purpose of the Review

The purpose of this review is to provide *SamCERA* an independent opinion as to the reasonableness of the methods, analysis and recommendations of Milliman in developing the actuarial assumptions presented in their 2014 investigation of experience for *SamCERA*. Toward this purpose we used the guidelines of the relevant Actuarial Standards of Practice established by the Actuarial Standards Board as well as comparisons to recognized and accepted methods and practices as the gauge of reasonableness.

Scope of the Actuarial Review

The scope of the Actuarial Review, as described in *SamCERA*'s Actuarial Audit Services Agreement with Segal, includes the following:

- Discussion of the appropriateness of the actuarial assumptions.
- Review the actuarial assumptions and methodology for compliance with the County Employee's Retirement Law of 1937 (CERL) statutues, *SamCERA*'s regulations and policies; and for compliance with generally recognized and accepted actuarial principles and practices which are consistent with Actuarial Standards of Practice, the Code of Professional Conduct, Qualifications Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries, and GASB Statement 67 and 68.
- Accuracy of funding computations.
- Appropriateness of established reserve accounts.
- Appropriateness of recommended employer and employee contribution rates.
- Evaluation of actuarial asset methods.
- Assess the validity of the 2014 valuation using a mathematical model of plan activity or sampling based on the same data, methods, and assumptions used by Milliman.

- Evaluate the test results and reconcile any significant discrepancies between the findings, assumptions, methodology, rates, and adjustments of the auditing firm and Milliman.

- Assess whether the valuation appropriately reflects information required to be disclosed under required reporting standards (GASB, etc.).

- Assess the accuracy of the simulation model provided to *SamCERA* by its actuary.

- An evaluation and an opinion on the reasonableness and accuracy of the valuation results (including a determination of actuarial accrued liability, normal cost, and actuarial required contributions), experience study findings, actuarial assumptions, and appropriateness and application of the actuarial cost method.

- Recommendations (if any) for reasonable alternatives to the actuarial assumptions used in the 2014 valuation or recommended as a result of the fiscal year 2012-2014 experience study.

- Recommendations to improve the quality and understanding of the valuation report.

- A comparison of existing actuarial methodology, assumptions and recommendations versus information generated by the replicative audit.

RESULTS OF THE ACTUARIAL REVIEW

Review of Economic Assumptions

The economic assumptions reviewed by Milliman during the 2014 experience study are the assumed rate of consumer price inflation, investment rate of return (net of expenses), wage growth (including real wage increases), payroll growth and growth in membership. Actuarial Standard of Practice No. 27 (ASOP 27) provides the actuary guidance in developing these assumptions. Primary among these guidelines is the need for consistency among the economic assumptions selected by the actuary. Milliman has recommended a set of economic assumptions that are generally consistent with each other, with one exception. The inflation assumption built into the capital market assumptions used to develop the investment return assumption is not the same as the inflation component of assumptions used to project the benefit obligations (i.e., salary increase for actives and COLA for retirees).

Milliman has utilized a "building block" approach in developing the recommended investment return and salary increase assumptions. Under this approach, the investment rate of return assumption is the combination of the inflation component and the real rate of return component (used by the investment consultants), less an expense component. Similarly, the salary increase assumption is the combination of the inflation component, the real wage increase component and the merit increase component. In our experience, this is generally the preferred approach for developing this assumption.

A) Inflation Assumption for Use in Projecting Benefit Obligations

The first "building block" to consider is the price inflation component assumption. This assumption underlies all other economic assumptions, including both the investment return and the projection of benefit liabilities (i.e., salary increase for actives and COLA for retirees). In their analysis, Milliman has determined the best-estimate range for this component to be from 1.75% to 3.25%. As in our 2011 review, we still feel that the lower end of this range could be somewhat higher, but we do not believe that the range is unreasonable.

Since the current inflation assumption of 3.25% is at the high end of this range, Milliman recommends reducing the inflation assumption to 3.00%.

We believe that Milliman's recommendations are reasonable. However, there is an inconsistency between the inflation assumption used in the development of the investment return assumption and that used in the development of assumptions used to project the benefit obligations (i.e., salary increase for actives and COLA for retirees).

B) <u>Administrative and Investment Expense Assumption for Use in Development of Investment Return</u>

Milliman analyzes the total of administrative and investment related expenses as a percentage of market value of assets for each plan year since 2004. The total expense ratio has ranged from a low of 0.49% to a high of 1.12%. The average over the ten-year period from 2004 to 2013 was 0.76%, while the average over the most recent three-year period from fiscal year 2011 to 2013 was 1.00%. The average administrative expense was 0.16% over the ten-year period and 0.19% over the most recent three-year period. The average investment expense was 0.60% over the ten-year period and 0.81% over the most recent three-year period. Milliman recommends the administrative expense assumption to be set equal to 0.20% and the investment expense assumption to be set equal to 0.00%. In the 2011 investigation of experience, Milliman recommended a 0.80% assumption for <u>both</u> administrative and investment expenses, but in the 2014 investigation of experience, Milliman recommends the investment expense assumption to be 0.00% based on the presumption the capital market assumptions provided by the eight investment consultants have already been adjusted to be net of those expenses. While we have not audited the capital market assumptions, it has been our experience working with some of the investment consultants retained by our county retirement system clients that their capital market assumptions are generally gross of (i.e. not reduced for) investment expenses.

It should be noted that individual actuarial firms use different models with different criteria and parameters to determine the investment return assumption, and the model used by Segal is different from that used by Milliman. Segal would subtract the investment expenses (0.80%) from the indexed (or passively managed) returns in developing the investment return assumption which would lower the expected investment return assumption. Note that in developing the investment return assumption we generally would not recommend an explicit assumption that there would be additional returns ("alpha") from active management. This is consistent with the current Actuarial Standard of Practice No. 27, Section 3.6.3.e, which states: "Investment Manager Performance – Anticipating superior (or inferior) investment manager performance may be unduly optimistic (pessimistic). Few investment managers consistently achieve significant above-market returns nets of expenses over long periods."

We further note that about $6 million[8] of the expense paid in 2012/2013 was for investment and actuarial consulting, custodian banking, taxes, interest, dividends and other expenses that either were not directly in pursuit of "alpha" returns or were expenses that had not been netted out of the capital market assumptions. We recommend that Milliman review their methodology in conjunction with the revised ASOP 27 before the June 30, 2015 valuation. We believe that the revised ASOP 27 could, in fact, be interpreted as allowing for the exclusion of active investment expenses, but not necessarily the passive investment expenses and activities (such as the $6 million) that are not directly related to the pursuit of additional "alpha" returns (or to expenses that were not netted out of the capital market assumptions).

Adjustment to Exclude Administrative Expenses in Developing Investment Return Assumption to Maintain Consistency with GASB Financial Liability Reporting

The Governmental Accounting Standards Board (GASB) has adopted Statements 67 and 68. The new GASB requirements are only for financial reporting and do not affect how the Association determines funding requirements for its employers. GASB requires that the investment return assumption for financial reporting be net of investment expenses but not net of (i.e., without reduction for) administrative expenses. Currently, *SamCERA*'s investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

While *SamCERA* could continue to develop its funding investment return assumption net of both investment and administrative expenses, that would mean that the Association would then have

[8] *$6 million was about 0.23% of the market value SamCERA's portfolio as of June 30, 2013.*

two slightly different investment return assumptions, one for funding and one for financial reporting. To avoid this apparent discrepancy, and to maintain the consistency of liability measures described later, we believe that it would be preferable to use the same investment return assumption for both funding and financial reporting purposes. This means that the assumption for funding purposes would be developed on a basis that is net of only investment expenses.

We recommend that Milliman work with *SamCERA* to resolve this issue for the June 30, 2014 valuation (or alternatively before the next valuation as of June 30, 2015) after reviewing the issue regarding the implicit allocation of the cost for administrative expenses between the member and the employer that is discussed in the Appendix of this report.

C) <u>Development of Investment Rate of Return Assumption</u>

For the investment rate of return assumption, Milliman recommends reducing the current assumption of 7.50% to 7.25%, net of administrative and investment related expenses. Milliman has derived the investment return assumption by applying *SamCERA*'s target asset allocation in a stochastic model developed by Milliman's investment practice and using the average of capital market assumptions collected by Milliman from eight investment consultants.

Based on stochastic modeling and stochastic assumptions, Milliman has determined the "best-estimate range" to be from 5.5% to 8.6%, which are the 25th and 75th percentiles of their 30-year total return distribution. We believe that, as defined in the current ASOP 27, this is an appropriate "best-estimate range" for long-term returns for a portfolio similar to *SamCERA*. We observe the following:

- Consistent with 2011 investigation of experience, to estimate the expected return from each category class, Milliman uses an average from a sample of capital market assumptions instead of only one investment consultant's assumptions. We concur with their approach as that should mitigate the undesired outcome (and possibly significant variability) of having the expected investment returns dependent on which investment consultant is employed by a retirement plan.

In our 2011 audit, we recommended that Milliman disclose the average capital market assumptions used in their analysis for each asset category. In this experience study, Milliman has appropriately disclosed that information.

- Milliman discusses that the median return from their stochastic modeling (after adjusting for the expense assumption of 0.2%) is 7.0%. Milliman uses the average capital market assumptions in their model which includes an implicit inflation assumption (developed by the eight individual investment consultants) which averaged only 2.15%. However, Milliman's recommended inflation assumption component for projecting the benefit obligations (i.e., salary increase for actives and COLA for retirees) is 3.0%. We believe it would be more consistent to use the average real return (net of inflation used by the investment consultants) in combination with the 3.0% inflation assumption recommended by Milliman. If this were to be used by Milliman, it would bring the investment return assumption up by 0.85%.

  However, as was discussed before, we would also recommend an offsetting change to take into account some (passive expenses of 0.23%) or all (total expenses of 0.80%) of the investment expenses. The net result may be an increase in the median return of 7.0% calculated by Milliman in their model.

- As an independent check, Segal has applied the model that we use for other California public retirement systems to review both the recommended and adopted 7.25% investment return assumptions. While, especially when first applied, our model does not generally produce an absolute investment return recommendation, it is very useful in comparing the level of risk inherent in the investment return assumptions adopted by a given retirement system at different points in time, as measured using that model.

  Based on the application of our model, we believe that the level of risk implicit in the 7.25% investment return assumption, along with a 3.00% price inflation assumption, is higher than the comparable risk measure from the 2011 audit. However, we note that our preference is to move in incremental steps when changing the inflation and investment return assumptions. Thus, we support the 7.25% recommendation and do not recommend reducing the investment return assumption even further in this study.

- Another test of the recommended investment return assumption is to compare it against those used by other public retirement systems, both in California and nationwide. We note that an investment return assumption of 7.25% is on the lower side for this assumption among most California public sector retirement systems. The most common range, with a few exceptions, is from 7.50% to 7.75%. In particular, two of the largest California systems, CalPERS and CalSTRS, have both adopted a 7.50% investment return assumption. Note that a few 37 Act County systems (Contra Costa County, Fresno County, Santa Barbara County and Orange County) have adopted a 7.25% investment return assumption.

Taking into account the above discussion and based on our own independent analysis, we believe that the 7.25% investment return assumption that has been recommended by Milliman to the Board is reasonable. However, we believe that they should consider making adjustment in their model to address the issues related to the investment expense and inflation as discussed above.

Other Considerations Regarding Recent Revisions to Actuarial Standard of Practice No. 27

Milliman noted that there are recent revisions to ASOP 27 that will be effective for the 2015 valuation. Amongst other things, the revisions eliminate the “best-estimate range” and instead require the assumption to be reasonable only if it has no significant bias other than a provision for adverse deviation, which is specifically allowed.

In addition, the revised ASOP 27 includes text indicating that active and passive returns, net of fees, should be assumed comparable absent relevant and supporting data over the measurement period (emphasis added). Since the measurement period is the long-term period over which assets will be invested, it may be necessary to obtain data and determine whether, over long periods, active and passive returns are comparable before fees.

We recommend that Milliman review this assumption for compliance with the new ASOP No. 27 before the June 30, 2015 actuarial valuation.

D) Salary Increase Assumption

Milliman also utilized a “building block” approach in developing the recommended salary increase assumption. Under this approach, the salary increase assumption is the combination of the price inflation component, the productivity or real wage increase component, and the merit and promotional increase component. This is generally the preferred approach for developing this assumption.

Inflation Component

The price inflation component was discussed earlier where we agreed with Milliman's recommendation.

Productivity or Real Wage Increase Component

Real "across the board" pay increases are sometimes termed productivity increases since they are considered to be derived from the ability of an organization or an economy to produce goods or services in a more efficient manner. As that occurs, some portion of the value of these improvements can provide a source for pay increases greater than price inflation. These increases are typically assumed to extend to all employees "across the board." When these increases are combined with the price inflation component the result is the wage growth component, which reflects the average rate of increase in salaries regardless of the years of service or age of the member.

For the current study, Milliman determined the best estimate range for the real wage increase component to be from 0.25% to 1.25%, based on a review of national wage data over the period from 1936 to 2013 and information from the 2013 Trustees Report from the Office of the Chief Actuary of the Social Security Administration.

Milliman noted that real wage inflation has averaged 0.60% per year over the last 50 years and they recommended maintaining the current assumption of 0.50%.

Note that historical real wage increases are generally lower in periods of higher price inflation and vice versa. This is shown in the table on page 17 of Milliman's investigation of experience. Page 18 of Milliman's report also shows that the Office of the Chief Actuary of the Social Security Administration projects that the long-term annual increase in real wages is estimated to be 1.10%.

Based on this information we believe that it could have been appropriate for Milliman to recommend an increase in the real wage increase assumption to 0.75% in order to be more consistent with their recommendations to decrease the price inflation assumption. However, we believe that the current 0.50% real wage increase assumption is nonetheless reasonable based on the 3.00% price inflation assumption.

Merit Increase Component

The last step of the building block needed to complete the salary increase assumption is the merit increase component, which was reviewed by Milliman as part of the demographic assumptions. Merit increases are the salary increases above the general wage increases due to the combination of promotions, longevity increases, bonuses and merit pay increases as applicable. We agree with Milliman's findings concerning the correlation of service and merit increases.

Currently, the same merit and promotional salary increase assumptions are used for both the General and the Safety (including Probation) members in the actuarial valuation. In our review of the 2011 investigation of experience, we recommended that Milliman consider reviewing the salary experience as part of the next study to determine if separate merit and promotional salary increase assumptions for General and Safety would be justified. That recommendation was based on our experience from working with other county retirement systems as we found that experience sometimes supports the establishment of a different set of merit and promotional salary increase assumptions for each of the General and Safety plans. We noted that the salary experience over the two-year period (from July 1, 2008 to June 30, 2010) for *SamCERA* was quite different between the General and Safety members.

In the 2014 investigation of experience, Milliman studied the merit experience for the General and Safety members separately, and confirmed that difference between the two groups at *SamCERA* (they also commented on the existence of such difference in other systems). However, Milliman did not recommend separate merit assumptions for General and Safety groups citing that such difference could be just a short-term fluctuation and not a long-term trend.

At our request, Milliman provided us with the data for General, Safety and Probation over the period July 1, 2011 – June 30, 2013. As can be seen from the table below there are differences in for General and Safety actual experience.

Years of Service	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+
Actual Annual Rates of Increase in Salary Due to Merit and Promotional										
General	6.19%	4.06%	3.08%	1.65%	0.75%	0.00%	0.12%	0.00%	0.00%	0.00%
Probation	0.00%	11.79%	3.76%	7.79%	1.46%	0.44%	1.06%	0.69%	1.38%	0.00%
Safety, excl. Probation	3.20%	3.02%	3.50%	2.62%	1.78%	1.12%	2.04%	2.68%	1.58%	0.00%
Combined	5.67%	3.83%	3.16%	1.97%	0.88%	0.14%	0.52%	0.19%	0.00%	0.00%
Combined Assumptions Recommended by Milliman										
Combined	4.00%	3.00%	2.50%	2.00%	0.90% - 1.75%	0.50% - 0.80%	0.50%	0.50%	0.50%	0.50%

We strongly believe based on our observations from the prior and the current experience study periods that separate General and Safety assumptions are warranted for the current study. In addition, we would recommend that Milliman document the merit experience not only for all active members, but also for General and Safety separately in their 2014 experience study report.

Also, for members with less than 3 years of service, the actual merit and promotional increases over the current experience and the two prior experience study periods were consistently higher than the current assumptions. We believe that an increase in those assumptions at these durations should be considered for the current or the next experience study.

E) Payroll Growth and Future Growth in Membership Assumptions

The current payroll growth assumption used by Milliman for the purposes of amortizing the Unfunded Actuarial Accrued Liability (UAAL) as a level percent of payroll is 3.75% and is directly tied to the wage growth component discussed above. Milliman is recommending decreasing this assumption to 3.50% to reflect the decrease in the price inflation from 3.25% to 3.00%. We concur that this assumption should be equal to the combination of the price inflation and real wage growth components discussed earlier.

Milliman currently assumes that no future growth in membership will occur. This is consistent with parameters set forth by the Governmental Accounting Standards Board and no change was recommended. We concur with this recommendation.

F) Post-Retirement Cost-of-Living Adjustment (COLA) Increases

Milliman decreased COLA assumption to 3% for General Plan 1 and Safety Plan 1, while leaving the COLA assumptions for the other plans unchanged. Even though we understand the rationale for Milliman to justify an assumption of less than the maximum statutory COLA for the other plans, we would recommend they document the reasoning behind their recommendations in the body of the report.

Review of Demographic Assumptions

The Actuarial Standards Board has adopted an Actuarial Standard of Practice (No. 35) which provides actuaries guidance in selecting demographic and other noneconomic assumptions. Reasonableness of each assumption and consistency among the assumptions are primary among the considerations for selecting assumptions in accordance with the ASOP. The Standard of Practice bases the evaluation of an assumption's reasonableness on two criteria. First, the "assumption is expected to appropriately model the contingency being measured." Second, the "assumption is not anticipated to produce significant cumulative actuarial gains or losses over the measurement period."

The primary demographic assumptions reviewed by Milliman during the 2014 experience study are retiree mortality, termination, and service retirement. Secondary assumptions reviewed include pre-retirement mortality, disability retirement (service and non-service related), probability of refund election, probability of an eligible survivor, age of beneficiaries, retirement age for vested terminated members and reciprocity.

For many demographic assumptions, the actuary must consider the factors affecting the variation in the rates of decrement. Often, the rates of termination by active members will be highly correlated to their years of service. Alternatively, the variation in the rates of retirement may be better correlated to the participant's age. The type of assumption utilized determines how the data is to be grouped for analysis. Many large systems have analyzed the correlation of the variation in certain decrements to age and service simultaneously, which can result in a "select and ultimate" type of assumption. In some cases, this additional complexity does not affect results materially.

To review the principal non-economic assumptions for reasonability, we have created our own database for this experience study based on data files that were used by Milliman in their June 30, 2011, 2012 and 2013 valuations. For the experience from July 1, 2013 to April 30, 2014, we have used the same data files provided by *SamCERA* to Milliman that were created specifically to capture the experience of the last 10 months of the experience study period.

The prevalent method used to determine the appropriateness of a demographic assumption is to analyze the actual to expected ratios (AE ratios). An AE ratio is found by dividing, for any single contingency, the actual number to occur during the study period by the number expected to occur based upon current assumptions. These ratios display how well the current assumptions anticipated actual experience. An AE ratio of 100% results when actual experience equals that expected under the assumption.

For each contingency, the actuary determines a reasonable range for the AE ratio. This reasonable range is based upon the materiality of the assumption, the effect of future trends, and the degree of conservatism or margin the actuary considers appropriate. An AE ratio falling into this range would indicate the current assumption may still be appropriate. AE ratios not in the reasonable range may indicate the need to modify the assumption. In our opinion, Milliman has performed accurate analyses overall of the reasonableness of the current assumptions through the use of AE ratios.

Overall, we believe Milliman's recommendations for changes to the demographic assumptions are reasonable, but make the following observations for some of the assumptions.

A) <u>Post-Retirement Mortality Rates</u>

Milliman recommended no changes to the mortality assumptions. The actual to expected ratio for healthy and disabled retirees for *SamCERA* as a whole increased from 114% in the 2011 investigation of experience to 127% in the 2014 investigation of experience. We agree that even though the ratio of 127% is higher than the ratio normally used to anticipate future mortality improvement (115% is cited as generally used by Milliman and 110% is generally used by Segal), it could still be reasonable for Milliman to not recommend a change in the current mortality assumptions if they believe that anticipating a higher level of future improvement is appropriate. However, instead of applying an age setback[9] to the RP-2000 mortality tables, Milliman should consider incorporating in the next investigation of experience a projection scale[10] that reflects more up-to-date trend on improvements in mortality. Although the actual to expected ratio would remain similar to that under the current mortality assumption, a projection scale might better anticipate future pattern of mortality improvement at certain ages.

B) Disability Rates

Actual experience in this study increased in part due to improvement in the reporting process of disabled retirements. At our request, Milliman provided us with a list of the actual members they used in their study. It included 72 disability awards instead of the 79 originally shown in the draft 2014 investigation of experience report. That difference of 7 disability awards is due to a change made by Milliman in their method for this study and should have included the removal of an adjustment they made with the prior method. After reviewing that file, we were able to confirm all awards except for another 7, which should be classified as pre-retirement deaths and not as disability awards. Even though we recommend Milliman show only 65 disability awards in 2014 investigation of experience, we concur with Milliman's recommended disability assumptions.

C) Service Retirement Rates

The data shown in the report for the analysis of the service retirement rates includes General members from ages 50-69 and Safety members from ages less than 60. We recommend that Milliman consider extending their analysis for General members to include members retiring at ages 70 to 75 and for Safety members to age 65. This may show that the highest assumed Safety retirement age could be increased from age 60 to age 65.

We recommend that the retirement rates below age 52 be eliminated for General Plan 7 as these members are not eligible retiring at those ages.

[9] *A 3-year setback is recommended by Milliman for healthy General and Safety members resulting in an expectation of a somewhat uniform level of improvement in mortality at most ages. For example, under that adjustment, the mortality rates for someone at age 57 is used for a SamCERA's retiree at age 60.*

[10] *Using the projection scales would result in relatively higher level of improvement in mortality at ages immediately following the retirement.*

In addition, Milliman may want to consider reducing the General Plan 5 and Plan 7 retirement rates below age 65 and reducing even more the General Plan 7 retirement rates below age 55. These plans offer benefits that are very different from General Plans 1, 2 and 4, yet they have the same retirement rates as used for General Plans 1, 2 and 4.

D) Reciprocity for Terminated Members

In our 2011 review, we recommended that Milliman include in their investigation of experience the data supporting the development of these recommended assumptions for the probabilities of members who go to work for a reciprocal employer. Milliman has included such supporting data and we concur with their recommendations.

In addition, the assumption and the development of the future salary increases for reciprocal terminated members should be discussed in the body of the report.

E) Probability with an Eligible Survivor and Beneficiary Age Difference

Milliman recommends a slight adjustment to the percentage of future male retirees with an eligible survivor under the unmodified retirement allowance and to the beneficiary age difference for female members.

In our 2011 review, we recommended that Milliman include in their investigation of experience the data supporting the development of the recommended assumption for percentage with an eligible survivor. Milliman has included such supporting data and we concur with their recommendations.

F) Retirement Age for Deferred Vested Members

A deferred retirement age assumption is necessary in the valuation to anticipate when those members who left their contributions on deposit would ultimately retire from the Association. We recommend that Milliman include the data supporting the development of their deferred retirement age recommendation.

G) Sick Leave Assumption

In preparing the recommended actuarial assumptions for some of our county retirement system clients, we sometimes include an assumption to anticipate the conversion of unused sick leave to retirement service credit at retirement.

We understand from reviewing material available online that that the employers at *SamCERA* may permit the employees to convert unused sick leave to contributions for purchasing health benefits. To the extent that members in *SamCERA* may convert unused sick leave to retirement service credit but such conversion may be mitigated by conversion to contributions for purchasing health benefit, we would nonetheless recommend a disclosure to that effect in the experience study.

Review of Liabilities and Contribution Rates for the June 30, 2014 Valuation

We are in the process of replicating Milliman’s calculation of the liabilities and the contribution rates for *SamCERA*. We will be including, as part of that review, a determination of the liabilities and the contribution rates (using data as of June 30, 2014) based on the final assumptions recommended by Milliman and adopted by the Board for the June 30, 2014 valuation.

Overall Conclusion

Our overall assessment of Milliman's actuarial work for *SamCERA* is that all major actuarial functions are being appropriately addressed. Milliman has employed generally accepted actuarial practices and principles in studying plan experience, selecting assumptions, computing employer contribution rates, and presenting the results of their work. However, we believe that adopting separate merit and promotional assumptions for General and Safety (including Probation) members should result in a better allocation of the cost of providing benefits between the those membership groups.

We believe that the actuarial assumptions as recommended by Milliman to the Board are reasonable for use in *SamCERA*'s actuarial valuation.

The staff at Milliman has been very knowledgeable, cooperative and helpful in the course of our review.

Summary of Suggestions for Future Experience Studies

We strongly recommend a separate merit and promotional increase assumption for General and Safety members in the current experience study. It is our opinion that in future experience studies, Milliman should consider the following:

- For the investment return assumption, reconcile the difference between the inflation assumption built in the capital market assumptions and the inflation assumption used to value the benefit obligations. Review the methodology regarding the treatment of investment expenses in conjunction with ASOP 27 before the June 30, 2015 valuation.

- For the investment return assumption, review the methodology regarding the treatment of administration expenses and the issue regarding the implicit allocation of the cost for administrative expenses between the member and the employer for the June 30, 2014 valuation (or alter natively before the next valuation as of June 30, 2015).

- For the real wage growth assumption, consider increases in this assumption if future recommendations are made to decrease the price inflation assumption.

- For the service retirement assumption, consider extending the analysis shown in the report to include General members retiring at ages 70 to 75 and Safety members to age 65. In addition, consider reducing the General Plan 5 and Plan 7 retirement rates below age 65 and reducing even more the General Plan 7 retirement rates below age 55. These plans offer benefits that are very different from General Plans 1, 2 and 4, yet they have the same retirement rates as those used for General Plans 1, 2 and 4.

- For the post-retirement mortality rates, consider incorporating a projection scale that reflects more up-to-date trend for improvements in mortality instead of an age set back. Although the AE ratio would remain similar to that under the current practice, a projection scale might better anticipate future pattern of mortality improvements at certain ages.

- Milliman should include the assumption used to project future salary increases for reciprocal members in the body of the report.

- For the assumption for the expected age at retirement for the deferred members, consider including data supporting the development of the recommended assumption in the investigation report.

- For the experience study, consider including a disclosure of the assumption on sick leave conversion.

Adjustment to Exclude Administrative Expenses in Developing Investment Return Assumption to Maintain Consistency with GASB Financial Liability Reporting

The Governmental Accounting Standards Board (GASB) has adopted Statements 67 and 68. GASB Statement 67 governs *SamCERA*'s financial reporting and is effective for plan year 2013/2014, while GASB Statement 68 governs *SamCERA* employers' financial reporting and is effective for employer fiscal year 2014/2015. The new Statements specify requirements for measuring both the pension liability and the annual pension expense incurred by the employers. The new GASB requirements are only for financial reporting and do not affect how the Association determines funding requirements for its employers. Nonetheless, it is important to understand how the new financial reporting results will compare with the funding requirement results. That comparison between funding and GASB financial reporting results will differ dramatically depending on whether one is considering measures of the accumulated pension liability or measures of the current year annual pension contribution/expense:

- When measuring pension liability GASB will use the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as *SamCERA* uses for funding. This means that the GASB "Total Pension Liability" (TPL) measure for financial reporting will be determined on the same basis as *SamCERA*'s "Actuarial Accrued Liability" (AAL) measure for funding. This is a generally favorable feature of the new GASB rules that will generally preclude the need to explain why *SamCERA* has two different measures of pension liability. We note that the same is true for the "Normal Cost" component of the annual plan cost for both funding and financial reporting.

- When measuring annual pension expense GASB will require more rapid recognition of investment gains or losses and much shorter amortization of changes in the pension liability (whether due to actuarial gains or losses, actuarial assumption changes or plan amendments). Because of GASB's more rapid recognition of those changes, retirement systems that have generally used the same "annual required contribution" amount for both funding (contributions) and financial reporting (pension expense) will now have to prepare and disclose two different annual cost results, one for contributions and one for financial reporting under the new GASB Statements.

This situation will facilitate the explanation of why the funding and financial reporting results are different: the liabilities and Normal Costs are generally the same, and the differences in annual costs are due to differences in how changes in liability are recognized. However, there is one other feature in the details of how the liabilities are currently measured that will make even the liability and Normal Cost measures different unless action is taken by *SamCERA*.

As noted above, according to GASB, the discount rate used for financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments, just as it is for funding. However, GASB requires that this assumption should be net of investment expenses but not net of (i.e., without reduction for) administrative expenses. Currently, *SamCERA*'s investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

While *SamCERA* could continue to develop its funding investment return assumption net of both investment and administrative expenses, that would mean that the Association would then have two slightly different investment return assumptions, one for funding and one for financial reporting. To avoid this apparent discrepancy, and to maintain the consistency of liability measures described above, we believe that it would be preferable to use the same investment return assumption for both funding and financial reporting purposes. One way to accomplish this would be to develop the assumption for funding purposes on a basis that is net of only investment expenses. To review, using the same assumption for both purposes would be easier for *SamCERA*'s stakeholders to understand and should result in being able to report *SamCERA*'s Actuarial Accrued Liability (AAL) for funding purposes as the Total Pension Liability (TPL) for financial reporting purposes.

There is a complication associated with eliminating the administrative expense in developing the investment return assumption used for funding that relates to the allocation of administrative expense between the employers and employees. However, Segal as well as other actuaries are working with their clients to resolve this issue. We believe that either Milliman or Segal would be able to assist *SamCERA* in resolving those policy and administrative issues.

We recommend that Milliman work with *SamCERA* to resolve this issue for the June 30, 2014 valuation (or alter natively before the next valuation as of June 30, 2015) which is the first reporting date for *SamCERA* under the new GASB standard.

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SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 5.4

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Approval of Milliman's Investigation of Experience Report and Adoption of Report Recommendations

Staff Recommendation

Approve Milliman's Investigation of Experience Report for FY 2012-14 and approve a resolution adopting recommended changes to assumptions based on the same report.

Discussion

The recommendations of the Milliman report include changes in both economic and demographic assumptions. The economic assumptions (mainly the lowering of the investment earnings assumption), adopted by the Board in June 2014, have by far the more significant impact on contributions and funded ratio. The demographic changes are based on the experience of the plan membership and are expected to continue in the future. Changes in demographic assumptions are summarized under agenda item 5.2.

The recommended economic changes are estimated to add 1.95% to the aggregate employer rate, and the demographic changes would add 0.10% for a total increase of 2.05% in employer contribution rate based on the FY 2013 valuation report. However, the projected rate for the County from the upcoming June 30, 2014, valuation report is expected to remain below the County's planned minimum rate of 38% due to offsetting effects from the scheduled recognition of deferred asset gains under the smoothing method. There are also expected increases in member contribution rates, from 0.18% to 0.54%, with most cases under 0.30% based on the FY 2013 valuation report. The lowering of the assumed earnings rate is again the most significant driver of these changes.

The auditing actuary, Segal Consulting, has opined on the Milliman Experience report that, "...all major actuarial functions are being appropriately addressed." Milliman has incorporated most of Segal's suggestions in its Experience Report and will consider all other recommendations not yet incorporated.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

Attachment

Resolution Adopting Recommended Changes to Assumptions Based Upon Milliman's Investigation of Experience Report FY2012-14.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

RESOLUTION ADOPTING RECOMMENDED CHANGES TO ASSUMPTIONS BASED UPON MILLIMAN'S INVESTIGATION OF EXPERIENCE FY 2012-14

RESOLUTION 14-15-

WHEREAS, Government Code §31453 mandates the periodic actuarial valuation of the Retirement Fund and requires that the Board of Retirement...shall... recommend to the Board of Supervisors such changes in the rates of interest, in the rates of contributions of members, and in the county and district appropriations as are necessary...; and

WHEREAS, the actuarial valuation of the Retirement Fund, including the adequacy of the contribution rates, is based on certain underlying assumptions; and

WHEREAS , the Board instructs its actuarial firm to provide an Experience Report every third year to assess the reasonableness of the assumptions used in the valuation; and

WHEREAS, the Board of Retirement has received, reviewed and accepted the "Investigation of Experience Report FY2012-14" prepared by Milliman, Inc., setting forth recommendations to amend certain assumptions to be used by Milliman when it prepares its June 30, 2014, actuarial valuation; and

WHEREAS, the Board has reviewed the recommendations and finds it to be in the best interest of the members, retirees and beneficiaries of the Retirement System to adopt certain changes to the assumptions used by its actuary, Milliman, Inc. when performing its actuarial valuation:

Therefore, be it

RESOLVED, the Board adopts all economic and demographic assumptions, as recommended in the Milliman, Inc. "Investigation of Experience Report FY2012-14" which shall be used by Milliman, Inc., when performing its actuarial valuation and which include but are not limited to the assumptions cited in the tables listed below.

Economic Assumptions (Adopted in June 2014)		Table
General Wage Growth	Reduced from 3.75% to 3.50%	A-1
Investment Earnings	Reduced from 7.50% to 7.25%	A-1
CPI Inflation	Reduced from 3.25% to 3.00%	A-1
Demographic Assumptions		
Retirement	Reduce slightly	A-6 to A-11
Disability	Increase rates for General and Safety	A-6 to A-11
Prob. Of Eligible Survivor	Reduce probability for males	A-6 to A-11
Miscellaneous Assumptions		
Plan 3 Early Retirement Age	Reduce interest rate, slightly higher benefits	
Probability of Eligible Survivor	Reduce rate for males	A-6 to A-11
Survivor Age Difference	Reduce Female member survivors to 2 years difference	A-6 to A-11

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 6.1

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Preliminary Monthly Portfolio Performance Report for the Period Ending June 30, 2014

Staff Recommendation
Review the preliminary performance report dated June 30, 2014.

Background
This preliminary report is intended to provide a high-level view of the portfolio and its trends. It is not intended to provide short-term performance upon which the Board would act. As discussed previously, preliminary performance estimates are now included for Angelo Gordon's STAR, AQR's risk parity, and AQR's hedge fund portfolios. The quarterly performance metrics are not yet available for our private equity and real estate portfolios. The performance for these portfolios will be reflected in the quarterly performance report generated by SIS.

The attached performance report shows both net and gross of fee returns for the total plan on page one, with net composite returns (pages 2-3) and net manager returns (pages 4-8) also shown.

Discussion
The fund's net preliminary return for June was +1.7%, bringing the preliminary fiscal-year ending June 30, 2014, return to +17.3% net (+17.6% gross). The twelve-month net return is lower than SamCERA's Total Plan Policy Benchmark return of 17.8% but above the Actuarial Assumed Earnings Rate of 7.50%. As a reminder, SamCERA should expect performance to vary substantially from that of the Total Plan Policy Benchmark in the initial stages of its private equity implementation.

Domestic equity was positive across the board during June, with all market capitalizations and styles positive during the month. The broad domestic equity market was 2.5% higher. Small-cap stocks outperformed large-capitalization stocks while value stocks generally outperformed growth stocks.

International equity indices were higher on the month, with developed markets (as measured by MSCI EAFE) up +1.0%, while emerging markets were up +2.7%.

The general fixed income market was higher by +0.1% as interest rates (as measured by 10-year Treasuries) increased by 5 basis points during the month. High yield bonds were up +0.9%, while emerging market bonds were up +0.6%.

Attachments
SIS Market Update
State Street Performance Report

U.S. EQUITY

June was once again another positive month for global equity markets. In the U.S., Value outperformed Growth and Small Caps outperformed Large Caps. For the month, the Russell 1000 Growth Index was up by +2.0% and the Russell 1000 Value Index up by +2.6%. The Russell 2000 Growth Index was up by +6.2% and the Russell 2000 Value was up by +4.4%. The S&P 500 Index ended the month higher by +2.1%.

The S&P 500 Index has a trailing P/E ratio of 19.3, a forward 12-month estimate P/E ratio of 16.6 and dividend yield of 1.9%.

Corporate merger highlights for the month included: Marathon Oil selling its Norwegian business to Det Norske Oljeselskap in a deal valued at $2.7 billion; Japanese insurer Dai-ichi Life Insurance will acquire Alabama-based Protective Life for about $5.7 billion; Kohlberg Kravis Roberts will buy Internet Brands in a deal estimated at $1.1 billion; Volkswagen plans to sell as much as $2.7 billion in preferred shares to help finance the full takeover of Swedish truck producer Scania; Sprint has agreed to pay about $32 billion to buy T-Mobile in an attempt to merge the 3rd and 4th-largest U.S. mobile network operators; American Energy Partners will buy shale oil and gas assets in Texas, Ohio and West Virginia for $4.25 billion; Merck will acquire Idenix Pharmaceuticals for $3.85 billion; Tyson Foods won the bidding war over Pilgrim's Pride to acquire Hillshire Brands with an increased offer totaling $8.55 billion; Analog Devices will acquire Hittite Microwave for $2.45 billion; Siemens is in talks with Mitsubishi Heavy Industries about a joint bid to buy Alstom's energy business and counter a $17 billion offer by General Electric; Priceline will pay $2.6 billion to buy OpenTable, a service that allows customers to book tables online in exchange for monthly fees from restaurants; Amaya Gaming will acquire Poker Stars for $4.9 billion; Royal Dutch Shell will sell its stake in Australia's Woodside Petroleum for $5.7 billion; Oracle will acquire Micros Systems for $5.3 billion; U.S. medical device maker Medtronic will buy Covidien for $42.9 billion; Siemens offered $5.3 billion to buy the gas turbine business of French rival Alstom; SanDisk will acquire Fusion-io for about $1.1 billion to increase its flash storage business; Williams Cos. will pay nearly $6 billion to expand its ownership of Access Midstream Partners; Starwood Capital will buy seven U.S. malls from Taubman Centers for about $1.4 billion; Dublin-based drug maker Shire rejected an unsolicited $46.2 billion buyout offer from U.S. based AbbVie; Wisconsin Energy will buy Integrys Energy Group for $5.7 billion; Banco Santander will buy GE Capital's consumer finance business in Sweden, Norway and Denmark for $950 million; PPG Industries will acquire architectural and industrial coatings company Consorcio Comex for $2.3 billion and, Carlos Slim will buy AT&T's stake in American Movil for $5.6 billion.

FIXED INCOME

Gross domestic product contracted much worse than expected in the first quarter, revised at an annual rate of -2.9%. U.S. economic growth should accelerate in the second quarter and remain healthy for the rest of the year, according to a forecast by a group of U.S. business economists. The IMF forecasts global economic growth of +2.0% this year, below the 2.8% rate it predicted in April due to the weak first quarter. The World Bank trimmed its global growth forecast to +2.8% for the year, down from its +3.2% projection in January. However the organization left its estimate for world growth unchanged at +3.4% for 2014.

The yield on the bellwether 10-year Treasury note rose to +2.53% at the close of June from its May close at +2.48%. At month-end, the 30-year bond yield was +3.34% with the 3-month T-bill at +0.04%. The Barclays Capital US Aggregate Index was up +0.05% in June and is now up +3.93% through the first six months of 2014.

On the economic front, the following key data was released in June:

THE GOOD

*Markit reported that its final U.S. Manufacturing Purchasing Managers Index increased to a 3-month high of 56.4 in May from a 55.4 in April.

*The Commerce Dept. reported that new orders for manufactured goods rose +0.7% in April, the third straight month of increases.

*Chrysler's U.S. vehicle sales jumped +17.0% in May, GM's rose +12.6%, Ford's increased +3.0%, Nissan's surged +18.8% and Volkswagen's dropped -15.4%.

*The Institute for Supply Management reported that its service sector index rose to 56.3 in May from 55.2 in April.

*U.S. households and non-profits added $1.5 trillion in net worth in the first quarter.

*The National Federation of Independent Business' small business optimism index increased to 96.6 in May, the highest since September 2007.

*U.S. wholesale inventories increased +1.1% in April, while wholesale sales climbed +1.3%.

*The Labor Dept. reported that its producer price index for final demand declined -0.2% in May.

*The N.Y. Federal Reserve said its Empire State general business conditions index rose to 19.28 this month, the highest reading since 2010.

*The Conference Board's index of leading indicators increased +0.5% in May, the fourth consecutive monthly increase.

*The National Association of Realtors reported that existing home sales rose +4.9% in May to an annual rate of 4.89 million units, the highest increase since August 2011.

*New home sales surged +18.6% to a seasonally adjusted annual rate of 504,000 units, the highest level since May 2008.

The Conference Board's Consumer Confidence Index rose to 85.2 in June from 83.0 in May, the highest since January 2008.

THE NOT SO GOOD

*Consumer spending, which accounts for 70% of overall economic activity, fell -0.1% in April, the Commerce Dept. announced. The drop was the first in twelve months.

*The Bureau of Labor Statistics reported that productivity fell at an annual rate of -3.2% in the 1st quarter, more than the -1.7% initially estimated.

*The Commerce Dept. reported that the trade deficit widened to $47.2 billion in April, the highest since July 2012 and up over $3 billion since March.

*The Commerce Dept. reported retail sales, which account for one-third of consumer spending, increased +0.3% in May; less than expected.

*The Labor Dept. reported that its Consumer Price Index increased +0.4% last month, with food prices posting their largest rise since August 2011.

*The Commerce Dept. reported that housing starts fell -6.5% in May to an annual seasonally adjusted pace of 1.0 million units.

*The Commerce Dept. reported that the U.S. current account deficit widened to $111 billion in the 1st quarter, or 2.6% of gross domestic product, form $87 billion or 2.0%, in the 4th quarter of 2013.

*U.S. consumers increased their spending by just +0.2% in May, after no gain in April, a disappointment to economists who said the weaker than expected gain likely means a weaker than forecasted economic rebound in the second quarter.

Non-U.S. Markets

Industrial production in the U.K. remains on a distinct recovery trail. Overall output rose +0.4% in April, the third consecutive gain, lifting it to a solid +3.0% year-over-year.

The preliminary estimates of the June purchasing managers' indexes in the Eurozone were disappointing, suggesting momentum is continuing to erode in the already anemic recovery. The overall Eurozone PMI fell -0.3 point to 51.9; its fourth decline in the last five months.

Japan's GDP was revised upwards one tick in the first quarter to +1.6%.

India's economy grew by +4.6% in the first three months of the year, well below what many consider optimal for the emerging market country.

Non-U.S. Developed equities were also once again positive in June. The MSCI ACWI Ex-U.S. was up +1.7% (US dollars) for the month. International Developed stocks (EAFE) were up +1.0% while Emerging Markets gained +2.7% for the month.

CONCLUSION

Higher equity prices and fixed income spreads narrowing have been fairly consistent over the first six months of 2014 following a very strong year in 2013. U.S. equities as measured by the Russell 3000 Index are up +6.9%. Non-U.S. equities as measured by the MSCI All Country World ex-US Index are up +5.6%. Global High Yield Bonds as measured by the BofA Merrill Lynch Global High Yield Index are up +5.9% for the first six months of the year.

Market returns are driven in large part by how various events transpire relative to what has already been discounted by the markets and how the discounting of the future changes. Returns for markets have been positive and modest over the first six months of 2014.

Monthly Market Update

US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Jun-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	2.51	4.87	6.94	25.22	23.33	16.46	19.33	6.47	8.23
Russell TOP 200 Index	1.83	5.18	6.64	24.69	22.08	16.84	18.14	5.98	7.31
Russell TOP 200 Growth Index	1.40	5.48	6.21	27.33	20.92	17.06	18.60	8.11	7.69
Russell TOP 200 Value Index	2.25	4.88	7.10	22.19	23.24	16.63	17.67	3.86	6.92
S&P 500 Index	2.07	5.23	7.14	24.61	22.59	16.58	18.83	6.16	7.78
Russell 1000 Index	2.27	5.12	7.27	25.35	23.28	16.63	19.25	6.46	8.19
Russell 1000 Growth Index	1.95	5.13	6.31	26.92	21.89	16.26	19.24	7.98	8.20
Russell 1000 Value Index	2.61	5.10	8.28	23.81	24.56	16.92	19.23	4.80	8.03
Russell Mid-Cap Index	3.29	4.97	8.67	26.85	26.13	16.09	22.07	7.66	10.43
Russell Mid-Cap Growth Index	3.13	4.37	6.51	26.04	24.45	14.54	21.16	7.89	9.83
Russell Mid-Cap Value Index	3.46	5.62	11.14	27.76	27.71	17.56	22.97	7.14	10.66
Russell 2000 Index	5.32	2.05	3.19	23.64	23.92	14.57	20.21	6.73	8.70
Russell 2000 Value Index	4.42	2.38	4.20	22.54	23.65	14.65	19.88	5.46	8.24
Russell 2000 Growth Index	6.20	1.72	2.22	24.73	24.20	14.49	20.50	7.90	9.04
DJ US REIT Index	0.86	7.15	18.24	13.27	10.44	11.38	23.76	4.32	9.41
DJ-UBS US Commodity Index TR	0.60	0.08	7.08	8.21	-0.23	-5.17	1.99	-2.69	0.87
DJ-UBS US Gold Index TR	6.10	2.96	9.88	7.71	-9.68	-4.73	6.68	9.73	11.97

Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jun-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	1.72	5.25	5.89	22.27	18.13	6.21	11.59	1.73	8.22
MSCI AC World Index	1.93	5.23	6.50	23.58	20.36	10.85	14.88	3.80	8.02
MSCI EAFE Index	0.99	4.34	5.14	24.09	21.59	8.59	12.27	1.45	7.42
MSCI Emerging Markets index	2.70	6.71	6.32	14.68	8.81	-0.06	9.58	2.59	12.30
ML Global Government Bond Ex. U.S. Index	1.02	2.64	5.47	5.99	-2.84	-0.78	3.13	5.69	4.55
Euro	0.34	-0.66	-0.64	5.33	3.87	-1.89	-0.48	0.20	1.19
Japanese Yen	0.43	1.66	3.75	-1.94	-11.25	-7.28	-0.97	2.87	0.75
UK Pound Sterling	1.94	2.56	3.24	12.73	4.41	2.12	0.75	-2.26	-0.59

US Fixed Income Indices Trailing Performance

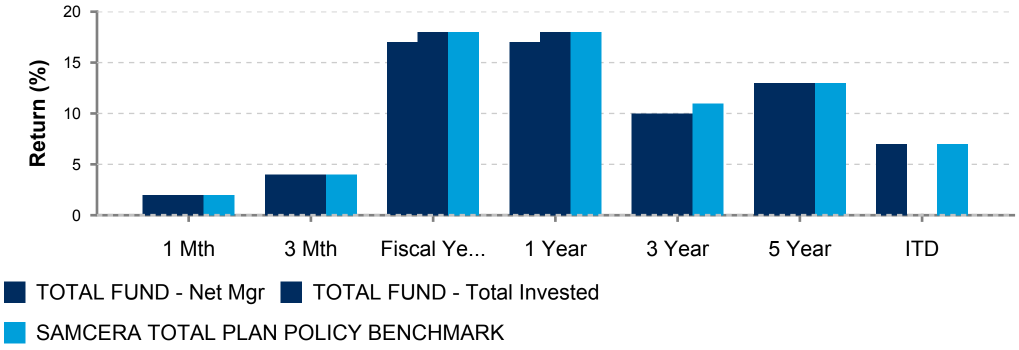
Annualized Performance to Date: Ending Jun-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.01	0.01	0.02	0.05	0.08	0.07	0.11	0.72	1.63
BarCap Aggregate Bond Index	0.05	2.04	3.93	4.37	1.81	3.66	4.85	5.35	4.93
ML U.S. Corp/Govt Master Index	-0.03	2.07	4.22	4.39	1.83	4.08	5.16	5.40	4.95
ML U.S. Corporate Master Index	0.17	2.89	5.95	7.98	4.82	6.25	8.27	6.67	5.94
BarCap Mortgage Backed Securities Index	0.26	2.41	4.03	4.66	1.74	2.80	3.92	5.24	4.95
ML U.S. High Yield Master Index	0.85	2.49	5.55	11.71	10.57	9.24	13.80	8.78	8.82
JPM EMBI Global	0.59	5.43	9.09	11.04	6.03	7.63	10.43	8.45	9.50

San Mateo County
Total Fund Characteristics

June 30, 2014

SamCERA

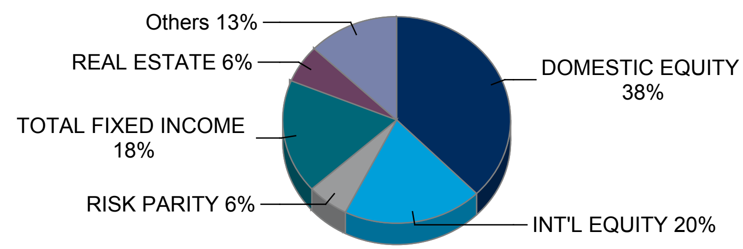
Total Fund Performance



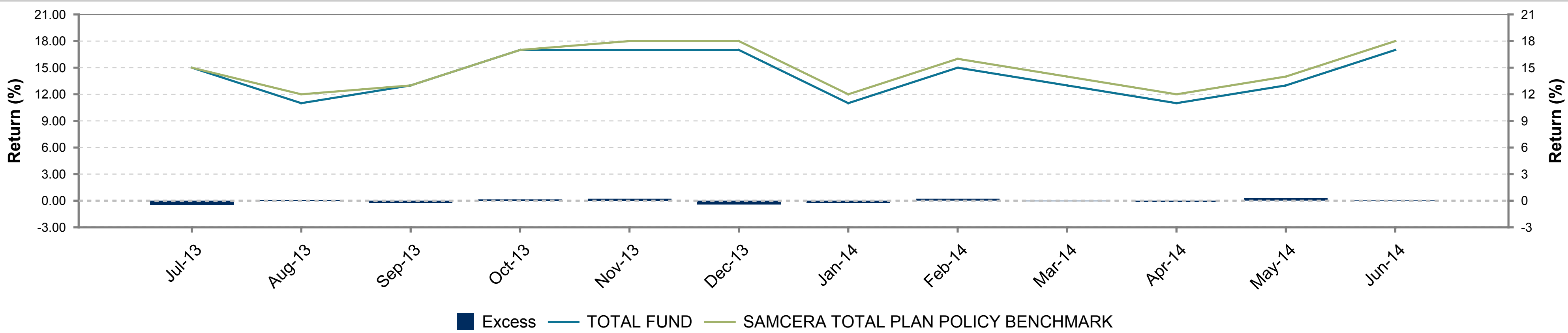
	1-Mth	3-Mth	YTD	Fiscal YTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD
TOTAL FUND - Gross	1.68	3.84	5.91	17.63	17.63	10.25	13.38	6.83	7.10
TOTAL FUND - Net Mgr	1.68	3.83	5.82	17.28	17.28	9.86	13.03	6.65	6.99
SAMCERA TOTAL PLAN POLICY BENCHMARK	1.65	3.60	5.68	17.81	17.81	10.55	13.49	7.51	7.33
Excess	0.03	0.23	0.14	-0.53	-0.53	-0.68	-0.46	-0.87	-0.34

Asset Allocation

	Ending Market Value ($)	Allocation (%)
DOMESTIC EQUITY	1,241,341,449	37.8
INTERNATIONAL EQUITY	658,562,517	20.0
PRIVATE EQUITY	131,491,813	4.0
RISK PARITY	197,597,487	6.0
HEDGE FUND	117,896,863	3.6
COMMODITIES	90,480,043	2.8
FIXED INCOME	590,293,464	18.0
REAL ESTATE	183,566,990	5.6
CASH	52,482,098	1.6
CLIFTON GROUP - CASH OVERLAY	20,890,678	0.6
TOTAL FUND	3,284,603,403	100.0



Cumulative Returns

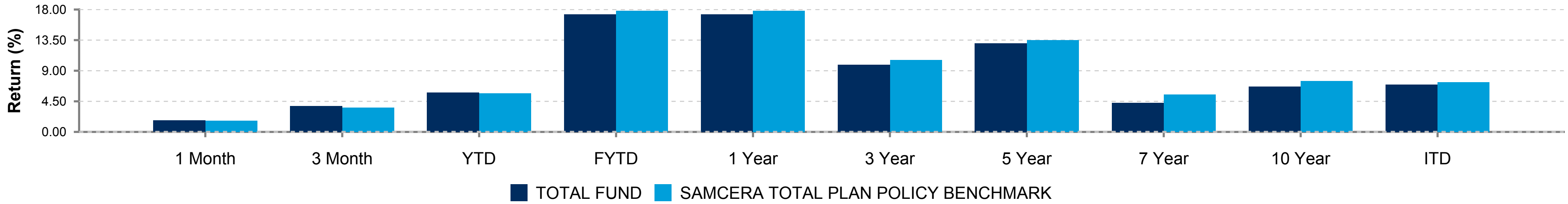


San Mateo County
Composite Return Summary

SamCERA

June 30, 2014

Return Comparison



Composite Returns (Net)

	Market Value ($)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Total Fund	3,284,603,403	1.68	3.83	5.82	17.28	17.28	9.86	13.03	4.27	6.65	6.99
SAMCERA TOTAL PLAN POLICY BENCHMARK		1.65	3.60	5.68	17.81	17.81	10.55	13.49	5.52	7.51	7.33
Excess		0.03	0.23	0.14	-0.53	-0.53	-0.68	-0.46	-1.25	-0.87	-0.34
Total Equity	1,899,903,966	2.29	4.07	5.80	23.05	23.05	12.19	15.92	3.47	6.88	7.97
SAMCERA TOTAL EQUITY BENCHMARK		2.55	4.72	6.20	24.11	24.11	12.78	16.83	4.99	8.03	8.42
Excess		-0.26	-0.65	-0.41	-1.06	-1.06	-0.60	-0.91	-1.52	-1.15	-0.45
Total Fixed Income	590,293,464	0.41	2.81	4.76	7.18	7.18	6.11	8.63	6.29	5.70	6.04
SAMCERA TOTAL FIXED INCOME BENCHMARK		0.25	2.65	4.99	5.84	5.84	4.04	5.31	5.67	5.16	5.55
Excess		0.16	0.16	-0.23	1.34	1.34	2.07	3.33	0.61	0.54	0.48
Total Risk Parity	197,597,487	2.24	7.95	14.00	18.43	18.43	8.59				8.98
RISK PARITY BENCHMARK		1.53	3.74	5.78	16.59	16.59	11.42				10.62
Excess		0.71	4.21	8.21	1.84	1.84	-2.83				-1.64
Hedge Funds	117,896,863	0.64	1.29	0.30	3.60	3.60	2.95				2.87
LIBOR + 4%		0.34	1.02	2.06	4.17	4.17	4.21				4.22
Excess		0.30	0.27	-1.76	-0.58	-0.58	-1.26				-1.35
Private Equity	131,491,813	0.20	1.88	3.98	16.74	16.74	5.82				-45.37

SamCERA

June 30, 2014

Composite Returns (Net)

	Market Value ($)	1 Mth	3 Mth	YTD	FYTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
PRIVATE EQUITY BENCHMARK		2.75	5.64	8.52	28.91	28.91	19.91				20.96
Excess		-2.55	-3.76	-4.53	-12.16	-12.16	-14.08				-66.33
Commodities	90,480,043	-0.07	2.91	5.82	7.77	7.77					-0.48
Bloomberg Commodity Index Total Return		0.60	4.07	7.08	8.21	8.88					-6.29
Excess		-0.66	-1.16	-1.26	-0.44	-1.11					5.81
Total Real Estate	183,566,990	3.08	3.08	4.74	10.48	10.48	10.77	9.17	2.29	7.38	7.90
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	2.52	9.28	9.28	11.21	8.86	2.70	7.06	8.02
Excess		3.08	3.08	2.21	1.20	1.20	-0.43	0.31	-0.41	0.31	-0.12
Total Cash	52,482,098	-0.01	0.27	0.55	0.76	0.76	0.64	0.76	0.73	1.62	2.32
91 DAY TREASURY BILL		0.01	0.01	0.02	0.05	0.05	0.07	0.11	0.73	1.65	2.20
Excess		-0.01	0.26	0.53	0.71	0.71	0.57	0.66	0.00	-0.03	0.12

Manager Returns (Net)

	$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
TOTAL EQUITY	1,899,903,966	2.29	4.07	23.05	5.80	23.05	12.19	15.92	3.47	6.88	7.97
SAMCERA TOTAL EQUITY BENCHMARK		2.55	4.72	24.11	6.20	24.11	12.78	16.83	4.99	8.03	8.42
Excess		-0.26	-0.65	-1.06	-0.41	-1.06	-0.60	-0.91	-1.52	-1.15	-0.45
TOTAL DOMESTIC EQUITY	1,241,341,449	2.81	3.78	23.60	5.30	23.60	14.88	18.49	4.97	7.14	8.45
SAMCERA DOMESTIC EQUITY BENCHMARK		2.88	4.52	25.06	6.47	25.06	16.25	19.49	6.56	8.34	8.86
Excess		-0.07	-0.74	-1.46	-1.16	-1.46	-1.36	-1.00	-1.59	-1.20	-0.40
LARGE CAP COMPOSITE	991,791,002	2.25	4.51	23.51	5.93	23.51	15.01	17.82	5.03	7.27	9.00
Russell 1000		2.27	5.12	25.35	7.27	25.35	16.63	19.25	6.46	8.19	9.62
Excess		-0.03	-0.61	-1.85	-1.34	-1.85	-1.61	-1.43	-1.42	-0.92	-0.62
DE SHAW INVESTMENT MGT, LLC	150,002,672	2.42	5.52	23.60	6.28	23.60	17.28				17.85
Russell 1000		2.27	5.12	25.35	7.27	25.35	16.63				17.84
Excess		0.14	0.40	-1.75	-0.99	-1.75	0.66				0.01
BARROW HANLEY	148,736,808	2.28	3.34	23.08	5.10	23.08	15.91				17.55
Russell 1000 Value		2.61	5.10	23.81	8.28	23.81	16.92				17.70
Excess		-0.33	-1.77	-0.73	-3.18	-0.73	-1.01				-0.14
BLACKROCK S&P 500	549,011,959	2.07	5.24	24.61	7.14	24.61					23.61
S&P 500		2.07	5.23	24.61	7.14	24.61					23.60
Excess		-0.00	0.00	0.01	0.00	0.01					0.01
BROWN ADVISORY LARGE GROWTH	144,039,563	2.74	1.95	19.43	1.92	19.43					18.35
Russell 1000 Growth		1.95	5.13	26.92	6.31	26.92					22.60
Excess		0.79	-3.18	-7.50	-4.38	-7.50					-4.25
SMALL CAP COMPOSITE	249,550,447	5.13	1.12	24.65	3.04	24.65	15.29	21.70	4.87	6.70	7.01
Russell 2000		5.32	2.05	23.64	3.19	23.64	14.57	20.21	6.73	8.70	8.01
Excess		-0.19	-0.92	1.01	-0.14	1.01	0.72	1.49	-1.86	-2.00	-1.00

Manager Returns (Net)

	$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
BOSTON COMPANY ASSET MGT, LLC	123,320,463	5.30	1.21	23.16	3.15	23.16	16.97				17.90
Russell 2000 Value		4.42	2.38	22.54	4.20	22.54	14.65				17.61
Excess		0.87	-1.18	0.62	-1.05	0.62	2.33				0.29
CHARTWELL INVESTMENT MGMT	126,229,209	4.96	1.04	26.14	2.94	26.14	16.34	23.18	7.78		9.43
Russell 2000 Growth		6.20	1.72	24.73	2.22	24.73	14.49	20.50	7.90		8.96
Excess		-1.24	-0.68	1.41	0.73	1.41	1.86	2.68	-0.12		0.46
TOTAL INTERNATIONAL EQUITY	658,562,517	1.30	4.57	21.42	6.69	21.42	6.12	10.20	-0.06	6.76	6.20
MSCI AC WORLD INDEX ex USA		1.72	5.25	22.27	5.89	22.27	6.21	11.59	1.73	8.22	6.26
Excess		-0.42	-0.68	-0.85	0.80	-0.85	-0.09	-1.39	-1.79	-1.46	-0.06
BAILLIE GIFFORD OVERSEAS LIMITED	190,694,017	0.33	2.87	21.62	5.35	21.62					15.35
MSCI ACWI ex US GROWTH (GROSS)		1.47	4.63	19.74	5.04	19.74					12.10
Excess		-1.13	-1.77	1.88	0.31	1.88					3.25
EATON VANCE MANAGEMENT	63,727,909	1.53	6.24	16.30	7.19	16.30					5.52
MSCI Em Markets (USD) GDR		2.70	6.71	14.68	6.32	14.68					3.48
Excess		-1.18	-0.46	1.62	0.87	1.62					2.03
MONDRIAN INVESTMENT PARTNERS	198,978,532	1.94	6.12	23.49	9.34	23.49	7.88	11.53	1.77		7.31
MSCI ACWI EX US VALUE (GROSS)		1.98	5.87	24.84	6.75	24.84	6.56	11.43	1.45		7.35
Excess		-0.04	0.25	-1.35	2.59	-1.35	1.32	0.10	0.32		-0.04
PYRAMIS	66,721,836	2.66	4.05	21.16	6.01	21.16					12.52
MSCI ACWI ex US Small Cap Gross		2.21	3.79	26.52	7.48	26.52					14.01
Excess		0.46	0.26	-5.36	-1.47	-5.36					-1.49
BLACKROCK EAFE EQUITY INDEX	138,418,026	0.99	4.27		5.03						5.03
MSCI EAFE (NET)		0.96	4.09		4.78						4.78

Manager Returns (Net)

	$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Excess		0.03	0.18		0.25						0.25
TOTAL FIXED INCOME	590,293,464	0.41	2.81	7.18	4.76	7.18	6.11	8.63	6.29	5.70	6.04
SAMCERA TOTAL FIXED INCOME BENCHMARK		0.25	2.65	5.84	4.99	5.84	4.04	5.31	5.67	5.16	5.55
Excess		0.16	0.16	1.34	-0.23	1.34	2.07	3.33	0.61	0.54	0.48
ANGELO GORDON GECC PPI FUND	19,342										
Barclays BA Intermediate High Yield Index		0.71									
Excess											
ANGELO GORDON MANAGEMENT	39,476,693	1.35	5.39	16.90	10.42	16.90					14.32
Barclays BA Intermediate High Yield Index		0.71	2.33	10.60	5.24	10.60					7.32
Excess		0.64	3.06	6.30	5.18	6.30					6.99
PYRAMIS GLOBAL ADVISORS	169,062,585	0.12	2.27	5.48	4.45	5.48	4.54	6.70	5.90		5.54
Barclays Aggregate Bond		0.05	2.04	4.37	3.93	4.37	3.66	4.85	5.35		5.08
Excess		0.07	0.23	1.11	0.52	1.11	0.87	1.85	0.56		0.46
WESTERN ASSET MGMT	124,705,517	0.26	2.71	6.92	5.31	6.92	5.45	8.33	6.10		5.46
Barclays Aggregate Bond		0.05	2.04	4.37	3.93	4.37	3.66	4.85	5.35		4.68
Excess		0.21	0.67	2.55	1.38	2.55	1.78	3.47	0.76		0.78
BRIGADE CAPITAL MANAGEMENT	66,171,960	1.06	3.10	11.05	5.76	11.05	9.49				10.05
Barclays BA Intermediate High Yield Index		0.71	2.33	10.60	5.24	10.60	8.66				9.13
Excess		0.35	0.76	0.45	0.52	0.45	0.83				0.92
BROWN BROTHERS HARRIMAN & CO	80,044,075	0.34	2.99	3.19	4.25	3.19	3.44				4.47
Barclays US TIPS Index		0.30	4.06	4.72	6.35	4.72	3.69				4.77
Excess		0.04	-1.07	-1.53	-2.11	-1.53	-0.24				-0.29
FRANKLIN TEMPLETON INVESTMENTS	99,500,792	0.29	2.53	7.54	2.90	7.54	6.25				7.10

San Mateo County
Manager Return Summary

June 30, 2014

Manager Returns (Net)

	$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
Barclays Multiverse		0.75	2.52	7.70	5.01	7.70	2.86				3.73
Excess		-0.46	0.00	-0.17	-2.12	-0.17	3.38				3.37
ANGELO GORDON OPPORTUNISTIC WHOLE LN FD	11,312,500	0.00									0.00
Barclays BA Intermediate High Yield Index		0.71									1.68
Excess		-0.71									-1.68
TOTAL PRIVATE EQUITY	131,491,813	0.20	1.88	16.74	3.98	16.74	5.82				-45.37
PRIVATE EQUITY BENCHMARK		2.75	5.64	28.91	8.52	28.91	19.91				20.96
Excess		-2.55	-3.76	-12.16	-4.53	-12.16	-14.08				-66.33
TOTAL RISK PARITY	197,597,487	2.24	7.95	18.43	14.00	18.43	8.59				8.98
RISK PARITY BENCHMARK		1.53	3.74	16.59	5.78	16.59	11.42				10.62
Excess		0.71	4.21	1.84	8.21	1.84	-2.83				-1.64
AQR GLOBAL RISK PREM III LP	197,597,487	2.24	7.95	18.43	14.00	18.43	8.59				8.98
RISK PARITY BENCHMARK		1.53	3.74	16.59	5.78	16.59	11.42				10.62
Excess		0.71	4.21	1.84	8.21	1.84	-2.83				-1.64
HEDGE FUND COMPOSITE	117,896,863	0.64	1.29	3.60	0.30	3.60	2.95				2.87
LIBOR + 4%		0.34	1.02	4.17	2.06	4.17	4.21				4.22
Excess		0.30	0.27	-0.58	-1.76	-0.58	-1.26				-1.35
AQR DELTA FUND II, L.P.	117,896,863	0.64	1.29	3.60	0.30	3.60	2.95				2.87
LIBOR + 4%		0.34	1.02	4.17	2.06	4.17	4.21				4.22
Excess		0.30	0.27	-0.58	-1.76	-0.58	-1.26				-1.35
TOTAL COMMODITIES	90,480,043	-0.07	2.91	7.77	5.82	7.77					-0.48
Bloomberg Commodity Index Total Return		0.60	4.07	8.21	7.08	8.88					-6.29
Excess		-0.66	-1.16	-0.44	-1.26	-1.11					5.81

SamCERA

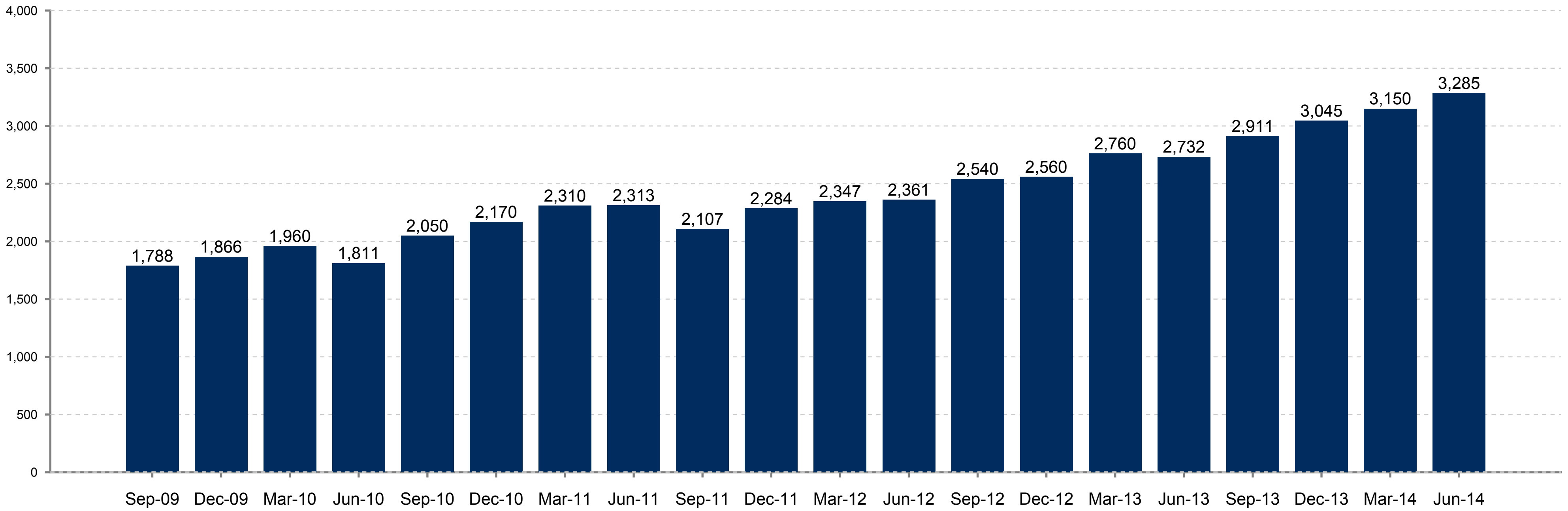
Manager Returns (Net)

	$ EMV	1 Mth	3 Mth	FYTD	Cal YTD	1 Year	3 Year	5 Year	7 Year	10 Year	ITD
SSGA MULTISOURCE ACT COMM NL	90,480,043	-0.07	2.91	7.77	5.82	7.77					-0.48
Bloomberg Commodity Index Total Return		0.60	4.07	8.21	7.08	8.88					-6.29
Excess		-0.66	-1.16	-0.44	-1.26	-1.11					5.81
TOTAL REAL ESTATE	183,566,990	3.08	3.08	10.48	4.74	10.48	10.77	9.17	2.29	7.38	7.90
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	9.28	2.52	9.28	11.21	8.86	2.70	7.06	8.02
Excess		3.08	3.08	1.20	2.21	1.20	-0.43	0.31	-0.41	0.31	-0.12
INVESCO REAL ESTATE	183,566,990	3.08	3.08	10.48	4.74	10.48	10.68	9.18	2.29		6.79
SAMCERA NCREIF NFI ODCE EW (Gross)		0.00	0.00	9.28	2.52	9.28	11.21	8.86	2.70		6.88
Excess		3.08	3.08	1.20	2.21	1.20	-0.52	0.33	-0.41		-0.10
TOTAL CASH	52,482,098	-0.01	0.27	0.76	0.55	0.76	0.64	0.76	0.73	1.62	2.32
91 DAY TREASURY BILL		0.01	0.01	0.05	0.02	0.05	0.07	0.11	0.73	1.65	2.20
Excess		-0.01	0.26	0.71	0.53	0.71	0.57	0.66	0.00	-0.03	0.12
SAMCERA GENERAL ACCOUNT	50,405,780	0.00	0.01	0.05	0.02	0.05	0.12	0.21	0.93	1.83	2.31
SAMCERA TREASURY & LAIF	2,076,318	-0.02	0.35	0.85	0.58	0.85	0.81	0.91	0.70	1.48	
CLIFTON GROUP - CASH OVERLAY	20,890,678	0.00	0.01		0.02						0.04
91 DAY TREASURY BILL		0.01	0.01		0.02						0.04
Excess		-0.00	0.00		0.00						0.00
TOTAL FUND	3,284,603,403	1.68	3.83	17.28	5.82	17.28	9.86	13.03	4.27	6.65	6.99
SAMCERA TOTAL PLAN POLICY BENCHMARK		1.65	3.60	17.81	5.68	17.81	10.55	13.49	5.52	7.51	7.33
Excess		0.03	0.23	-0.53	0.14	-0.53	-0.68	-0.46	-1.25	-0.87	-0.34

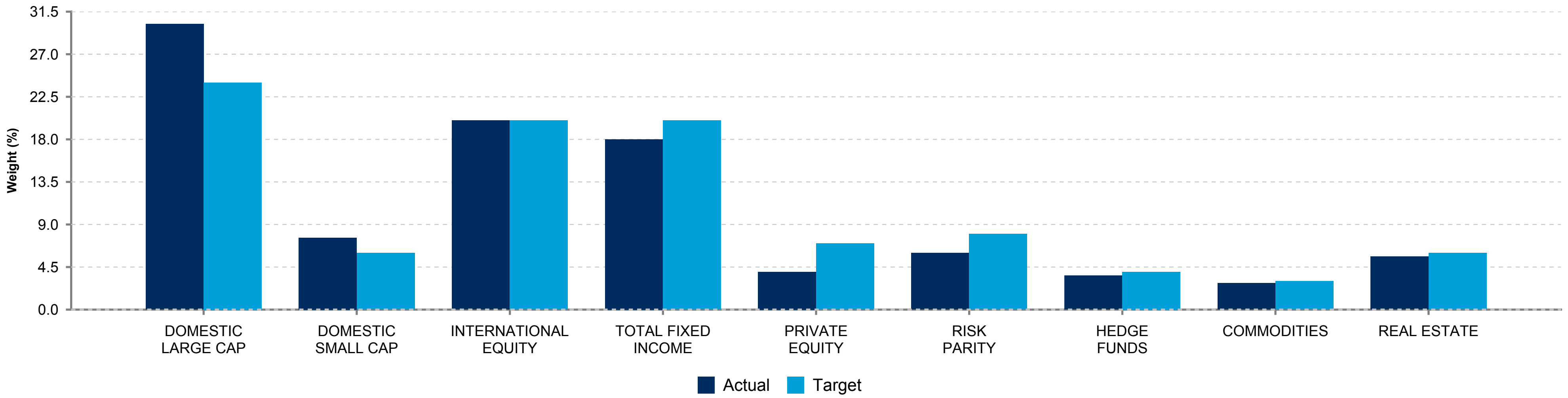
Record of Asset Growth

	One Quarter	One Year
TOTAL FUND		
Beginning Market Value	3,149,631,353	2,731,529,981
Contributions	721,987,111	2,050,589,004
Withdrawals	706,791,758	1,985,787,070
Income Received	10,563,870	38,737,710
Gain/Loss	109,212,827	449,533,778
Ending Market Value	3,284,603,403	3,284,603,403

Net Asset Values over Time ($000)



Actual vs Target Weights



% Portfolio Weight

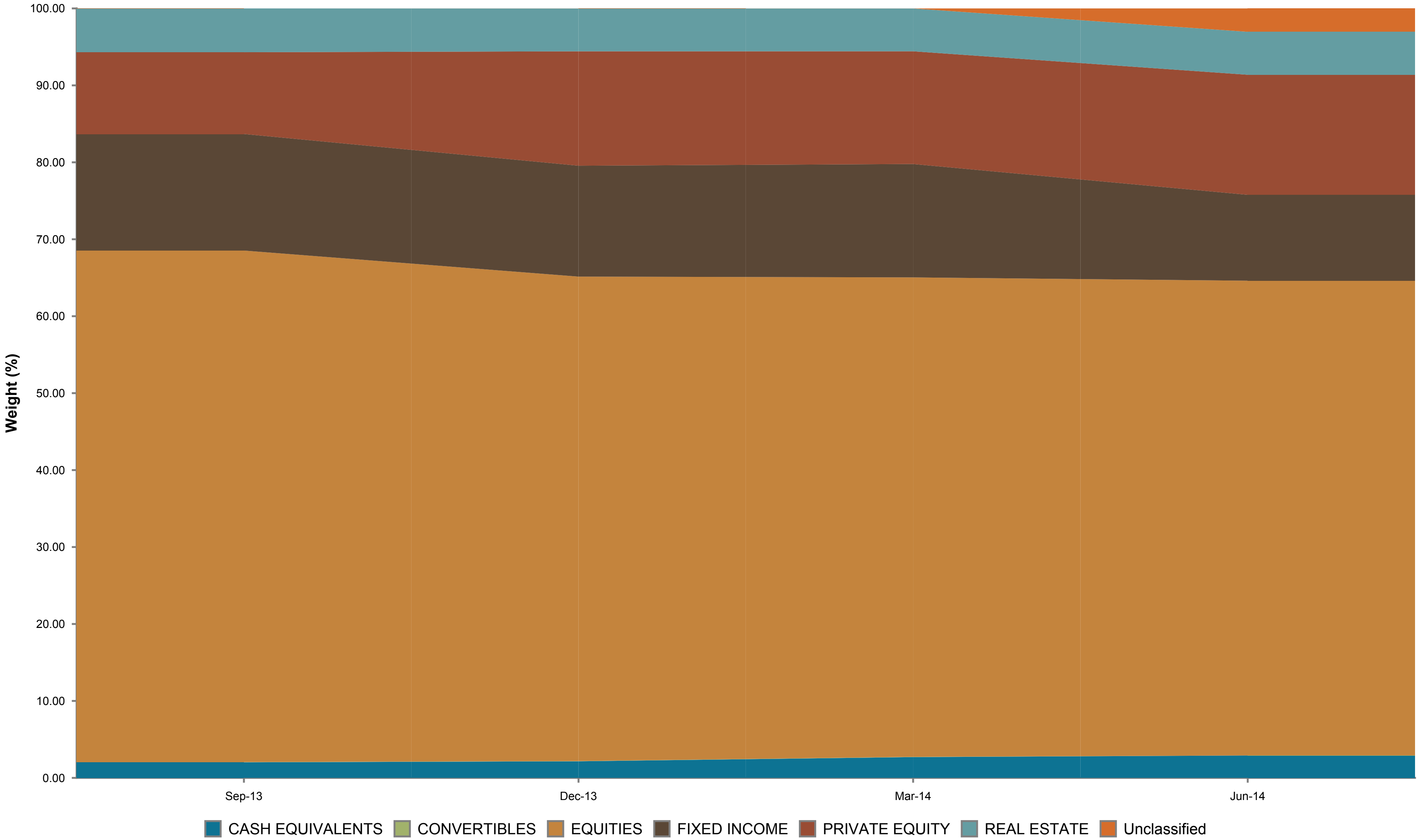
	Min	Actual	Target	Deviation	Max
DOMESTIC LARGE CAP	20.0	30.2	24.0	6.2	28.0
DOMESTIC SMALL CAP	4.0	7.6	6.0	1.6	8.0
TOTAL INTERNATIONAL EQUITY	15.0	20.0	20.0	0.0	25.0
TOTAL FIXED INCOME	15.0	18.0	20.0	-2.0	25.0
PRIVATE EQUITY	5.0	4.0	7.0	-3.0	9.0
RISK PARITY	6.0	6.0	8.0	-2.0	10.0
HEDGE FUNDS	2.0	3.6	4.0	-0.4	6.0
COMMODITIES	1.0	2.8	3.0	-0.2	5.0
REAL ESTATE	4.0	5.6	6.0	-0.4	8.0

San Mateo County
Asset Allocation Over TIme

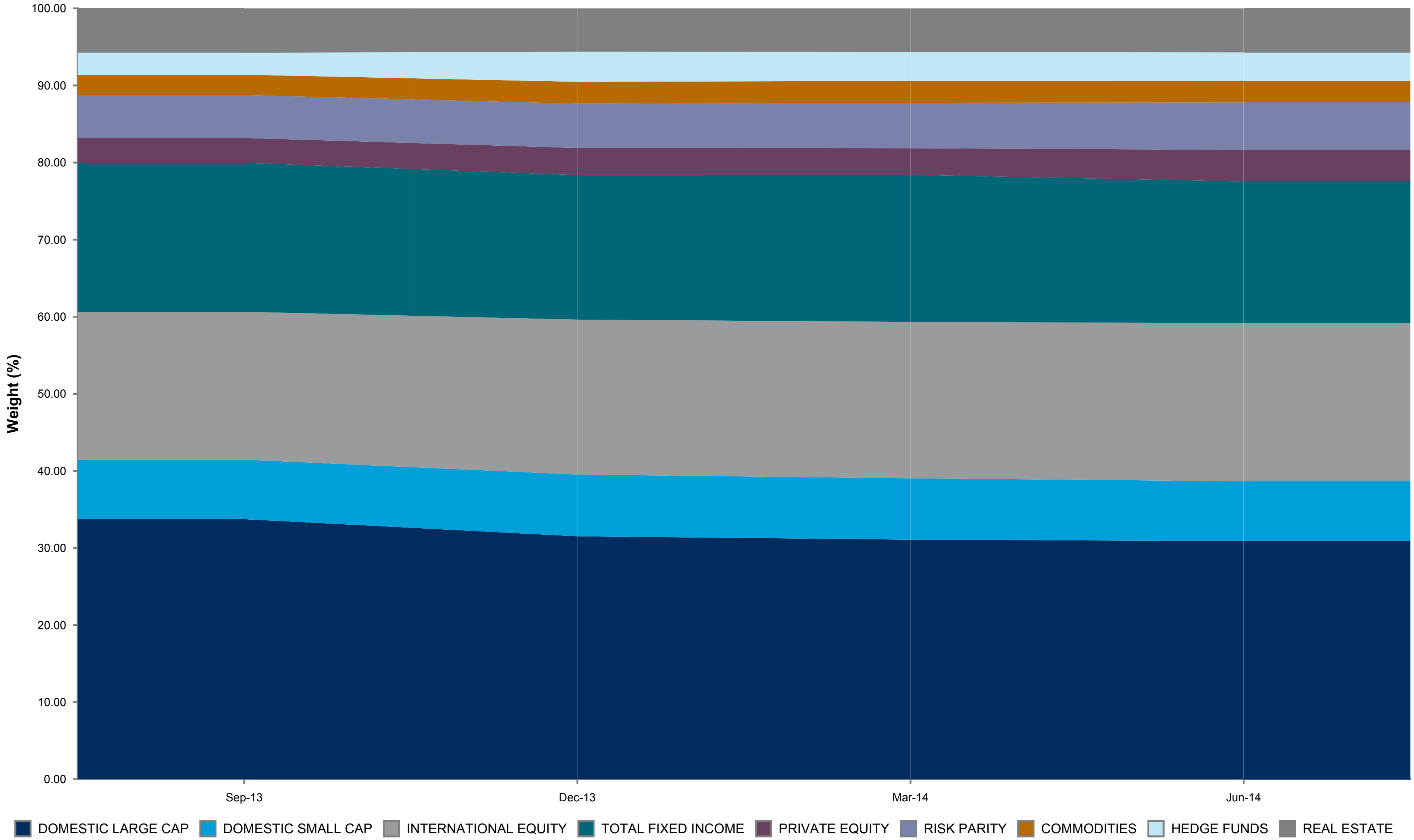
June 30, 2014

SamCERA

Asset Allocation Over TIme



Sub-Asset Class Allocation Over Time



SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 6.2

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Report on the Value Equity Manager Annual Reviews (Mondrian and The Boston Company)

Staff Recommendation
Review the report on the annual reviews of SamCERA's Value Equity Managers.

Background
On June 5th, SamCERA staff held annual review meetings in SamCERA's office for our value equity (Mondrian and The Boston Company) managers. The annual review of our large-cap value manager, Barrow Hanley, was held on May 1st to accommodate schedule conflicts with the manager.

Each meeting lasted approximately 1.5 hours, and consisted of a firm/organizational update, investment process review, performance review and attribution, and current positioning/market outlook.

Discussion
Mondrian's All Countries World ex-US strategy, which is a value-oriented international equity approach, was reviewed first. Next, The Boston Company's US Small-Cap Value Equity strategy was reviewed. This strategy conducts a bottom-up fundamental research style approach.

There were no major concerns identified during the reviews. Meeting notes are attached to this memo summarizing the findings from these annual reviews.

Attachments

A. Mondrian International Value Annual Review Meeting Notes
B. The Boston Company Small-Cap Value Annual Review Meeting Notes

Date of meeting: 6/5/2013
Location: SamCERA Office

Manager Representative(s)

Jim Brecker (Client Service),
Elizabeth Desmond (CIO of International Equities)

SIS Representative(s)

Jonathan Brody

Account Assets

$188 mm (Q1 2014)

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer), Lili Dames (Investment Analyst), David Spinello (Board)

Product Description

Mondrian is a value-oriented, defensive manager whose investment philosophy is based on the principle that investments must be evaluated for their fundamental long-term value. The firm's philosophy involves three stated investment objectives: 1) provide a rate of return meaningfully greater than the client's domestic rate of inflation, 2) structure client portfolios that preserve capital during protracted international market declines, and 3) provide portfolio performance that is less volatile than benchmark indices and other international managers. Mondrian applies typical value screening criteria to a universe of 1,500 stocks, from which 500 are selected for more detailed work. Through fundamental research, and the deliberations of the Investment Committee, the universe is further reduced to a list of 150 stocks. The investment team conducts detailed fundamental analysis on the remaining stocks, a process which includes applying the firm's dividend discount model consistently across all markets and industries. Mondrian also uses a purchasing power parity model to give an accurate currency comparison of the value of the stocks under consideration. The firm will only consider buying stocks in countries with good investor protection practices and relatively simple repatriation procedures. A computer based optimization program is employed in the portfolio construction process. Mondrian's portfolio holds 80-125 issues.

Meeting Notes

Organization

Mondrian currently manages $71 billion. The ACWI ex US strategy is $5.3 billion and is closed to new accounts. Although equity flows have been positive, this has been offset by negative fixed income flows. Nevertheless, rising equity markets have boosted assets. The firm has been growing its non-US client base and is now less concentrated in US clients.

Mondrian is 100% employee owned with 80 employee equity holders.

The emerging markets portion of the strategy is no longer in the Delaware mutual fund sub-advised by Mondrian, but is now in a Mondrian pooled vehicle.

Investment Team

There are 50 investment professionals at Mondrian, all located in London headquarters. The International Team has 14 members, of whom four are on the International Equity Strategy Committee.

Mondrian recently announced that Russell Mackie, who has been a member of the International Team, will be moving to a new position as head of non-US marketing and client service. His research responsibilities included consumer stocks and on a regional basis, southern Europe. Senior Research Analyst covering the energy sector, Dinesh Lakhani, retired at the end of May due to his health. The International Team recently hired two assistant portfolio managers.

Investment Strategy

Mondrian employs a long term dividend discount model for all of the firm's equity strategies. The approach focuses on long term dividend growth after inflation. For each company they conduct a scenario analysis, looking at expected, best and worst case outcomes. The emphasis is on the downside risk and they prefer a narrow, to a broad, range of outcomes. They are looking for at least a 5% real return from owning a stock for the long term.

The DDM is constructed with 10 years of detailed forecasts and then a long term assumption out to year 50. The discount rate used is 5% and is not adjusted for risk because this is captured in the scenario analysis.

The research process involves company meetings in which discussion with management focuses on long term strategy. They will also meet with strategists and central bankers in order to learn more about the prospects of a given local market. Mondrian conducts PPP analysis on currencies in order to be able to bring everything into a common currency for comparison purposes. They will hedge currencies defensively when the analysis identifies extreme over-valuation.

The approach yields a portfolio with lower volatility than the benchmark and most peers. The emphasis is on capital preservation and excess return is usually generated by outperforming in declining markets.

Mondrian does not screen out companies on the basis of ESG considerations. However, these considerations do enter into their forecasts, particularly into the worst case scenarios.

Performance & Positioning

For the most part, because of monetary policy and the activity of central banks, it has been a difficult environment for active management over the past six years. There have been periods during this time when investors have been chasing risk. But, according to Liz Desmond, during the last couple of years markets have begun to behave more rationally, with investors paying more attention to fundamentals. Markets have become slightly less correlated and investors have focused on cheap European stocks, which has benefited Mondrian's portfolio. Mondrian has muted expectations for growth because the absolute amount of leverage has not declined, which puts downward pressure on future growth.

Over the last 12 months markets in Europe have been quite strong. The Japanese market peaked in May of 2013 and since then has been quite weak. About a year ago Mondrian was overweight Japan. They had benefited from exposure to some exporters such as Toyota. Since then they have become more focused on domestically oriented companies in Japan. They regard the Yen as undervalued and are looking to own companies positioned to benefit from some inflation.

Mondrian has been overweight the telecom sector, which has been strong over the past year. This strength has been partly due to transactions and expected transactions between European and US telecoms. Mondrian has also benefited from being underweight materials, which has been a very weak sector. Consumer staples has been a weak sector, held back by some highly priced companies such as Diageo. Some larger companies in this sector were also penalized by investors for having exposure to the emerging markets.

Although stock selection has been strong over the past 12 months, there have been a few detractors. Canon, for example, has not benefited from its relationship with HP, and sales of digital cameras in China have also declined.

Mondrian has outperformed the MSCI ACWI ex US index over the past 12 months by 300 basis points. Stock selection and currency have been positive, but market allocation (notably Singapore and the emerging markets) have been negative.

Mondrian is currently just slightly underweight the emerging markets. They are trying to gain emerging markets exposure by owning developed markets stocks such as Unilever that have a large percentage of their sales in emerging markets. But they did add to Gazprom and Sperbank when the Russian market declined on fear about the Ukraine crisis.

The Australian dollar exposure remains hedged.

Mondrian's expectations for developed equity markets are clustered in the range of 5%, and for emerging markets around 6%.

Date of meeting: 6/5/2014

Location: SamCERA Office

Manager Representative(s)

Joe Corrado (PM), Jerry Navarrete (Client Service)

SIS Representative(s)

Jonathan Brody

Account Assets

$ 122 mm (Q1 2014)

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer), Lili Dames (Investment Analyst), David Spinello (Board)

Product Description

The Boston Company's approach to small cap value investing is to conduct bottom-up fundamental research in an effort to add value through security selection. The investment process seeks to identify the stocks of companies which have compelling valuations and business fundamentals, as well as a catalyst for positive change. The appropriate valuation metrics for an individual company can vary depending on industry. Ideas are generated from company meetings, industry contacts and the team's internal research. The universe of domestic small-cap equity securities is quantitatively screened for valuation, business health and earnings revisions. In addition, they also screen/track operating income and EBITDA estimate revisions. Once candidates for investment are identified, individual stock weights are determined by portfolio risk, liquidity, and analyst conviction. Normally, portfolios will contain between 120-150 holdings (from a short list of 500 securities), with a maximum individual security weighting of 5%, though most are less than 3%. Securities will typically be in the $100 million - $2 billion market cap range at time of purchase. Generally, sector exposure is limited to no more than 2X the index weight with a maximum overweight of 10 percentage points and a maximum underweight of half that of the index. The goal is for portfolios to be close to fully invested at all times, with cash typically below 5%. Any stock down 20% from the purchase price is reviewed. In addition, portfolios are reviewed on a regular basis for unintended risk. Positions are sold when any one of the three investment criteria (valuation, fundamentals, catalyst) breaks down.

Meeting Notes

Organization

Assets in the U.S. Small Cap Value Equity strategy are $2.9 billion. They acknowledge that this is a larger asset base than is managed by most of their small value peers. Although the assets have grown significantly, net flows have been negligible. Almost all of the growth has been the result of price appreciation. Joe noted that their size provides good access to company management and a stable client base.

The Boston Company recently made a public announcement that they have now officially converted their research structure to a global research platform. The central research platform has shifted from covering only U.S. large cap companies, to covering large cap companies globally. This change does not have a great impact on the small cap value team, but they do participate in global sector meetings.

BNY Mellon, The Boston Company's parent company, is in the process of building out centralized back office for its different investment management groups. They are using The Boston Company's back office as the chassis for this centralized function.

Investment Team

There are six dedicated members of the investment team, with an average of 23 years of industry experience. The team has a 15 year track record. There have been no recent changes to the team.

Investment Strategy

The approach is bottom up and value oriented. The philosophy is to buy companies with strong franchises, and the research focuses on sources and uses of cash. In many cases they are looking to enter positions which are discounted for reasons they believe are temporary. Portfolio construction is benchmark aware.

It is the responsibility of each analyst covering a sector to develop a screening process for his or her universe. The idea is to look for stocks trading at below median valuations with above median prospects. Analysts need to be able to answer the question "when is this stock going to work?" They are looking for company specific catalysts. The process involves many company meetings.

Portfolio turnover is generally in the range of 60%-70%, but over the past year has been a bit lower.

The portfolio holds approximately 130 names, many of which have market caps below $1 billion. Joe Corrado observed that the quality of the names in the $500 mm - $1 bn market cap range has declined as the market has risen over the past few years. The strategy does not invest in names with market caps below $500 mm. This results in a higher average market cap than the benchmark. However, if one considers only names above $500, the market cap breakdown of the strategy is similar to the benchmark.

Performance & Positioning

2013 was a year of strong performance, but year-to-date as of the time of the meeting, they are behind the benchmark by about 1.6%. So far this year, the environment has been better for value than growth stocks. From a sector perspective, this portfolio looks more core than value, because of the nearly 15 percentage point underweight to financials relative to the Russell 2000 Value index. This financials underweight is primarily due to an underweight to REITs. Joe Corrado noted that about a third of REIT shares are held by retail investors and they have become quite rich on a spread basis. He also noted that they have no exposure to mortgage REITs. Despite the financials sector underweight, the portfolio is close to the benchmark in its exposure to banks. They expect rates to rise and banks to benefit, but this has not happened recently.

For 2013 the positioning in financials materially benefited performance. The underweight to REITs, which is classified as stock selection, contributed as did the underweight to the overall financials sector. Consumer discretionary was also a significant contributor to performance. The portfolio benefited both from the overweight position and from successful stock selection.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 6.3

TO: Board of Retirement

FROM: Michael Coultrip, Chief Investment Officer

SUBJECT: Report on the Growth Equity Manager Annual Reviews (Baillie Gifford, Brown Advisory and Chartwell)

Staff Recommendation

Review the report on the annual reviews of SamCERA's Growth Equity Managers.

Background

On July 10th, SamCERA staff held annual review meetings in SamCERA's office for our growth equity managers (Baillie Gifford, Brown Advisory and Chartwell).

Each meeting lasted approximately 1.5 hours, and consisted of a firm/organizational update, investment process review, performance review and attribution, and current positioning/market outlook.

Discussion

Baillie Gifford's ACWI ex-US Growth portfolio, which is a fundamental growth strategy organized by regional teams, was reviewed first. Next, Brown Advisory's concentrated, bottom-up Large Cap Growth Equity strategy was reviewed. Finally, Chartwell's Small Cap Growth Equity strategy which seeks to invest in stocks with solid fundamentals positioned for rapid growth, was reviewed. The acquisition of Chartwell by TriState Capital Holdings, a publicly traded private bank, was discussed.

There were no other major concerns identified during the reviews. Meeting notes are attached to this memo summarizing the findings from these annual reviews.

Attachments

A. *Baillie Gifford Overseas ACWI ex-US Growth Annual Review Meeting Notes*
B. *Brown Advisory Large Cap Growth Equity Annual Review Meetings Notes*
C. *Chartwell Investment Partners Small Cap Growth Equity Annual Review Meeting Notes*

Date of meeting: 7/10/2014

Location: SamCERA Office
SamCERA Account 4/30/2014: $185 mm

Manager Representative(s)

Joe Faraday (Member of Portfolio Construction Group, Client Service), Richard Gall (Client Service)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer), Lilibeth Dames (Investment Analyst)

Product Description

ACWI ex US Focus is a fundamental growth strategy. Research is organized primarily by regional teams, and each member of the Portfolio Construction Group is a member of a different regional team. Four global sector groups also contribute research. Baillie Gifford conducts approximately 2000 company meetings annually both in Edinburgh and onsite. Companies are evaluated on their growth opportunity relative to the average company, their ability to execute on that opportunity, and the degree to which the probability of future success is already valued by the market. Baillie Gifford's basic philosophy is that share prices ultimately follow earnings. They believe that the stock market has a recurring tendency to under-appreciate the value of long-term compound growth. The process seeks to add value through use of proprietary fundamental research to identify companies exhibiting some combination of sustained above average growth, and attractive financial characteristics. The portfolio generally holds 80-120 stocks, with country weights +/-6% relative to the index and industry weights +/- 5% relative to the index.

Meeting Notes

Organization

Baillie Gifford remains an independent partnership with no external owners. Currently there are 40 full time partners. Over the past year the firm has experienced growth in assets, clients and staff. The growth in staff, now up to almost 800, is partly attributable to the firm's Graduate Program, which recruits recent university graduates. This program generally looks to hire people with a range of academic backgrounds and does not focus particularly on those with degrees in finance or business. Assets under management have risen to just under $174 billion, which is an increase of more than $30 billion over the past year. Most of this increase is due to market appreciation rather than inflows. The strategy in which SamCERA is invested remains open, but most of the international equity strategies at Baillie Gifford are closed.

The firm is in the process of upgrading and modernizing their systems. Staff can now, for example, access the firm's research library through applications for a smart phone or tablet. Client restrictions can be coded into the trading system.

There was some discussion of soft dollars. Neither Joe nor Richard knew whether there exist Baillie Gifford clients that prohibit the use of soft dollars in their accounts. But they noted within the firm there have been recent discussions about the possibility of completely eliminating the use of soft dollars.

Investment Team

There have been no recent changes to the four member portfolio construction group that oversees the ACWI ex US Focus strategy. Turnover of investment staff remains low, and has been 5.6% over the last ten years on a an average annual basis.

Investment Strategy

The investment philosophy and process remains unchanged. Baillie Gifford seeks to identify companies with strong long term growth prospects and take substantial positions in them. The investment horizon is at least 3-5 years.
Baillie Gifford summarizes their investment criteria with the following four questions:
Will this company be significantly larger in five years?
Are management sensible guardians of our clients' capital?
Why is this growth not reflected in the current share price?
What would make us sell?

Toward the beginning of 2014 SamCERA converted from the EAFE Plus to the ACWI ex US strategy. This involved buying several additional emerging markets names. Relative to the ACWI ex US benchmark, the strategy remains underweight emerging markets, holding approximately 16% vs. slightly over 20% for the index. However, they believe their actual economic exposure to the emerging markets is comparable to that of the benchmark.

Performance & Positioning

Over the past 12-months as of the end of May the strategy has returned 16.4%, which is 270 basis points behind the benchmark. From the April of 2012 inception of the account, the strategy has lagged the benchmark just slightly, by 10 basis points. While this is a bit disappointing, Baillie Gifford invests on a three- to five-year horizon and they believe that a time period of at least this long is needed to evaluate their performance. They attribute their recent underperformance to stock specific events, rather than exposure to a specific theme or style. Joe mentioned a couple of examples in connection with this. They own a company called Trade Me which is a New Zealand based internet company similar to Amazon, but on a smaller scale. This company was a significant detractor over the past 12-months as it faced more competition than expected. Australian maker of hearing aids, Cochlear was also a material detractor from performance. The company recalled one of their products, but the expectation is that most of the customers whose hearing aids were recalled will stay with Cochlear.

Several recent purchases and sales were reviewed during the meeting. Last year Baillie Gifford added Baidu and Inditex to the portfolio. Baidu is a Chinese retailer that has sold off more recently. And Inditex owns several clothing retailers and brands including Zara. The stock had de-rated over the course of last year, but the International Focus team expects the company to continue to grow at 10% or more. Baillie Gifford sold Japanese gaming/toy company, Namco Bandai, which had accumulated a large cash position and seemed to be making sub-optimal capital allocation decisions. Earlier this year, they also sold Amec, on the news that the company intended to acquire Foster Wheeler. In general, Baillie Gifford avoids companies seeking to make large acquisitions. Two European holdings have been acquired over the past year, Celesia and Scania. They regard acquisitions of their portfolio holdings as a mixed blessing. Although the stocks immediately appreciate when this happens, they leave the portfolio and therefore cannot contribute the long-term compounding for which Baillie Gifford purchased them.

Date of meeting: 7/10/2014
Location: SamCERA Office
SamCERA Account 4/30/2014: $139 mm

Manager Representative(s)

Ken Stuzin (PM), Nicole Nesbitt (Relationship Manager)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer), Lilibeth Dames (Investment Analyst)

Product Description

Brown Advisory's Large-Cap Growth Equity philosophy is based on the belief that concentrated portfolios of fundamentally strong businesses should generate returns in excess of the portfolio's index and the broad market, with an acceptable level of risk. The approach is team-based and collaborative, involving a long-term outlook, and fundamental research on a broad universe of stocks. Security selection is bottom-up with an emphasis on identifying companies with strong sustainable business models. Brown seeks to construct a portfolio of companies with high absolute growth rates and reasonable valuations.

Meeting Notes

Organization

Brown Advisory is owned by the firm's employees. All employees own equity and the distribution is relatively equal, with for example, the firm's CEO owning only 4%. This enables Brown to repurchase shares of retiring employees easily from current cash flow. The firm has several offices, but headquarters remain in Baltimore. The client base is divided between institutional and private client.

Firm Assets are just under $50 billion. The firm is composed of several different teams managing their strategies independently from one another. But various investment strategies do share some common features. All the strategies are concentrated, fundamental and emphasize investing in companies with solid business models.

Investment Team

In the past year, three new analysts have joined the team. Tim Hathaway has been promoted to Director of Research, which is an oversight role responsible for coordinating the team's research efforts.

Investment Strategy

Assets in the Large Cap Growth strategy are approximately $19 billion. The strategy is closed to new separate accounts, but the mutual fund remains open. However, they have not been marketing the mutual fund and inflows have been light. In addition to their own mutual fund, the strategy also has several sub-advisory relationships, including Principal Global an SEI.

Idea generation happens in several different ways. Portfolio managers can direct analysts to ideas they believe may be of interest; analysts themselves may generate ideas; and ideas can also come from elsewhere at the firm, such as the small cap growth team. All the names in the portfolio are covered by an analyst. Analysts take significant responsibility for what is in the portfolio and are also involved in position sizing.

Performance & Positioning

One of the larger detractors in 2013 was Intuitive Surgical. This is a manufacturer of robotic medical devices used for conducting surgical procedures. Brown has been an investor in the company for seven years. During the year a short seller came out with a negative report about the company that Ken Stuzin argues was a misinterpretation of the findings of a study about the success rate of robotic surgeries. According to Ken, this company has no competition. And increasingly younger surgeons want to use these machines and are not interested in learning alternative approaches such as laparoscopic surgery. The company generates only 30% of its revenue from new robot sales and 70% from procedures (Ken described it as a “razor/razor blade” model).

Whole Foods is another holding that recently has been a significant detractor. The stock has fallen and the valuation has declined from 27X earnings when they started buying it, to 22X earnings more recently. The stock has fallen as the company has reported weaker growth in same store sales. Brown thinks that the slowdown in same store sales is temporary and due to transitory factors such as weather. According to Ken, the Whole Foods has gone from being a specialty natural foods store into the much more mainstream supermarket business. As they have become larger they have become better able to negotiate competitive pricing with suppliers. Prices in the stores are now much more comparable to mainstream supermarkets such as Kroger. Many shoppers currently only buy a limited number of items at Whole Foods. Ken’s view is that as these shoppers come to realize that the prices of many of the items that they buy elsewhere are actually competitive at Whole Foods, they will begin to buy more of these items there. He expects this to drive growth at the company.

Charles Schwab is the largest holding in the portfolio. This company has been quite successful gathering assets. As the reputation of full service brokerage firms has eroded, financial advisors/brokers have more and more begun to set up independent firms. Schwab provides turnkey solutions for these advisors. Once these small RIAs have moved to Schwab’s platform, they are very unlikely to move to a different one. An increase in short term interest rates would be a significant tailwind for Schwab’s earnings. Approximately 15% of the assets in accounts at Schwab are currently in money market funds. Because rates are so low, Schwab must rebate the fees on these funds. Higher rates would enable Schwab to retain these fees. Brown has been trimming its position in Visa in order to increase the position in Schwab.

Fastenal is a new holding in the portfolio. The company sells nuts and bolts and has significantly larger margins than other similar businesses. The competitive advantage is that the company has several thousand stores and a sophisticated approach to managing customers’ inventory. Fastenal places vending machines with their products in factories and machine shops, which enables them to track inventory and ensure that customers do not run out of anything that they need.

Date of meeting: 7/10/2014

Location: SamCERA Office
SamCERA Account 4/30/2014: $120 mm

Manager Representative(s)

John Heffern (PM), Tim Riddle (CEO)

SIS Representative(s)

Jonathan Brody

Client Representative(s)

Mike Coultrip (CIO), Scott Hood (Assistant Executive Officer), Lilibeth Dames (Investment Analyst)

Product Description

Chartwell seeks to invest in stocks with solid fundamentals that are well positioned for rapid growth. These businesses typically demonstrate strong increases in earnings per share. The strategy involves initiating positions opportunistically when stocks are attractively valued. Chartwell's style falls somewhere between the momentum-oriented small growth managers on the aggressive end of the spectrum, and the more defensive growth-at-a-reasonable price managers. Portfolios contain 50-70 stocks with market capitalizations between $200 million and $2.5 billion at purchase. Meetings with management are an important part of the investment process.

Meeting Notes

Organization

The acquisition of Chartwell by TriState Capital Holdings closed in March. Chartwell is now 100% owned by TriState, a publicly traded private bank. The firm's primary business is secured lending to high net worth individuals. Chartwell entered into this transaction because a large percentage of the firm's equity, 60% by the end of 2013, had come to be held by passive owners. The group that had provided seed capital when Chartwell was founded held 25% of the equity. But an additional 35% had come to be owned by retired partners and ex-employees. The firm's original partnership agreement was flawed in failing to ensure that equity would remain in the hands of active employees. Chartwell's management held the view that, in order to grow, the firm required more reinvestment than it was receiving from its external passive owners. The new arrangement with TriState is designed to be more conducive to growth.

Senior investment professionals at Chartwell have signed employment agreements. TriState receives 60% of Chartwell's revenue, net of firm's operating expenses. Chartwell employees receive up to 40% of the revenue in the form of salary and bonuses, with the exact percentage determined by investment performance.

Firmwide assets are now $8 billion. The small cap growth strategy has assets of just under $1.7 billion. Chartwell plans to close this strategy when it reaches $2 billion in committed capital. The firm recently closed its small cap value strategy to new institutional accounts. The client base of Chartwell's small cap growth strategy is tilted toward sub-advisory, with Vanguard Explorer being the largest account.

Investment Team

There have been no changes to the team in the past year. John Heffern, who joined Chartwell in 2005, remains the lead portfolio manager on the strategy.

Investment Strategy

The basic investment philosophy and process is unchanged. Chartwell takes the view that earnings drive stock price performance. They look to invest in companies with growing revenue, margins and profits. The portfolio is constructed to have characteristics similar to the benchmark. But their objective is to construct a portfolio of companies with higher growth rates and lower valuations than the benchmark. The idea is to beat the benchmark by owning companies with catalysts and superior execution. Face-to-face meetings with company managements are a central component of the research process.

Turnover tends to be in the 70%-135% range. A portion of this turnover are trims and adds as positions converge and diverge from target prices.

Performance & Positioning

Despite returning more than 40% in 2013, Chartwell slightly underperformed the benchmark. The primary reason for this was that they were underexposed to some of the highest momentum areas of the market, such as biotechnology. More recently not owing some of these highly valued names has begun to pay off.

Recent purchases include security software company, Fortinet, and Molina Healthcare, a managed healthcare company Chartwell believes is positioned to benefit from the trend toward privatization of government-managed healthcare. Recent sales include Finisar, an optical equipment company that supplies components to the telecom industry, and Cathay General Bancorp, a commercial bank based primarily in California. In the case of Finisar, Chartwell sold a part of its position as the stock approached its price target, and the rest after the company reported a disappointing quarter in April. Cathay was sold as it approached Chartwell's price target.

Technology remains the largest overweight in the portfolio. The largest holding in the portfolio is Synovus, a Southeast regional bank. The stock is trading at less than 1.5X tangible book value. Chartwell expects the stock to benefit from the eventual regulatory approval for the company to buy back stock and pay a dividend.

Turnover has declined because of the low volatility environment. In this environment Chartwell has been placing greater emphasis on long-term compounding rather than trading the portfolio for shorter-term gains.

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item: 6.4

To: Board of Retirement

Michael R Coultrip

From: Michael Coultrip, Chief Investment Officer

Subject: Approval of Resolution Extending Agreement with Strategic Investment Solutions, Inc.

STAFF RECOMMENDATION

Approve a resolution authorizing the Chief Executive Officer to execute a Second Amendment to the agreement with Strategic Investment Solutions, Inc. ("SIS") for investment consulting services, extending the term by three years to August 31, 2017.

BACKGROUND

In August of 2001, after undertaking a Request for Proposal process for investment consulting services, the Board selected SIS as its investment consultant and entered into a three-year agreement. This agreement was renewed in 2004 and 2007. In late 2009, the Board undertook another Request for Proposal process for consulting services, including alternative asset consulting, and in March 2010, SIS was selected.

DISCUSSION

In 2013, the Board extended the term of that agreement for one year to August 31, 2014, in order to allow Staff more opportunities to assess the quantitative services of SIS more fully during the recently-concluded asset liability study.

In February of 2014, the Board performed an annual review of SIS. Both the Board and Staff have been pleased with their services and gave high marks to SIS during the review process. As a result, Staff is recommending renewing the contract for the full three-year term.

The proposed agreement keeps the services the same and extends the term three years to August 31, 2017. The annual retainer fee would be increased from $400,000 to $450,000, representing an increase of 12.5%. Notably, this would be the first fee increase since 2010, and the fees would remain at this new rate throughout the term of the agreement, unless a modification is approved by the Board. The agreement may be terminated by the Board or SIS with thirty days written notice.

ATTACHMENTS

Resolution Authorizing The Chief Executive Officer To Execute A Second Amendment To The Agreement With Strategic Investment Solutions, Inc. For Investment Consulting Services

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RESOLUTION 14-15-

RESOLUTION AUTHORIZING THE CHIEF EXECUTIVE OFFICER TO EXECUTE A SECOND AMENDMENT TO THE AGREEMENT WITH STRATEGIC INVESTMENT SOLUTIONS, INC. FOR INVESTMENT CONSULTING SERVICES

WHEREAS, in August 2010, after a Request For Proposal process, this Board determined that it should continue using the services of Strategic Investment Solutions, Inc. (herein after "Consultant") and the San Mateo County Employees' Retirement Association ("SamCERA") entered into a new agreement (hereinafter referred to as the "Original Agreement") with Consultant for investment consulting services as set forth in that Original Agreement; and

WHEREAS, the Board amended the agreement in March 2013 (First Amendment) to extend the term of the Original Agreement for 1 year to August 31, 2014; and

WHEREAS, the Board completed its annual review of Consultant and believes that it is in the best interest of SamCERA to extend the Original Agreement for an additional three years to August 31, 2017;
therefore be it

RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute the Second Amendment to the Agreement with Consultant on behalf of SamCERA extending the agreement to August 31, 2017, and increasing the annual retainer fee to $450,000.

BE IT FURTHER RESOLVED, that the Chief Executive Officer is hereby authorized and directed to execute subsequent amendments to the Second Amended Agreement and minor modifications in an amount not to exceed a total of $25,000.

* * * * *

San Mateo County Employees' Retirement Association
Board of Retirement

July 29, 2014 Agenda Item 7.1

To: Board of Retirement

From: Chezelle Milan, Retirement Senior Accountant *Chezelle Milan*
Lilibeth Dames, Retirement Investment Analyst *Lilibeth Dames*
Mabel Wong, Finance Officer

Subject: Preliminary 4th Quarter Budget Report

DISCUSSION

SamCERA's budget consists of three components, a professional services budget authorized by Government Code §31596.1, an administrative budget and a technology budget authorized by Government Code §31580.2.

Professional Services Budget - **Attachment One** provides an overview of the accrued professional services expenditures. Investment management fees are driven by contractual agreements and based on total assets under management or the amount of capital committed. Fees for the actuarial services, investment consulting services and global custodian services are based on services detailed in the contractual agreements. The preliminary annualized aggregate professional services fee as of June 30, 2014, is approximately 49.9 basis points versus the expected fee of 57.5 basis points. Total actual to budget expenditures was slightly under than projected.

SamCERA's Administrative Budget –The adopted administrative budget by category, versus the preliminary fiscal expenditures is shown in the table below.

Attachment Two provides a review of the line item administrative appropriations versus the preliminary expenditures. Year-to-date through the fourth quarter, SamCERA expended 88.1% of the approved appropriations. Under **Salaries & Benefits** SamCERA budgets all positions and benefits. Under **Services & Supplies** the association budgets all overhead and operational expenditures. This year's budget has not allocated any appropriation for **Capital Assets**.

SamCERA's Administrative Budget

	Adopted Budget	YTD Preliminary
Salaries & Benefits	$4,068,503	$3,695,520
Services & Supplies	$1,464,537	$1,180,145
Capital Assets	$ 0	$ 0
Total	$5,533,040	$4,875,665

Attachment Three provides a review of the line item technology appropriations versus the preliminary expenditures. SamCERA has extended the contract with LRWL Inc. as the consultant in the implementation of the new Pension Administration Software Solution (PASS). SamCERA has entered into contract with Vitech Systems Group and the implementation of the PASS system, V3, is in progress. The implementation of PASS will be a phased approach over three years.

SamCERA's Technology Budget

	Adopted Budget	YTD Preliminary
Property & Equipment	$78,000	$13,733
IT Infrastructure	$2,073,200	$694,338
Capital Asset	$1,200,000	$0
	$3,351,200	$708,071

San Mateo County Employees' Retirement Association
Board of Retirement

July 29, 2014
Attachment One

Third Quarter Analysis
06-30-2014

Agenda Item 7.1

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:

CONTRACTOR	SERVICE	FEE (1)	2013-2014 YTD EXPENSE (ACCRUED)	2013-2014 ESTIMATE
Milliman	Actuarial Consulting	0.2 bps	$73,131	$105,500
Strategic Investment Solutions	Investment Consulting	1.2 bps	$400,000	$400,000
State Street Bank & Trust	Global Custody	0.5 bps	$172,620	$200,000
SUB-TOTAL NON INVESTMENT MANAGER CONTRACTUAL FEES			$645,751	$705,500
Estimated Market Value 06-30-2014			$3.3 Billion	$2.9 Billion
Average Basis Points (2)			2.0 bps	2.4 bps

(1) The Actuary, Custodian and Investment Consultant are compensated on a flat fee basis. Fees on this schedule are expressed in basis points (or fractions thereof) and utilize total assets while the Investment Manager calculations utilize assets under management.

(2) The calculation utilizes an average market value of $2.9 billion

The contractual fee schedule for investment managers appears on the following page.

CONTRACTOR	SERVICE	FEE (1)	2013-2014 YTD EXPENSE (ACCRUED)	2013-2014 ESTIMATE
BlackRock S&P 500 Index Fund	Domestic Large Cap Equity	2.2 bps	$125,762	$140,000
BlackRock EAFE Index Fund	International Equity	6.0 bps	$41,383	$50,000
D.E. Shaw Investment Management, LLC	Domestic Large Cap Enhanced	49.4 bps	$731,914	$760,000
Barrow, Hanley, Mewhinney & Strauss	Domestic Large Cap Value	45.7 bps	$686,542	$700,000
Brown Advisory	Domestic Large Cap Growth	44.3 bps	$652,364	$700,000
The Boston Company	Domestic Small Cap Equity	82.1 bps	$947,664	$860,000
Chartwell Investment Partners	Domestic Small Cap Equity	75.0 bps	$889,355	$780,000
Baillie Gifford	International Equity	46.6 bps	$877,839	$880,000
Eaton Vance - Parametric	International Equity	105.0 bps	$642,219	$720,000
Mondrian Investment Partners	International Equity	39.9 bps	$601,256	$360,000
Pyramis Global Advisors	International Equity	90.0 bps	$558,133	$540,000
Pyramis Global Advisors	Domestic Fixed Income	15.2 bps	$241,874	$240,000
Western Asset Management	Domestic Fixed Income	27.1 bps	$322,056	$340,000
Angelo Gordon (STAR)	Domestic Fixed Income	N/A	$520,000 (3)	$520,000
Brigade Capital Management	Domestic Fixed Income	73.1 bps	$483,492	$480,000
Brown Brothers Harriman	Domestic Fixed Income	15.0 bps	$117,213	$120,000
Franklin Templeton	Global Fixed Income	38.0 bps	$457,900	$480,000
ABRY ASF II	Private Equity	N/A	$328,300 (3)	$400,000
ABRY Partners VII	Private Equity	N/A	$124,737 (3)	$200,000
Cevian Capital	Private Equity	N/A	$400,000 (3)	$400,000
Emergence Capital	Private Equity	N/A	$178,824 (3)	$200,000
EnCap	Private Equity	N/A	$150,000 (3)	$150,000
General Catalyst	Private Equity	N/A	$244,780 (3)	$250,000
Great Hill	Private Equity	N/A	$125,000 (3)	$500,000
New Enterprise Associates	Private Equity	N/A	$116,648 (3)	$125,000
Regiment	Private Equity	N/A	$289,896 (3)	$300,000
Sycamore Partners I	Private Equity	N/A	$375,000 (3)	$375,000
Sycamore Partners II	Private Equity	N/A	$372,906 (3)	$375,000
Sheridan Production Partners	Private Equity	N/A	$300,045 (3)	$300,000
Warburg Pincus	Private Equity	N/A	$397,861 (3)	$560,000
Third Rock Ventures III	Private Equity	N/A	$232,494 (3)	$250,000
AQR Risk Parity	Risk Parity	N/A	$681,774	$730,000
AQR Delta Hedge Fund	Hedge Fund	N/A	$869,396	$770,000
SSGA- SSARIS Multisource Commodities	Commodities	N/A	$464,690	$470,000
INVESCO Realty Advisors	Real Estate Management	39.4 bps	$723,665	$800,000
The Clifton Group	Cash Management Overlay	N/A	$142,774	$150,000
SUB-TOTAL INVESTMENT MANAGERS			$15,415,756	$15,975,000
Average Basis Points (1)			46.9 bps	55.1 bps
SUB-TOTAL NON- INVESTMENT MANAGERS (FROM PREVIOUS PAGE)			$645,751	$705,500
Average Basis Points (2)			2.0 bps	2.4 bps
TOTAL ESTIMATED CONTRACT FEES			$16,061,507	$16,680,500
Estimated Market Value 06-30-2014			$3.3 Billion	$2.9 Billion
Average Basis Points (2)			49.9 bps	57.5 bps

(1) The Actuary, Custodian and Investment Consultant fees expressed in basis points utilize total assets while the Investment Manager calculations utilize assets under management.

(2) The calculation utilizes an average market value of $2.9 billion

(3) Management fees for investment managers that provide quarterly statements are expressed as estimates until quarterly statements are received and booked in SamCERA's financials. Statements have not been received as of the date of the mailing.

SamCERA's
Administrative Budget
Fiscal Year 2013-2014
4th Quarter
as of June 30, 2014
PRELIMINARY
ATTACHMENT II

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Salaries	$2,607,570	$2,329,191	89.3%	$278,379	10.7%
Benefits	$1,460,933	$1,366,329	93.5%	$94,604	6.5%
Salaries & Benefits	**$4,068,503**	**$3,695,520**	**90.8%**	**$372,983**	**9.2%**
Board Expense	$10,500	$6,600	62.9%	$3,900	37.1%
Insurance	$80,000	$63,290	79.1%	$16,710	20.9%
Medical Evaluation	$100,000	$45,969	46.0%	$54,031	54.0%
Member Education	$45,000	$45,833	101.9%	-$833	-1.9%
Education & Conference	$97,215	$112,566	115.8%	-$15,351	-15.8%
Transportation and Lodging	$177,750	$97,183	54.7%	$80,567	45.3%
Property & Equipment	$24,000	$25,733	107.2%	-$1,733	-7.2%
General Office Supplies	$33,500	$30,675	91.6%	$2,825	8.4%
Postage & Printing	$85,000	$51,772	60.9%	$33,228	39.1%
Leased Facilities	$367,794	$331,537	90.1%	$36,257	9.9%
County Services	$398,278	$318,718	80.0%	$79,560	20.0%
Audit Services	$45,500	$50,269	110.5%	-$4,769	-10.5%
Other Administration	$0	$0	0.0%	$0	0.0%
Services & Supplies	**$1,464,537**	**$1,180,145**	**80.6%**	**$284,392**	**19.4%**
Capital Assets	**$0**	**$0**	**0.0%**	**$0**	**0.0%**
Depreciation		**$0**			
Grand Total	**$5,533,040**	**$4,875,665**	**88.1%**	**$657,375**	**11.9%**

SamCERA's
Information Technology Budget
Fiscal Year 2013-2014
4th Quarter
as of June 30, 2014
PRELIMINARY
ATTACHMENT III

	Budget Allotment (as Amended)	Year to Date Expenditures	Percentage Expended	Remaining Balance	Remaining Percentage
Property &Equipment	$78,000	$13,733	17.6%	$64,267	82.4%
IT Infrastructure	$2,073,200	$694,338	33.5%	$1,378,862	66.5%
Capital Assets	$1,200,000	$0	0.0%	$1,200,000	0.0%
IT Total	**$3,351,200**	**$708,071**	**21.1%**	**$2,643,129**	**78.9%**

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

July 29, 2014 Agenda Item 7.2

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Approval of Resolution Amending Interest Crediting Policy and Medicare Part B Funding

Staff Recommendation
Approve a resolution revising the SamCERA Interest Crediting Policy.

Background
Staff has worked with its actuarial consulting firm, Milliman, Inc., to draft proposed revisions to the SamCERA Interest Crediting Policy. These revisions are to:

1. Clear up confusing, redundant and contradictory language in the current policy.
2. Add a County Supplemental Contributions Account (CSCA) Reserve and define the crediting to that reserve;
3. Delete the Supplemental Benefits Reserve and the potential crediting of “excess earnings” to that reserve;

Discussion
The following is a discussion of the three categories of revisions listed above.

1. Clear up confusing, redundant and contradictory language in the current policy.
With this memo the Board has been provided both the current Interest Crediting Policy and a proposed new Interest Crediting Policy. The proposed new policy is substantially edited to remove confusing, redundant or contradictory language and to assure compliance with the 1937 Act and federal tax law. These language changes; however, do not make significant changes to the current interest crediting approach nor do they alter the method the actuary uses to calculate retirement contributions or other valuation results.

2. Addition of County Supplemental Contributions Account (CSCA) Reserve. The County of San Mateo has entered into an agreement with SamCERA to make supplemental contributions to the retirement fund. These funds are to be held for the sole benefit of the County in the calculation of the County’s contributions to the retirement fund. To account for these contributions separately from the contributions of other SamCERA employers and separately from the statutorily required contributions of the County, SamCERA must amend its Interest Crediting Policy to create a new County Supplemental Contributions Account (CSCA) Reserve.

The revised policy creates a CSCA reserve and defines how earnings will be credited to the reserve.

3. <u>Deletion of Supplemental Benefits Reserve.</u> The current Interest Crediting Policy is designed to allocate actuarial earnings in excess of the assumed investment earnings rate (“excess earnings”) to a Supplemental Benefits Reserve. The following is a discussion of “excess earnings” and the use of those funds to pay for Medicare Part B Reimbursements.

<u>Excess Earnings:</u> The 1937 Act allows county retirement boards to declare “excess earnings” and use those earnings for payment of ad hoc retirement benefits (non-vested benefits in addition to the basic guaranteed benefits). Beginning with the bursting of the “Dot Com Bubble” and continuing through the “Financial Crisis” of 2007-2009, retirement systems have become clearly aware that, in real terms, there is no such thing as “excess earnings.” All the assets of a fund and the earnings thereon are important to the funds’ ability to stabilize employer and member contribution rates and to pay for benefits earned in the most efficient and credible manner.

Under the 1937 Act and SamCERA’s current policy, “excess earnings” are not considered as assets when determining funded status, unfunded actuarial accrued liabilities (UAALs) or in setting employer contribution rates. In essence, “excess earnings” are those assets a board has determined are not needed for the purpose of funding the guaranteed benefits of the system and can, therefore, be used for ad hoc benefits.

Many, perhaps most, of the 1937 Act retirement systems either no longer set aside “excess earnings,” or they set a high funded-status hurdle, such as 100%, before they declare “excess earnings.” In the case of the largest 1937 Act fund, the Los Angeles County Employees’ Retirement Association, the funded status must reach 125% before “excess earnings” are generated. (Funded status is an actuarial comparison of assets to liabilities.)

The decline in the use of “excess earnings” is because recent experience has clarified that fund values go up and down. When “excess earnings” are generated, it is typically because a fund earned more than its assumed investment earnings rate in a given time period. But the earnings of a retirement fund are not “money in hand” or “money in the bank.” Fund earnings are simply the difference between the value of the fund at one point in time versus another point in time (minus contributions). Thus, the idea that “excess earnings” can be spent for other purposes is based on the false idea that “excess earnings” are real, spendable dollars. They are actually only a part of the fund’s assumed value at a given moment.

A policy that uses “excess earnings” also creates an actuarial issue. If all earnings higher than the assumed rate are diverted to reserves that are not part of the actuarial asset/liability comparison, then adopting an assumed rate that is expected to represent the long-term median earnings experience is not likely to be correct. In other words, we can’t expect to average 7.25% earnings if every time we earn more than 7.25% we put the excess in off-valuation reserves. In such case, 7.25% could become the maximum actuarial return, not the median.

Medicare Part B Reimbursements: From 1998 through 2004, SamCERA provided an ad hoc benefit: the reimbursement of retirees' Medicare Part B premium costs, which were paid in part out of the "excess earnings" credited to the Supplemental Benefits Reserve. Due to the recession, and because SamCERA credits earnings on an actuarial or "smoothed" basis, no "excess earnings" have been generated and no payments for Medicare Part B reimbursements have occurred since 2004. SamCERA, however, has had excellent earnings over the last few years and the generation of "excess earnings" as set forth in the policy may occur in the near future. For the reasons set forth above, it is Staff's recommendation that the policy be amended to eliminate the creation of excess earnings, which would, in turn, eliminate the current method for funding a Medicare Part B reimbursement.

It should be noted that under the 1937 Act and federal tax law, there are three possible methods to fund Medicare Part B reimbursements.

1. The Retirement Board can choose on its own authority to fund such reimbursements on a taxable basis for retirees using "excess earnings." (Staff recommendation would eliminate this option.)
2. The Retirement Board can request that the Board of Supervisors approve the use of a portion of the County's statutory required contributions for Medicare Part B reimbursements on a tax-free basis for retirees. Under current Board of Retirement Resolution 06-07-07, such request would not be made unless the retirement system is at least 80% funded. This method is likely to create unfunded liabilities because less than all of the employer contributions actuarially calculated as needed to fund guaranteed benefits would go to that purpose. (Staff recommendation would eliminate this option.)
3. The County and/or other employers can agree to make separate and additional contributions to SamCERA in order to pay for Medicare Part B benefits. Under this option, SamCERA would make the reimbursements to retirees on a tax-free basis. (Staff recommendation would not eliminate this option. The funding of this option is at the sole discretion of the employers.)

Staff believes the use of "excess earnings" to fund ad hoc benefits, such as Medicare Part B reimbursements, should be eliminated. If the Board chooses to accept Staff's recommendation to eliminate the Supplemental Benefits Reserve from the Interest Crediting Policy, then all language about the Supplemental Benefits Reserve will be eliminated and the draft new policy will become final without reference to a Supplemental Benefits Reserve.

Board of Retirement

RESOLUTION REVISING THE BOARD OF RETIREMENT'S INTEREST CREDITING POLICY

RESOLUTION 14-15____

WHEREAS, the Board should have a policy to govern the crediting of interest to reserves of the Fund that is consistent with Article 5 of the County Employees' Retirement Law of 1937; and

WHEREAS, in the development and adoption of the current Interest Crediting Policy as well as the proposed revisions to this policy, the Board has balanced the interests of the active members and the retired members and has determined that the policy set forth below best serves the interests of the membership as a whole; and

WHEREAS, this Board finds that proposed revisions to the Interest Crediting Policy are to: comply with appropriate legal and regulatory requirements; assure the prompt delivery of benefits and related services to the participants and their beneficiaries; limit, to the extent possible, the volatility of interest crediting from period to period; minimize the volatility of employer contribution rates; limit, to the extent possible, the charging of short-term losses to reserves; maintain consistency between the reserve structure and the actuarial funding of SamCERA; and assure that the reserve values track the market value of assets over the long term; and

WHEREAS, the proposed revisions to the Interest Crediting Policy improve upon the language in the current policy, address the new County Supplemental Contributions Account (CSCA) Reserve along with crediting to that reserve, and delete the Supplemental Benefits Reserve and the potential crediting of "excess earnings" to that reserve; and

WHEREAS; this Board has reviewed the attached revisions to the Interest Crediting Policy and desires to make such revisions; therefore be it

RESOLVED that the Board hereby revises and amends its Interest Crediting Policy to read as follows:

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Interest Crediting Policy

I. Overview

The San Mateo County Employees' Retirement Association (SamCERA) Board of Retirement (Board) establishes this policy to govern the crediting of interest to reserves under the County Employees' Retirement Law of 1937 (CERL) subject to the requirements specified in Article 5 of the CERL.

II. Objectives

In the development and adoption of this policy, the Board has balanced the interests of the active members and the retired members and has determined that the policy set forth below best serves the interests of the membership as a whole. In addition, this policy has been developed with the following objectives:

- To comply with appropriate legal and regulatory requirements.
- To assure the prompt delivery of benefits and related services to the participants and their beneficiaries.
- To limit, to the extent possible, the volatility of interest crediting from period to period.
- To minimize the volatility of employer contribution rates.
- To limit, to the extent possible, the charging of short-term losses to reserves.
- To maintain consistency between the reserve structure and the actuarial funding of SamCERA.
- To assure that the reserve values track the market value of assets over the long term.

III. Definition of Reserves

For the purpose of allocating earnings, all SamCERA reserves will fall into one of three categories below:

A. Valuation Reserves. Valuation Reserves are used to determine the employers' statutory contribution rates.

The following reserves are considered Valuation Reserves into which contributions and earnings are credited at certain limits:

1. **Member Reserve**. This is the reserve for all member contributions.

2. **County Advance Reserve**. This is the reserve for statutorily determined contributions from all employers.

3. **Retiree Reserves**. These are the reserves for retirees. Monies are transferred from the Members Reserve and the County Advance Reserve when a member retires.

a) Retirees – Annuity Reserve,
b) Retirees – Current Service Pension Reserve
c) Retirees – Survivors Death Benefit Reserve

4. **Cost of Living Adjustment Reserve**. This is the reserve for employer Cost of Living Adjustment contributions.

5. **The County Supplemental Contributions Account (CSCA) Reserve**. This is a reserve for supplemental contributions from the County of San Mateo that are over and above the County's required statutory contribution rates.

B. **Non-Valuation Reserves**. These reserves are not used to determine employers' statutory contribution rates.

1. **Contingency Reserve**. This is a statutorily defined account set aside as a reserve against deficiencies in interest earnings, losses on investments or other contingencies under Sections 31592 and 31592.2 of the CERL.

(Staff recommends III.A.2 "Supplemental Benefit Reserves" below be deleted from the policy.)

2. **Supplemental Benefit Reserves**. These are reserves set aside to provide additional ad hoc benefits for retired members and beneficiaries as solely determined by the Board. There is no vested right to any of these benefits. Supplemental Benefit Reserves include the:

a) Medicare Part B Reserve, and
b) 401(h) Reimbursement Reserve.

3. **<u>Undistributed Earnings/Losses Reserve</u>**. This reserve is for cumulative undistributed actuarial earnings and losses.

4. **<u>Other Specified Non-Valuation Reserves</u>**. These are other reserves that may be created by the Board and have been designated by the Board for a specified purpose. Designation of these reserves does not create any vested rights for benefit payments. Other Specified Non-Valuation Reserves include:

(None until such time as this policy may be amended and reserves are added by Board action.)

C. **Financial Statement Reserve**. This reserve is shown in the financial statements but is not a part of the annual valuation and is not included in the interest crediting process.

D. Market Stabilization Account. This reserve is shown in the financial statements but is not a part of the annual valuation and is not included in the interest crediting process.

IV. Timing of Interest Crediting

SamCERA will credit reserves twice each year to all Valuation and Non-Valuation Reserves that have been on deposit for the prior six months, in accordance with Section 31591 of the CERL. The crediting will take effect as of June 30 and December 31 of each year. The act of crediting will occur as of the dates set forth in Section V below.

V. Definition of Available Earnings

The Board will credit interest based on the amount of earnings that are available to be allocated for that purpose (Available Earnings) for each six-month period. Available Earnings will be the difference between the actuarial value of assets at the beginning of the six-month crediting period and the actuarial value of assets at the end of the six-month crediting period, calculated using the asset smoothing method adopted by the Board in the most recent SamCERA actuarial valuation. The amount in the Undistributed Earnings/Losses Reserve will be combined with the above calculation to determine Available Earnings. The values used for these calculations will not include the value or earnings of the County Supplemental Contributions Account (CSCA) Reserve. The crediting of Available Earnings will take place in accordance with Section VI of this Statement.

VI. Crediting of Available Earnings

The Retirement Board will credit earnings to the Valuation and Non-Valuation Reserves based on the amount of Available Earnings determined under Section V of this Statement. The allocation will be done in the following order until all earnings have been allocated, or the allocation process has been suspended as described below.

A. Crediting to Valuation Reserves
(Steps in the Crediting Process)

1. **The County Supplemental Contributions Account (CSCA) Reserve.** For funds on deposit in this account, crediting to this reserve will be on a market value basis, net of all proportionate fees and expenses, as determined by SamCERA from the date of deposit with SamCERA to the effective date of crediting.

    a) Interest will be credited to this reserve in accordance with the "Memorandum of Understanding Between The County Of San Mateo And The San Mateo County Employees' Retirement Association Regarding Retirement System Funding." The amounts in this reserve will only be recognized for contribution rate-setting purposes for the benefit of the County of San Mateo and will not be recognized for the benefit of any other employer.

b) Crediting to this account will have no upper or lower limit.

c) The assets of this account will be valued separately from all other reserves and will be credited separately from all other reserves. The earnings or losses of the reserves will not be used to credit any other reserves until such time, by mutual agreement, SamCERA and the County of San Mateo agree to do so.

2. **Members Reserve.** For interest crediting to Member Reserves, a preliminary actuarial earnings rate will be used based on available unaudited financial information as of February 5th and August 5th, and members accounts will be credited by February 20th and August 20th.

   Members Reserve accounts will be credited in amounts that are equal to the lesser of:

   a) one-half of the assumed investment earnings rate,* or
   b) the Actuarial Earnings Rate, but the rate credited shall not be less than zero.

3. **Balancing Credit to County Advance Reserve**. If the actuarial earnings rate for the period is less than one-half the assumed investment earnings rate, the difference between the amount that would have been credited to the Members Reserve and the amount that was actually credited to the Members Reserve in Step 2 above, will be credited to the County Advance Reserve. The purpose of making the additional allocation is to produce a total amount credited to all Valuation Reserves that is equal to the amount that would have been credited to the Valuation Reserves, in aggregate, if all Valuation Reserves were credited with one-half of the assumed interest rate.

4. **Other Valuation Reserves**. The other Valuation Reserves (except the Members Reserve and the CSCA Reserve) will be credited with earnings at a rate of one-half of the assumed investment earnings rate. These reserves include:

   a) County Advance Reserve
   b) Retiree Reserves
   c) Cost of Living Reserve

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* The "assumed investment earnings rate" as used throughout this policy, shall be the rate adopted by the Board for use in the actuarial valuation used to determine employer contribution rates for the Fiscal Year in which the allocation is taking place.

B. Suspension of Crediting Process and Crediting to Non-Valuation Reserve

1. **Suspension of Crediting from Available Earnings**. If there are insufficient Available Earnings to credit the Reserves as specified in VI.A.2-4, the Contingency Reserve will be debited to the extent needed to complete VI.A.2-4 of this policy and to the extent assets are available from such reserve. Assets in the Contingency Reserve may not be debited if such action causes the reserve to equal less than 1% of the Fund's actuarial value of assets. If assets are not sufficiently available from the Contingency Reserve for the crediting requirements of VI.A.2-4, the Undistributed Earnings/Losses Reserve will be debited by the amount required to complete VI.A.2-4 with the following restrictions:

   The crediting specified in VI.A.2 will not be less than zero, no matter how far the Undistributed Earnings/Losses Reserve is required to drop in order to make this occur.

2. **Contingency Reserve**. If there are still Available Earnings to be distributed after the allocations in VI.A.2-4 above have been completed, the Contingency Reserve will be allocated earnings until the value of the Contingency Reserve is equal to 3% of the Actuarial Value of Assets, or until all Available Earnings have been exhausted, whichever is less.

   a) If the Contingency Reserve falls below 3% of assets, earnings in future periods not needed to credit earnings to Valuation Reserves will be used to increase the Contingency Reserve to 3% of assets before amounts are credited to any other reserves.

   b) By statute, the Contingency Reserve may <u>not</u> be less than 1% of the actuarial value of assets.

(Staff recommends VI.B.6 "Supplemental Benefit Reserves" below be deleted from the policy.)

3. **Supplemental Benefit Reserves**. If there are still Available Earnings to be distributed after the allocations in VI.A.2-4 and VI.B.2.a-b have been completed, the Supplemental Benefit Reserves may, at the discretion of the Board, be credited with an amount estimated by the system's actuary to equal, when added to existing Supplemental Benefits Reserve assets, the cost for one year of the supplemental benefits for which the amount in this reserve is intended, or until all Available Earnings have been exhausted, whichever comes first.

   a) A decision by the Board to credit or not credit Available Earnings to this reserve shall remain in force for each successive crediting period until such time as the Board approves a different alternative.

- **b)** To the extent that assets as of a crediting date are higher than needed to pay for eligible benefits, such assets shall remain in the Supplemental Benefits Reserve unless transferred by Board action.

- **c)** To the extent that assets fall below zero, such negative balance will be debited to the Undistributed Earnings/Losses Reserve.

4. **Undistributed Earnings/Losses Reserve.** After the allocations in all steps above have been completed, all remaining Available Earnings or losses will be credited to the Undistributed Earnings/Losses Reserve. The Undistributed Earnings/Losses Reserve may hold a positive or negative balance.

INTEREST CREDITING POLICY

I. Overview

The San Mateo County Employees' Retirement Association (*SamCERA*) Board (Board) establishes this policy to govern the crediting of interest to reserves under the County Employees' Retirement Law of 1937 (CERL) subject to the requirements specified in Article 5 of the CERL.

II. Objectives

In the development and adoption of this policy, the Board has balanced the interests of the active members and the retired members and has determined that the policy set forth below best serves the interests of the membership as a whole. In addition, this policy has been developed with the following objectives:

- To comply with appropriate legal and regulatory requirements.
- To assure the prompt delivery of benefits and related services to the participants and their beneficiaries.
- To limit, to the extent possible, the volatility of interest crediting from period to period.
- To limit, to the extent possible, the charging of short-term losses to reserves.
- To maintain consistency between the reserve structure and the actuarial funding of SamCERA.
- To assure that the reserve values track the market value of assets over the long term.

III. General Concepts

This policy deals with the determination of Regular Interest as defined by Section 31472.1 of the CERL and the allocation of that interest to appropriate accounts and reserves. While the details for this allocation are provided below, this determination is based on several general concepts:

- As a whole, Valuation and Non-Valuation Reserves will be credited at the assumed interest rate.
- Individual member's contribution accounts will be credited at the lesser of the actuarial earnings rate or the assumed interest rate, but the rate credited cannot be less than zero. If the actuarial earnings for the period are less than the assumed interest rate, the difference between the amount credited and the amount that would have been credited using the assumed interest rate will be credited to other Valuation Reserves.
- The Contingency Reserve will be targeted at 3% of assets, but will be used to credit interest to Valuation and Non-Valuation Reserves as needed.
    - If the Contingency Reserve falls below 3% of assets, earnings in future periods not needed to credit interest will be used to increase the Contingency Reserve to 3% of assets before amounts are allocated to Undistributed Earnings.
    - The Contingency Reserve may be less than zero. This represents the amount that earnings fell short of the desired interest crediting levels. A Contingency Reserve less than zero will be subtracted from Valuation Reserves for the purpose of determining the required employer contributions.

IV. Adoption and Amendment

This policy has been adopted by a majority vote of the SamCERA Board, and can be amended by the SamCERA Board by a majority vote. It shall be effective for interest crediting on or after January 1, 2013.

V. Definition of Reserves

For the purpose of allocating earnings, all SamCERA Reserves will fall into one of three major categories:

(1) ***Valuation Reserves***. These reserves are used to pay for those benefits which are guaranteed by the County, the Mosquito Abatement District, and any other participating employer. Guaranteed benefits include both Basic and Cost of Living benefits for both General and Safety members. Valuation Reserves are used to determine the employers' contribution rates.
The following reserves are considered Valuation Reserves:

a) **Members Reserve**. This is the reserve into which member contributions are credited.

b) **County Advance Reserve**. This is the reserve into which employer Basic contributions are credited.

c) **Retiree Reserves**. These are the reserves into which amounts are transferred from the Member Reserve and the County Advance Reserve when a member retires.

- Retirees – Annuity Reserve,
- Retirees – Current Service Pension Reserve,
- Retirees – Survivors Death Benefit Reserve, and

d) **Cost of Living Reserve**. This is the reserve into which any employer or member Cost of Living contributions are credited.

(2) ***Non-Valuation Reserves***. These reserves have not been set aside to pay for benefits which are guaranteed by the County, the Mosquito Abatement District, or any other participating employer. Neither the benefits paid from these reserves nor the assets in the reserves themselves are included in the annual valuation to calculate the required employer contribution rate.

a) **Contingency Reserve**. This is an account set aside as a reserve against deficiencies in interest earnings, losses on investments or other contingencies under Section 31592.2 of the CERL.

b) **Supplemental Benefit Reserves**. These are reserves set aside to provide additional benefits for retired members and beneficiaries as determined by the Board. These additional benefits are ad hoc under CERL and are not guaranteed by SamCERA, the County or any other participating employer. Supplemental Benefit Reserves include the

- Medicare B Reserve, and
- 401(h) Reimbursement Reserve.

c) **Other Specified Non-Valuation Reserves**. These are other reserves created from Undistributed Earnings which have been designated by the Board for a specified purpose. Designation of these reserves do not create any vested rights for benefit payment. Other Specified Non-Valuation Reserves include the

- Ventura Reserve.

d) **Undistributed Earnings Reserve**. This reserve is for monies which have not been credited to other reserves.

(3) ***Financial Statement Reserves***. These reserves are shown in the financial statements but are not a part of the annual valuation and are not included in the interest crediting process.

a) **Market Stabilization Account**. This is the difference between the current market value of assets and the actuarial value of assets used to establish the Valuation and Non-Valuation Reserves.

VI. Timing of Interest Crediting

SamCERA will credit Regular Interest twice each year to all Valuation and Non-Valuation Reserves (other than the Contingency Reserve and the Undistributed Earnings Reserve) that have been on deposit for six months, in accordance with Section 31591 of the CERL. The crediting of interest will take effect on June 30 and December 31 of each year.

VII. Determination of Allocable Earnings

The SamCERA Board will credit Regular Interest, in accordance with Section 31472.1 of the CERL, based on the amount of earnings that are available to be allocated for that purpose (Allocable Earnings). Allocable Earnings will be the sum of the following amounts:

(1) ***Actuarial Earnings for the current six-month period***. The amount of earnings, whether positive or negative, to be allocated to SamCERA Reserves will be calculated using the asset smoothing method adopted by the SamCERA Board in the actuarial valuation for calculating the employer contribution rates for the Plan Year in which the allocation is taking place. The Actuarial Earnings Rate for the six-month period will be the Actuarial Earnings for that period, calculated using the asset smoothing method, divided by the average value of assets during the same period determined using the same asset smoothing method. However, for interest crediting to member reserves, a preliminary actuarial earnings rate will be used based on available unaudited financial information as of February 5th and August 5th, and members accounts will be credited by February 20th and August 20th.

(2) ***Undistributed Earnings***. The amount, if any, in the Undistributed Earnings Reserve.

The crediting of Regular Interest from these Allocable Earnings will take place in accordance with Section VIII of this Statement.

VIII. Crediting of Regular Interest

The Retirement Board will credit Regular Interest to the Valuation and Non-Valuation Reserves based on the amount of Allocable Earnings determined under Section VII of this Statement. The allocation will be done in the following order until all earnings have been allocated, or the allocation process has been suspended as described below.

1) ***Members Reserve***. Members Reserve accounts will be credited at a rate equal to the lesser of one-half of the assumed interest rate adopted by the SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place, or the Actuarial Earnings Rate, but the rate credited shall not be less than zero.

2) ***Other Valuation Reserves***. The Valuation Reserves other than the Members Reserve will be credited with earnings at a rate of one-half of the assumed interest rate adopted by the

SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place.

3) ***Additional Credit to Valuation Reserves***. If the actuarial earnings rate for the period is less than the assumed interest rate, the difference between the amount that would have been credited to the Members Reserve at a rate of one-half of the assumed interest rate, and the amount that was actually credited to the Members Reserve in step one above, will be credited to the County Advance Reserve.
   The purpose of making the additional allocation is to produce a total amount credited to all Valuation Reserves that is equal to the amount that would have been credited to the Valuation Reserves, in aggregate, if all Valuation Reserves were credited with one-half of the assumed interest rate.
4) ***Contingency Reserve***. If there are still Allocable Earnings to be distributed after the allocations in steps (1) through (3) above have been completed, the Contingency Reserve will be allocated earnings until the value of the Contingency Reserves is equal to 3% of the Market Value of Assets, or until all Allocable Earnings have been exhausted.
5) ***Supplemental Benefit Reserves***. If there are still Allocable Earnings to be distributed after the allocations in steps (1) through (4) above have been completed, the Supplemental Benefit Reserves will be credited at a rate of one-half of the assumed interest rate adopted by the SamCERA Board in the actuarial valuation used to determine employer contribution rates for the Plan Year in which the allocation is taking place, or until all Allocable Earnings have been exhausted, whichever comes first.
6) ***Undistributed Earnings***. If there are still Allocable Earnings to be distributed after the allocations in steps (1), (2), (3), (4) and (5) above have been completed, all remaining Allocable Earnings will be credited to the Undistributed Earnings Reserve. The use of Undistributed Earnings will be subject to the Undistributed Earnings policy, as modified from time to time by the Board.
7) ***Suspension of Crediting Process***. If there are insufficient Allocable Earnings to credit the Reserves as specified in steps (1) through (5) above, the Contingency Reserve will be debited by the amount required to complete steps (1), (2), (3) and (4) with the following restrictions.
   a) The crediting specified in step (1) will not be less than zero, no matter how far the Contingency Reserve is required to drop in order to make this occur. The Contingency Reserve will not be less than zero.
   b) It is possible that the Contingency Reserve may reflect a negative balance. However, in no event may the total of the Non-Valuation Reserves be allowed to drop lower than 1% of the Market Value of Assets. In the unlikely event that the allocation specified under Steps (2) through (5) above would produce this situation, the allocation process shall be suspended at the point in which the total of the Non-Valuation Reserves reaches 1% of the Market Value of Assets until the Board adopts an alternative allocation.

July 29, 2014 Agenda Item 7.3

TO: Board of Retirement

FROM: David Bailey, Chief Executive Officer

SUBJECT: Revision And Renumbering Of Existing Board Of Retirement Regulations And Addition Of Article I "Purpose, Scope And Amendments" And Article VIII "Internal Revenue Code Compliance."

Staff Recommendation

Approve a resolution revising and renumbering the Board's regulations and adding Article I "Purpose, Scope and Amendments" and Article VIII "Internal Revenue Code Compliance" in order that the regulations be consistent with the Internal Revenue Code ("IRC") and Treasury regulations and to reflect the current status of plan options and terms.

Background

On January 29, 2014, the Internal Revenue Service ("IRS") issued SamCERA a favorable tax determination letter. As part of the determination letter submission process, SamCERA stated to the IRS that the Board would adopt certain regulations reflecting SamCERA's compliance with IRS requirements. Those proposed regulations were submitted with SamCERA's IRS filing in 2011. It is now time for the Board to adopt these regulations, which are summarized below. After approval by the Board, the regulations will be submitted to the Board of Supervisors for its approval.

SamCERA will file for its new determination letter sometime after February 2015. At that time, we will submit the revised regulations to the IRS along with other documents reflecting our new Public Employees' Pension Reform Act (PEPRA) policies and procedures.

Discussion

New Article I "Purpose, Scope and Amendments" establishes that the Board's regulations are in accordance with Government Code §31525, sets an October 1, 2014, effective date for the revisions and states that the regulations reaffirm and clarify the existing practices of SamCERA.

New Article VIII "Internal Revenue Code Compliance," confirms that SamCERA's practices shall be in accordance with the IRC and related Treasury Regulations. The major topic areas that Article VIII's regulations address are listed below and merely reflect provisions in the IRC that SamCERA already complies with, and hence the adoption of the revisions to the regulations will have no effect on SamCERA's current practice and procedure. These topic areas are:

1. Maximum annual amount of contributions that can go into member account. [IRC 415(c).]
2. Maximum annual amount of compensation earnable/pensionable compensation to be counted toward pension calculations. [IRC 401(a)(17).]
3. Maximum annual amount of benefits paid to members/beneficiaries. [IRC 415(b).]
4. Allowable rollovers of funds into and out of member's accounts. [IRC 402(c).]
5. Procedures and limits for minimum required distributions. [IRC 401(a)(9).]
6. Normal retirement age and separation of service. *Note these regulations move current regulations 4.12 - 4.14 to Article XIII with slight revisions.* [IRC 401(a).]

In addition to the above, staff recommends that the regulations be updated to reflect the following:

1. Changing the Board's regular meeting time from 1:00 p.m. to 10:00 a.m. on the Fourth Tuesday of the month. Recently, the Board has been calling special meetings in the morning in order to have the time to address investment matters. If the regular meeting time is changed, then the "special meetings" would not need to be called.

2. Employees whose tenure is temporary, seasonal and intermittent have been and will continue to be excluded from membership by the Board consistent with CERL [Gov. Code § 31527(e)]. The revised regulation reflects the current employment by SamCERA employers of extra help employees. The County and the Courts have a pilot program for a category of extra help employees who are hired for a fixed term not to exceed three years. While extra help employees have always been exempted, for purposes of clarity, the revised regulation specifically exempts these term employees who are hired for a fixed term or terms that do not exceed 6,240 hours in the aggregate. Finally, currently employees that are hired to temporarily fill a position that is already filled by another employee are members. Under the revision, any such temporary employees first hired on or after October 1, 2014, will be excluded from membership.

3. Plans 1, 2 and 4 are not the only contributory plans. [PEPRA Plan 7, and General Plan 5, Safety Plans 5 and 6 have been added. Due to the number of plans, the revised regulations just refer to the plans as "contributory" with no reference to a plan number.]

4. By operation of law, the ability to enter a purchase agreement for Additional Retirement Credit ended December 31, 2012. [Gov. Code § 7522.46.] The revision states that fact.

5. The ability to file a written notice to purchase prior military time under Gov. Code §31641.97 ended on January 1, 1995. [Gov. Code § 7522.46.] The revised regulation states that fact.

6. References to "registered domestic partners" in certain situations where certain regulations refer to "spouses."

Board of Retirement

RESOLUTION REVISING AND RENUMBERING THE BOARD OF RETIREMENT REGULATIONS AND ADDING ARTICLE I "PURPOSE, SCOPE AND AMENDMENTS" AND ARTICLE VIII "INTERNAL REVENUE CODE COMPLIANCE"

RESOLUTION 14-15-____

WHEREAS, Government Code §31525 provides that this Board, with the approval of the Board of Supervisors, may establish regulations that govern the operation of SamCERA that are not inconsistent with the California Employees' Retirement Law of 1937; and

WHEREAS, on January 29, 2014, the Internal Revenue Service ("IRS") issued a favorable tax determination letter to SamCERA. As part of its submission process, SamCERA submitted proposed regulations to the IRS and said regulations need to be adopted by the Board; and

WHEREAS, the proposed regulations reaffirm and clarify the existing SamCERA practices and confirms that SamCERA's practices shall be in accordance with the Internal Revenue Code and related Treasury Regulations; and

WHEREAS, Article VIII "Internal Revenue Code Compliance" to be added to the regulations address areas such as: maximum annual amount of member contributions; maximum annual amount of compensation earnable/pensionable compensation to be counted toward pension calculations; maximum annual amount of benefits paid to members/beneficiaries; allowable rollovers of funds into and out of member's accounts; and procedures and limits for minimum required distributions; and

WHEREAS, the proposed revisions to the regulations also update the regulations so that they are consistent with the terms and conditions of the retirement plan. These proposed revisions reflect that: the Board meeting time would be 10:00 a.m. instead of 1:00 p.m.; employees whose tenure is temporary; seasonal and intermittent have been and will continue to be excluded from membership by the Board consistent with state law; Plans 1, 2 and 4 are not the only contributory plans; the ability to enter a purchase agreement for Additional Retirement Credit ended December 31, 2012, and the ability to file a written notice to purchase prior military time under Government Code §31641.97 ended on January 1, 1995.

WHEREAS, the Board has reviewed the attached revisions to the Board of Retirement regulations and desires to adopt such revisions and amendments; therefore be it

RESOLVED that the Board hereby revises and amends its regulations to read as follows:

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Address: 100 Marine Parkway | Suite 125
Redwood City, CA 94065
Phone: (650) 599-1234
Toll-Free: (800) 339-0761
Fax: (650) 591-1488
PONY: RET 141
Web: www.samcera.org
Email: samcera@samcera.org

SamCERA Board Regulations

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ARTICLE I.
PURPOSE, SCOPE AND AMENDMENTS

1.1 Purpose and Scope. In accordance with California Government Code section 31525, the regulations set forth herein are effective as of October 1, 2014 and reaffirm and clarify the existing practices of the San Mateo County Employees' Retirement Association ("SamCERA").

1.2 Amendments. These regulations may be amended from time to time at any meeting of the Board by an affirmative vote of at least five (5) members of the Board, and shall be submitted to the San Mateo County Board of Supervisors for ratification.

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ARTICLE II.
BOARD OFFICERS AND CHIEF EXECUTIVE OFFICER

2.1 Election of Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members chair for a term of one year or until his or her successor is duly elected and qualified. The Chair shall preside at all meetings of the Board, shall appoint all committees and shall perform all duties incidental to that office.

2.2 Election of Vice Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members vice chair for a term of one year or until his or her successor is duly elected and qualified. In the Chair's absence or inability to act, the Vice Chair shall take the place and perform the duties of that office.

2.3 Election of Secretary: At the first regular meeting in July, the Board of Retirement shall elect one of its member's secretary for a term of one year or until his or her successor is duly elected and qualified. The Secretary shall attest to Resolutions and other such documents for the Board. In the Chair's and Vice Chair's absence or inability to act, the Secretary shall take the place and perform the duties of the Chair.

2.4 Filling of Vacancy in Office: In the event of a vacancy in the office of chair, vice chair or secretary, the Board of Retirement shall, at its next regular meeting, elect one of its members to fill such vacancy for the remainder of the term.

2.5 Administrator's/Chief Executive Officer's Authority: The Board shall adopt, and may amend from time to time, a formal Delegation of Authority which sets forth the specific powers and duties assigned to the Administrator who shall have the title of Chief Executive Officer. The Chief Executive Officer shall adhere to the terms and conditions of the Delegation of Authority in all matters.

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ARTICLE III.
MEETINGS

3.1 Public Meetings: All business of the Board shall be conducted in conformance with the requirements of California's public meeting law, known as the Ralph M. Brown Act, commencing at Government Code section 54950.

3.2 Quorum: Five trustees of the Board constitute a quorum.

3.3 Motions: Motions approved by affirmative votes of less than five trustees shall have no force and effect. The Chair should vote on all motions.

3.4 Regular Meetings: Regular meetings of the Board shall be held on the Fourth Tuesday of each month. Meetings shall begin at 10:00 a.m. Meetings shall be held in SamCERA's offices. The Board may cancel and or approve a change in the date, time and/or location of meetings within the County, if the proposed change is included on the agenda of a regular meeting.

3.5 Special Meetings: Special meetings of the Board of Retirement may be called in the manner provided by Government Code section 54956.

3.6 Order Business: The Board shall conduct its business in accordance with the provisions of the Government Code and these regulations.

3.7 Preparation of Agenda: The Chief Executive Officer shall be responsible for the preparation of the Board's agenda, which shall be approved by the chair prior to publication.

3.8 Communications to the Board: Whenever possible, communications and requests to the Board should be made in writing. Oral communications and requests will be accepted during Board meetings. The substance of such requests and the actions of the Board thereon shall be recorded in the minutes.

3.9 Meeting Minutes: The minutes of the Board's meetings shall reflect the time and place of each meeting of the Board, the names of trustees present, all official acts of the Board, the votes cast by trustees when by roll call vote, a trustee's dissent or approval and reasons when requested. The minutes will be presented for approval at the next regular meeting. When called upon by the Chair, the Chief Executive Officer shall take a formal roll call vote in alphabetical order, with the Chair voting last. The minutes as approved, signed by the Chair, shall form part of the permanent records of the Board.

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ARTICLE IV.
ELECTION OF TRUSTEES

4.1 Regular Elections: Regular Elections shall be held on the second Monday in June of the years in which the terms of elected Trustees expire. The Elections Officer for the County of San Mateo or his or her designee, herein after referred to in this Article as “Elections Officer” shall be responsible for the conduct of the election and shall report directly to the Board in all matters pertaining to the election of trustees.

4.2 List of Eligible Candidates and Nominators and the List of Eligible Voters: The Chief Executive Officer shall provide to the Elections Officer a copy of the Nominating Petition, the "List of Eligible Candidates and Nominators", and the "List of Eligible Voters" and other necessary election materials. The "List of Eligible Candidates and Nominators" shall include those names of members who are eligible to sign Nomination papers and/or run for office as set forth in sections 4.4 and 4.5, and shall be provided no later than the Friday prior to the third Monday in April of the election year. The "List of Eligible Voters" shall include those names of members who are eligible to vote in the election as set forth in section 4.13, and shall be provided no later than the Thursday prior to the first day ballots may be mailed to those voters.

4.3 Notice of Election: The Chief Executive Officer shall distribute a Notice of Election on or before the first Monday in April of election years. The Notice shall include, but not be limited to, the Qualification of Candidates, the process for obtaining copies of the Nominating petition and Election Regulations, the Date of the Election, and the name and address of the Elections Officer.

4.4 Qualifications of Candidates: A candidate for Second or Third Trustee shall be a General Member of SamCERA. A candidate for Seventh Trustee shall be a Safety Member of SamCERA. A candidate for Eighth Trustee shall be a Retired Member of SamCERA. A candidate for Eighth Trustee Alternate shall be a Retired Member of SamCERA. To be eligible, a candidate shall be a member of his or her respective group at the close of the pay period immediately preceding the beginning of the Nomination/Declaration of Candidacy period. The Elections Officer shall compare the names of candidates with the "List of Eligible Candidates and Nominators." If the Elections Officer finds that the candidate does not meet the qualifications set forth in this Section and Section 4.5, the Elections Officer shall disqualify the candidate.

4.5 Nominating Petitions/Declaration of Candidacy: On and after the third Monday in April, qualified candidates may obtain a Nominating Petition or Declaration of Candidacy, a copy of the Code of Fair Campaign Practices as it appears in the California Elections Code, and a copy of these Election Regulations from the Elections Officer. Candidates for Second, Third and Seventh Trustee shall be nominated by a petition signed by not less than ten SamCERA Members eligible to sign the candidate's petition. SamCERA's General Members are eligible to sign a petition for a candidate for Second or Third Trustee. SamCERA's Safety Members are eligible to sign a petition for a candidate for Seventh Trustee. SamCERA's Retired Members are eligible to nominate themselves as a candidate either for the Eighth Trustee or the Eighth Trustee Alternate by filing a Declaration of Candidacy with the Elections Officer. SamCERA's Retired Members may only nominate themselves to one position. To be eligible to sign petitions, or nomination papers, a member's name shall be included on the "List of Eligible Candidates and Nominators." No member shall sign more than one Nominating Petition for each election. Signed Nominating Petitions and Declarations of Candidacy must be filed with the Elections Officer no later than 5:00 p.m. of the first Monday in May. Candidates who file Nominating Petitions after the deadline will be disqualified. Prospective candidates shall appear in person to receive candidate papers from and to deliver candidate papers to the Elections Officer. If a prospective candidate is unable to appear in person, they shall designate in writing an agent to receive and/or deliver the candidate's Nomination Papers or Declaration of Candidacy on their behalf.

4.6 Withdrawal: Candidates may withdraw from the election no later than 5:00 p.m. of the first Monday in May by filing a written statement of withdrawal with the Elections Officer.

4.7 Qualification of Candidates and Nominators: The Elections Officer shall compare the names on Nominating Petitions and Declarations of Candidacy with the "List of Eligible Candidates and Nominators." If the Elections Officer finds that less than the number of qualified signatures specified in Section 4.5 have been submitted, the Elections Officer shall disqualify the candidate.

4.8 Fewer than Two Qualified Candidates: If the Elections Officer determines that there is one qualified candidate, the Elections Officer shall cancel the election and certify the single candidate elected. If there are no qualified candidates, the Elections Officer shall notify the Board who shall reschedule the election. The Chief Executive Officer shall re-notice the Election. Any election that has been re-noticed shall be held in accordance with the provision for Special Elections.

4.9 Candidate Statements: The Elections Officer shall accept, reproduce and include with the ballot, a Candidate Statement listing the name of the candidate and no more than 300 words. Candidate Statements shall be limited to a recitation of the candidate's own personal background and qualifications and shall not make any reference to other candidates or to another candidate's qualifications. Statements that do not meet these requirements shall not be accepted, but may be resubmitted up to the filing deadline. The counting of words will be in accordance with the California Elections Code. If the Elections Officer determines that an acceptable Candidate Statement is not submitted by the deadline, the candidate will not have one included with the ballot. Candidate Statements must be filed with the Elections Officer no later than 5:00 p.m. of the first Monday in May. Statements shall be printed as submitted. No candidate, for any reason, may withdraw or change his or her Candidate's Statement after this deadline. Statements filed pursuant to this section shall remain confidential until the expiration of the filing deadline.

4.10 Challenges to Statements: No later than 5:00 p.m. on the first Thursday in May following the first Monday in May, a candidate may challenge by writ of mandate or injunction filed with the

Superior Court of San Mateo County, which requests that the decision of the Elections Officer to accept or reject a candidate's statement be reversed and/or that the statement in question is false, misleading, or inconsistent with the requirements of Section 4.9. The peremptory writ of mandate or injunction shall be issued only upon clear and convincing proof and a finding that an order would not substantially interfere with the printing or distribution of official election materials.

4.11 Ballots: The Elections Officer shall certify for inclusion on the ballot the names of qualified candidates who submitted Nominating Petitions containing the number of qualified signatures specified in section 4.5. The Elections Officer shall determine by lot the order in which candidates shall appear on the ballot. There can be elections for multiple trustee positions on a single ballot. There is no provision for write-in candidates.

A. Mail Ballots: The Elections Officer shall provide for the preparation of a number of ballots sufficient to supply one to each SamCERA Member eligible to vote in each election. The Elections Officer shall provide for the mailing of ballots to the member's home address. Ballots shall be mailed no earlier than the third Friday in May and no later than the fourth Friday in May. Ballots mailed shall include a return envelope bearing prepaid postage. The Elections Officer shall make available a replacement ballot upon request by any eligible member who lost or did not receive his or her ballot. Requests may be made in person, in writing, by e-mail, fax or by telephone. A replacement ballot will not be provided to anyone other than the member who requested the replacement ballot. Candidates are specifically prohibited from handling ballots, whether voted or unvoted, sealed or unsealed, other than their own. Voted ballots must be received by the Elections Officer on or before Election Day. Any voted ballot that is U.S. Postmarked on or before Election Day and received by the Elections Officer on or before 5:00 p.m. on the Friday following the Election Day shall also be counted.

B. Electronic voting: Upon request of the Board, the Elections Officer shall provide for the distribution of ballots and voting through an electronic voting system in addition to or in lieu of mailed ballots. The Elections Officer shall make available a replacement ballot upon request by any eligible member who lost or did not receive his or her electronic ballot. Requests may be made in person, in writing, by e-mail, fax or by telephone. A replacement ballot will not be provided to anyone other than the member who requested the replacement ballot. Candidates are specifically prohibited from handling electronic or replacement ballots, whether voted or unvoted, sealed or unsealed, other than their own. Voted ballots must be received by the Elections Officer on or before Election Day. Any voted electronic ballot sent electronically on or before Election Day and received by the Elections Officer on or before 5:00 p.m. on the Election Day shall be counted.

4.12 Ballot Designation: There shall be no ballot designations on the ballot.

4.13 Qualification of Voters: For mailed ballots, The Elections Officer shall confirm the name on the outer ballot envelope with the "List of Eligible Voters." For electronic voting, the Elections Officer shall confirm the name of the electronic ballot recipient with the “List of Eligible Voters.” SamCERA's General Members are qualified to elect the Second and Third Trustees. SamCERA's Safety members are qualified to elect the Seventh Trustee. SamCERA's Retired Members are qualified to elect the Eighth Trustee and Eighth Trustee Alternate. To be eligible to vote, a member shall be a part of his or her respective group at the close of the pay period immediately preceding the first day that ballots may be mailed or sent electronically per these regulations bylaws.

4.14 Counting of Ballots: The Elections Officer shall supervise the counting of ballots. A candidate certified as the winner must receive the highest number of votes cast. In the event of a tie vote, the Elections Officer shall determine the winning candidate by lot.

4.15 Voided Ballots: The Elections Officer shall void all of the following ballots: duplicate ballot cast; all ballots which bear the signature or initials of the voter on the ballot itself; ballots which do not bear the signature of the voter on the outside of the envelope or where it is not possible to determine who submitted the ballot; envelopes containing more than one ballot; and ballots where the Election Officer cannot determine the voter’s intent. Any names written in on a ballot, other than the name of a qualified candidate, will not be counted or reported in the Certification of the Election Results.

4.16 Alternate Safety Member: If there are two or more safety member candidates for the seventh member position, the candidate receiving the highest number of votes shall be elected to the seventh member position. The safety member candidate who is of a different safety membership group and who received the next highest number of votes, shall be elected to the Alternate Safety Member per Government Code section 31520.1. If there is no eligible candidate who is of a different safety membership group there will not be an Alternative Safety Member.

4.17 Certification of Election Results: The Elections Officer shall canvass and certify the results of the election no later than the Friday following the election.

4.18 Receipt & Safekeeping of Ballots Cast: The Elections Officer shall accept and provide for the safekeeping of all ballots cast. Ballots must be retained for 180 days after Election Day, and, in the absence of litigation, may be discarded thereafter.

4.19 Recount: Upon written application to the Elections Officer, and within five (5) calendar days of the Elections Officer's Certification of Election Results, any candidate may order a recount of all votes cast. Prior to a recount, the candidate requesting a recount must agree to pay for the actual cost of the recount. The Elections Officer shall determine an estimated cost for a recount and the candidate requesting the recount must deposit with the Elections Officer payment for the estimated cost. The candidate will be under no obligation to pay for the recount if the recount shows a change in the outcome of the election. The recount shall be conducted in the same manner as the original count.

4.20 Contests: Election results may be contested by a candidate upon filing a verified petition with the Superior Court of the County of San Mateo within 15 calendar days of the issuance of the Certified Election Results by the Elections Officer. Candidates may contest the election on the following grounds: a) that the person who has been declared elected to an office was not, at the time of the election, eligible for that office; b) that the candidate or his or her agent has given to a member a bribe or reward or offered any bribe or reward for the purpose of procuring his or her election; c) that a sufficient number of votes were illegal, fraudulent, forged, or otherwise improper, and that had those votes not been counted, the person having been declared elected would not have received more votes than the contestant; and/or d) that the Elections Officer in conducting the election or in canvassing the returns, made errors sufficient to change the result of the election as to any person who has been elected. The acceptance or rejection of a candidate's statement of qualifications by the Elections Officer shall not constitute grounds for a new election. A hearing on the contest shall be set by the Court. The Court's decision shall be based upon clear and convincing proof of the allegations. If the Board orders a new election based upon the Court's decision, it shall be held in accordance with the provisions for Special Elections.

4.21 Oath of Office: Newly elected Trustees shall be sworn-in during the Board's first meeting in July.

4.22 Special Elections: The Chief Executive Officer shall advise the Board when a vacancy occurs and shall recommend a date for a Special Election to fill the vacancy. If the vacancy occurs within nine months of the end of the term of the seat that has been vacated, there shall be no Special Election. If the vacancy occurs more than nine months prior to the end of the term, the Board shall call a Special Election, which shall be held not less than 60 nor more than 120 days from the effective date of the vacancy. Special Elections shall be conducted in conformance with the provisions of this Article for Regular Elections, except that the schedule shall be adjusted by the Elections Officer to comply with the date of the Special Election set by the Board.

4.23 Reimbursement for Services: The SamCERA Board of Retirement will reimburse the Elections Officer for the election services provided.

4.24 Public Information: During the ninety days preceding Election Day, no newsletter or other one-time publication intended for the use of SamCERA's members will be distributed by SamCERA which includes the name of any incumbent candidate for an election conducted pursuant to these regulations. This moratorium shall not apply to standard publications such as member booklets, annual reports and other documents of a similar nature.

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ARTICLE V.
MEMBERSHIP DUTIES & RIGHTS

5.1 Membership: An individual entering permanent full time or permanent part time employment with a SamCERA employer, which shall be either the County of San Mateo, the Superior Court of the County of San Mateo, or the Mosquito and Vector Control District, prior to July 1, 1996, shall become a member of SamCERA on the first day of the first pay period commencing after the date of employment. An individual entering such employment on or after July 1, 1996, shall become a member of SamCERA on the first day of employment. Members may delay the effective start date of their membership with SamCERA up to twelve weeks after the date of employment and/or terminate accrual of service credit with SamCERA up to twelve weeks prior to termination of employment with a SamCERA employer, for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act.

5.2 Exclusions: All employees whose service falls in the following categories shall be excluded from membership in SamCERA:

A. Members of appointed Boards and Commissions;

B. Judges of the Superior Court;

C. Employees with temporary, seasonal, or intermittent tenure, including but not limited to employees hired for a fixed term or terms which shall not in the aggregate exceed 6,240 hours; and extra help employees. However, employees first hired on or before September 30, 2014, to temporarily fill an existing position that is already filled by another employee shall be included in membership.

5.3 Entering Service Application: Upon entering service, the member shall immediately execute and file statement in the manner and form prescribed by the Chief Executive Officer.

5.4 Terminating Employment: A member terminating employment shall file either a completed application for retirement, or a completed form directing disposition of retirement contributions, in the manner and form prescribed by the Chief Executive Officer.

5.5 Required Documents for Retirement: Prior to the effective date of retirement, in addition to the fully executed and completed application for retirement, each member shall provide to the retirement system the following documents:

A. Proof of birth of the member filed in one of the following manners: copy of a birth certificate or passport.

B. Fully executed option agreement in the manner and form prescribed by the Chief Executive Officer.

C. Documentation setting forth arrangement for the auto deposit of benefit payments. The Board may approve payment by check in cases where the Board's paying agent is unable to provide payment by auto deposit and in cases where the member has specifically requested payment by check.

D. For those members of SamCERA who were married or had a registered domestic partnership for all or a portion of their SamCERA service time: (i) copies of all applicable marriage licenses or registered domestic partnerships; (ii) for any subsequent divorce order or termination of registered domestic partnership, copies of Court dissolution orders setting forth the division of the SamCERA service time between the member and the non-member must be submitted. If applicable, a fully executed waiver by the non-member of community share of SamCERA-covered service in the manner and form approved by the Chief Executive Officer can be submitted; and (iii) if applicable, copies of death certificates for spouses and domestic partners.

5.6 Approval of Service Retirement: All applications for service retirement shall be subject to review and approval by the Board. The Chief Executive Officer shall place such retirements on the Consent Calendar for the Board's ratification of staff's actions.

5.7 Effective Date of Retirement: The effective date of retirement shall be the later of the day following the member's last day on the County payroll or the day the member filed the retirement application with the Chief Executive Officer.

5.8 Service Credit: For members in a contributory plan, credit shall be given for all County service rendered for compensation for which contributions are made by or for the member. For members in a noncontributory plan, credit shall be given for all County service rendered for compensation after the effective date of employment.

5.9 Computation of Service Credit: Service credit shall be calculated as follows: 2,080 hours of service shall equal one year of service credit.

5.10 Statement of Retirement Allowance Time of Retirement. Prior to the ratification by the Board of an application for service retirement, the member shall be furnished with a statement indicating the amount of his or her retirement allowance calculated in accordance with the unmodified and various optional modes of settlement. Such statement shall be in duplicate and provide a place for the signature of the member and the member's spouse or registered domestic partner, if any, indicating the choice as to the type of retirement allowance selected. The completed statement shall constitute the annuity certificate provided for in Government Code section 31526.

5.11 Statement of Deferred Retirement. When a member leaves the County service and applies for and is granted deferred retirement, such member shall be furnished with a statement indicating deferred retirement has been granted and setting forth the years of service credited to said member.

5.12 Suspension of Benefits: If the Chief Executive Officer is made aware of circumstances in which, in the opinion of the Chief Executive Officer, the member may not be receiving his or her benefit, the Chief Executive Officer may temporarily suspend the benefit payments in order to determine whether the benefit payment should be directed in a different manner.

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ARTICLE VI.
DISABILITY RETIREMENT

6.1 Application Process: The application process for service connected and non-service connected disabilities shall be as follows:

A. **Submission of Completed Application:** Either the member or the employer, on behalf of the member, can apply for a disability retirement by filing with SamCERA: (1) a completed SamCERA application for disability retirement form and (2) authorizations signed by the member permitting SamCERA and its legal counsel to obtain all medical information relating to the applicant's physical or mental illness or injury and permitting access to records relating to applicant's current and prior employment. Applicant's employer shall complete forms provided by SamCERA and provide information as deemed necessary. All information received by SamCERA or its agents and counsel shall be treated as confidential and not released to anyone except insofar as may be necessary for the administration of the retirement system or upon an order of a court of competent jurisdiction, as provided by Government Code section 31532.

B. **Determination of the Disability:** The determination of the member's disability shall be limited to the disability as set forth in the application for disability retirement.

C. **Additional Information:** If at any point in the process the Chief Executive Officer determines that additional information is necessary, the Chief Executive Officer may ask the applicant or the employer to submit the additional information.

D. **Medical and Investigatory Services:** The Chief Executive Officer is authorized and directed to secure such medical, investigatory and other services and advice in connection with applications for disability retirement as the Board may require in order to make its decision.

E. **Review of Information and Records by Medical Advisor:** SamCERA will inform the member when all information and records requested by SamCERA have been received. When the applicant indicates that all necessary information, including information not requested by SamCERA, has been submitted, the Chief Executive Officer shall forward the complete record to the Board's medical advisor for his or her evaluation of the applicant's condition.

F. **Cut off for Amendments to Application:** After the record has been forwarded to the Board's medical advisor, the member cannot amend his or her application to add a new disabling condition that is unrelated or not caused by the condition set forth in the application. The member must file a new application which would be subject to all regular statutory deadlines.

6.2 Submission of Application Information to the Board: Staff, in consultation with the medical advisor, shall prepare a memorandum summarizing the application and information received from medical, employment and other records. Staff shall make a recommendation to the Board regarding the approval of the application.

A. Notification of Board Review: The applicant shall be notified in writing when the matter will be submitted to the Board for its consideration and that the matter will be placed on the Board's consent agenda. If staff's recommendation to the Board is to deny the application, the notice shall include a copy of staff's memorandum to the Board summarizing the application and information received from medical, employment and other records. While the applicant is welcome to appear before the Board, the appearance is not mandatory, unless the member would like the matter removed from the consent agenda.

B. Board Review of Staff Recommendation: The matter will be placed on the Board's consent agenda with recommended action by staff. The applicant or any member of the Board can request that the matter be taken off of the consent agenda to be discussed and considered during the regular agenda. If the matter is placed on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant. For all disability matters heard on either the consent agenda or regular agenda, the Board shall review the information submitted and consider the acceptance of staff's recommendation. The applicant and the employer, shall be notified in writing of the Board's action regarding the application.

C. Request for a Formal Hearing: If the applicant or employer is dissatisfied with the Board's action, the applicant or employer may request a formal hearing. The request for formal hearing must be made in writing, and filed with the Chief Executive Officer, if by the member, within 60 days of the date of the notice of the Board's action; if by the employer, within 30 days of the date of notice of the Board's action. If no request for a formal hearing is filed within the applicable period, the Board's action shall be deemed final and binding.

D. Formal Hearing Process: Upon the filing of a written request for a hearing, staff will select a hearing officer on a rotational basis from a list of private attorneys who serve as hearing officers, and then will refer the matter to counsel for SamCERA. Counsel for SamCERA will contact the applicant about communicating with the hearing officer regarding the hearing schedule and the preparation of the record. The hearing officer shall schedule the time and place of the hearing with the consent of the parties. The hearing officer shall set a briefing schedule for any briefs to be filed. The hearing shall be limited to the disability as set forth in the application for disability retirement and shall be recorded by a qualified court reporter. The hearing officer shall prepare and submit a proposed finding of fact and recommended decision based upon the evidence considered.

E. Objections to Hearing Officer Decision: The proposed findings of fact and recommendations of the hearing officer shall be served on the parties who shall have 10 days from the date of service to submit written objections. The objections shall be incorporated into the record to be considered by the Board.

F. Notice of Submission of Hearing Officer Decision to the Board: The hearing officer's decision shall be placed on the Board's agenda as soon as administratively possible after the period for objections has run. Staff shall notify the applicant of the time and place of the meeting and staff's recommendation to the Board. The matter will be placed on the Board's consent agenda with the recommended action by staff. The applicant or any member of the Board can request that the matter by taken off of the consent agenda to be considered during the regular agenda. If the matter is to be heard on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant.

G. Consideration of Hearing Officer Decision by the Board: Upon receiving the proposed findings of fact and recommendations of the hearing officer, the Board may: (1) approve and adopt the proposed findings and recommendations; or (2) require a transcript or summary of all the testimony and evidence, and then take such action as in its opinion is indicated by such evidence; or (3) refer the matter back with or without instructions to the hearing officer for further proceedings; or (4) set the matter for a hearing before itself. The applicant and the employer shall be notified in writing of the Board's action.

H. Appeal of the Action of the Board: If the member or the employer is dissatisfied with the Board's action relating to the hearing officer's recommended decision, the applicant or the employer may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

6.3 Effective Date: If the Board approves the application for disability retirement, the effective date of retirement shall be the later of the day following the member's last day on payroll or the day the member filed the retirement application with the Chief Executive Officer.

6.4 Required Documents for Disbursement of Disability Payment: The first disability retirement benefit payment shall not be disbursed until the member has filed the required documents set forth in Article V regulation 5.5 of these regulations.

6.5 Grounds for Termination of an Application for Disability Retirement: An application for disability retirement may be terminated and considered null and void by the Board one year after the date of its filing for one or more of the following reasons:

A. Failure of the member to submit to a medical examination at the request of the Board; or

B. Any failure to cooperate by the member or applicant or any other act or omission by the member or applicant or member or applicant's representative which prevents the Board from hearing and adjudicating the application for disability retirement within one year of its filing.

6.6 Process to Terminate an Application for Disability Retirement: Before the Board determines whether to void and null a disability application, the applicant shall be given at least 15 days written notice of the proposed action and the date and time of the Board meeting. The applicant shall be granted the opportunity to appear and address the Board regarding the proposed action. The Board may exercise broad discretion in extending the time for the processing of the application. Nothing in this section shall prohibit an applicant from filing a new application, if applicant is eligible to do so.

6.7 Cancellation of Disability Benefits after Medical Examination: If the Board requires a disability retiree under the age of 55 to undergo a medical examination and on the basis of such examination determines that it should review whether the disability retiree is still physically or mentally incapacitated for service in the position held when retired for disability, the matter will be placed on the Board's agenda for hearing. The disability retiree will be given written notice of the hearing and be advised that if the Board decides that he or she is no longer incapacitated, and if the employer reinstates the retiree, the disability retirement allowance will be canceled. The notice shall also advise the disability retiree of his or her right to be represented by counsel, to present evidence in his or her own behalf and to cross-examine any witness produced in support of canceling the disability retirement allowance. If the disability retiree is dissatisfied with the Board's action, the disability retiree may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

6.8 Modified Work Program Pending Determination of Disability: If the Board has not made a determination of eligibility for a disability benefit prior to a member's entry into a Modified Work position designed by the County to accommodate the member's work restrictions, then at the time of the member's retirement, the Board's determination of eligibility for a disability benefit shall be based upon the normal and customary duties of the member's position prior to entering the Modified Work position, unless the member requests that the Board base its decision on the duties of a subsequent position held by the member.

6.9 Modified Work Program-Request for Retirement: If the Board has authorized modified work benefits, then upon the member's subsequent request to retire, the Chief Executive Officer may retire the member with a disability benefit and record the member's name on the consent agenda for Board ratification. However, if the Chief Executive Officer has reason to believe that the member's condition has improved to the point where the member may be capable of performing the normal and customary duties of the position from which the member was previously disabled, then the Chief Executive Officer shall submit the matter to the Board for its independent review and determination.

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ARTICLE VII.
PURCHASE OF CREDIT FOR PUBLIC SERVICE

7.1 Compliance with State and Federal Law. All service credit purchases and redeposits of previously withdrawn contributions are to be made in accordance with the Internal Revenue Code ("IRS Code"), the Treasury Regulations promulgated thereunder, and the County Employees' Retirement Law of 1937 ("Government Code"). If there is a conflict between federal and state law, federal law will govern in order to maintain SamCERA's tax qualified status.

7.2 Permissive Service Credit and Applicable Federal Statutory Tax Limits: Service Credit purchases may be limited by the applicable requirements set forth in IRS Code Section 415. IRS Code Section 415 tax limits do not apply to the redeposit of previously withdrawn contributions and related interest. Service Credit purchases must comply with the provisions of Government Code section 31482.5.

7.3 Service Credit Available for Purchase by Active Members:

A. Prior Public Service: Any active member who is a County employee or a member of a participating employer and was a member prior to January 1, 1970 may purchase service credit for service performed for military or federal, state, and other public agencies credited in California that do not qualify for reciprocity. Such public service may be purchased pursuant to the terms of Government Code sections 31641.1 & 31641.2.

B. Employment Through CETA: Any active member (1) who was employed by the County or a participating employer while compensated pursuant to the provisions of the Comprehensive Employment Training Act (CETA) and (2) who subsequently became a permanent employee of the County or District, is eligible to purchase credit for the Public Service performed for the County or District while a CETA participant. Applications for the purchase of such CETA public service must include a detailed documentation accounting the period of service and compensation in the form and manner prescribed by the Chief Executive Officer. Such public service may be purchased pursuant to the terms of Government Code section 31641.5.

C. Service Credit. In accordance with Government Code section 31641.5, a member may purchase service he or she rendered with San Mateo County or another employer participating in SamCERA prior to the member's membership in SamCERA during which time the member was ineligible for membership. A member must make this service purchase at the time they are employed with that participating employer.

D. Leave of Absence Credit. In accordance with Government Code section 31646, an eligible member may purchase his or her uncompensated leave of absence on account of illness, not to exceed 12 consecutive months, provided the eligible member returned directly to active service following such uncompensated leave.

E. **Plan 3 Noncontributory Plan Credit.** Eligible members currently in a SamCERA contributory plan contained in Government Code section 31496, et seq. may upgrade their past service credit in the SamCERA noncontributory plan by paying the difference between the employer contributory and noncontributory plan contributions plus the member's contributions for the contributory plan for the period of service being upgraded along with the interest the contributions would have earned had they been on deposit with SamCERA. Contributions are based on the current entry age.

F. **Redeposit of Previously Withdrawn Contributions.**

1. An active member may redeposit to SamCERA an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code section 31652. SamCERA will charge interest for the period from the date of separation from SamCERA until the member has paid the required redeposit amount.

    a. A member's age for purposes of calculating contribution rates will be based on the member's age at the nearest birthday at the time of the member's reentrance into employment, unless the member is otherwise eligible under Government Code section 31652 to have his or her original entrance age reinstated.

    b. SamCERA will treat a member who does not redeposit all contributions previously withdrawn plus interest as a new member without credit for any previous service.

    c. If for any reason a member fails to complete the redeposit of previously withdrawn contributions plus interest, SamCERA will not reinstate the member's related prior service credit in accordance with Government Code section 31652. SamCERA will instead return the eligible member's related payment in a manner and at a time permitted under federal tax law.

    d. SamCERA will credit the member's related service credit upon completion of full payment of all previously withdrawn contributions plus interest.

2. Prior to filing an application for retirement, an eligible former member may redeposit to SamCERA an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code section 31652.

The former member must qualify for this type of redeposit under the terms of Government Code section 31831.3. Under the provisions SamCERA will charge interest for the period from the date of separation from SamCERA until the member has paid the required redeposit amount. Redeposits of this type may only be executed by lump sum payment.

3. **Additional Retirement Credit (ARC):** Eligible active members in a contributory plan who completed at least 5 years of credited service with SamCERA were able to purchase up to 5 years of ARC in increments of one year if the active member submitted an application to purchase ARC prior to December 31, 2012. ARC cannot be used to meet the minimum eligibility requirements for either a service retirement, a non-service disability retirement, additional ad hoc cost-of-living benefits based on service credit, or eligibility for any other benefits based on service credit or toward a cancellation of contributions for certain members who attain 30 years of service credit. Service may include purchased extra-help time, upgraded Plan 3 service, and redeposited time. Reciprocal service is not included. Government Code section 31658.

4. **Prior Military Service.** See Regulation 7.7 for purchase of prior military service.

7.4 Payment Options: Federal and State Law Limitations. Eligible members may purchase Permissive Service Credit or make a redeposit of previously withdrawn contributions plus required accumulated interest using the following payment methods or a combination thereof. Payments are subject to the rules and/or conditions set forth below and any applicable tax limits under IRS Code section 415. All purchase agreements containing installment payments will include interest calculated using the actuarially assumed rate of earnings in effect as of the date each agreement is signed.

A. **Lump Sum After-Tax Payments and Terminal Pay:** An eligible member may pay with a single lump sum payment of after-tax dollars. Terminal Pay (the cash out of accrued hours of compensation paid to a member by the member's employer after terminating employment) can be used for lump sum after-tax payments. Terminal pay must be received by SamCERA by a separate payment issued after termination and not as a part of the member's last pay check.

B. **Pre-Tax Rollover Contributions:** In accordance with the regulations contained in Article VIII, an eligible member may pay with a pre-tax rollover contribution to SamCERA from a qualified retirement plan, an individual retirement account or annuity, an annuity contract described in IRS Code section 403(b), or a governmental 457(b) plan.

C. **Plan-to-Plan Transfers:** In accordance with the regulations contained in Article VIII, an eligible member may pay with an in- service trustee-to-trustee transfer from a governmental eligible deferred compensation plan described in IRS Code section 457(b) or an annuity contract described in IRS Code section 403(b), provided the transfer plan or annuity contract provides for such transfers. Such transfers are subject to the requirements of IRS Code section 457(e)(17) or 403(b)(13), as applicable.

D. **Payroll Deductions:** An eligible member may elect to pay installments by post tax payroll deduction.

7.5 Time Limitations for Installment Payments: The time period over which a member may make installment payments is subject to the following limitations:

A. **Prior Public Service:** For a purchase of service credit for prior public service under Government Code sections 31641.1 and 31641.2, installment payments may be made over a period of time not to exceed five years.

B. **Service Credit, Including Employment through CETA:** For a purchase of service credit for prior service under Government Code section 31641.5, installment payments may be made over a period of time that does not exceed the length of time for which the member has elected to receive service credit, as determined by SamCERA.

C. **Leave of Absence Credit:** For a purchase of service credit for an unpaid leave of absence under Government Code section 31646, installment payments may be made over a period of time that does not exceed the length of unpaid leave that the member has elected to purchase, as determined by SamCERA.

D. **Plan 3 Service Credit Upgrade:** For upgrades of Plan 3 service credit pursuant to Board of Supervisor's Resolution 64827, installment payments may be made over a period of time that does not exceed twice the length of service being upgraded.

E. **Redeposit of Previously Withdrawn Contributions:** For redeposits of previously withdrawn contributions under Government Code section 31652, installment payments may be made over a period of one year.

F. **Additional Retirement Credit:** For a purchase of ARC under Government Code section 31658, installment payments may be made over a period not to exceed 10 years.

G. **Completion of Purchase After Separation of Service:** If a member terminates, retires or goes into deferred retirement before the purchase has been completed, the purchase must be completed no later than the date specified in the purchase agreement or 120 days after the effective date of retirement, whichever date is earlier.

7.6 Procedures

A. Administrative Procedures: SamCERA will establish administrative procedures for processing service credit purchases and redeposits of previously withdrawn contributions and will determine the amounts required for service credit purchases and redeposits, including required interest.

B. Required Documentation: All purchases and redeposits shall be set forth in a written SamCERA election form and agreement. Members shall provide any required documents and information associated with their purchase or redeposit in a manner and form acceptable to SamCERA.

C. Requirement To Complete Purchase: Except as otherwise provided below, service credit will not be credited to a member's account until the entire purchase has been completed. If for any reason a member fails to complete his or her service credit purchase, credit will be given in accordance with the contract or applicable provisions of the Government Code. SamCERA or the employer may return the eligible member's related overpayment in a manner and at a time permitted under federal tax law.

D. Partial Service Credit: SamCERA will allow partial service credit for purchases of prior public service credit under Government Code sections 31641.1 and 31641.2 even though the member has not completed payment of the entire period he or she has elected.

7.7 Military Service: Eligible active members can purchase prior military service in accordance with the provisions of Government Code section 31641.97.

A. Notice by January 1, 1995: Eligible members who gave written notice by January 1, 1995 by filing with SamCERA a signed Purchase of Military Service Credit Application form as prescribed by the Chief Executive Officer.

B. Certification: The Application must include verification of military service (DD214 or its equivalent) and an affidavit that the applicant is not eligible to receive credit for this service under any other retirement plan.

C. Calculation of Cost to the Member: Government Code section 31641.97 requires that the full cost, including interest, of the employee and county liability for the additional credit under this section shall be determined by the Board of Retirement on actuarial advice, and shall be the actuarial equivalent of the difference between the retirement benefits the person will receive with and without the credit for military service.

D. Actuarial Assumptions: The actuarial factors used shall be those used for the actuarial valuation of the Retirement Fund at the time of the calculation, except that the member shall select the age of retirement.

E. **Method Used to Determine the Cost:** The cost shall be the Actuarial Equivalent of the Difference between the benefit the member will receive with and without the credit for military service.

F. **Lump Sum Purchase:** Eligible persons may purchase credit for their Military service at any time prior to the effective date of their retirement by lump-sum payment of an amount equal to the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to receipt of the lump-sum payment.

G. **Installment Purchase:** Eligible persons may purchase credit for their military service at any time prior to the effective date of their retirement by authorizing biweekly post-tax payroll deductions over a period not to exceed five years in equal payments which will accumulate the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to commencement of the deductions.

H. **Purchase of Partial Credit:** Eligible persons may purchase less than the full credit for which they are eligible, so long as the payment, or payments, accumulate the full cost, including interest, of the employee and employer liability for the additional credit. Additional credit may be purchased at any time prior to the effective date of retirement, so long as the payment or payments are based on the full cost within 180 days prior to receipt of the lump-sum payment or commencement of biweekly payroll deductions.

I. **Recording of Members' Assets & Crediting of Interest:** All funds deposited into the Retirement Fund pursuant to this regulation shall be recorded in individual Military Service Credit Reserve accounts established in the name of the member. Funds on deposit shall be credited on the same terms and at the same rate of interest as the county's accounts in the Retirement Fund, regardless of the subsequent status of the member. On the effective date of retirement, all principal and interest in the Reserve will be transferred to the member's regular account in the Retirement Fund.

J. **Calculation of Benefit Payable at Time of Retirement:** When the member files an application for retirement there shall be a recalculation of the Military Service Benefit and Member Service Credit Reserve as set forth subsection (E), using the information then available and the assumptions in effect at the time of recalculation.

K. **Surplus:** If the calculations performed pursuant to subsection (J) indicate that the principal and interest in the Military Service Credit Reserve exceeds the amount required, the surplus balance will be refunded to the member, at a time and in a manner that complies with applicable tax laws.

L. **Deficiency:** If the calculations performed pursuant to subsection (J) indicate that the principal and interest in the Military Service Credit Reserve is not sufficient to fund the full Military Service Benefit, the Chief Executive Officer shall allow the member to make one of the following two elections: (1) Lump Sum Purchase: The member may immediately purchase the unfunded military service credit and receive the full Military Service Benefit; or (2) Pro Rata Credit: The member may elect to not purchase the unfunded military service credit and receive a reduced Military Service Benefit.

M. **Payment of Military Service Benefit:** On the effective date of retirement, the years of military service for which payment-in-full has been received shall be added to the member's years of county service in the computation of the retirement allowance and will, thereafter, be an integral part of the base allowance for the purpose of calculating cost- of-living increases and survivor benefits.

N. **Disability:** The member who retires on account of disability may elect either (1) a refund of all principal and interest in the account maintained pursuant to subsection (I), or (2) an annuity based upon the years-of- military-service for which payment-in-full has been received. If the member elects an annuity, all principal and interest in the account on the effective date of the Disability Retirement shall be converted to an annuity which will be based on the Board's Actuarial Assumptions, including Disability Retirement Life Expectancy Factors, in effect at that time. Subject to applicable tax laws, the annuity shall be payable for life in equal monthly installments, plus annual cost-of-living adjustments equal to those granted to retirees in the member's Plan. An eligible surviving spouse or registered domestic partner shall receive the applicable survivor allowance. The Chief Executive Officer shall determine the amount of the annuity on the effective date of the Disability Retirement.

O. **Death Before Retirement:** If the member was not eligible to retire, all principal and interest in the account maintained pursuant to subsection (I) will go the member's beneficiary. If the member was eligible to retire, the surviving eligible spouse or registered domestic partner may elect to receive (1) a refund of all principal and interest in the account maintained pursuant to subsection (I), or (2) a monthly allowance which includes military service credit based on the provisions of subsections (J) and (L). The surviving eligible spouse or registered domestic partner may elect to receive any surplus, make a lump- sum payment for any deficiency, or accept pro-rata credit, as provided for in subsection (J).

P. **Death After Retirement With a Surviving Spouse or Registered Domestic Partner:** The Military Service Credit Reserve has been merged with the member's regular account. Therefore, the surviving eligible spouse or registered domestic partner will receive a monthly allowance based on the same survivor option formula elected by the member at the time of retirement.

Q. **Death After Retirement Without a Surviving Spouse or Registered Domestic Partner:** The Military Service Credit Reserve has been merged with the members' regular account and, therefore, the balance, if any, goes to the beneficiary.

R. **Termination of Employment:** Upon termination of employment, a member may elect to withdraw the funds; or, if eligible, may elect a deferred retirement, in which case the funds will remain on deposit and will continue to be subject to the provisions of subsection (I) until the effective date of retirement.

S. **Election to Discontinue Installment Purchase Plan:** The decision to purchase military service credit is irrevocable. However, unless otherwise prohibited by law, any member may discontinue the installment purchase plan at any time. All funds on deposit will continue to be subject to the provisions of subsection (I). Unless otherwise prohibited by law, the member may elect to reinstate the purchase plan at any time prior to the effective date of retirement, but shall be subject to re-computation of the balance due as calculated pursuant to subsections (C)(F)(G)(H). At the time of retirement, the member will receive proportional military service credit, as provided for in subsections (J) and (M).

T. **Dissolution of Marriage or Registered Domestic Partnership:** If the final decree does not specifically identify the member's Military Service Credit Reserve, the Chief Executive Officer shall administer the assets in the account in the same manner as stipulated in the final decree for the disposition of the member's retirement benefits.

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ARTICLE VIII.
INTERNAL REVENUE COMPLIANCE

8.1 Plan Year. The plan year for purposes of these regulations is the calendar year.

8.2 Reversions of Employer Contributions. Pursuant to section 401(a)(2) of the Internal Revenue Code, the SamCERA trust fund shall not revert, and no contributions shall be permitted to be returned, to a participating SamCERA employer prior to the satisfaction of all liabilities with respect to their employees and their beneficiaries under the trust.

8.3 Vesting. Pursuant to section 401 (a)(7) of the Internal Revenue Code, a member shall be 100% vested in her or her service retirement benefit upon attaining eligibility for that service retirement benefit. A member shall be 100% vested in his or her accumulated contributions at all times. In the event of a full or partial termination of, or complete discontinuance of employer contributions to, SamCERA, the accrued benefits of the affected members shall be 100% vested and nonforfeitable to the extent funded and to the extent required by federal law.

8.4 Required Minimum Distributions. The regulations herein reaffirm and clarify the existing practices of SamCERA with respect to the minimum distribution requirements under section 401(a)(9) of the Internal Revenue Code (the “Code”). These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish reasonable procedures for complying with the minimum distribution requirements under section 401(a)(9) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes. Capitalized terms used in this regulation 8.4 are defined in Section H. Terms used in this regulation 8.4 are defined in the County Employees’ Retirement Law of 1937 (“CERL”) or the California Public Employees’ Pension Reform Act of 2013 (“PEPRA”) apply here unless otherwise stated.

A. Reasonable Good Faith Interpretation of Code. In accordance with section 823 of the Pension Protection Act of 2006 (“PPA”), these regulations are promulgated in accordance with a reasonable good faith interpretation of section 401(a)(9) of the Code, and the Treasury regulations thereunder, as applicable to a governmental plan within the meaning of section 414(d) of the Code. For purposes of section 401(a)(9), Code means the Code and applicable Treasury regulations as they apply under a reasonable good faith interpretation of section 401(a)(9).

B. Elections Under TEFRA § 242(b)(2). Notwithstanding the other requirements of this regulation to the contrary, distributions may be made under a designation made before

January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act.

C. Time And Manner Of Distribution

1. **Required Beginning Date.** The Member's entire interest will be distributed, or begin to be distributed, no later than the Member's Required Beginning Date.

2. **Forms of Distribution.**

   a. **Periodic and Other Forms of Payments.** A Member's entire interest in SamCERA shall be distributed in the form of RMD Annuity payments that meet the requirements of paragraph (b) of this subsection or in the form of a single sum. Payments may be made in a combination of these forms of payment and may include lump sum refunds or withdrawals of Member contributions or death benefits as provided in the CERL provided that these forms comply with a reasonable good faith interpretation of Code section 401(a)(9).

   b. **General Rules Regarding RMD Annuities.** If the Member's interest is to be paid in the form of an RMD Annuity, the RMD Annuity must meet the following requirements:

      i. **Periodic.** RMD Annuities must be paid over equal payment intervals which may not be longer than one year.

      ii. **Distribution Period.** RMD Annuities will be paid over the life or lives of the Member and a beneficiary or over a period certain that does not exceed the maximum length of the period described in Section E or Section F of this regulation.

      iii. **Increases.** RMD Annuities may not increase over time except in accordance with the rules in Section G (1).

      iv. **Change in Period Paid.** The period over which an RMD Annuity is paid can be changed only in accordance section 1.401(a)(9)-6 of the Treasury regulations.

      v. **Commencement.** Payment of the RMD Annuity must start no later than the Required Beginning Date.

D. Amount Required to be Distributed by Required Beginning Date and Later Payment Intervals. The amount that must be distributed on or before the Member's Required Beginning Date is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the Member's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Member's Required Beginning Date. If the Member dies before distributions begin, the same rules apply with reference to the date distributions are required to begin under section F(1)(a) or F (1)(b).

E. RMD Annuity Distributions Beginning During Member's Life. The following rules must be met to comply with the requirements of the Code and this regulation for RMD Annuities that begin during the Member's lifetime.

1. **Single Life RMD Annuity.** An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime only, with no benefits paid to any other person, meets the requirements of the Code and this regulation.

2. **Joint and Survivor RMD Annuity - Death of Member After Benefits Begin**. If Member dies after RMD Annuity payments have commenced to the Member, then distributions must continue to be made over the remaining period over which distributions commenced in accordance with the schedule of payments made to the Member. Reasonable delay for administration may occur, but in this case payments that should have been made in accordance with the original payment schedule must be made with the first resumed payment.

3. **Joint and Survivor RMD Annuity With Spouse as the Sole Beneficiary.** An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of the Member's surviving Spouse, with no benefits paid to any other person, meets the requirements of the Code and this regulation regardless of the difference in age of the Member and the Member's Spouse.

4. **Joint and Survivor RMD Annuity When the Sole Beneficiary Is Not the Member's Spouse.**

    a. **Limit on Percentage of Member's RMD Annuity Paid to Non-Spouse Beneficiary**. The survivor annuity percentage of an RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of a beneficiary other than the Member's surviving Spouse must not at any time exceed the applicable percentage of the RMD Annuity payment during the Member's lifetime, using the table set forth in Treasury regulation section 1.401 (a)(9)-6. This Treasury Regulation requires that the RMD Annuity payable to the Member's beneficiary after the Member's death not exceed the percentage of the RMD Annuity payable to the Member during the Member's life specified in the table if the adjusted age difference between the Member and the beneficiary is more than 10 years.

b. **Rule Regarding Children of Member.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a surviving child of the Member for a limited period of time (such as until the child reaches the age of 21), the survivor benefit shall be treated as payable solely to the surviving Spouse of the Member.

c. **Rule Regarding Other Beneficiaries** Solely to the extent required by section 401(a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a person other than a surviving Spouse of the Member (or surviving child) under paragraph (b) of this subsection (4), then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to survivor benefits.

5. **Period Certain RMD Annuity**

a. **Spouse is the Sole Beneficiary.** If the Member's sole beneficiary is the Member's surviving Spouse, and the form of distribution is a period certain with no life annuity, the period certain may not exceed the joint life and last survivor expectancy of the Member and Spouse as determined in accordance with the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9, of the Treasury Regulations, using the Member's and Spouse's ages as of the Member's and Spouse's birthdays in the calendar year that contains the Annuity Starting Date.

b. **Spouse is Not the Sole Beneficiary.** When the Member's surviving Spouse is not the sole beneficiary then the period certain may not exceed the period established under the Uniform Lifetime Table contained in of

Treasury regulations section 1.401(a)(9)-9 for the calendar year that contains the Annuity Starting Date. If the Member is younger than age 70 in that year, then the distribution period for the Member is the distribution period for age 70 increased by the difference between 70 and the age of the Member in the year of the Annuity Starting Date. Also see below regarding Designated Beneficiaries.

c. **Rule Regarding Children of Member**. Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, the period certain distribution rules shall not apply to survivor benefits payable to children of the Member but the rules of section E (4) above shall apply.

d. **Rule Regarding Other Beneficiaries.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a period certain survivor benefit is payable to a person other than a surviving Spouse of the Member, then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to a survivor benefit.

F. **Distributions When Member Dies Before Benefits Begin.** If a Member dies before distributions begin, distributions after the death of the Member must meet the following requirements:

1. **When Distributions Must Begin.**

a. **Spouse is the Sole Designated Beneficiary.** If the Member's sole Designated Beneficiary is the Member's surviving Spouse, then, except as provided in paragraph (e) of this subsection 1, distributions to the surviving Spouse must begin by December 31 of the calendar year immediately following the calendar year in which the Member died or, if later, by December 31 of the calendar year in which the Member would have reached age 70 1/2.

b. **Spouse is not the Sole Designated Beneficiary.** If the Member's sole Designated Beneficiary is not the Member's surviving Spouse, then, except as provided in paragraph (e) of this subsection 1, distributions to the Designated Beneficiary must begin by December 31 of the calendar year immediately following the calendar year in which the Member died.

c. **No Designated Beneficiary.** If there is no Designated Beneficiary as of September 30 of the year following the year of the Member's death, then distributions of the Member's entire interest must be completed by December 31 of the calendar year that contains the fifth anniversary of the Member's death.

d. **Death of Surviving Spouse Who Is the Sole Designated Beneficiary.** If the Member's surviving Spouse is the Member's sole Designated Beneficiary and the surviving Spouse dies after the Member but before distributions to the surviving Spouse are required to begin, then this Section F (1), other than Section F (1)(a) applies as if the surviving Spouse were the Member.

e. **Election of Five Year Rule.** A Designated Beneficiary may elect, at the time and in the manner determined by SamCERA, to have the five year rule of Section F (1)(c) apply, but solely to the extent that the Designated Beneficiary may elect, under the CERL, a benefit which will be paid in the required time period.

2. **When Distributions Are Considered to Begin.** For purposes of this Section F, unless Section F (1)(d) applies, distributions are considered to begin on the Member's Required Beginning Date. If Section F (1)(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving Spouse under Section F (1)(a). If distributions under an RMD Annuity meeting the requirements of this regulation commence to the Member before the Member's Required Beginning Date (or to the Member's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Section F(1)(a), the date distributions are considered to begin is the date distributions actually commence.

3. **Length of Distribution Period.**

a. **Member Is Survived by a Designated Beneficiary.**

i. **General Rule.** If the Member is survived by a Designated Beneficiary, the Member's entire interest in SamCERA shall be distributed over the life of the Designated Beneficiary or over a period certain that does not exceed the period specified in 3(a)(ii).

ii. **Period Certain.** The period certain in 3(a)(i) may not exceed the Designated Beneficiary's life expectancy determined using the Single Life Table in Treasury regulations section 1.401(a)(9)-9. If the Annuity Starting Date is in the first Distribution Calendar Year, the life expectancy shall be determined using the Designated Beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Member's death. If the Annuity Starting Date is before the first Distribution Calendar Year, then the life expectancy is determined using the Designated Beneficiary's age in the calendar year that contains the Annuity Starting Date.

b. **No Designated Beneficiary.** If there is no Designated Beneficiary as of the September 30 of the year following the year of the Member's death, distribution of the Member's entire interest if it can be distributed, must be distributed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

c. **Death of Surviving Spouse Before Distributions To Spouse Begin.** If the Member's surviving Spouse is the Member's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Section F(3) shall apply as if the surviving Spouse were the Member, except that the time that distributions are required to begin is determined without regard to Section F(1)(a).

G. Special Rules

1. **RMD Annuity Payment Increases.** RMD Annuity payments will either not increase over time or increase only as follows:

a. **Cost of Living Adjustments**

i. **Annual COLA Increases.** RMD Annuity payments may increase by an annual percentage that does not exceed the percentage increase in an eligible cost-of-living index, as defined in section 1.401(a)(9)-6 of the Treasury regulations, for a 12-month period ending in the year during which the increase occurs or a prior year.

ii. **Cumulative COLA Increases.** RMD Annuity payments may increase by a percentage increase that occurs at specified times and does not exceed the cumulative total of annual percentage increases in an eligible cost-of-living index, as defined in the preceding paragraph since the Annuity Starting Date, or if later, the date of the most recent percentage increase.

iii. **Additional COLA Increases.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, RMD Annuity payments may increase by a percentage or amount that is determined by SamCERA, in accordance with the CERL, to represent an appropriate amount to take account of cost of living increases affecting retirees or beneficiaries.

b. **"Pop-Ups."** RMD Annuity Payments may increase to the extent of the reduction in the amount of the Member's payments to provide for a survivor benefit, but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the distribution period dies or is no longer the Member's beneficiary pursuant to a domestic relations order under applicable state law.

c. **Single Sum Distribution.** RMD Annuity Payments may increase to the extent necessary to allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Member's death or under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, to allow a beneficiary to select a lump sum distribution of all or part of the Member's interest under SamCERA as provided in the CERL.

d. **Plan Amendment.** Benefits may increase if they result from an amendment to, or interpretation of, the County Employees Retirement Law, the California Government Code or any other applicable law governing benefits for Members or from an ordinance, resolution or regulation pursuant to such law.

e. **Other Benefits.** Benefits may increase (i) to the extent increases are permitted in accordance with section 1.401(a)(9)-6 of the Treasury regulations dealing with additional permitted increases for annuity payments under annuity contracts purchased from an insurance company and additional permitted increases for annuity payments from a qualified trust; (ii) pursuant to section 31691.1 of the CERL; and (iii) pursuant to sections 31681.1 et seq., and 31739 et seq. of the CERL.

2. **Additional Accruals After First Distribution Calendar Year.** Any additional benefits accruing to the Member in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such benefit accrues.

3. **Domestic Relations Orders.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, pursuant to Article 8.4 of the CERL, both the Member and the Member's former Spouse shall be deemed to be separate Members of SamCERA for purposes of these regulations and section 401(a)(9) of the Code.

4. **Reciprocal Member.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, if a deferred Member is a current employee and a member of another retirement system with which SamCERA has reciprocity under California law, then for purposes of determining the Required Beginning Date under SamCERA the Member shall be treated as a current employee of a SamCERA employer and as such, as if he or she had not retired, even if he or she has attained age 70½.

5. **Public Safety Member Killed In Line of Duty**. Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, additional retirement benefits, if any, that are applicable under CERL and have been made applicable to SamCERA, to the surviving Spouse of a public safety SamCERA member killed in the line of duty shall not be limited by Code section 401(a)(9) because they shall be treated as incidental death benefits.

6. **Rollovers.** Amounts that are required minimum distributions cannot be rolled over to another qualified retirement plan or other tax-favored vehicle. The amount that cannot be rolled over shall be determined in accordance with Treasury regulations section 1.402 (c)-2.

7. **Payments to Surviving Child Treated as Made to Surviving Spouse.** Solely to the extent required by section 401 (a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, for purposes of Code section 401 (a)(9) and these regulations, payments to a member's surviving child in accordance with the

requirements of section 1.401(a)(9)-6 of the Treasury regulations shall be treated as if such payments had been made to the Member's surviving Spouse to the extent the payments become payable to the surviving Spouse upon the child's attainment of the age of majority, as determined in accordance with section 1.401(a)(9)-6 of the Treasury regulations, or upon the occurrence of such other event specified in section 1.401(a)(9)-6 of the Treasury regulations, or as otherwise specified in IRS guidance under section 401(a)(9) of the Code.

H. Definitions.

1. **Annuity Starting Date.** "Annuity Starting Date" means the first day of the first period for which a retirement benefit is payable as an RMD Annuity or, in the case of a retirement benefit not payable in the form of an RMD Annuity, the first day on which all events have occurred which entitle the member to payment.

2. **Designated Beneficiary.** "Designated Beneficiary" means the individual who is designated by the Member (or the Member's surviving Spouse) as the beneficiary of the Member's interest under SamCERA and who is the designated beneficiary under section 401(a)(9) of the Code and section 1.401(a)(9)-4 of the Treasury regulations. Accordingly, entities other than individuals, such as the Member's estate or a trust, cannot be a Designated Beneficiary of a Member's interest in SamCERA. However, the individuals who are beneficiaries under a designated trust shall be treated as Designated Beneficiaries for purposes of determining the distribution period under this regulation and Code section 401(a)(9) if all of the applicable requirements of Treasury regulation section 1.401(a)(9)-4 are met. If all of such applicable requirements are not met, then the distribution of the Member's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

3. **Distribution Calendar Year.** "Distribution Calendar Year" means a calendar year for which a minimum distribution is required. For distributions beginning before the Member's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Member's Required Beginning Date. For distributions beginning after the Member's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Section F (1) of this regulation.

4. **Required Beginning Date.** "Required Beginning Date" means April 1 of the calendar year following the later of the calendar year in which the Member attains age 70½ or the calendar year in which the Member retires.

5. **RMD Annuity**. "RMD Annuity" means, for purposes of the required minimum distribution rules in section 401(a)(9) of the Code, a distribution form providing for periodic payments for a specified period of time.

6. **Spouse**. A person who is a legally married spouse under either state law or federal law.

8.5 Rollovers. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to rollovers into and out of SamCERA in accordance with the Internal Revenue Code (the "Code"). For these regulations, Code includes the Treasury regulations issued under the Code. These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish any reasonable procedures for paying rollover distributions or accepting rollover contributions that it deems necessary or desirable for complying with applicable tax laws or for administrative purposes. Terms used in this regulation 8.6 are defined in the County Employees' Retirement Law of 1937 ("CERL") or the California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Rollover Distributions From SamCERA

1. **Rollovers**

   a. **Direct Rollover.** A "Direct Rollover" is that portion of an Eligible Rollover Distribution that SamCERA pays directly to an Eligible Retirement Plan, and may also be referred to as a trustee-to-trustee transfer to an Eligible Retirement Plan, at the direction of an Eligible Individual.

   b. **Indirect Rollover.** An "Indirect Rollover" is that portion of an Eligible Rollover Distribution that SamCERA pays directly to an Eligible Individual.

2. **Eligible Individuals**

   a. **Eligible Individual.** Only an "Eligible Individual" may elect a Direct Rollover. An "Eligible Individual" is:

      i. **Terminated From Employment.** A Member who has terminated employment from a SamCERA employer and who is eligible to withdraw his or her accumulated Member contributions under SamCERA;

      ii. **Surviving Spouse**. A deceased Member's surviving Spouse;

iii. **Alternate Payee.** Member's or former Member's Spouse or former Spouse who is the alternate payee under a domestic relations order, as defined in Code section 414(p), with regard to the interest of the Spouse or former Spouse; and

iv. **Non-Spouse Beneficiary.** A deceased Member's non-spouse beneficiary who is a "designated beneficiary" under Code section 401(a)(9)(E), subject to the non-spouse beneficiary provisions in Section A(7).

b. **Spouse**. A person who is a legally married under either state or federal law.

3. Payments that Can and Cannot be Rolled Over

a. **Eligible Rollover Distribution Required**. SamCERA will pay a Direct Rollover on behalf of an Eligible Individual only if the payment is an "Eligible Rollover Distribution."

b. **Eligible Rollover Distribution Defined**. An "Eligible Rollover Distribution" is any distribution to an Eligible Individual of all or any portion of the amount credited to the Eligible Individual under SamCERA. These amounts may include (a) refunds of Member contributions plus accumulated interest, or (b) one-time lump sum death benefit payments.

c. **After-Tax Portion.** The portion of a distribution that consists of after-tax Member contributions may be rolled over if the after-tax funds are transferred in a direct trustee-to-trustee transfer to (a) a qualified trust or (b) an annuity contract described in Code Section 403(b). After-tax Member contributions may also be rolled over to an individual retirement account or annuity described in Code Section 408(a) or (b). The qualified trust or annuity contract must separately account for the transferred after-tax amounts, and must also separately account for the earnings on the after-tax amounts.

d. **Exclusions from Eligible Rollover Distributions.** An Eligible Rollover Distribution does not include the following kinds of payments:

i. **Periodic Payments.** Payments that are part of a series of substantially equal periodic payments (i) made at least once per year over the life (or life expectancy) of the Eligible Individual or the life (or life expectancy) of the Eligible Individual and his or her designated beneficiary, or (ii) made for a period of 10 years or more; or

ii. **Required Distributions.** Payments that are "required minimum distributions" under Code section 401(a)(9).

4. **Eligible Retirement Plans**

a. **Payment to Eligible Retirement Plan.** SamCERA will pay an Eligible Rollover Distribution directly to an "Eligible Retirement Plan."

b. **Eligible Retirement Plan Defined.** An "Eligible Retirement Plan" is:

i. An annuity plan described in Code section 403(a);

ii. An annuity contract described in Code section 403(b);

iii. A governmental eligible deferred compensation plan described in Code section 457(b) that agrees to separately account for amounts transferred into such plan from SamCERA;

iv. An individual retirement annuity described in Code section 408(a);

v. An individual retirement account described in Code section 408(b);

vi. A Roth IRA described in Code section 408A; or

vii. A qualified trust described in Code section 401(a) (including defined benefit pension plans and defined contribution plans such as 401(k) plans, profit sharing plans, and money purchase plans).

c. **Certain Exclusions.** An Eligible Retirement Plan does not include, and a rollover cannot be made to, a SIMPLE IRA or a Coverdell Education Savings Account.

5. **Direct Rollovers**

a. **Withholding and Direct Rollovers.** SamCERA will not withhold any federal or state income taxes from a Direct Rollover. The only exception is that SamCERA will withhold federal or state income taxes from a Direct

Rollover to a Roth IRA if the Eligible Individual requests that withholding on a form and in the manner prescribed by SamCERA.

b. Administrative Requirements, In General. An Eligible Individual who requests a Direct Rollover must complete a distribution form in the manner and form that SamCERA prescribes. SamCERA may require the Eligible Individual to provide any reasonable information and/or documentation for purposes of administering the Direct Rollover in accordance with the Code.

c. Rollover Check. The Eligible Individual must provide SamCERA with the name of the Eligible Retirement Plan to which the rollover check will be made payable for his or her benefit. If the Eligible Individual so chooses, SamCERA will provide this rollover check directly to the Eligible Individual who will be responsible for delivering the check to the recipient IRA or plan.

d. Eligible Individual's Responsibility Re: Recipient Plan. The Eligible Individual is responsible for ensuring that any Eligible Retirement Plan that he or she has designated to receive the Eligible Individual's distribution from SamCERA in a Direct Rollover is an Eligible Retirement Plan that will accept and receive the rollover on his or her behalf in accordance with the applicable tax rules.

e. Time of Payment. SamCERA will pay a Direct Rollover on behalf of an Eligible Individual as soon as is reasonably and administratively practicable in accordance with its withdrawal and/or death benefit payment processes.

6. Indirect Rollovers

a. Choice of Indirect Rollover. An Eligible Individual, other than a nonspouse beneficiary, may also choose to receive a rollover payment as an Indirect Rollover.

b. Indirect Rollover Withholding. An Indirect Rollover is subject to 20% federal income tax withholding, or the current applicable withholding rate, and any applicable state withholding. SamCERA will withhold and deduct these taxes on behalf of the Eligible Individual as prescribed by federal and applicable state law.

c. **Eligible Individual's Responsibility Re: Recipient Plan.** It is the responsibility of the Eligible Individual to roll over all or some portion of his or her Indirect Rollover payment to an IRA or eligible employer plan within 60 days if he or she wants the payment to qualify as a rollover for tax purposes. If an Eligible Individual wants to roll over 100% of the payment, the Eligible Individual must replace the 20% that was withheld for federal income taxes (and any applicable state withholding) with other money.

7. **Direct Rollover of a Non-Spousal Distribution.**

a. **Trustee-To-Trustee Transfer Required.** A rollover on behalf of a non-spouse beneficiary must be a direct or trustee-to-trustee transfer and may not be paid in the form of an Indirect Rollover.

b. **Non-Spouse Beneficiaries Who May Rollover and Rollover to Inherited IRA Only.** A non-spouse beneficiary who is a "designated beneficiary" under Code Section 401(a)(9)(E) may roll over all or any portion of the non-spouse beneficiary's Eligible Rollover Distribution to an IRA that is established by the non-spouse beneficiary for purposes of receiving the distribution and that is treated as an "inherited IRA" under the Code. The IRA must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the beneficiary.

c. **Trust as Beneficiary.** If the non-spouse beneficiary is a trust, SamCERA may make a Direct Rollover to an IRA on behalf of the trust, provided the beneficiaries of the trust satisfy the requirements to be designated beneficiaries within the meaning of Code Section 401(a)(9)(E). The IRA on behalf of the trust must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the trust beneficiary.

8. **Notice Requirements**

a. **402(f) Notice from SamCERA**. SamCERA will provide the tax notice required under Code Section 402(f) to each Eligible Individual who requests a withdrawal from the SamCERA.

b. **Time Periods.** SamCERA will not process any withdrawals until 30 days after the date such notice is received by the Eligible Individual requesting the withdrawal. If, however, the Eligible Individual waives this 30-day period on a form and in the manner prescribed by SamCERA, SamCERA may process the withdrawal before the 30-day period expires.

B. Rollover Contributions to SamCERA. Adoption of these regulations providing for the acceptance of certain rollover contributions as determined below does not create any continuing entitlement for Eligible Members to make rollover contributions to SamCERA in the future and the right to make rollover contributions to SamCERA may be amended or terminated at any time and for any reason. If SamCERA has determined to permit any rollover contributions, SamCERA will permit Eligible Members to make a rollover contribution to SamCERA subject to the limitations and conditions described in this Section B.

1. General Rules

a. Eligible Member. An "Eligible Member" is (i) an active Member of the SamCERA, or (ii) a SamCERA Member that has elected a deferred retirement.

b. Rollovers Allowed. SamCERA will permit an Eligible Member to make a rollover contribution to SamCERA for (i) a purchase of service credit, or (ii) a redeposit of previously withdrawn funds plus accumulated interest.

c. Separate Accounting. SamCERA will separately account for all rollover contributions.

d. Certification to SamCERA by Member. Only eligible rollover distributions as defined by Code Section 402(c)(4) can be contributed to SamCERA. In addition to any requirements under subsections 2, 3, and 4 below, each Eligible Member making a rollover contribution to SamCERA must certify in writing the source of the rollover funds and that the rollover contribution is an eligible rollover distribution under the Code. SamCERA will not accept rollovers of any after-tax contributions, amounts attributable to designated Roth contributions, amounts that represent minimum required distributions, or any rollover that is an indirect rollover that does not satisfy the requirements of Section 8.5 (B)(5).

e. Elections and SamCERA Discretion. An Eligible Member must make an election to purchase service credit or redeposit previously withdrawn contributions with a rollover contribution in the manner and form that is prescribed by SamCERA. SamCERA has final discretionary authority to determine whether any required information or documentation is satisfactory and whether SamCERA will accept an Eligible Member's rollover contribution.

f. **Correction of Errors**. If SamCERA accepts a rollover contribution that it later determines was not eligible to be rolled over to SamCERA, SamCERA will return, as soon as administratively possible, the amount of the rollover contribution plus accumulated interest back to the sending institution and if not able to do so will distribute to the Eligible Member.

2. Rollovers from Qualified Plans

a. **Acceptance of Rollover.** SamCERA may accept a rollover from another plan that is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a).

b. **Required Due Diligence Process**. SamCERA will take reasonable steps to verify that the payment source (on the incoming check or wire transfer) is the former tax-qualified plan of the Eligible Member as represented by the Eligible Member on his or her request to make a rollover. SamCERA will also take reasonable steps to verify that the rollover will be from a tax-qualified plan which can include the following or any other methods allowed in guidance issued by the Internal Revenue Service.

   i. SamCERA may confirm the qualified plan status of the transferring plan with information contained on the Department of Labor's database.

   ii. If the qualified plan is not on the Department of Labor's database, then the Eligible Member must provide one of the following to SamCERA demonstrating that the source of the rollover contribution is a qualified plan: (a) a copy of the plan's most recent favorable determination letter from the Internal Revenue Service stating that the plan is tax-qualified and a written certification from the plan's administrator that the plan continues to be tax-qualified, or (b) a written and signed certification from the plan's administrator that the source of the eligible rollover distribution is a qualified plan under Code Section 401(a).

c. **Additional Information Required.** The Eligible Member must provide a signed certification from the transferring plan's administrator that the rollover contribution contains no after-tax or designated Roth contributions or earnings or any amounts representing a required minimum distribution under Code section 401(a)(9). If that cannot be obtained, the Eligible Member must submit a statement signed under penalty of perjury by the Eligible Member certifying that the rollover contribution contains no after-tax or designated Roth contributions or earnings or any amounts representing a required minimum distribution. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

3. **Rollovers from an IRA**.

   a. **Acceptance of Rollover.** SamCERA may accept a rollover from an individual retirement account or annuity (IRA) described in Code Section 408(a) or Code Section 408(b).

   b. **Required Information from Member**. The Eligible Member must provide a statement signed by the Eligible Member under penalty of perjury certifying and identifying the IRA source of the rollover funds and that no portion of the rollover contribution contains after-tax or designated Roth contributions or earnings and that no portion of the rollover contribution contains a required minimum distribution. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

   c. **Additional Information Required.** The Eligible Member must provide SamCERA with a written statement from the transferring IRA custodian providing that the source of the rollover contribution is an IRA that meets the requirements of Code section 4089(a) or 408(b). As part of its due diligence process, SamCERA will take reasonable steps to verify the payment source (on the incoming rollover check or wire transfer) as the Eligible member's IRA , and if the Eligible Member was not able to obtain a letter from the transferring IRA custodian certifying the source of the funds, SamCERA may rely on its due diligence verification process to the extent it does not have any direct evidence to the contrary , If such qualified status cannot be confirmed, SamCERA will not accept the rollover.

4. **Rollovers from Other Plans: 457(b) and 403(b)**

   a. **Acceptance of Rollover.** SamCERA may accept rollover contributions from an eligible plan under Code section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (a "governmental 457(b) plan"), and an annuity contract described in Code section 403(b).

b. **Required Due Diligence Process**. SamCERA will take reasonable steps to confirm the sending plan's status as an eligible 457(b) plan or an eligible Code section 403(b) annuity or custodial account and that the rollover contribution is valid. SamCERA will take steps to verify that the payment source (on the incoming check or wire transfer) is the former eligible 457(b) or 403(b) plan of the Eligible Member as represented by the Eligible Member on his or her request to make a rollover. SamCERA also will take reasonable steps to verify that the rollover will be from an eligible 457(b) plan or 403(b) plan which can include the following or any other methods allowed in guidance issued by the Internal Revenue Service.

   i. SamCERA may confirm the qualified plan status of the transferring plan with information contained on the Department of Labor's database.

   ii. If the qualified plan is not on the Department of Labor's database, then the Eligible Member must provide one of the following to SamCERA demonstrating that the source of the rollover contribution is an eligible governmental 457(b) plan or a Code section 403(b) plan: (a) a copy of the transferring plan's most recent private letter ruling from the Internal Revenue Service stating that the transferring plan qualifies as an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable, and a signed certification from the transferring plan's administrator that the transferring plan continues to be so qualified, or (b) a signed certification from the transferring plan's administrator that the rollover distribution source is an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

5. **Rollover Contributions Made by Indirect Rollover.** A rollover contribution to SamCERA may be made by a direct rollover or may be made by an indirect rollover no later than the 60th day after the Eligible Member receives the eligible rollover distribution in cash from his or her eligible retirement plan. In addition to providing the applicable documentation above in Sections B (2)-(4), Eligible Members making a rollover contribution with an indirect rollover must provide

evidence satisfactory to SamCERA that the Eligible Member received the distribution within the required 60-day period.

8.6 Compensation Limit. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limit on annual compensation under section 401(a)(17) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 401(a)(17). These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish reasonable procedures for complying with the limit on annual compensation under section 401(a)(17) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes. Terms used in this regulation 8.6 are defined in the County Employees' Retirement Law of 1937 ("CERL") or the California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Limitation On Annual Compensation Earnable

1. In General

a. Annual Compensation Earnable Limit. The annual amount of compensation that is taken into account in determining all benefits provided by SamCERA to affected Members for any year, which is referred to in CERL and PEPRA and in these Regulations as "Compensation Earnable," shall in no event be greater than the amount allowed by Code section 401(a)(17) adjusted in accordance with the Code for increases in the cost of living. This limit is called the Annual Compensation Earnable Limit in these regulations.

b. Members Affected By the Annual Limit.

i. Not Applicable to Pre-July 1, 1996 Members. The Annual Compensation Earnable Limit does not apply to any individual who first became a Member prior to July 1, 1996.

ii. Applies to New Members On and After July 1, 1996. In accordance with Government Code section 31671, the Annual Compensation Earnable Limit shall apply to all individuals who first become Members on or after July 1, 1996.

(A.) Date First Becomes a Member. An individual first becomes a Member on the date that a Member first became a Member in SamCERA, regardless of whether the Member terminated and resumed participation at a later date.

(B.) **Pensionable compensation limits for new members hired on or after January 1, 2013.** If a "new member" as defined in PEPRA hired on or after January 1, 2013, is placed by SamCERA into a "PEPRA" plan, such member's pensionable compensation shall be limited by the applicable dollar amount set forth in the Annual Compensation Earnable Limit.

2. **Operational Rules, In General**. This section applies to members who are not grandfathered under section 1 (b)(i).

   a. **Limited Compensation Earnable.** All Compensation Earnable that would be taken into account for determining benefits provided by SamCERA without regard to these regulations is subject to the Annual Compensation Earnable Limit. Such Compensation Earnable is not limited to salary or to base salary.

   b. **Benefits Affected by the Limit**. The Annual Compensation Earnable Limit applies to the determination of all benefits provided by SamCERA including pensions, annuities, retirement allowances, death benefits, disability benefits, refunds and withdrawals that are determined by member contributions (including such contributions that are "picked up" by the employer) and earnings thereon.

   c. **Compensation Earnable from More Than One Employer**. If Compensation Earnable from more than one employer that participates in SamCERA is taken into account in determining a member's benefits, the Annual Compensation Earnable Limit shall apply separately to the Compensation Earnable from each employer. The Annual Compensation Earnable Limit does not apply to the aggregate of Compensation Earnable earned from all employers that participate in SamCERA.

   d. **Proration for Short Plan Year.** If a plan year consists of fewer than 12 months, the Annual Compensation Earnable Limit is an amount equal to the otherwise applicable Annual Compensation Earnable Limit multiplied by a fraction, the numerator of which is the number of months in the short plan year, and the denominator of which is 12. No proration is required for participation of less than a full plan year.

e. **Pensionable compensation limits for new members hired on or after January 1, 2013.** If a "new member" as defined under PEPRA hired on or after January 1, 2013, and SamCERA places the member into "PEPRA" plan, such member's pensionable compensation shall be limited by the applicable dollar amount set forth in the Annual Compensation Earnable Limit.

f. **Reciprocity and New Membership in SamCERA**. An individual who becomes a member of SamCERA on or after July 1, 1996, and who has reciprocity with another public sector retirement plan nevertheless is a new Member of SamCERA. Membership before July 1, 1996 in another retirement plan with which SamCERA has reciprocity does not create pre-July 1, 1996 SamCERA membership for purposes of the Annual Compensation Earnable Limit.

g. **Reciprocity and Prior Membership in SamCERA**. A person who was a grandfathered member of SamCERA prior to July 1, 1996 under section 1 (b)(i) who terminated employment with an employer that participated in SamCERA, remains a member of SamCERA prior to July 1, 1996. Therefore, if the Member established reciprocity between another public sector retirement plan and SamCERA, any higher Compensation Earnable that is earned under the other plan shall be taken into account by SamCERA in accordance with the rules of reciprocity and that Compensation Earnable shall not be limited by the Annual Compensation Earnable Limit.

h. **Relationship Between Section 415 Limit and Compensation Earnable Limit.** The limits of Code section 415 and Code section 401(a)(17) are separate and independent. Each limit is operated according to its own rules and applies separately. Therefore, the Annual Compensation Earnable Limit may apply to a Member and the Code section 415 limit may not apply. Similarly, the Code section 415 limit may apply to a Member and the Annual Compensation Earnable Limit may not apply. Also, both of these limits may apply to the same Member.

i. **Clarification Concerning Member Contributions.** Because Member contributions are the basis for benefits provided by SamCERA, Member contributions shall not be made by taking into account Compensation Earnable in excess of the Annual Compensation Earnable Limit.

j. General Plan Year Rule for Determining the Limit. If Compensation Earnable for any prior plan year is taken into account in determining a Member's benefits for the current plan year, the Compensation Earnable for such prior plan year is subject to the applicable Annual Compensation Earnable Limit in effect for that prior plan year. In addition, in determining benefits for plan years beginning on or after January 1, 2002, the Annual Compensation Earnable Limit in effect for plan years beginning before that date is $200,000.

B. Plan Year And Cost-of-Living Adjustments

1. Annual Adjustment for Cost-of-Living Increases. The Annual Compensation Earnable Limit may be adjusted annually by the Internal Revenue Service for cost-of-living changes in accordance with the Code.

2. General Rule--Application of Limit to a Plan Year. In general, the Annual Compensation Earnable Limit is applied to the Compensation Earnable for the plan year on which accruals of benefits from SamCERA are based.

3. Plan Year Compensation Earnable.

a. General Rule. Since SamCERA's plan year corresponds to the calendar year, the Compensation Earnable used to determine Member contributions for each plan year shall be limited to the Annual Compensation Earnable Limit in effect as of January 1 of the calendar year that coincides with the plan year.

b. Member Contributions. Since SamCERA's plan year corresponds to the calendar year, the Compensation Earnable used to determine Member contributions for each plan year shall be limited to the Annual Compensation Earnable Limit in effect as of January 1 of the calendar year that coincides with the plan year.

8.7 Limits on Annual Benefits. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limits on benefits under section 415(b) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 415(b). To the extent there is a conflict between these regulations and the Code, the Code governs. SamCERA may establish reasonable procedures for complying with the limits on benefits under section 415(b) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes. Capitalized terms used in this Regulation are defined in Section F. Terms used in this regulation 8.7 are defined in the County Employees' Retirement Law of 1937 ("CERL") and the

California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Annual Benefit Limit.

1. Annual Benefit Limit, In General

a. Annual Limit. Unless the alternative limit described in subsection 5 of this Section applies, the Annual Benefit payable to a Member under SamCERA at any time shall not exceed the dollar limit specified under section 415(b)(1)(A) of the Code, automatically adjusted under section 415(d) of the Code, effective January 1 of each year, as provided by the Internal Revenue Service.

b. Maximum Payment. If the benefit the Member would otherwise be paid in a Limitation Year would be in excess of the limit in (1)(a), the benefit shall be limited to a benefit that does not exceed the limit.

c. COLA Adjustment. In the case of a Member who has had a severance from employment with the Employer, the Annual Benefit Limit applicable to the Member in any Limitation Year beginning after the date of severance shall be automatically adjusted under section 415(d) of the Code.

d. Multiple Annuity Starting Dates.

i. For a Member who has or will have distributions commencing at more than one Annuity Starting Date, the Annual Benefit shall be determined as of each such Annuity Starting Date (and shall satisfy the limitations of these regulations as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other Annuity Starting Dates.

ii. For this purpose, the determination of whether a new starting date has occurred shall be made in accordance with section 1.415(b)-1(b)(1)(iii)(B) and (C) of the Treasury regulations.

e. Actuarial Adjustment for Forms of Benefit. Except as provided in paragraph (f) of this Section A (1), if the Member's benefit is payable in a form other than a Straight Life Annuity, then solely for purposes of applying the limits of Code section 415 and of this regulation, the actuarially equivalent Straight Life Annuity shall be determined in accordance with paragraph (i) or (ii) below, whichever is applicable.

i. **Annuities**. If the Member's benefit is payable in the form of a non- decreasing life annuity or other form of benefit described in Treasury regulation section 1.417(e)-1(d)(6) (e.g., other than a lump sum, installments, a decreasing annuity or a term certain), then the actuarially equivalent Straight Life Annuity is determined using the greater of (a) the Straight Life Annuity (if any) payable to the Member under SamCERA commencing at the same annuity starting date as the form of benefit payable to the Member, or (b) the annual amount of the Straight Life Annuity commencing at the same annuity starting date that has the same actuarial present value as the form of benefit payable to the Member computed using the Applicable Mortality Table and a 5%; Interest rate.

ii. **Lump sums, installments, etc**. If the Member's benefit is payable in the form of a lump sum, installments, a decreasing annuity, term certain or other form of benefit not described in Treasury regulations section 1.417(e)-1(d)(6), then the Straight Life Annuity that is actuarially equivalent to the Member's form of benefit shall be determined using: (a) The Applicable Mortality Table; and (b) An interest rate that is not less than the greatest of: (1)5.5%; (2) The interest rate that produces a benefit of not more than 105% of the benefit that would be produced if the Applicable Interest Rate were used; or (3)The Applicable Interest Rate as specified by SamCERA.

f. **No Actuarial Adjustment (Or Limitation) Required for Certain Benefits**. In determining the Annual Benefit, no actuarial adjustment to the benefit shall be made for the following benefits or benefit forms:

i. **Qualified Joint and Survivor Annuity**. Survivor benefits payable to a surviving spouse under a joint and survivor annuity that would qualify as a qualified joint and survivor annuity defined in section 417(b) of the Code. If benefits are paid partly in the form of a qualified joint and survivor annuity and partly in some other form (such as a single sum distribution), the rule of this paragraph applies only to the survivor annuity payments under the portion of the benefit that is paid in the form of a qualified joint and survivor annuity.

ii. **Benefits that are not "Retirement Benefits."** Benefits that are not directly related to retirement benefits such as, pre-retirement qualified disability benefits, preretirement incidental death benefits, and postretirement medical benefits. Additionally, these benefits shall not be subject to the Annual Benefit Limit.

iii. **Certain Automatic Benefit Increases**. Benefits that meet the following requirements: (a) SamCERA provides for automatic periodic increases such as a form of benefit that automatically increases the benefit paid according to a specified percentage or objective index (but not a benefit that is increased on an ad hoc basis or a basis that is separately determined by action of the board of retirement or the board of supervisors of a county) and (b) the form of benefit complies with Code section 415(b) without regard to the automatic benefit increase. In no event shall the amount payable to the Member under the form of benefit in any Limitation Year be greater than the Annual Benefit Limit applicable at the Annuity Starting Date increased by the amounts provided in Code section 415(d). Also if the form of benefit without regard to the automatic benefit increase is not a Straight Life Annuity, then the Annual Benefit at the Annuity Starting Date is determined by converting the form of benefit to an actuarially equivalent Straight Life Annuity, as provided in section A (2)(a) of this regulation.

g. **Rules for Determining Annual Benefit**.

i. **Social Security Supplements, Etc.** The determination of the Annual Benefit shall take into account social security supplements described in section 411(a)(9) of the Code and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant section 1.411(d)-4, of the Treasury regulations.

ii. **Member Contributions.** The determination of the Annual Benefit shall disregard benefits attributable to member contributions or rollover contributions. Benefits attributable to member contributions do not include any benefits that are made on a pre-tax basis such as pickups under Code section 414(h)(2) or such as member contributions that are actually paid by the member's employer.

iii. Rollovers. The amount of any benefits attributable to member contributions and to rollover contributions shall be determined in accordance with Code section 415.

iv. Voluntary Contributions. Member contributions that are defined as "voluntary" contributions under Code section 415 (such as certain contribution under California Government Code section 31627) are not subject to the limits of this regulation but are subject to the limits of Code section 415(c) concerning defined contribution plans.

2. Reduction for Less Than 10 Years of Participation

a. Reduction. If the Member has less than 10 Years of Participation in SamCERA, the Annual Benefit Limit shall be multiplied by a fraction -- (i) the numerator of which is the number of years (or part thereof, but not less than one year) of participation in SamCERA, and (ii) the denominator of which is 10.

b. Counting Years of Participation. The Member is credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (i) the Member is credited with at least the number of hours of service or period of service for benefit accrual purposes, required under the terms of SamCERA in order to accrue a benefit for the accrual computation period, and (ii) the Member is included as a Member under the eligibility provisions of SamCERA for at least one day of the accrual computation period. If these two conditions are met, the portion of a Year of Participation credited to the Member shall equal the portion of a year of benefit accrual service credited to the Member for such accrual computation period.

c. Disability and Death Benefits. The reduction described in paragraph (a) of this subsection shall not apply to disability benefits or death benefits as provided in the Code.

3. Reduction for Commencement Before Age 62 for Certain Members

a. No Reduction for Employees of the Sheriff's Department. The reduction shall not apply if the Member's benefit is based on at least 15 years as a full-time employee of the Sheriff's Department pursuant to Code section 415(b)(2)(H). However, there shall be a reduction adjustment as set forth in paragraph (b) of this subsection if the Member's benefit is based on years of service as an employee of the Probation Department.

b. **Reduction for Benefits Commencing Before Age 62**. If the Member's benefits commence before the Member attains age 62, the Annual Benefit Limit is equal to the lesser of:

   i. The Annual Benefit Limit reduced in accordance with Code section 415(b) to its actuarial equivalent using: the Applicable Mortality Table and a 5% interest rate; or

   ii. The Annual Benefit Limit multiplied by the ratio of the immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date to the annual amount of the Straight Life Annuity under SamCERA commencing at age 62, both determined without applying the limitations of this regulation.

c. **Probability of Death**. No adjustment will be made to the annual benefit limit to reflect the probability of death between the Annuity Starting Date and age 62 unless the Member's benefit is forfeited at death before the Annuity Starting Date.

d. **Death and Disability**. The adjustment described in paragraph (b) of this subsection shall not apply to disability benefits or death benefits.

4. Increase for Commencement After Age 65.

a. **Increase For Benefits Commencing After 65**. If the Member's benefits commence after the Member attains age 65, the Annual Benefit Limit is equal to the lesser of:

   i. The Annual Benefit Limit increased in accordance with Code section 415(b) to its actuarial equivalent using: The Applicable Mortality Table and a 5% interest rate; or

   ii. The Annual Benefit Limit multiplied by the ratio of the annual amount of the adjusted immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date to the annual amount of the adjusted immediately commencing Straight Life Annuity under SamCERA at age 65, both determined without applying the limitations of this regulation. For this purpose, the adjusted immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date is the annual amount of such annuity payable to the Member, computed disregarding the Member's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing Straight Life Annuity under SamCERA at age 65 is the annual amount of such annuity that would be payable under SamCERA to a hypothetical Member who is age 65 and has the same accrued benefit as the Member.

b. **Probability of Death**. No adjustment will be made to the Annual Benefit Limit to reflect the probability of death between age 65 and the Annuity Starting Date unless the Member's benefit is forfeited at death before the Annuity Starting Date.

5. **Minimum Benefit Permitted.** The benefit otherwise accrued or payable to a Member under SamCERA is treated as not exceeding the Annual Benefit Limit if:

   a. **Minimum Benefit Limit Allowed.** The sum of the retirement benefits payable under any form of benefit with respect to the Member for the Limitation Year or for any prior Limitation Year under SamCERA and all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Member's Employer does not exceed $10,000 multiplied by a fraction – (i) the numerator of which is the Member's number of years (or part thereof, but not less than one year) of service (not to exceed 10) with the Member's Employer , and (ii) the denominator of which is 10; and

   b. **Condition.** The Member has never participated in any qualified defined contribution plan maintained by the Member's Employer.

B. Participation In Multiple Defined Benefit Plans

1. **Application of Limit to Aggregate Benefits.** If the Member is, or has ever been, a participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Member's SamCERA Employer, the sum of the participant's Annual Benefits from all such plans may not exceed the Annual Benefit Limit.

2. **Multiple Plan Benefit Limit Coordination.** Where the Member's SamCERA employer provided benefits under all such defined benefit plans (determined as of

the same age) would exceed the Annual Benefit Limit applicable at that age, the benefits accrued under all such other plans shall be reduced first in order to avoid exceeding the limit and shall be reduced under SamCERA only to the extent that the reduction under such other plans is insufficient to avoid exceeding the limit.

C. **Multiple Employer Plan.** Benefits attributable to the Member attributable to all of the Employers participating in SamCERA are taken into account for purposes of applying the Annual Benefit Limit.

D. **Grandfather Rules.**

1. **Annual Benefit Limit Equals Accrued Benefit**. Notwithstanding anything herein to the contrary, the Annual Benefit Limit with respect to a Qualified Member shall not be less than the accrued benefit of the Qualified Member under SamCERA determined without regard to any amendment made after October 14, 1987.

2. **Qualified Participant**. For purposes of this section, the term "Qualified Member" means a Member who first became a Member in SamCERA before January 1, 1990.

3. **Election**. Pursuant to California Government Code section 31899 et seq., the election has been made to have this Section apply.

E. **Purchase of Permissive Service Credit**

1. **General Rule**. If a Member makes one or more contributions to SamCERA to purchase Permissive Service Credit under SamCERA, then the requirements of this regulation will be treated as met only if:

   a. The requirements of this regulation are met, determined by treating the accrued benefit derived from all such contributions as an Annual Benefit for purposes of this regulation; or

   b. The requirements of SamCERA's regulation governing the limits on annual additions applicable to defined contribution plans are met by treating all such contributions as annual additions.

2. **Permissive Service Credit Defined**. For purposes of this Section, "Permissive Service Credit" means:

   a. Credit recognized by SamCERA for purposes of calculating a member's benefit under SamCERA; and

b. Credit which such member has not received under SamCERA; and

c. Credit which the member may receive only by making a voluntary additional contribution in an amount determined under SamCERA, which does not exceed the amount necessary to fund the benefit attributable to the service credit purchased; and

d. Credit which the member is authorized to purchase under Article VII of these regulations.

3. Limitation on Nonqualified Service Credit. SamCERA will fail to satisfy the requirements of this regulation if:

a. More than 5 years of Nonqualified Service Credit is taken into account for purposes of this Section; or

b. Any Nonqualified Service Credit is taken into account under this Section before the Member has at least 5 Years of Participation under SamCERA.

4. Nonqualified Service Credit. For purposes of subsection 3, the term "Nonqualified Service Credit" means permissive service credit other than that allowed with respect to:

a. Service (including parental, medical, sabbatical, and similar leave) as an employee of the government of the United States, an State or political subdivision thereof, or any agency or instrumentality of any of the foregoing (other than military service or service for credit which was obtained as a result of repayment described in subsection 6 of this Section);

b. Service (including parental, medical, sabbatical, and similar leave) as an employee (other than as an employee described in subparagraph (a) or (d) of this paragraph) of an educational organization described in Code section 170(b)(1)(A)(ii) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), or a comparable level of education, as determined under the applicable law of the jurisdiction in which the service was performed,

c. Service as an employee of SamCERA of employees who are described in subparagraph (a) or (d) of this paragraph; or

d. Military service (other than qualified military service under Code section 414(u)) recognized by SamCERA.

In the case of service described in subparagraphs (a), (b), and (c), of this paragraph, such service will be nonqualified service if recognition of such service would cause a Member to receive a retirement benefit for the same period of service under more than one plan.

Even if the proposed service credit purchase meets the above requirements, to the extent such proposed service credit purchase is not permitted under Article VII of these regulations, or is prohibited by CERL or PEPRA, SamCERA will not process such service credit purchase.

5. **Trustee-to-Trustee Transfers.** In the case of a trustee-to-trustee transfer to SamCERA to which Code section 403(b)(13)(A) or 457(e)(17)(A) applies, (without regard to whether the transfer is made from a plan that is maintained by the same Employer):

   a. The limitations of subsection 3 of this subsection shall not apply in determining whether the transfer is for the purchase of Permissive Service Credit; and

   b. The distribution rules applicable under the Code to SamCERA shall apply to such amounts and any benefits attributable to such amounts.

6. **Redeposits.** In the case of any repayment of contributions (including interest) to SamCERA with respect to an amount previously refunded upon a forfeiture of service credit under SamCERA or similar repayment of contributions to another governmental plan maintained by a state or local government employer with in the State of California, any such repayment shall not be taken into account for purposes of this regulation.

F. Definitions.

1. **Annual Benefit.** "Annual Benefit" means a benefit that is payable annually in the form of a Straight Life Annuity. Except as provided in Section A(1)(e), where a benefit is payable in a form other than a Straight Life Annuity, the benefit shall be adjusted (solely for purposes of applying the limits of Code section 415 and of this regulation) pursuant to Section A(1)(g), to an actuarially equivalent Straight Life Annuity that begins at the same time as such other form of benefit and is payable on the first day of each month.

2. **Annual Benefit Limit.** "Annual Benefit Limit" means the limit described in Section Section A(1)(a) of this regulation.

3. **Annuity.** "Annuity" for purposes of this regulation does not mean "annuity" as defined in the County Employees Retirement Law but instead means a retirement benefit that is payable by SamCERA, as provided in section 415 of the Code.

4. **Annuity Starting Date**. "Annuity Starting Date" means the first day of the first period for which a retirement benefit is payable as an annuity or, in the case of a retirement benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Member to payment under SamCERA.

5. **Applicable Interest Rate.** "Applicable Interest Rate" means the "applicable interest rate" defined in section 417(e)(3)(C) of the Code.

6. **Applicable Mortality Table**. "Applicable Mortality Table" means the "applicable mortality table" defined in section 417(e)(3)(B) of the Code.

7. **Employer.** "Employer" means an employer who participates in SamCERA. Solely to the extent provided in the Code and applicable guidance from the Internal Revenue Service with respect to public agencies the term "Employer" will also include all "Affiliated Employer" which means the entities within the controlled group of the Employer.

8. **Limitation Year.** "Limitation Year" means the calendar year.

9. **Straight Life Annuity.** "Straight Life Annuity" means an Annuity payable in equal installments for the life of the member and terminating on the Member's death.

10. **Spouse.** A person who is a legally married spouse under either state law or federal law.

8.8 Defined Contribution Limits. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limits on annual additions under section 415(c) of the Internal Revenue Code (the "Code"). These regulations may be applicable in certain cases when Members make service credit purchases. For these regulations, the Code includes Treasury regulations issued under section 415(c). To the extent there is a conflict between these regulations and the Code, the Code governs. SamCERA may establish reasonable procedures for complying with the limits on annual additions under section 415(c) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes. Capitalized terms used in this Regulation are defined in Section B. Terms used in this regulation 8.8 are defined in the County Employees Retirement Law of

1937 (“CERL”) or the California Public Employees’ Pension Reform Act of 2013 (“PEPRA”) apply here unless otherwise stated.

A. Annual Additions Limitation. Notwithstanding anything to the contrary contained in SamCERA, the total Annual Additions allocated to a Member’s Account under SamCERA, when added to the Annual Additions allocated to the Member’s accounts under all other Aggregated Plans maintained by the Employer for any Limitation Year, shall not exceed the Maximum Permissible Amount; provided, however, that the limit described in B (7)(b) shall not apply to an individual medical benefit account (as defined in section 415(l) of the Code).

B. Definitions. Solely for purposes of this regulation 8.8, the following definitions shall apply:

1. **Account.** “Account” means the separate Member account provided under SamCERA for benefits that are separate and apart from the retirement benefits (annuity and pension) otherwise provided under the County Employees Retirement Law.

2. **Aggregated Plan.** “Aggregated Plan” means any defined contribution plan which is aggregated with SamCERA pursuant to Section C of this regulation.

3. **Annual Additions.** “Annual Additions” means the sum of the following amounts credited to a Member’s Accounts under the Plan and any Aggregated Plans for the Limitation Year:

   a. Employer contributions allocated to the member’s Account that is separate and apart from any pension or annuity benefits provided under the County Employees Retirement Law;

   b. Employee contributions (after-tax), including mandatory contributions (as defined in section 411(c)(2)(C) of the Code and Treasury regulations issued thereunder), as well as voluntary employee contributions used to purchase permissive service credit (as Defined in Code section 415(n)(3)) if an election is made to treat those amounts as Annual Additions in the year contributed pursuant to Code section 415(n)(1).

   c. Forfeitures;

   d. Amounts allocated to the Member’s individual medical account (within the meaning of section 415(l)(2) of the Code), which is part of a pension or annuity plan maintained by the Employer, except that such amounts are not included in Annual Additions for purposes of applying the 100% of compensation limit.

4. The term “Annual Additions” excludes:

a. Repayments of cash-outs as described in Code section 415(k)(3) (for example, to purchase restoration of an accrued benefit that was lost when employee contributions were previously cashed out) for the limitation year in which the restoration occurs;

b. Catch-up contributions made in accordance with Code section 414(v);

c. Restorative payment described in Treasury regulations section 1.415(c) 1(b)(2)(ii)(C);

d. Excess deferrals that are distributed in accordance with Treasury regulations section 1.402(g)-1(e)(2) or (3);

e. Rollover contributions (as described in Sections 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d) and 457(e)(16) of the Code);

f. Employee contributions to a qualified cost-of-living arrangement described in Code section 415(k)(2)(B);

g. Employee contributions picked up by the Employer under Code section 414(h)(2);

h. Make-up contributions attributable to a period of qualified military service, as defined in Code section 414(u), with respect to the year in which the contribution is made (but not with respect to the year to which the contribution relates); and

i. Employee contributions to purchase permissive service credit (as defined in Code section 415(n)(3)) if an election is made to treat to treat the accrued benefit derived from all such contributions as an annual benefit subject to the limits of Code section 415(b).

5. **Employer. “**Employer” means an employer who participates in SamCERA. Solely to the extent provided in the Code and applicable guidance from the Internal Revenue Service, with respect to public agencies, the term "Employer" will also include “Affiliated Employer” which means all entities within the controlled group of the Employer.

6. **Limitation Year.** "**Limitation Year" means the calendar year.**

7. **Maximum Permissible Amount**. "Maximum Permissible Amount" means the lesser of:

   a. The amount allowable under section 415(c) of the Code as adjusted for increases in the cost-of-living under section 415(d) of the Code; or

   b. 100 percent of the Member's Total Compensation for the Limitation Year.

8. **Severance from Employment.** "Severance from Employment" means the Member ceases to be an employee of the Employer. A Member does not have a Severance from Employment if, in connection with a change of employment, the Member's new employer maintains SamCERA with respect to the Member.

9. **Total Compensation.** "Total Compensation" for purposes of this regulation only, means all items of remuneration described in paragraph (a) and excludes all items of remuneration described in paragraph (b), below.

   a. **Items Included.** Total Compensation includes all of the following items of remuneration for services:

      i. A Member's wages as defined within the meaning of Code section 3401(a) and all other payments of compensation to an employee by an employer for which the employer is required to furnish the employee a written statement under Code Sections 6041(d), 6051(a)(3) and 6052 (including amounts that would have been includible in gross income but for an election under Code section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b)) and will be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of employment or the services performed.

      ii. Amounts described in Code section 104(a)(3), 105(a), or 105(h), but only to the extent that these amounts are includible in the gross income of the Member;

      iii. Amounts paid or reimbursed by the Employer for moving expenses incurred by a Member, but only to the extent that at the time of the payment it is reasonable to believe that these amounts are not deductible by the Member under Code section 217;

iv. The amount includible in the gross income of an Member upon making the election described in Code section 83(b);

v. Amounts that are includible in the gross income of a Member under the rules of Code section 409A or Code section 457(f)(1)(A), or because the amounts are constructively received by the Member; and

vi. An amount that is excludable under Code section 106 that is not available to a Member in cash in lieu of group health coverage because the Member is unable to certify that he or she has other health coverage; provided, however, that the Employer does not request or collect information regarding the Member's other health coverage as part of the enrollment process for the health plan.

b. Items Excluded. The following items are excluded from Total Compensation:

i. Employer contributions (other than elective contributions described in Code section 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) to a deferred compensation plan (including a simplified employee pension described in Code section 408(k) or a simple retirement account described in Code section 408(p), and whether or not qualified) to the extent such contributions are not includable in the Member's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a deferred compensation plan (whether or not qualified) other than amounts received during the year by a Member pursuant to a nonqualified unfunded deferred compensation plan to the extent includible in gross income;

ii. Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are excludible from the gross income of the Member, and are not salary reduction amounts that are described in Code section 125);

iii. Other items of remuneration that are similar to any of the items listed in (i) and (ii), above.

c. Timing.

i. In order to be taken into account for a Limitation Year, Total Compensation must be paid or made available (or, if earlier, includible in the gross income of the Member) during the Limitation Year. For this purpose, compensation is treated as paid on a date if it is actually paid on that date or it would have been paid on that date but for an election under Code section 125, 132(f)(4), 401(k), 403(b), 408(k), 408(p)(2)(A)(i), or 457(b).

ii. In order to be taken into account for a Limitation Year, Total Compensation must be paid or treated as paid to the Member prior to the Member's Severance From Employment with the Employer; provided, however, that Total Compensation includes amounts paid to the Member by the later of 2½ months after Severance From Employment or the end of the Limitation Year if the amounts are regular compensation for services during the Member's regular working hours, compensation for services outside the Member's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar compensation that absent a Severance From Employment would have been paid to the Member while the Member continued in employment with the Employer.

iii. Total Compensation does not include amounts paid after Severance From Employment that are severance pay, unfunded nonqualified deferred compensation, or any other payment that is not described in the preceding paragraph, even if paid within 2½ months, except for:

(A.) Payments to an individual who does not currently perform services for the Employer by reason of Qualified Military Service to the extent that these payments do not exceed the amounts that the individual would have received if the individual had continued to perform services for the Employer rather than entering Qualified Military Service; and

(B.) Payments to a Member who is permanently and totally disabled; provided, however that salary continuation applies to all Members who are permanently and totally disabled for a fixed or determinable period. For this purpose, a Member is permanently and totally disabled only if the Member is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than 12 months.

d. Limit. A Member's Total Compensation shall not include compensation in excess of the limitation of Code section 401(a)(17) that is in effect for the calendar year in which such Limitation Year begins.

C. Aggregation with Other Defined Contribution Plans. All defined contribution plans (as defined in section 1.415(c)-1(a)(2) of the Treasury regulations and whether or not terminated) maintained by the Employer shall be aggregated with SamCERA, and all plans so aggregated shall be considered as one plan in applying the limitations of this regulation 8.8.

D. Coordination with Other Defined Contribution Plans. In the event that a Member participates in another defined contribution plan of the Employer that is a tax-qualified defined contribution plan, contributions or allocations that would otherwise be made on behalf of the Member to the other plan shall first be reduced to the extent necessary to avoid exceeding the limitations of this regulation.

E. Correction. Any excess Annual Additions shall be corrected using the methods specified in Revenue Procedure 2013-12 or any subsequent guidance promulgated by the Secretary of the Treasury describing the procedures for correcting excess Annual Additions under the Employee Plans Compliance Resolution System ("EPCRS") or its successor.

8.9 Actuarial Equivalent. For determining benefits provided by SamCERA, actuarial equivalents shall be established by the Board as being a benefit of equal value when computed upon the basis of mortality tables and interest assumptions adopted by the Board from time to time upon the recommendation of SamCERA's actuary as reflected in SamCERA's actuarial valuation.

8.10 Normal Retirement Ages. The normal retirement ages set forth below shall be in effect until such time as action taken by the Legislature, Congress, Internal Revenue Service or other government agencies whose actions take precedence as a matter of law over the actions of

SamCERA establish or require establishment of normal retirement ages that differ from those established in this regulation. The Board may change the normal retirement age to the extent required to comply with section 401(a) of Title 26 of the United States Code or for any other reasons determined by the Board. The normal retirement age determined herein does not create any vested rights under California or federal law including but not limited to the contracts clause of the California Constitution. These normal retirement ages are based upon SamCERA' s calculation of the average actual retirement ages of members and was reviewed by SamCERA's actuary.

A. **General Members.** The normal retirement age for general members shall be the later of age 60 or the age at which the member is entitled to receive a monthly retirement allowance under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. Normal retirement age is not later than age 70.

B. **Safety Members**. The normal retirement age for safety members shall be the later of age 53 or the age at which the member is entitled to receive a monthly retirement allowance under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. Normal retirement age is not later than age 70.

8.11 Post Retirement Employment

A. **No Pre Arrangement of Post-Retirement Employment.** A member who retires at an age younger than normal retirement age, as defined in section 8.10, may not, prior to the date the member's retirement commences, enter into an agreement, either oral or written, to be reemployed while retired by the County or any other employer whose employees are members of SamCERA, regardless of the length of the member's break in service after retirement.

B. **Required Break in Service Prior to Post Retirement Employment.** Regardless of a member's age, every member who is reemployed by a SamCERA employer consistent with the terms of Government Code section 7522.56, or any amendments thereto, shall have a 180-day break in service from the date of retirement to the commencement of the reemployment. If a member is reemployed within the 180 days, pursuant to Government Code section 7522.56, and the member retired at an age younger than normal retirement age, as defined in section 8.10, there must be at least a continuous 90-day break in service from the date of the member's retirement prior to such reemployment unless such reemployment is to respond to an emergency declared by a government agency or an emergency that may prevent the stoppage of public business. Said breaks in service set forth above shall constitute a "bona fide" separation from service to the extent required by Section 401(a) of Title 26 of the United States Code.

8.12 Prohibited Transactions. Effective as of July 1, 1989, SamCERA may not engage in a transaction prohibited by Section 503(b) of the Internal Revenue Code. Prohibited transactions include, but are not limited to the following transactions with certain related parties, such as participating employers: a loan without adequate interest or security, the payment of excessive compensation, the purchase of securities or property for more than adequate consideration, or the sale of securities or property for less than adequate consideration.

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Agenda Item 7.3

SamCERA

Board Regulations

Red-Lined Version

of Revisions

July 29, 2014

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SamCERA Board Regulations

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ARTICLE I.
PURPOSE, SCOPE AND AMENDMENTS

1.1 Purpose and Scope. In accordance with California Government Code section 31525, the regulations set forth herein are effective as of October 1, 2014 and reaffirm and clarify the existing practices of the San Mateo County Employees' Retirement Association ("SamCERA").

1.2 Amendments. These regulations may be amended from time to time at any meeting of the Board by an affirmative vote of at least five (5) members of the Board, and shall be submitted to the San Mateo County Board of Supervisors for ratification.

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ARTICLE II.
BOARD OFFICERS AND CHIEF EXECUTIVE OFFICER

2.1 Election of Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members chair for a term of one year or until his or her successor is duly elected and qualified. The Chair shall preside at all meetings of the Board, shall appoint all committees and shall perform all duties incidental to that office.

2.2 Election of Vice Chair: At the first regular meeting in July, the Board of Retirement shall elect one of its members vice chair for a term of one year or until his or her successor is duly elected and qualified. In the Chair's absence or inability to act, the Vice Chair shall take the place and perform the duties of that office.

2.3 Election of Secretary: At the first regular meeting in July, the Board of Retirement shall elect one of its member's secretary for a term of one year or until his or her successor is duly elected and qualified. The Secretary shall attest to Resolutions and other such documents for the Board. In the Chair's and Vice Chair's absence or inability to act, the Secretary shall take the place and perform the duties of the Chair.

2.4 Filling of Vacancy i~~I~~n Office: In the event of a vacancy in the office of chair, vice chair or secretary, the Board of Retirement shall, at its next regular meeting, elect one of its members to fill such vacancy for the remainder of the term.

2.5 Administrator's/Chief Executive Officer's Authority: The Board shall adopt, and may amend from time to time, a formal Delegation of Authority which sets forth the specific powers and duties assigned to the Administrator who shall have the title of Chief Executive Officer. The Chief Executive Officer shall adhere to the terms and conditions of the Delegation of Authority in all matters.

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ARTICLE III.
MEETINGS

3.1 Public Meetings: All business of the Board shall be conducted in conformance with the requirements of California's public meeting law, known as the Ralph M. Brown Act, commencing at Government Code section 54950.

3.2 Quorum: Five trustees of the Board constitute a quorum.

3.3 Motions: Motions approved by affirmative votes of less than five trustees shall have no force and effect. The Chair should vote on all motions.

3.4 Regular Meetings: Regular meetings of the Board shall be held on the Fourth Tuesday of each month. Meetings shall begin at 10:00 a.m. ~~1:00 p.m.~~ Meetings shall be held in SamCERA's offices. The Board may cancel and or approve a change in the date, time and/or location of meetings within the County, if the proposed change is included on the agenda of a regular meeting.

3.5 Special Meetings: Special meetings of the Board of Retirement may be called in the manner provided by Government Code section 54956.

3.6 Order Business: The Board shall conduct its business in accordance with the provisions of the Government Code and these regulations.

3.7 Preparation of Agenda: The Chief Executive Officer shall be responsible for the preparation of the Board's agenda, which shall be approved by the chair prior to publication.

3.8 Communications to the Board: Whenever possible, communications and requests to the Board should be made in writing. Oral communications and requests will be accepted during Board meetings. The substance of such requests and the actions of the Board thereon shall be recorded in the minutes.

3.9 Meeting Minutes: The minutes of the Board's meetings shall reflect the time and place of each meeting of the Board, the names of trustees present, all official acts of the Board, the votes cast by trustees when by roll call vote, a trustee's dissent or approval and reasons when requested. The minutes will be presented for approval at the next regular meeting. When called upon by the Chair, the Chief Executive Officer shall take a formal roll call vote in alphabetical order, with the Chair voting last. The minutes as approved, signed by the Chair, shall form part of the permanent records of the Board.

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ARTICLE IV.

ELECTION OF TRUSTEES

4.1 Regular Elections: Regular Elections shall be held on the second Monday in June of the years in which the terms of elected Trustees expire. The Elections Officer for the County of San Mateo or his or her designee, herein after referred to in this Article as "Elections Officer" shall be responsible for the conduct of the election and shall report directly to the Board in all matters pertaining to the election of trustees.

4.2 List of Eligible Candidates and Nominators and the List of Eligible Voters: The Chief Executive Officer shall provide to the Elections Officer a copy of the Nominating Petition, the "List of Eligible Candidates and Nominators", and the "List of Eligible Voters" and other necessary election materials. The "List of Eligible Candidates and Nominators" shall include those names of members who are eligible to sign Nomination papers and/or run for office as set forth in sections 4.4 and 4.5, and shall be provided no later than the Friday prior to the third Monday in April of the election year. The "List of Eligible Voters" shall include those names of members who are eligible to vote in the election as set forth in section 4.13, and shall be provided no later than the Thursday prior to the first day ballots may be mailed to those voters.

4.3 Notice of Election: The Chief Executive Officer shall distribute a Notice of Election on or before the first Monday in April of election years. The Notice shall include, but not be limited to, the Qualification of Candidates, the process for obtaining copies of the Nominating petition and Election Regulations, the Date of the Election, and the name and address of the Elections Officer.

4.4 Qualifications of Candidates: A candidate for Second or Third Trustee shall be a General Member of SamCERA. A candidate for Seventh Trustee shall be a Safety Member of SamCERA. A candidate for Eighth Trustee shall be a Retired Member of SamCERA. A candidate for Eighth Trustee Alternate shall be a Retired Member of SamCERA. To be eligible, a candidate shall be a member of his or her respective group at the close of the pay period immediately preceding the beginning of the Nomination/Declaration of Candidacy period. The Elections Officer shall compare the names of candidates with the "List of Eligible Candidates and Nominators." If the Elections Officer finds that the candidate does not meet the qualifications set forth in this Section and Section 4.5, the Elections Officer shall disqualify the candidate.

4.5 Nominating Petitions/Declaration of Candidacy: On and after the third Monday in April, qualified candidates may obtain a Nominating Petition or Declaration of Candidacy, a copy of the Code of Fair Campaign Practices as it appears in the California Elections Code, and a copy of these Election Regulations from the Elections Officer. Candidates for Second, Third and Seventh Trustee shall be nominated by a petition signed by not less than ten SamCERA Members eligible to sign the candidate's petition. SamCERA's General Members are eligible to sign a petition for a candidate for Second or Third Trustee. SamCERA's Safety Members are eligible to sign a petition for a candidate for Seventh Trustee. SamCERA's Retired Members are eligible to nominate themselves as a candidate either for the Eighth Trustee or the Eighth Trustee Alternate by filing a Declaration of Candidacy with the Elections Officer. SamCERA's Retired Members may only nominate themselves to one position. To be eligible to sign petitions, or nomination papers, a member's name shall be included on the "List of Eligible Candidates and Nominators." No member shall sign more than one Nominating Petition for each election. Signed Nominating Petitions and Declarations of Candidacy must be filed with the Elections Officer no later than 5:00 p.m. of the first Monday in May. Candidates who file Nominating Petitions after the deadline will be disqualified. Prospective candidates shall appear in person to receive candidate papers from and to deliver candidate papers to the Elections Officer. If a prospective candidate is unable to appear in person, they shall designate in writing an agent to receive and/or deliver the candidate's Nomination Papers or Declaration of Candidacy on their behalf.

4.6 Withdrawal: Candidates may withdraw from the election no later than 5:00 p.m. of the first Monday in May by filing a written statement of withdrawal with the Elections Officer.

4.7 Qualification of Candidates and Nominators: The Elections Officer shall compare the names on Nominating Petitions and Declarations of Candidacy with the "List of Eligible Candidates and Nominators." If the Elections Officer finds that less than the number of qualified signatures specified in Section 4.5 have been submitted, the Elections Officer shall disqualify the candidate.

4.8 Fewer than Two Qualified Candidates: If the Elections Officer determines that there is one qualified candidate, the Elections Officer shall cancel the election and certify the single candidate elected. If there are no qualified candidates, the Elections Officer shall notify the Board who shall reschedule the election. The Chief Executive Officer shall re-notice the Election. Any election that has been re-noticed shall be held in accordance with the provision for Special Elections.

4.9 Candidate Statements: The Elections Officer shall accept, reproduce and include with the ballot, a Candidate Statement listing the name of the candidate and no more than 300 words. Candidate Statements shall be limited to a recitation of the candidate's own personal background and qualifications and shall not make any reference to other candidates or to another candidate's qualifications. Statements that do not meet these requirements shall not be accepted, but may be resubmitted up to the filing deadline. The counting of words will be in accordance with the California Elections Code. If the Elections Officer determines that an acceptable Candidate Statement is not submitted by the deadline, the candidate will not have one included with the ballot. Candidate Statements must be filed with the Elections Officer no later than 5:00 p.m. of the first Monday in May. Statements shall be printed as submitted. No candidate, for any reason, may withdraw or change his or her Candidate's Statement after this deadline. Statements filed pursuant to this section shall remain confidential until the expiration of the filing deadline.

4.10 Challenges to Statements: No later than 5:00 p.m. on the first Thursday in May following the first Monday in May, a candidate may challenge by writ of mandate or injunction filed with the Superior Court of San Mateo County, which requests that the decision of the Elections Officer to accept or reject a candidate's statement be reversed and/or that the statement in question is false, misleading, or inconsistent with the requirements of Section 4.9. The peremptory writ of mandate or injunction shall be issued only upon clear and convincing proof and a finding that an order would not substantially interfere with the printing or distribution of official election materials.

4.11 Ballots: The Elections Officer shall certify for inclusion on the ballot the names of qualified candidates who submitted Nominating Petitions containing the number of qualified signatures specified in section 4.5. The Elections Officer shall determine by lot the order in which candidates shall appear on the ballot. There can be elections for multiple trustee positions on a single ballot. There is no provision for write-in candidates.

A. Mail Ballots: The Elections Officer shall provide for the preparation of a number of ballots sufficient to supply one to each SamCERA Member eligible to vote in each election. The Elections Officer shall provide for the mailing of ballots to the member's home address. Ballots shall be mailed no earlier than the third Friday in May and no later than the fourth Friday in May. Ballots mailed shall include a return envelope bearing prepaid postage. The Elections Officer shall make available a replacement ballot upon request by any eligible member who lost or did not receive his or her ballot. Requests may be made in person, in writing, by e-mail, fax or by telephone. A replacement ballot will not be provided to anyone other than the member who requested the replacement ballot. Candidates are specifically prohibited from handling ballots, whether voted or unvoted, sealed or unsealed, other than their own. Voted ballots must be received by the Elections Officer on or before Election Day. Any voted ballot that is U.S. Postmarked on or before Election Day and received by the Elections Officer on or before 5:00 p.m. on the Friday following the Election Day shall also be counted.

B. Electronic voting: Upon request of the Board, the Elections Officer shall provide for the distribution of ballots and voting through an electronic voting system in addition to or in lieu of mailed ballots. The Elections Officer shall make available a replacement ballot upon request by any eligible member who lost or did not receive his or her electronic ballot. Requests may be made in person, in writing, by e-mail, fax or by telephone. A replacement ballot will not be provided to anyone other than the member who requested the replacement ballot. Candidates are specifically prohibited from handling electronic or replacement ballots, whether voted or unvoted, sealed or unsealed, other than their own. Voted ballots must be received by the Elections Officer on or before Election Day. Any voted electronic ballot sent electronically on or before Election Day and received by the Elections Officer on or before 5:00 p.m. on the Election Day shall be counted.

4.12 Ballot Designation: There shall be no ballot designations on the ballot.

4.13 Qualification of Voters: For mailed ballots, The Elections Officer shall confirm the name on the outer ballot envelope with the "List of Eligible Voters." For electronic voting, the Elections Officer shall confirm the name of the electronic ballot recipient with the “List of Eligible Voters.” SamCERA's General Members are qualified to elect the Second and Third Trustees. SamCERA's Safety members are qualified to elect the Seventh Trustee. SamCERA's Retired Members are qualified to elect the Eighth Trustee and Eighth Trustee Alternate. To be eligible to vote, a member shall be a part of his or her respective group at the close of the pay period immediately preceding the first day that ballots may be mailed or sent electronically per these regulations bylaws.

4.14 Counting of Ballots: The Elections Officer shall supervise the counting of ballots. A candidate certified as the winner must receive the highest number of votes cast. In the event of a tie vote, the Elections Officer shall determine the winning candidate by lot.

4.15 Voided Ballots: The Elections Officer shall void all of the following ballots: duplicate ballot cast; all ballots which bear the signature or initials of the voter on the ballot itself; ballots which do not bear the signature of the voter on the outside of the envelope or where it is not possible to determine who submitted the ballot; envelopes containing more than one ballot; and ballots where the Election Officer cannot determine the voter’s intent. Any names written in on a ballot, other than the name of a qualified candidate, will not be counted or reported in the Certification of the Election Results.

4.16 Alternate Safety Member: If there are two or more safety member candidates for the seventh member position, the candidate receiving the highest number of votes shall be elected to the seventh member position. The safety member candidate who is of a different safety membership group and who received the next highest number of votes, shall be elected to the Alternate Safety Member per Government Code section 31520.1. If there is no eligible candidate who is of a different safety membership group there will not be an Alternative Safety Member.

4.17 Certification of Election Results: The Elections Officer shall canvass and certify the results of the election no later than the Friday following the election.

4.18 Receipt & Safekeeping of Ballots Cast: The Elections Officer shall accept and provide for the safekeeping of all ballots cast. Ballots must be retained for 180 days after Election Day, and, in the absence of litigation, may be discarded thereafter.

4.19 Recount: Upon written application to the Elections Officer, and within five (5) calendar days of the Elections Officer's Certification of Election Results, any candidate may order a recount of all votes cast. Prior to a recount, the candidate requesting a recount must agree to pay for the actual cost of the recount. The Elections Officer shall determine an estimated cost for a recount and the candidate requesting the recount must deposit with the Elections Officer payment for the estimated cost. The candidate will be under no obligation to pay for the recount if the recount shows a change in the outcome of the election. The recount shall be conducted in the same manner as the original count.

4.20 Contests: Election results may be contested by a candidate upon filing a verified petition with the Superior Court of the County of San Mateo within 15 calendar days of the issuance of the Certified Election Results by the Elections Officer. Candidates may contest the election on the following grounds: a) that the person who has been declared elected to an office was not, at the time of the election, eligible for that office; b) that the candidate or his or her agent has given to a member a bribe or reward or offered any bribe or reward for the purpose of procuring his or her election; c) that a sufficient number of votes were illegal, fraudulent, forged, or otherwise improper, and that had those votes not been counted, the person having been declared elected would not have received more votes than the contestant; and/or d) that the Elections Officer in conducting the election or in canvassing the returns, made errors sufficient to change the result of the election as to any person who has been elected. The acceptance or rejection of a candidate's statement of qualifications by the Elections Officer shall not constitute grounds for a new election. A hearing on the contest shall be set by the Court. The Court's decision shall be based upon clear and convincing proof of the allegations. If the Board orders a new election based upon the Court's decision, it shall be held in accordance with the provisions for Special Elections.

4.21 Oath of Office: Newly elected Trustees shall be sworn-in during the Board's first meeting in July.

4.22 Special Elections: The Chief Executive Officer shall advise the Board when a vacancy occurs and shall recommend a date for a Special Election to fill the vacancy. If the vacancy occurs within nine months of the end of the term of the seat that has been vacated, there shall be no Special Election. If the vacancy occurs more than nine months prior to the end of the term, the Board shall call a Special Election, which shall be held not less than 60 nor more than 120 days from the effective date of the vacancy. Special Elections shall be conducted in conformance with the provisions of this Article for Regular Elections, except that the schedule shall be adjusted by the Elections Officer to comply with the date of the Special Election set by the Board.

4.23 Reimbursement for Services: The SamCERA Board of Retirement will reimburse the Elections Officer for the election services provided.

4.24 Public Information: During the ninety days preceding Election Day, no newsletter or other one-time publication intended for the use of SamCERA's members will be distributed by SamCERA which includes the name of any incumbent candidate for an election conducted pursuant to these regulations. This moratorium shall not apply to standard publications such as member booklets, annual reports and other documents of a similar nature.

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ARTICLE V.
MEMBERSHIP DUTIES & RIGHTS

5.1 Membership: An individual entering permanent full time or permanent part time employment with a SamCERA employer, which shall be either the County of San Mateo, the Superior Court of the County of San Mateo, or the Mosquito and Vector Control District, prior to July 1, 1996, shall become a member of SamCERA on the first day of the first pay period commencing after the date of employment. An individual entering such employment on or after July 1, 1996, shall become a member of SamCERA on the first day of employment. Members may delay the effective start date of their membership with SamCERA up to twelve weeks after the date of employment and/or terminate accrual of service credit with SamCERA up to twelve weeks prior to termination of employment with a SamCERA employer, for the purpose of establishing reciprocity with another public retirement system as described in the 1937 Act.

5.2 Exclusions: All employees whose service falls in the following categories shall be excluded from membership in SamCERA:

A. Members of appointed Boards and Commissions;

B. Judges of the Superior Court;

C. Employees with temporary, seasonal, or intermittent tenure, including but not limited to employees hired for a fixed term or terms which shall not in the aggregate exceed 6,240 hours; and extra help employees. However, employees first hired on or before September 30, 2014, to temporarily fill an existing position that is already filled by another employee shall be included in membership.

~~extra help, members of appointed Boards and Commissions, and Judges of the Superior Court.~~

5.3 Entering Service Application: Upon entering service, the member shall immediately execute and file statement in the manner and form prescribed by the Chief Executive Officer.

5.4 Terminating Employment: A member terminating employment shall file either a completed application for retirement, or a completed form directing disposition of retirement contributions, in the manner and form prescribed by the Chief Executive Officer.

5.5 Required Documents for Retirement: Prior to the effective date of retirement, in addition to the fully executed and completed application for retirement, each member shall provide to the retirement system the following documents:

A. Proof of birth of the member ~~and any named beneficiary must be~~ filed in one of the following manners: ~~(i) original~~copy of a birth certificate~~, (ii) certified copy of a birth certificate~~ or ~~(iii) original~~ passport.

B. Fully executed option agreement in the manner and form prescribed by the Chief Executive Officer.

C. Documentation setting forth arrangement for the auto deposit of benefit payments. The Board may approve payment by check in cases where the Board's paying agent is unable to provide payment by auto deposit and in cases where the member has specifically requested payment by check.

D. For those members of SamCERA who were married or had a registered domestic partnership for all or a portion of their SamCERA service time: (i) copies of all applicable marriage licenses or registered domestic partnerships; (ii) for any subsequent divorce order or termination of registered domestic partnership, copies of Court dissolution orders setting forth the division of the SamCERA service time between the member and the non-member must be submitted. If applicable, a fully executed waiver by the non-member of community share of SamCERA-covered service in the manner and form approved by the Chief Executive Officer can be submitted; and (iii) if applicable, copies of death certificates for spouses and domestic partners. ~~and subsequently divorced, copies of Court dissolution orders setting forth the division of the SamCERA service time between the member and the non-member must be submitted. If applicable, a fully executed waiver by the non-member of community share of SamCERA covered service in the manner and form approved by the Chief Executive Officer can be submitted.~~

5.6 Approval of Service Retirement: All applications for service retirement shall be subject to review and approval by the Board. The Chief Executive Officer shall place such ~~applications~~ retirements on the Consent Calendar for the Board's ratification of staff's actions.

5.7 Effective Date of Retirement: The effective date of retirement shall be the later of the day following the member's last day on the County payroll or the day the member filed the retirement application with the Chief Executive Officer~~Administrator~~.

5.8 Service Credit: For members in a contributory plan, ~~Plan 1, Plan 2 or Plan 4~~ credit shall be given for all County service rendered for compensation for which contributions are made by or for the member. For members in a noncontributory plan~~Plan 3~~, credit shall be given for all County service rendered for compensation after the effective date of employment.

~~**5.9 Prior Service Credit:** Credit shall be given for all County service rendered for compensation prior to July 1, 1944.~~

~~5.10~~5.9 **Computation of Service Credit:** Service credit shall be calculated as follows: 2,080 hours of service shall equal one year of service credit.

~~5.11~~5.10 **Statement of Retirement Allowance Time of Retirement**. Prior to the ~~approval~~ratification by the Board of an application for service retirement, the member shall be furnished with a statement indicating the amount of his or her retirement allowance calculated in accordance with the unmodified and various optional modes of settlement. Such statement shall be in duplicate and provide a place for the signature of the member and the member's spouse or registered domestic partner, if ~~married~~any, indicating the choice as to the type of retirement allowance selected. The completed statement shall constitute the annuity certificate provided for in Government Code section 31526.

~~5.12~~5.11 **Statement of Deferred Retirement**. When a member leaves the County service and applies for and is granted deferred retirement, such member shall be furnished with a statement ~~as~~ indicating deferred retirement has been granted and setting forth the years of service credited to said member.

~~5.13~~5.12 **Suspension of Benefits:** If the Chief Executive Officer is made aware of circumstances in which, in the opinion of the Chief Executive Officer, the member may not be receiving his or her benefit, the Chief Executive Officer may temporarily suspend the benefit payments in order to determine whether the benefit payment should be directed in a different manner.

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ARTICLE VI.
DISABILITY RETIREMENT

6.1 Application Process: The application process for service connected and non-service connected disabilities shall be as follows:

A. **Submission of Completed Application:** Either the member or the employer, on behalf of the member, can apply for a disability retirement by filing with SamCERA: (1) a completed SamCERA application for disability retirement form and (2) authorizations signed by the member permitting SamCERA and its legal counsel to obtain all medical information relating to the applicant's physical or mental illness or injury and permitting access to records relating to applicant's current and prior employment. Applicant's employer shall complete forms provided by SamCERA and provide information as deemed necessary. All information received by SamCERA or its agents and counsel shall be treated as confidential and not released to anyone except insofar as may be necessary for the administration of the retirement system or upon an order of a court of competent jurisdiction, as provided by Government Code section 31532.

B. **Determination of the Disability:** The determination of the member's disability shall be limited to the disability as set forth in the application for disability retirement.

C. **Additional Information:** If at any point in the process the Chief Executive Officer determines that additional information is necessary, the Chief Executive Officer may ask the applicant or the employer to submit the additional information.

D. **Medical and Investigatory Services:** The Chief Executive Officer is authorized and directed to secure such medical, investigatory and other services and advice in connection with applications for disability retirement as the Board may require in order to make its decision.

E. **Review of Information and Records by Medical Advisor:** SamCERA will inform the member when all information and records requested by SamCERA have been received. When the applicant indicates that all necessary information, including information not requested by SamCERA, has been submitted, the Chief Executive Officer shall forward the complete record to the Board's medical advisor for his or her evaluation of the applicant's condition.

F. **Cut off for Amendments to Application:** After the record has been forwarded to the Board's medical advisor, the member cannot amend his or her application to add a new disabling condition that is unrelated or not caused by the condition set forth in the application. The member must file a new application which would be subject to all regular statutory deadlines.

6.2 Submission of Application Information to the Board: Staff, in consultation with the medical advisor, shall prepare a memorandum summarizing the application and information received from medical, employment and other records. Staff shall make a recommendation to the Board regarding the approval of the application.

A. **Notification of Board Review:** The applicant shall be notified in writing when the matter will be submitted to the Board for its consideration and that the matter will be placed on the Board's consent agenda. If staff's recommendation to the Board is to deny the application, the notice shall include a copy of staff's memorandum to the Board summarizing the application and information received from medical, employment and other records. While the applicant is welcome to appear before the Board, the appearance is not mandatory, unless the member would like the matter removed from the consent agenda.

B. **Board Review of Staff Recommendation:** The matter will be placed on the Board's consent agenda with recommended action by staff. The applicant or any member of the Board can request that the matter be taken off of the consent agenda to be discussed and considered during the regular agenda. If the matter is placed on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant. For all disability matters heard on either the consent agenda or regular agenda, the Board shall review the information submitted and consider the acceptance of staff's recommendation. The applicant and the employer, shall be notified in writing of the Board's action regarding the application.

C. **Request for a Formal Hearing:** If the applicant or employer is dissatisfied with the Board's action, the applicant or employer may request a formal hearing. The request for formal hearing must be made in writing, and filed with the Chief Executive Officer, if by the member, within 60 days of the date of the notice of the Board's action; if by the employer, within 30 days of the date of notice of the Board's action. If no request for a formal hearing is filed within the applicable period, the Board's action shall be deemed final and binding.

D. **Formal Hearing Process:** Upon the filing of a written request for a hearing, staff will select a hearing officer on a rotational basis from a list of private attorneys who serve as hearing officers, and then will refer the matter to counsel for SamCERA. Counsel for SamCERA will contact the applicant about communicating with the hearing officer regarding the hearing schedule and the preparation of the record. The hearing officer shall schedule the time and place of the hearing with the consent of the parties. The hearing officer shall set a briefing schedule for any briefs to be filed. The hearing shall be limited to the disability as set forth in the application for disability retirement and shall be recorded by a qualified court reporter. The hearing officer shall prepare and submit a proposed finding of fact and recommended decision based upon the evidence considered.

E. **Objections to Hearing Officer Decision:** The proposed findings of fact and recommendations of the hearing officer shall be served on the parties who shall have 10 days from the date of service to submit written objections. The objections shall be incorporated into the record to be considered by the Board.

F. **Notice of Submission of Hearing Officer Decision to the Board:** The hearing officer's decision shall be placed on the Board's agenda as soon as administratively possible after the period for objections has run. Staff shall notify the applicant of the time and place of the meeting and staff's recommendation to the Board. The matter will be placed on the Board's consent agenda with the recommended action by staff. The applicant or any member of the Board can request that the matter by taken off of the consent agenda to be considered during the regular agenda. If the matter is to be heard on the regular agenda, it will be heard in closed session, unless otherwise directed by the applicant.

G. **Consideration of Hearing Officer Decision by the Board:** Upon receiving the proposed findings of fact and recommendations of the hearing officer, the Board may: (1) approve and adopt the proposed findings and recommendations; or (2) require a transcript or summary of all the testimony and evidence, and then take such action as in its opinion is indicated by such evidence; or (3) refer the matter back with or without instructions to the hearing officer for further proceedings; or (4) set the matter for a hearing before itself. The applicant and the employer shall be notified in writing of the Board's action.

H. **Appeal of the Action of the Board:** If the member or the employer is dissatisfied with the Board's action relating to the hearing officer's recommended decision, the applicant or the employer may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

6.3 Effective Date: If the Board approves the application for disability retirement, the effective date of retirement shall be the later of the day following the member's last day on payroll or the day the member filed the retirement application with the Chief Executive Officer.

6.4 Required Documents for Disbursement of Disability Payment: The first disability retirement benefit payment shall not be disbursed until the member has filed the required documents set forth in Article V regulation 5.5 of these regulations.

6.5 Grounds for Termination of an Application for Disability Retirement: An application for disability retirement may be terminated and considered null and void by the Board one year after the date of its filing for one or more of the following reasons:

A. Failure of the member to submit to a medical examination at the request of the Board; or

B. Any failure to cooperate by the member or applicant or any other act or omission by the member or applicant or member or applicant's representative which prevents the Board from hearing and adjudicating the application for disability retirement within one year of its filing.

6.6 Process to Terminate an Application for Disability Retirement: Before the Board determines whether to void and null a disability application, the applicant shall be given at least 15 days written notice of the proposed action and the date and time of the Board meeting. The applicant shall be granted the opportunity to appear and address the Board regarding the proposed action. The Board may exercise broad discretion in extending the time for the processing of the application. Nothing in this section shall prohibit an applicant from filing a new application, if applicant is eligible to do so.

6.7 Cancellation of Disability Benefits after Medical Examination: If the Board requires a disability retiree under the age of 55 to undergo a medical examination and on the basis of such examination determines that it should review whether the disability retiree is still physically or mentally incapacitated for service in the position held when retired for disability, the matter will be placed on the Board’s agenda for hearing. The disability retiree will be given written notice of the hearing and be advised that if the Board decides that he or she is no longer incapacitated, and if the employer reinstates the retiree, the disability retirement allowance will be canceled. The notice shall also advise the disability retiree of his or her right to be represented by counsel, to present evidence in his or her own behalf and to cross-examine any witness produced in support of canceling the disability retirement allowance. If the disability retiree is dissatisfied with the Board's action, the disability retiree may obtain judicial review by filing a petition for a writ of mandate in accordance with the Code of Civil Procedure within 90 days of the date of the written notice of the Board's action. If a petition for writ of mandate is not timely filed, the Board's action shall be deemed final and binding.

6.8 Modified Work Program Pending Determination of Disability: If the Board has not made a determination of eligibility for a disability benefit prior to a member’s entry into a Modified Work position designed by the County to accommodate the member’s work restrictions, then at the time of the member’s retirement, the Board’s determination of eligibility for a disability benefit shall be based upon the normal and customary duties of the member’s position prior to entering the Modified Work position, unless the member requests that the Board base its decision on the duties of a subsequent position held by the member.

6.9 Modified Work Program-Request for Retirement: If the Board has authorized modified work benefits, then upon the member's subsequent request to retire, the Chief Executive Officer may retire the member with a disability benefit and record the member's name on the consent agenda for Board ratification. However, if the Chief Executive Officer has reason to believe that the member's condition has improved to the point where the member may be capable of performing the normal and customary duties of the position from which the member was previously disabled, then the Chief Executive Officer shall submit the matter to the Board for its independent review and determination.

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ARTICLE VII.
PURCHASE OF CREDIT FOR PUBLIC SERVICE

7.1 Compliance with State and Federal Law. All service credit purchases and redeposits of previously withdrawn contributions are to be made in accordance with the Internal Revenue Code ("IRS Code"), the Treasury Regulations promulgated thereunder, and the County Employees' Retirement Law of 1937 ("Government Code"). If there is a conflict between federal and state law, federal law will govern in order to maintain SamCERA's tax qualified status.

7.2 Permissive Service Credit and Applicable Federal Statutory Tax Limits: Service Credit purchases may be limited by the applicable requirements set forth in IRS Code Section 415. IRS Code Section 415 tax limits do not apply to the redeposit of previously withdrawn contributions and related interest. Service Credit purchases must comply with the provisions of Government Code section 31482.5.

7.3 Service Credit Available for Purchase by Active Members:

A. Prior Public Service: Any active member who is a County employee or a member of a participating employer and was a member prior to January 1, 1970 may purchase service credit for service performed for military or federal, state, and other public agencies credited in California that do not qualify for reciprocity. Such public service may be purchased pursuant to the terms of Government Code sections 31641.1 & 31641.2.

B. Employment Through CETA: Any active member (1) who was employed by the County or a participating employer while compensated pursuant to the provisions of the Comprehensive Employment Training Act (CETA) and (2) who subsequently became a permanent employee of the County or District, is eligible to purchase credit for the Public Service performed for the County or District while a CETA participant. Applications for the purchase of such CETA public service must include a detailed documentation accounting the period of service and compensation in the form and manner prescribed by the Chief Executive Officer. Such public service may be purchased pursuant to the terms of Government Code section 31641.5.

C. Service Credit. In accordance with Government Code section 31641.5, a member may purchase service he or she rendered with San Mateo County or another employer participating in SamCERA prior to the member's membership in SamCERA during which time the member was ineligible for membership. A member must make this service purchase at the time they are employed with that participating employer.

D. Leave of Absence Credit. In accordance with Government Code section 31646, an eligible member may purchase his or her uncompensated leave of absence on account of illness, not to exceed 12 consecutive months, provided the eligible member returned directly to active service following such uncompensated leave.

E. Plan 3 Noncontributory Plan Credit. Eligible m~~M~~embers currently in a SamCERA contributory plan contained in Government Code section 31496, et seq. may upgrade their past service credit in the SamCERA noncontributory plan by paying the difference between the employer contributory and noncontributory plan contributions plus the member's contributions for the contributory plan for the period of service being upgraded along with the interest the contributions would have earned had they been on deposit with SamCERA. Contributions are based on the current entry age.

F. Redeposit of Previously Withdrawn Contributions.

1. An active member may redeposit to SamCERA an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code section 31652. SamCERA will charge interest for the period from the date of separation from SamCERA until the member has paid the required redeposit amount.

a. A member's age for purposes of calculating contribution rates will be based on the member's age at the nearest birthday at the time of the member's reentrance into employment, unless the member is otherwise eligible under Government Code section 31652 to have his or her original entrance age reinstated.

b. SamCERA will treat a member who does not redeposit all contributions previously withdrawn plus interest as a new member without credit for any previous service.

c. If for any reason a member fails to complete the redeposit of previously withdrawn contributions plus interest, SamCERA will not reinstate the member's related prior service credit in accordance with Government Code section 31652. SamCERA will instead return the eligible member's related payment in a manner and at a time permitted under federal tax law.

d. SamCERA will credit the member's related service credit upon completion of full payment of all previously withdrawn contributions plus interest.

2. Prior to filing an application for retirement, an eligible former member may redeposit to SamCERA an amount that is equal to all previously withdrawn contributions, plus interest, in accordance with Government Code section 31652.

The former member must qualify for this type of redeposit under the terms of Government Code section 31831.3. Under the provisions SamCERA will charge interest for the period from the date of separation from SamCERA until the member has paid the required redeposit amount. Redeposits of this type may only be executed by lump sum payment.

3. **Additional Retirement Credit (ARC):** Eligible active members in a contributory plan who ~~who have~~ completed at least 5 years of credited service with SamCERA were~~may~~ able to purchase up to 5 years of ARC in increments of one year if the active member submitted an application to purchase ARC prior to December 31, 2012. ARC cannot be used to meet the minimum eligibility requirements for either a service retirement, a non-service disability retirement, additional ad hoc cost-of-living benefits based on service credit, or eligibility for any other benefits based on service credit or toward a cancellation of contributions for certain members who attain 30 years of service credit. Service may include purchased extra-help time, upgraded Plan 3 service, and redeposited time. Reciprocal service is not included. Government Code section 31658.

4. **Prior Military Service.** See Regulation 7.7 for purchase of prior military service.

7.4 Payment Options: Federal and State Law Limitations. Eligible members may purchase Permissive Service Credit or make a redeposit of previously withdrawn contributions plus required accumulated interest using the following payment methods or a combination thereof. Payments are subject to the rules and/or conditions set forth below and any applicable tax limits under IRS Code section 415. All purchase agreements containing installment payments will include interest calculated using the actuarially assumed rate of earnings in effect as of the date each agreement is signed.

A. **Lump Sum After-Tax Payments and Terminal Pay:** An eligible member may pay with a single lump sum payment of after-tax dollars. Terminal Pay (the cash out of accrued hours of compensation paid to a member by the member's employer after terminating employment) can be used for lump sum after-tax payments. Terminal pay must be received by SamCERA by a separate payment issued after termination and not as a part of the member's last pay check.

B. **Pre-Tax Rollover Contributions:** In accordance with the regulations contained in Article VIII, a~~A~~n eligible member may pay with a pre-tax rollover contribution to SamCERA from a qualified retirement plan, an individual retirement account or annuity, an annuity contract described in IRS Code section 403(b), or a governmental 457(b) plan.

C. **Plan-to-Plan Transfers:** In accordance with the regulations contained in Article VIII, an eligible member may pay with an in- service trustee-to-trustee transfer from a governmental eligible deferred compensation plan described in IRS Code section 457(b) or an annuity contract described in IRS Code section 403(b), provided the transfer plan or annuity contract provides for such transfers. Such transfers are subject to the requirements of IRS Code section 457(e)(17) or 403(b)(13), as applicable.

D. **Payroll Deductions:** An eligible member may elect to pay installments by post tax payroll deduction.

7.5 Time Limitations for Installment Payments: The time period over which a member may make installment payments is subject to the following limitations:

A. **Prior Public Service:** For a purchase of service credit for prior public service under Government Code sections 31641.1 and 31641.2, installment payments may be made over a period of time not to exceed five years.

B. **Service Credit, Including Employment through CETA:** For a purchase of service credit for prior service under Government Code section 31641.5, installment payments may be made over a period of time that does not exceed the length of time for which the member has elected to receive service credit, as determined by SamCERA.

C. **Leave of Absence Credit:** For a purchase of service credit for an unpaid leave of absence under Government Code section 31646, installment payments may be made over a period of time that does not exceed the length of unpaid leave that the member has elected to purchase, as determined by SamCERA.

D. **Plan 3 Service Credit Upgrade:** For upgrades of Plan 3 service credit pursuant to Board of Supervisor's Resolution 64827, installment payments may be made over a period of time that does not exceed twice the length of service being upgraded.

E. **Redeposit of Previously Withdrawn Contributions:** For redeposits of previously withdrawn contributions under Government Code section 31652, installment payments may be made over a period of one year.

F. **Additional Retirement Credit:** For a purchase of ARC under Government Code section 31658, installment payments may be made over a period not to exceed 10 years.

G. **Completion of Purchase After Separation of Service:** If a member terminates, retires or goes into deferred retirement before the purchase has been completed, the purchase must be completed no later than the date specified in the purchase agreement or 120 days after the effective date of retirement, whichever date is earlier.

7.6 Procedures

A. **Administrative Procedures:** SamCERA will establish administrative procedures for processing service credit purchases and redeposits of previously withdrawn contributions and will determine the amounts required for service credit purchases and redeposits, including required interest.

B. **Required Documentation:** All purchases and redeposits shall be set forth in a written SamCERA election form and agreement. Members shall provide any required documents and information associated with their purchase or redeposit in a manner and form acceptable to SamCERA.

C. **Requirement To Complete Purchase:** Except as otherwise provided below, service credit will not be credited to a member's account until the entire purchase has been completed. If for any reason a member fails to complete his or her service credit purchase, credit will be given in accordance with the contract or applicable provisions of the Government Code. SamCERA or the employer may return the eligible member's related overpayment in a manner and at a time permitted under federal tax law.

D. **Partial Service Credit:** SamCERA will allow partial service credit for purchases of prior public service credit under Government Code sections 31641.1 and 31641.2 even though the member has not completed payment of the entire period he or she has elected.

7.7 Military Service: Eligible active members can purchase prior military service in accordance with the provisions of Government Code section 31641.97.

A. **Notice by January 1, 1995:** Eligible members who gave ~~will have given~~ written notice by January 1, 1995 by filing ~~when they file~~ with SamCERA a signed Purchase of Military Service Credit Application form as prescribed by the Chief Executive Officer.

B. **Certification:** The Application must include verification of military service (DD214 or its equivalent) and an affidavit that the applicant is not eligible to receive credit for this service under any other retirement plan.

C. **Calculation of Cost to the Member:** Government Code section 31641.97 requires that the full cost, including interest, of the employee and county liability for the additional credit under this section shall be determined by the Board of Retirement on actuarial advice, and shall be the actuarial equivalent of the difference between the retirement benefits the person will receive with and without the credit for military service.

D. **Actuarial Assumptions:** The actuarial factors used shall be those used for the actuarial valuation of the Retirement Fund at the time of the calculation, except that the member shall select the age of retirement.

E. **Method Used to Determine the Cost:** The cost shall be the Actuarial Equivalent of the Difference between the benefit the member will receive with and without the credit for military service.

F. **Lump Sum Purchase:** Eligible persons may purchase credit for their Military service at any time prior to the effective date of their retirement by lump-sum payment of an amount equal to the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to receipt of the lump-sum payment.

G. **Installment Purchase:** Eligible persons may purchase credit for their military service at any time prior to the effective date of their retirement by authorizing biweekly post-tax payroll deductions over a period not to exceed five years in equal payments which will accumulate the full cost, including interest, of the employee and county liability for the additional credit within 180 days prior to commencement of the deductions.

H. **Purchase of Partial Credit:** Eligible persons may purchase less than the full credit for which they are eligible, so long as the payment, or payments, accumulate the full cost, including interest, of the employee and employer liability for the additional credit. Additional credit may be purchased at any time prior to the effective date of retirement, so long as the payment or payments are based on the full cost within 180 days prior to receipt of the lump-sum payment or commencement of biweekly payroll deductions.

I. **Recording of Members' Assets & Crediting of Interest:** All funds deposited into the Retirement Fund pursuant to this regulation shall be recorded in individual Military Service Credit Reserve accounts established in the name of the member. Funds on deposit shall be credited on the same terms and at the same rate of interest as the county's accounts in the Retirement Fund, regardless of the subsequent status of the member. On the effective date of retirement, all principal and interest in the Reserve will be transferred to the member's regular account in the Retirement Fund.

J. **Calculation of Benefit Payable at Time of Retirement:** When the member files an application for retirement there shall be a recalculation of the Military Service Benefit and Member Service Credit Reserve as set forth subsection (E), using the information then available and the assumptions in effect at the time of recalculation.

K. **Surplus:** If the calculations performed pursuant to subsection (J) indicate that the principal and interest in the Military Service Credit Reserve exceeds the amount required, the surplus balance will be refunded to the member, at a time and in a manner that complies with applicable tax laws.

L. **Deficiency:** If the calculations performed pursuant to subsection (J) indicate that the principal and interest in the Military Service Credit Reserve is not sufficient to fund the full Military Service Benefit, the Chief Executive Officer shall allow the member to make one of the following two elections: (1) Lump Sum Purchase: The member may immediately purchase the unfunded military service credit and receive the full Military Service Benefit; or (2) Pro Rata Credit: The member may elect to not purchase the unfunded military service credit and receive a reduced Military Service Benefit.

M. **Payment of Military Service Benefit:** On the effective date of retirement, the years of military service for which payment-in-full has been received shall be added to the member's years of county service in the computation of the retirement allowance and will, thereafter, be an integral part of the base allowance for the purpose of calculating cost- of-living increases and survivor benefits.

N. **Disability:** The member who retires on account of disability may elect either (1) a refund of all principal and interest in the account maintained pursuant to subsection (I), or (2) an annuity based upon the years-of- military-service for which payment-in-full has been received. If the member elects an annuity, all principal and interest in the account on the effective date of the Disability Retirement shall be converted to an annuity which will be based on the Board's Actuarial Assumptions, including Disability Retirement Life Expectancy Factors, in effect at that time. Subject to applicable tax laws, the annuity shall be payable for life in equal monthly installments, plus annual cost-of-living adjustments equal to those granted to retirees in the member's Plan. An eligible surviving spouse or registered domestic partner shall receive the applicable survivor allowance. The Chief Executive Officer shall determine the amount of the annuity on the effective date of the Disability Retirement.

O. **Death Before Retirement:** If the member was not eligible to retire, all principal and interest in the account maintained pursuant to subsection (I) will go the member's beneficiary. If the member was eligible to retire, the surviving eligible spouse or registered domestic partner may elect to receive (1) a refund of all principal and interest in the account maintained pursuant to subsection (I), or (2) a monthly allowance which includes military service credit based on the provisions of subsections (J) and (L). The surviving eligible spouse or registered domestic partner may elect to receive any surplus, make a lump- sum payment for any deficiency, or accept pro-rata credit, as provided for in subsection (J).

P. **Death After Retirement With a Surviving Spouse or Registered Domestic Partner:** The Military Service Credit Reserve has been merged with the member's regular account. Therefore, the surviving eligible spouse or registered domestic partner will receive a monthly allowance based on the same survivor option formula elected by the member at the time of retirement.

Q. Death After Retirement Without a Surviving Spouse or Registered Domestic Partner: The Military Service Credit Reserve has been merged with the members' regular account and, therefore, the balance, if any, goes to the beneficiary.

R. Termination of Employment: Upon termination of employment, a member may elect to withdraw the funds; or, if eligible, may elect a deferred retirement, in which case the funds will remain on deposit and will continue to be subject to the provisions of subsection (I) until the effective date of retirement.

S. Election to Discontinue Installment Purchase Plan: The decision to purchase military service credit is irrevocable. However, unless otherwise prohibited by law, any member may discontinue the installment purchase plan at any time. All funds on deposit will continue to be subject to the provisions of subsection (I). Unless otherwise prohibited by law, the member may elect to reinstate the purchase plan at any time prior to the effective date of retirement, but shall be subject to re-computation of the balance due as calculated pursuant to subsections (C)(F)(G)(H). At the time of retirement, the member will receive proportional military service credit, as provided for in subsections (J) and (M).

T. Dissolution of Marriage or Registered Domestic Partnership: If the final decree does not specifically identify the member's Military Service Credit Reserve, the Chief Executive Officer shall administer the assets in the account in the same manner as stipulated in the final decree for the disposition of the member's retirement benefits.

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ARTICLE VIII.
INTERNAL REVENUE COMPLIANCE

8.1 Plan Year. The plan year for purposes of these regulations is the calendar year.

8.2 Reversions of Employer Contributions. Pursuant to section 401(a)(2) of the Internal Revenue Code, the SamCERA trust fund shall not revert, and no contributions shall be permitted to be returned, to a participating SamCERA employer prior to the satisfaction of all liabilities with respect to their employees and their beneficiaries under the trust.

8.3 Vesting. Pursuant to section 401 (a)(7) of the Internal Revenue Code, a member shall be 100% vested in her or her service retirement benefit upon attaining eligibility for that service retirement benefit. A member shall be 100% vested in his or her accumulated contributions at all times. In the event of a full or partial termination of, or complete discontinuance of employer contributions to, SamCERA, the accrued benefits of the affected members shall be 100% vested and nonforfeitable to the extent funded and to the extent required by federal law.

8.4 Required Minimum Distributions. The regulations herein reaffirm and clarify the existing practices of SamCERA with respect to the minimum distribution requirements under section 401(a)(9) of the Internal Revenue Code (the "Code"). These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish reasonable procedures for complying with the minimum distribution requirements under section 401(a)(9) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes. Capitalized terms used in this regulation 8.4 are defined in Section H. Terms used in this regulation 8.4 are defined in the County Employees' Retirement Law of 1937 ("CERL") or the California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Reasonable Good Faith Interpretation of Code. In accordance with section 823 of the Pension Protection Act of 2006 ("PPA"), these regulations are promulgated in accordance with a reasonable good faith interpretation of section 401(a)(9) of the Code, and the Treasury regulations thereunder, as applicable to a governmental plan within the meaning of section 414(d) of the Code. For purposes of section 401(a)(9), Code means the Code and applicable Treasury regulations as they apply under a reasonable good faith interpretation of section 401(a)(9).

B. Elections Under TEFRA § 242(b)(2). Notwithstanding the other requirements of this regulation to the contrary, distributions may be made under a designation made before

January 1, 1984, in accordance with section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act.

C. Time And Manner Of Distribution

1. **Required Beginning Date.** The Member's entire interest will be distributed, or begin to be distributed, no later than the Member's Required Beginning Date.

2. **Forms of Distribution.**

    a. **Periodic and Other Forms of Payments.** A Member's entire interest in SamCERA shall be distributed in the form of RMD Annuity payments that meet the requirements of paragraph (b) of this subsection or in the form of a single sum. Payments may be made in a combination of these forms of payment and may include lump sum refunds or withdrawals of Member contributions or death benefits as provided in the CERL provided that these forms comply with a reasonable good faith interpretation of Code section 401(a)(9).

    b. **General Rules Regarding RMD Annuities.** If the Member's interest is to be paid in the form of an RMD Annuity, the RMD Annuity must meet the following requirements:

        i. **Periodic.** RMD Annuities must be paid over equal payment intervals which may not be longer than one year.

        ii. **Distribution Period.** RMD Annuities will be paid over the life or lives of the Member and a beneficiary or over a period certain that does not exceed the maximum length of the period described in Section E or Section F of this regulation.

        iii. **Increases.** RMD Annuities may not increase over time except in accordance with the rules in Section G (1).

        iv. **Change in Period Paid.** The period over which an RMD Annuity is paid can be changed only in accordance section 1.401(a)(9)-6 of the Treasury regulations.

        v. **Commencement.** Payment of the RMD Annuity must start no later than the Required Beginning Date.

D. Amount Required to be Distributed by Required Beginning Date and Later Payment Intervals. The amount that must be distributed on or before the Member's Required Beginning Date is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the Member's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Member's Required Beginning Date. If the Member dies before distributions begin, the same rules apply with reference to the date distributions are required to begin under section F(1)(a) or F (1)(b).

E. RMD Annuity Distributions Beginning During Member's Life. The following rules must be met to comply with the requirements of the Code and this regulation for RMD Annuities that begin during the Member's lifetime.

1. **Single Life RMD Annuity.** An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime only, with no benefits paid to any other person, meets the requirements of the Code and this regulation.

2. **Joint and Survivor RMD Annuity - Death of Member After Benefits Begin**. If Member dies after RMD Annuity payments have commenced to the Member, then distributions must continue to be made over the remaining period over which distributions commenced in accordance with the schedule of payments made to the Member. Reasonable delay for administration may occur, but in this case payments that should have been made in accordance with the original payment schedule must be made with the first resumed payment.

3. **Joint and Survivor RMD Annuity With Spouse as the Sole Beneficiary.** An RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of the Member's surviving Spouse, with no benefits paid to any other person, meets the requirements of the Code and this regulation regardless of the difference in age of the Member and the Member's Spouse.

4. **Joint and Survivor RMD Annuity When the Sole Beneficiary Is Not the Member's Spouse.**

   a. **Limit on Percentage of Member's RMD Annuity Paid to Non-Spouse Beneficiary**. The survivor annuity percentage of an RMD Annuity that begins no later than the Required Beginning Date and is paid for the Member's lifetime and the lifetime of a beneficiary other than the Member's surviving Spouse must not at any time exceed the applicable percentage of the RMD Annuity payment during the Member's lifetime, using the table set forth in Treasury regulation section 1.401 (a)(9)-6. This Treasury Regulation requires that the RMD Annuity payable to the Member's beneficiary after the Member's death not exceed the percentage of the RMD Annuity payable to the Member during the Member's life specified in the table if the adjusted age difference between the Member and the beneficiary is more than 10 years.

b. Rule Regarding Children of Member. Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a surviving child of the Member for a limited period of time (such as until the child reaches the age of 21), the survivor benefit shall be treated as payable solely to the surviving Spouse of the Member.

c. Rule Regarding Other Beneficiaries Solely to the extent required by section 401(a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a survivor benefit is payable to a person other than a surviving Spouse of the Member (or surviving child) under paragraph (b) of this subsection (4), then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to survivor benefits.

5. Period Certain RMD Annuity

a. Spouse is the Sole Beneficiary. If the Member's sole beneficiary is the Member's surviving Spouse, and the form of distribution is a period certain with no life annuity, the period certain may not exceed the joint life and last survivor expectancy of the Member and Spouse as determined in accordance with the Joint and Last Survivor Table set forth in section 1.401(a)(9)-9, of the Treasury Regulations, using the Member's and Spouse's ages as of the Member's and Spouse's birthdays in the calendar year that contains the Annuity Starting Date.

b. Spouse is Not the Sole Beneficiary. When the Member's surviving Spouse is not the sole beneficiary then the period certain may not exceed the period established under the Uniform Lifetime Table contained in of

Treasury regulations section 1.401(a)(9)-9 for the calendar year that contains the Annuity Starting Date. If the Member is younger than age 70 in that year, then the distribution period for the Member is the distribution period for age 70 increased by the difference between 70 and the age of the Member in the year of the Annuity Starting Date. Also see below regarding Designated Beneficiaries.

c. **Rule Regarding Children of Member**. Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, the period certain distribution rules shall not apply to survivor benefits payable to children of the Member but the rules of section E (4) above shall apply.

d. **Rule Regarding Other Beneficiaries.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, if a period certain survivor benefit is payable to a person other than a surviving Spouse of the Member, then the present value (if any) of any benefit that would be in excess of the amount that can be paid in accordance with such regulation shall be paid to such person in a lump sum payment no later than one year after such person becomes entitled to a survivor benefit.

F. **Distributions When Member Dies Before Benefits Begin.** If a Member dies before distributions begin, distributions after the death of the Member must meet the following requirements:

1. **When Distributions Must Begin.**

a. **Spouse is the Sole Designated Beneficiary.** If the Member's sole Designated Beneficiary is the Member's surviving Spouse, then, except as provided in paragraph (e) of this subsection 1, distributions to the surviving Spouse must begin by December 31 of the calendar year immediately following the calendar year in which the Member died or, if later, by December 31 of the calendar year in which the Member would have reached age 70 1/2.

b. **Spouse is not the Sole Designated Beneficiary.** If the Member's sole Designated Beneficiary is not the Member's surviving Spouse, then, except as provided in paragraph (e) of this subsection 1, distributions to the Designated Beneficiary must begin by December 31 of the calendar year immediately following the calendar year in which the Member died.

c. **No Designated Beneficiary.** If there is no Designated Beneficiary as of September 30 of the year following the year of the Member's death, then distributions of the Member's entire interest must be completed by December 31 of the calendar year that contains the fifth anniversary of the Member's death.

d. **Death of Surviving Spouse Who Is the Sole Designated Beneficiary.** If the Member's surviving Spouse is the Member's sole Designated Beneficiary and the surviving Spouse dies after the Member but before distributions to the surviving Spouse are required to begin, then this Section F (1), other than Section F (1)(a) applies as if the surviving Spouse were the Member.

e. **Election of Five Year Rule.** A Designated Beneficiary may elect, at the time and in the manner determined by SamCERA, to have the five year rule of Section F (1)(c) apply, but solely to the extent that the Designated Beneficiary may elect, under the CERL, a benefit which will be paid in the required time period.

2. **When Distributions Are Considered to Begin.** For purposes of this Section F, unless Section F (1)(d) applies, distributions are considered to begin on the Member's Required Beginning Date. If Section F (1)(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving Spouse under Section F (1)(a). If distributions under an RMD Annuity meeting the requirements of this regulation commence to the Member before the Member's Required Beginning Date (or to the Member's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Section F(1)(a), the date distributions are considered to begin is the date distributions actually commence.

3. **Length of Distribution Period.**

a. **Member Is Survived by a Designated Beneficiary.**

i. **General Rule.** If the Member is survived by a Designated Beneficiary, the Member's entire interest in SamCERA shall be distributed over the life of the Designated Beneficiary or over a period certain that does not exceed the period specified in 3(a)(ii).

ii. **Period Certain.** The period certain in 3(a)(i) may not exceed the Designated Beneficiary's life expectancy determined using the Single Life Table in Treasury regulations section 1.401(a)(9)-9. If the Annuity Starting Date is in the first Distribution Calendar Year, the life expectancy shall be determined using the Designated Beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Member's death. If the Annuity Starting Date is before the first Distribution Calendar Year, then the life expectancy is determined using the Designated Beneficiary's age in the calendar year that contains the Annuity Starting Date.

b. **No Designated Beneficiary.** If there is no Designated Beneficiary as of the September 30 of the year following the year of the Member's death, distribution of the Member's entire interest if it can be distributed, must be distributed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

c. **Death of Surviving Spouse Before Distributions To Spouse Begin.** If the Member's surviving Spouse is the Member's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Section F(3) shall apply as if the surviving Spouse were the Member, except that the time that distributions are required to begin is determined without regard to Section F(1)(a).

G. Special Rules

1. **RMD Annuity Payment Increases.** RMD Annuity payments will either not increase over time or increase only as follows:

a. **Cost of Living Adjustments**

i. **Annual COLA Increases.** RMD Annuity payments may increase by an annual percentage that does not exceed the percentage increase in an eligible cost-of-living index, as defined in section 1.401(a)(9)-6 of the Treasury regulations, for a 12-month period ending in the year during which the increase occurs or a prior year.

ii. **Cumulative COLA Increases.** RMD Annuity payments may increase by a percentage increase that occurs at specified times and does not exceed the cumulative total of annual percentage increases in an eligible cost-of-living index, as defined in the preceding paragraph since the Annuity Starting Date, or if later, the date of the most recent percentage increase.

iii. **Additional COLA Increases.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, RMD Annuity payments may increase by a percentage or amount that is determined by SamCERA, in accordance with the CERL, to represent an appropriate amount to take account of cost of living increases affecting retirees or beneficiaries.

b. **"Pop-Ups."** RMD Annuity Payments may increase to the extent of the reduction in the amount of the Member's payments to provide for a survivor benefit, but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the distribution period dies or is no longer the Member's beneficiary pursuant to a domestic relations order under applicable state law.

c. **Single Sum Distribution.** RMD Annuity Payments may increase to the extent necessary to allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Member's death or under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6 and taking into account the vested rights in retirement benefits created by the California Constitution, to allow a beneficiary to select a lump sum distribution of all or part of the Member's interest under SamCERA as provided in the CERL.

d. **Plan Amendment.** Benefits may increase if they result from an amendment to, or interpretation of, the County Employees Retirement Law, the California Government Code or any other applicable law governing benefits for Members or from an ordinance, resolution or regulation pursuant to such law.

e. **Other Benefits.** Benefits may increase (i) to the extent increases are permitted in accordance with section 1.401(a)(9)-6 of the Treasury regulations dealing with additional permitted increases for annuity payments under annuity contracts purchased from an insurance company and additional permitted increases for annuity payments from a qualified trust; (ii) pursuant to section 31691.1 of the CERL; and (iii) pursuant to sections 31681.1 et seq., and 31739 et seq. of the CERL.

2. **Additional Accruals After First Distribution Calendar Year.** Any additional benefits accruing to the Member in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such benefit accrues.

3. **Domestic Relations Orders.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, pursuant to Article 8.4 of the CERL, both the Member and the Member's former Spouse shall be deemed to be separate Members of SamCERA for purposes of these regulations and section 401(a)(9) of the Code.

4. **Reciprocal Member.** Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, if a deferred Member is a current employee and a member of another retirement system with which SamCERA has reciprocity under California law, then for purposes of determining the Required Beginning Date under SamCERA the Member shall be treated as a current employee of a SamCERA employer and as such, as if he or she had not retired, even if he or she has attained age 70½.

5. **Public Safety Member Killed In Line of Duty**. Under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, additional retirement benefits, if any, that are applicable under CERL and have been made applicable to SamCERA, to the surviving Spouse of a public safety SamCERA member killed in the line of duty shall not be limited by Code section 401(a)(9) because they shall be treated as incidental death benefits.

6. **Rollovers.** Amounts that are required minimum distributions cannot be rolled over to another qualified retirement plan or other tax-favored vehicle. The amount that cannot be rolled over shall be determined in accordance with Treasury regulations section 1.402 (c)-2.

7. **Payments to Surviving Child Treated as Made to Surviving Spouse.** Solely to the extent required by section 401 (a)(9) of Title 26 of the United States Code and under a good faith interpretation of the Code and Treasury regulations section 1.401(a)(9)-6, and taking into account the vested rights in retirement benefits created by the California Constitution, for purposes of Code section 401 (a)(9) and these regulations, payments to a member's surviving child in accordance with the

requirements of section 1.401(a)(9)-6 of the Treasury regulations shall be treated as if such payments had been made to the Member's surviving Spouse to the extent the payments become payable to the surviving Spouse upon the child's attainment of the age of majority, as determined in accordance with section 1.401(a)(9)-6 of the Treasury regulations, or upon the occurrence of such other event specified in section 1.401(a)(9)-6 of the Treasury regulations, or as otherwise specified in IRS guidance under section 401(a)(9) of the Code.

H. Definitions.

1. **Annuity Starting Date.** "Annuity Starting Date" means the first day of the first period for which a retirement benefit is payable as an RMD Annuity or, in the case of a retirement benefit not payable in the form of an RMD Annuity, the first day on which all events have occurred which entitle the member to payment.

2. **Designated Beneficiary.** "Designated Beneficiary" means the individual who is designated by the Member (or the Member's surviving Spouse) as the beneficiary of the Member's interest under SamCERA and who is the designated beneficiary under section 401(a)(9) of the Code and section 1.401(a)(9)-4 of the Treasury regulations. Accordingly, entities other than individuals, such as the Member's estate or a trust, cannot be a Designated Beneficiary of a Member's interest in SamCERA. However, the individuals who are beneficiaries under a designated trust shall be treated as Designated Beneficiaries for purposes of determining the distribution period under this regulation and Code section 401(a)(9) if all of the applicable requirements of Treasury regulation section 1.401(a)(9)-4 are met. If all of such applicable requirements are not met, then the distribution of the Member's entire interest must be completed by December 31 of the calendar year containing the fifth anniversary of the Member's death.

3. **Distribution Calendar Year.** "Distribution Calendar Year" means a calendar year for which a minimum distribution is required. For distributions beginning before the Member's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Member's Required Beginning Date. For distributions beginning after the Member's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Section F (1) of this regulation.

4. **Required Beginning Date.** "Required Beginning Date" means April 1 of the calendar year following the later of the calendar year in which the Member attains age 70½ or the calendar year in which the Member retires.

5. **RMD Annuity**. "RMD Annuity" means, for purposes of the required minimum distribution rules in section 401(a)(9) of the Code, a distribution form providing for periodic payments for a specified period of time.

6. **Spouse**. A person who is a legally married spouse under either state law or federal law.

8.5 Rollovers. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to rollovers into and out of SamCERA in accordance with the Internal Revenue Code (the "Code"). For these regulations, Code includes the Treasury regulations issued under the Code. These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish any reasonable procedures for paying rollover distributions or accepting rollover contributions that it deems necessary or desirable for complying with applicable tax laws or for administrative purposes. Terms used in this regulation 8.6 are defined in the County Employees' Retirement Law of 1937 ("CERL") or the California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Rollover Distributions From SamCERA

1. **Rollovers**

   a. **Direct Rollover.** A "Direct Rollover" is that portion of an Eligible Rollover Distribution that SamCERA pays directly to an Eligible Retirement Plan, and may also be referred to as a trustee-to-trustee transfer to an Eligible Retirement Plan, at the direction of an Eligible Individual.

   b. **Indirect Rollover.** An "Indirect Rollover" is that portion of an Eligible Rollover Distribution that SamCERA pays directly to an Eligible Individual.

2. **Eligible Individuals**

   a. **Eligible Individual.** Only an "Eligible Individual" may elect a Direct Rollover. An "Eligible Individual" is:

      i. **Terminated From Employment.** A Member who has terminated employment from a SamCERA employer and who is eligible to withdraw his or her accumulated Member contributions under SamCERA;

      ii. **Surviving Spouse**. A deceased Member's surviving Spouse;

iii. **Alternate Payee.** Member's or former Member's Spouse or former Spouse who is the alternate payee under a domestic relations order, as defined in Code section 414(p), with regard to the interest of the Spouse or former Spouse; and

iv. **Non-Spouse Beneficiary.** A deceased Member's non-spouse beneficiary who is a "designated beneficiary" under Code section 401(a)(9)(E), subject to the nonspouse beneficiary provisions in Section A(7).

b. **Spouse**. A person who is a legally married under either state or federal law.

3. Payments that Can and Cannot be Rolled Over

a. **Eligible Rollover Distribution Required**. SamCERA will pay a Direct Rollover on behalf of an Eligible Individual only if the payment is an "Eligible Rollover Distribution."

b. **Eligible Rollover Distribution Defined**. An "Eligible Rollover Distribution" is any distribution to an Eligible Individual of all or any portion of the amount credited to the Eligible Individual under SamCERA. These amounts may include (a) refunds of Member contributions plus accumulated interest, or (b) one-time lump sum death benefit payments.

c. **After-Tax Portion.** The portion of a distribution that consists of after-tax Member contributions may be rolled over if the after-tax funds are transferred in a direct trustee-to-trustee transfer to (a) a qualified trust or (b) an annuity contract described in Code Section 403(b). After-tax Member contributions may also be rolled over to an individual retirement account or annuity described in Code Section 408(a) or (b). The qualified trust or annuity contract must separately account for the transferred after-tax amounts, and must also separately account for the earnings on the after-tax amounts.

d. **Exclusions from Eligible Rollover Distributions.** An Eligible Rollover Distribution does not include the following kinds of payments:

i. **Periodic Payments.** Payments that are part of a series of substantially equal periodic payments (i) made at least once per year over the life (or life expectancy) of the Eligible Individual or the life (or life expectancy) of the Eligible Individual and his or her designated beneficiary, or (ii) made for a period of 10 years or more; or

ii. **Required Distributions.** Payments that are "required minimum distributions" under Code section 401(a)(9).

4. Eligible Retirement Plans

a. **Payment to Eligible Retirement Plan.** SamCERA will pay an Eligible Rollover Distribution directly to an “Eligible Retirement Plan.”

b. **Eligible Retirement Plan Defined.** An “Eligible Retirement Plan” is:

i. An annuity plan described in Code section 403(a);

ii. An annuity contract described in Code section 403(b);

iii. A governmental eligible deferred compensation plan described in Code section 457(b) that agrees to separately account for amounts transferred into such plan from SamCERA;

iv. An individual retirement annuity described in Code section 408(a);

v. An individual retirement account described in Code section 408(b);

vi. A Roth IRA described in Code section 408A; or

vii. A qualified trust described in Code section 401(a) (including defined benefit pension plans and defined contribution plans such as 401(k) plans, profit sharing plans, and money purchase plans).

c. **Certain Exclusions.** An Eligible Retirement Plan does not include, and a rollover cannot be made to, a SIMPLE IRA or a Coverdell Education Savings Account.

5. Direct Rollovers

a. **Withholding and Direct Rollovers.** SamCERA will not withhold any federal or state income taxes from a Direct Rollover. The only exception is that SamCERA will withhold federal or state income taxes from a Direct

Rollover to a Roth IRA if the Eligible Individual requests that withholding on a form and in the manner prescribed by SamCERA.

b. Administrative Requirements, In General. An Eligible Individual who requests a Direct Rollover must complete a distribution form in the manner and form that SamCERA prescribes. SamCERA may require the Eligible Individual to provide any reasonable information and/or documentation for purposes of administering the Direct Rollover in accordance with the Code.

c. Rollover Check. The Eligible Individual must provide SamCERA with the name of the Eligible Retirement Plan to which the rollover check will be made payable for his or her benefit. If the Eligible Individual so chooses, SamCERA will provide this rollover check directly to the Eligible Individual who will be responsible for delivering the check to the recipient IRA or plan.

d. Eligible Individual's Responsibility Re Recipient Plan. The Eligible Individual is responsible for ensuring that any Eligible Retirement Plan that he or she has designated to receive the Eligible Individual's distribution from SamCERA in a Direct Rollover is an Eligible Retirement Plan that will accept and receive the rollover on his or her behalf in accordance with the applicable tax rules.

e. Time of Payment. SamCERA will pay a Direct Rollover on behalf of an Eligible Individual as soon as is reasonably and administratively practicable in accordance with its withdrawal and/or death benefit payment processes.

6. Indirect Rollovers

a. Choice of Indirect Rollover. An Eligible Individual, other than a nonspouse beneficiary, may also choose to receive a rollover payment as an Indirect Rollover.

b. Indirect Rollover Withholding. An Indirect Rollover is subject to 20% federal income tax withholding, or the current applicable withholding rate, and any applicable state withholding. SamCERA will withhold and deduct these taxes on behalf of the Eligible Individual as prescribed by federal and applicable state law.

c. **Eligible Individual's Responsibility Re: Recipient Plan.** It is the responsibility of the Eligible Individual to roll over all or some portion of his or her Indirect Rollover payment to an IRA or eligible employer plan within 60 days if he or she wants the payment to qualify as a rollover for tax purposes. If an Eligible Individual wants to roll over 100% of the payment, the Eligible Individual must replace the 20% that was withheld for federal income taxes (and any applicable state withholding) with other money.

7. **Direct Rollover of a Non-Spousal Distribution.**

a. **Trustee-To-Trustee Transfer Required.** A rollover on behalf of a non-spouse beneficiary must be a direct or trustee-to-trustee transfer and may not be paid in the form of an Indirect Rollover.

b. **Non-Spouse Beneficiaries Who May Rollover and Rollover to Inherited IRA Only.** A non-spouse beneficiary who is a "designated beneficiary" under Code Section 401(a)(9)(E) may roll over all or any portion of the non-spouse beneficiary's Eligible Rollover Distribution to an IRA that is established by the non-spouse beneficiary for purposes of receiving the distribution and that is treated as an "inherited IRA" under the Code. The IRA must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the beneficiary.

c. **Trust as Beneficiary.** If the non-spouse beneficiary is a trust, SamCERA may make a Direct Rollover to an IRA on behalf of the trust, provided the beneficiaries of the trust satisfy the requirements to be designated beneficiaries within the meaning of Code Section 401(a)(9)(E). The IRA on behalf of the trust must be established in a manner that identifies it as an IRA with respect to a deceased individual and it must identify the deceased individual and the trust beneficiary.

8. **Notice Requirements**

a. **402(f) Notice from SamCERA**. SamCERA will provide the tax notice required under Code Section 402(f) to each Eligible Individual who requests a withdrawal from the SamCERA.

b. **Time Periods.** SamCERA will not process any withdrawals SamCERA until 30 days after the date such notice is received by the Eligible Individual requesting the withdrawal. If, however, the Eligible Individual waives this

30-day period on a form and in the manner prescribed by SamCERA, SamCERA may process the withdrawal before the 30-day period expires.

B. Rollover Contributions to SamCERA. Adoption of these regulations providing for the acceptance of certain rollover contributions as determined below does not create any continuing entitlement for Eligible Members to make rollover contributions to SamCERA in the future and the right to make rollover contributions to SamCERA may be amended or terminated at any time and for any reason. If SamCERA has determined to permit any rollover contributions, SamCERA will permit Eligible Members to make a rollover contribution to SamCERA subject to the limitations and conditions described in this Section B.

1. General Rules

a. Eligible Member. An “Eligible Member” is (i) an active Member of the SamCERA, or (ii) a SamCERA Member that has elected a deferred retirement.

b. Rollovers Allowed. SamCERA will permit an Eligible Member to make a rollover contribution to SamCERA for (i) a purchase of service credit, or (ii) a redeposit of previously withdrawn funds plus accumulated interest.

c. Separate Accounting. SamCERA will separately account for all rollover contributions.

d. Certification to SamCERA by Member. Only eligible rollover distributions as defined by Code Section 402(c)(4) can be contributed to SamCERA. In addition to any requirements under subsections 2, 3, and 4 below, each Eligible Member making a rollover contribution to SamCERA must certify in writing the source of the rollover funds and that the rollover contribution is an eligible rollover distribution under the Code. SamCERA will not accept rollovers of any after-tax contributions, amounts attributable to designated Roth contributions, amounts that represent minimum required distributions, or any rollover that is an indirect rollover that does not satisfy the requirements of Section 8.5 (B)(5).

e. Elections and SamCERA Discretion. An Eligible Member must make an election to purchase service credit or redeposit previously withdrawn contributions with a rollover contribution in the manner and form that is prescribed by SamCERA. SamCERA has final discretionary authority to determine whether any required information or documentation is satisfactory and whether SamCERA will accept an Eligible Member's rollover contribution.

f. **Correction of Errors**. If SamCERA accepts a rollover contribution that it later determines was not eligible to be rolled over to SamCERA, SamCERA will return, as soon as administratively possible, the amount of the rollover contribution plus accumulated interest back to the sending institution and if not able to do so will distribute to the Eligible Member.

2. Rollovers from Qualified Plans

a. **Acceptance of Rollover.** SamCERA may accept a rollover from another plan that is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a).

b. **Required Due Diligence Process**. SamCERA will take reasonable steps to verify that the payment source (on the incoming check or wire transfer) is the former tax-qualified plan of the Eligible Member as represented by the Eligible Member on his or her request to make a rollover. SamCERA will also take reasonable steps to verify that the rollover will be from a tax-qualified plan which can include the following or any other methods allowed in guidance issued by the Internal Revenue Service.

i. SamCERA may confirm the qualified plan status of the transferring plan with information contained on the Department of Labor's database.

ii. If the qualified plan is not on the Department of Labor's database, then the Eligible Member must provide one of the following to SamCERA demonstrating that the source of the rollover contribution is a qualified plan: (a) a copy of the plan's most recent favorable determination letter from the Internal Revenue Service stating that the plan is tax-qualified and a written certification from the plan's administrator that the plan continues to be tax-qualified, or (b) a written and signed certification from the plan's administrator that the source of the eligible rollover distribution is a qualified plan under Code Section 401(a).

c. **Additional Information Required.** The Eligible Member must provide a signed certification from the transferring plan's administrator that the rollover contribution contains no after-tax or designated Roth contributions or earnings or any amounts representing a required minimum distribution under Code section 401(a)(9). If that cannot be obtained, the Eligible Member must submit a statement signed under penalty of perjury by the Eligible Member certifying that the rollover contribution contains no after-tax or designated Roth contributions or earnings or any amounts representing a required minimum distribution. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

3. **Rollovers from an IRA**.

   a. **Acceptance of Rollover.** SamCERA may accept a rollover from an individual retirement account or annuity (IRA) described in Code Section 408(a) or Code Section 408(b).

   b. **Required Information from Member**. The Eligible Member must provide a statement signed by the Eligible Member under penalty of perjury certifying and identifying the IRA source of the rollover funds and that no portion of the rollover contribution contains after-tax or designated Roth contributions or earnings and that no portion of the rollover contribution contains a required minimum distribution. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

   c. **Additional Information Required.** The Eligible Member must provide SamCERA with a written statement from the transferring IRA custodian providing that the source of the rollover contribution is an IRA that meets the requirements of Code section 4089(a) or 408(b). As part of its due diligence process, SamCERA will take reasonable steps to verify the payment source (on the incoming rollover check or wire transfer) as the Eligible member's IRA , and if the Eligible Member was not able to obtain a letter from the transferring IRA custodian certifying the source of the funds, SamCERA may rely on its due diligence verification process to the extent it does not have any direct evidence to the contrary , If such qualified status cannot be confirmed, SamCERA will not accept the rollover.

4. **Rollovers from Other Plans: 457(b) and 403(b)**

   a. **Acceptance of Rollover.** SamCERA may accept rollover contributions from an eligible plan under Code section 457(b) that is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (a "governmental 457(b) plan"), and an annuity contract described in Code section 403(b).

b. **Required Due Diligence Process**. SamCERA will take reasonable steps to confirm the sending plan's status as an eligible 457(b) plan or an eligible Code section 403(b) annuity or custodial account and that the rollover contribution is valid. StanCERA will take steps to verify that the payment source (on the incoming check or wire transfer) is the former eligible 457(b) or 403(b) plan of the Eligible Member as represented by the Eligible Member on his or her request to make a rollover. SamCERA also will take reasonable steps to verify that the rollover will be from an eligible 457(b) plan or 403(b) plan which can include the following or any other methods allowed in guidance issued by the Internal Revenue Service.

   i. SamCERA may confirm the qualified plan status of the transferring plan with information contained on the Department of Labor's database.

   ii. If the qualified plan is not on the Department of Labor's database, then the Eligible Member must provide one of the following to SamCERA demonstrating that the source of the rollover contribution is an eligible governmental 457(b) plan or a Code section 403(b) plan: (a) a copy of the transferring plan's most recent private letter ruling from the Internal Revenue Service stating that the transferring plan qualifies as an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable, and a signed certification from the transferring plan's administrator that the transferring plan continues to be so qualified, or (b) a signed certification from the transferring plan's administrator that the rollover distribution source is an eligible governmental 457(b) plan or a Code section 403(b) plan, as applicable. If an Eligible Member does not provide such information, SamCERA will not accept the rollover.

5. **Rollover Contributions Made by Indirect Rollover.** A rollover contribution to SamCERA may be made by a direct rollover or may be made by an indirect rollover no later than the 60th day after the Eligible Member receives the eligible rollover distribution in cash from his or her eligible retirement plan. In addition to providing the applicable documentation above in Sections B (2)-(4), Eligible Members making a rollover contribution with an indirect rollover must provide

evidence satisfactory to SamCERA that the Eligible Member received the distribution within the required 60-day period.

8.6 Compensation Limit. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limit on annual compensation under section 401(a)(17) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 401(a)(17). These regulations are intended to be in accordance with the Code and the applicable Treasury regulations. To the extent there is a conflict between these regulations and the Code and Treasury regulations, the applicable federal law will govern. SamCERA may establish reasonable procedures for complying with the limit on annual compensation under section 401(a)(17) of the Code that it deems necessary or desirable to comply with applicable tax laws or for administrative purposes. Terms used in this regulation 8.6 are defined in the County Employees' Retirement Law of 1937 ("CERL") or the California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Limitation On Annual Compensation Earnable

1. In General

a. Annual Compensation Earnable Limit. The annual amount of compensation that is taken into account in determining all benefits provided by SamCERA to affected Members for any year, which is referred to in CERL and PEPRA and in these Regulations as "Compensation Earnable", shall in no event be greater than the amount allowed by Code section 401(a)(17) adjusted in accordance with the Code for increases in the cost of living. This limit is called the Annual Compensation Earnable Limit in these regulations.

b. Members Affected By the Annual Limit.

i. Not Applicable to Pre-July 1, 1996 Members. The Annual Compensation Earnable Limit does not apply to any individual who first became a Member prior to July 1, 1996.

ii. Applies to New Members On and After July 1, 1996. In accordance with Government Code section 31671, the Annual Compensation Earnable Limit shall apply to all individuals who first become Members on or after July 1, 1996.

(A.) Date First Becomes a Member. An individual first becomes a Member on the date that a Member first became a Member in SamCERA, regardless of whether the Member terminated and resumed participation at a later date.

(B.) **Pensionable compensation limits for new members hired after January 1, 2013.** If a "new member" as defined in PEPRA hired after January 1, 2013, is placed by SamCERA into a "PEPRA" plan, such member's pensionable compensation shall be limited by the applicable dollar amount set forth in the Annual Compensation Earnable Limit.

2. **Operational Rules, In General**. This section applies to members who are not grandfathered under section 1 (b)(i).

   a. **Limited Compensation Earnable.** All Compensation Earnable that would be taken into account for determining benefits provided by SamCERA without regard to these regulations is subject to the Annual Compensation Earnable Limit. Such Compensation Earnable is not limited to salary or to base salary.

   b. **Benefits Affected by the Limit**. The Annual Compensation Earnable Limit applies to the determination of all benefits provided by SamCERA including pensions, annuities, retirement allowances, death benefits, disability benefits, refunds and withdrawals that are determined by member contributions (including such contributions that are "picked up" by the employer) and earnings thereon.

   c. **Compensation Earnable from More Than One Employer**. If Compensation Earnable from more than one employer that participates in SamCERA is taken into account in determining a member's benefits, the Annual Compensation Earnable Limit shall apply separately to the Compensation Earnable from each employer. The Annual Compensation Earnable Limit does not apply to the aggregate of Compensation Earnable earned from all employers that participate in SamCERA.

   d. **Proration for Short Plan Year.** If a plan year consists of fewer than 12 months, the Annual Compensation Earnable Limit is an amount equal to the otherwise applicable Annual Compensation Earnable Limit multiplied by a fraction, the numerator of which is the number of months in the short plan year, and the denominator of which is 12. No proration is required for participation of less than a full plan year.

e. **Pensionable compensation limits for new members hired on or after January 1, 2013.** If a "new member" as defined under PEPRA hired on or after January 1, 2013, and SamCERA places the member into "PEPRA" plan, such member's pensionable compensation shall be limited by the applicable dollar amount set forth in the Annual Compensation Earnable Limit.

f. **Reciprocity and New Membership in SamCERA**. An individual who becomes a member of SamCERA on or after July 1, 1996, and who has reciprocity with another public sector retirement plan nevertheless is a new Member of SamCERA. Membership before July 1, 1996 in another retirement plan with which SamCERA has reciprocity does not create pre-July 1, 1996 SamCERA membership for purposes of the Annual Compensation Earnable Limit.

g. **Reciprocity and Prior Membership in SamCERA**. A person who was a grandfathered member of SamCERA prior to July 1, 1996 under section 1 (b)(i) who terminated employment with an employer that participated in SamCERA, remains a member of SamCERA prior to July 1, 1996. Therefore, if the Member established reciprocity between another public sector retirement plan and SamCERA, any higher Compensation Earnable that is earned under the other plan shall be taken into account by SamCERA in accordance with the rules of reciprocity and that Compensation Earnable shall not be limited by the Annual Compensation Earnable Limit.

h. **Relationship Between Section 415 Limit and Compensation Earnable Limit.** The limits of Code section 415 and Code section 401(a)(17) are separate and independent. Each limit is operated according to its own rules and applies separately. Therefore, the Annual Compensation Earnable Limit may apply to a Member and the Code section 415 limit may not apply. Similarly, the Code section 415 limit may apply to a Member and the Annual Compensation Earnable Limit may not apply. Also, both of these limits may apply to the same Member.

i. **Clarification Concerning Member Contributions.** Because Member contributions are the basis for benefits provided by SamCERA, Member contributions shall not be made by taking into account Compensation Earnable in excess of the Annual Compensation Earnable Limit.

j. **General Plan Year Rule for Determining the Limit.** If Compensation Earnable for any prior plan year is taken into account in determining a Member's benefits for the current plan year, the Compensation Earnable for such prior plan year is subject to the applicable Annual Compensation Earnable Limit in effect for that prior plan year. In addition, in determining benefits for plan years beginning on or after January 1, 2002, the Annual Compensation Earnable Limit in effect for plan years beginning before that date is $200,000.

B. Plan Year And Cost-of-Living Adjustments

1. **Annual Adjustment for Cost-of-Living Increases.** The Annual Compensation Earnable Limit may be adjusted annually by the Internal Revenue Service for cost of living changes in accordance with the Code.

2. **General Rule--Application of Limit to a Plan Year.** In general, the Annual Compensation Earnable Limit is applied to the Compensation Earnable for the plan year on which accruals of benefits from SamCERA are based.

3. **Plan Year Compensation Earnable.**

a. **General Rule.** Since SamCERA's plan year corresponds to the calendar year, the Compensation Earnable used to determine Member contributions for each plan year shall be limited to the Annual Compensation Earnable Limit in effect as of January 1 of the calendar year that coincides with the plan year.

b. **Member Contributions** Since SamCERA's plan year corresponds to the calendar year, the Compensation Earnable used to determine Member contributions for each plan year shall be limited to the Annual Compensation Earnable Limit in effect as of January 1 of the calendar year that coincides with the plan year.

8.7 Limits on Annual Benefits. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limits on benefits under section 415(b) of the Internal Revenue Code (the "Code"). For these regulations, the Code includes Treasury regulations issued under section 415(b). To the extent there is a conflict between these regulations and the Code, the Code governs. SamCERA may establish reasonable procedures for complying with the limits on benefits under section 415(b) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes. Capitalized terms used in this Regulation are defined in Section F. Terms used in this regulation 8.7 are defined in the County Employees' Retirement Law of 1937 ("CERL") and the

California Public Employees' Pension Reform Act of 2013 ("PEPRA") apply here unless otherwise stated.

A. Annual Benefit Limit.

1. Annual Benefit Limit, In General

a. Annual Limit. Unless the alternative limit described in subsection 5 of this Section applies, the Annual Benefit payable to a Member under SamCERA at any time shall not exceed the dollar limit specified under section 415(b)(1)(A) of the Code, automatically adjusted under section 415(d) of the Code, effective January 1 of each year, as provided by the Internal Revenue Service.

b. Maximum Payment. If the benefit the Member would otherwise be paid in a Limitation Year would be in excess of the limit in (1)(a), the benefit shall be limited to a benefit that does not exceed the limit.

c. COLA Adjustment. In the case of a Member who has had a severance from employment with the Employer, the Annual Benefit Limit applicable to the Member in any Limitation Year beginning after the date of severance shall be automatically adjusted under section 415(d) of the Code.

d. Multiple Annuity Starting Dates.

i. For a Member who has or will have distributions commencing at more than one Annuity Starting Date, the Annual Benefit shall be determined as of each such Annuity Starting Date (and shall satisfy the limitations of these regulations as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other Annuity Starting Dates.

ii. For this purpose, the determination of whether a new starting date has occurred shall be made in accordance with section 1.415(b)-1(b)(1)(iii)(B) and (C) of the Treasury regulations.

e. Actuarial Adjustment for Forms of Benefit. Except as provided in paragraph (f) of this Section A (1), if the Member's benefit is payable in a form other than a Straight Life Annuity, then solely for purposes of applying the limits of Code section 415 and of this regulation, the actuarially equivalent Straight Life Annuity shall be determined in accordance with paragraph (i) or (ii) below, whichever is applicable.

i. **Annuities**. If the Member's benefit is payable in the form of a non- decreasing life annuity or other form of benefit described in Treasury regulation section 1.417(e)-1(d)(6) (e.g., other than a lump sum, installments, a decreasing annuity or a term certain), then the actuarially equivalent Straight Life Annuity is determined using the greater of (a) the Straight Life Annuity (if any) payable to the Member under SamCERA commencing at the same annuity starting date as the form of benefit payable to the Member, or (b) the annual amount of the Straight Life Annuity commencing at the same annuity starting date that has the same actuarial present value as the form of benefit payable to the Member computed using the Applicable Mortality Table and a 5%; Interest rate.

ii. **Lump sums, installments, etc**. If the Member's benefit is payable in the form of a lump sum, installments, a decreasing annuity, term certain or other form of benefit not described in Treasury regulations section 1.417(e)-1(d)(6), then the Straight Life Annuity that is actuarially equivalent to the Member's form of benefit shall be determined using: (a) The Applicable Mortality Table; and (b) An interest rate that is not less than the greatest of: (1)5.5%; (2) The interest rate that produces a benefit of not more than 105% of the benefit that would be produced if the Applicable Interest Rate were used; or (3)The Applicable Interest Rate as specified by SamCERA.

f. **No Actuarial Adjustment (Or Limitation) Required for Certain Benefits**. In determining the Annual Benefit, no actuarial adjustment to the benefit shall be made for the following benefits or benefit forms:

i. **Qualified Joint and Survivor Annuity**. Survivor benefits payable to a surviving spouse under a joint and survivor annuity that would qualify as a qualified joint and survivor annuity defined in section 417(b) of the Code. If benefits are paid partly in the form of a qualified joint and survivor annuity and partly in some other form (such as a single sum distribution), the rule of this paragraph applies only to the survivor annuity payments under the portion of the benefit that is paid in the form of a qualified joint and survivor annuity.

ii. **Benefits that are not "Retirement Benefits"**. Benefits that are not directly related to retirement benefits such as, pre-retirement qualified disability benefits, preretirement incidental death benefits, and postretirement medical benefits. Additionally, these benefits shall not be subject to the Annual Benefit Limit.

iii. **Certain Automatic Benefit Increases**. Benefits that meet the following requirements: (a) SamCERA provides for automatic periodic increases such as a form of benefit that automatically increases the benefit paid according to a specified percentage or objective index (but not a benefit that is increased on an ad hoc basis or a basis that is separately determined by action of the board of retirement or the board of supervisors of a county) and (b) the form of benefit complies with Code section 415(b) without regard to the automatic benefit increase. In no event shall the amount payable to the Member under the form of benefit in any Limitation Year be greater than the Annual Benefit Limit applicable at the Annuity Starting Date increased by the amounts provided in Code section 415(d). Also if the form of benefit without regard to the automatic benefit increase is not a Straight Life Annuity, then the Annual Benefit at the Annuity Starting Date is determined by converting the form of benefit to an actuarially equivalent Straight Life Annuity, as provided in section A (2)(a) of this regulation.

g. **Rules for Determining Annual Benefit**.

i. **Social Security Supplements, Etc.** The determination of the Annual Benefit shall take into account social security supplements described in section 411(a)(9) of the Code and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant section 1.411(d)-4, of the Treasury regulations.

ii. **Member Contributions.** The determination of the Annual Benefit shall disregard benefits attributable to member contributions or rollover contributions. Benefits attributable to member contributions do not include any benefits that are made on a pre-tax basis such as pickups under Code section 414(h)(2) or such as member contributions that are actually paid by the member's employer.

iii. **Rollovers**. The amount of any benefits attributable to member contributions and to rollover contributions shall be determined in accordance with Code section 415.

iv. **Voluntary Contributions**. Member contributions that are defined as “voluntary” contributions under Code section 415 (such as certain contribution under California Government Code section 31627) are not subject to the limits of this regulation but are subject to the limits of Code section 415(c) concerning defined contribution plans.

2. Reduction for Less Than 10 Years of Participation

a. **Reduction**. If the Member has less than 10 Years of Participation in SamCERA, the Annual Benefit Limit shall be multiplied by a fraction -- (i) the numerator of which is the number of years (or part thereof, but not less than one year) of participation in SamCERA, and (ii) the denominator of which is 10.

b. **Counting Years of Participation**. The Member is credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (i) the Member is credited with at least the number of hours of service or period of service for benefit accrual purposes, required under the terms of SamCERA in order to accrue a benefit for the accrual computation period, and (ii) the Member is included as a Member under the eligibility provisions of SamCERA for at least one day of the accrual computation period. If these two conditions are met, the portion of a Year of Participation credited to the Member shall equal the portion of a year of benefit accrual service credited to the Member for such accrual computation period.

c. **Disability and Death Benefits**. The reduction described in paragraph (a) of this subsection shall not apply to disability benefits or death benefits as provided in the Code.

3. Reduction for Commencement Before Age 62 for Certain Members

a. **No Reduction for Employees of the Sheriff’s Department**. The reduction shall not apply if the Member’s benefit is based on at least 15 years as a full-time employee of the Sheriff's Department pursuant to Code section 415(b)(2)(H). However, there shall be a reduction adjustment as set forth in paragraph (b) of this subsection if the Member's benefit is based on years of service as an employee of the Probation Department.

b. **Reduction for Benefits Commencing Before Age 62**. If the Member's benefits commence before the Member attains age 62, the Annual Benefit Limit is equal to the lesser of:

   i. The Annual Benefit Limit reduced in accordance with Code section 415(b) to its actuarial equivalent using: the Applicable Mortality Table and a 5% interest rate; or

   ii. The Annual Benefit Limit multiplied by the ratio of the immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date to the annual amount of the Straight Life Annuity under SamCERA commencing at age 62, both determined without applying the limitations of this regulation.

c. **Probability of Death**. No adjustment will be made to the annual benefit limit to reflect the probability of death between the Annuity Starting Date and age 62 unless the Member's benefit is forfeited at death before the Annuity Starting Date.

d. **Death and Disability**. The adjustment described in paragraph (b) of this subsection shall not apply to disability benefits or death benefits.

4. Increase for Commencement After Age 65.

a. **Increase For Benefits Commencing After 65**. If the Member's benefits commence after the Member attains age 65, the Annual Benefit Limit is equal to the lesser of:

   i. The Annual Benefit Limit increased in accordance with Code section 415(b) to its actuarial equivalent using: The Applicable Mortality Table and a 5% interest rate; or

   ii. The Annual Benefit Limit multiplied by the ratio of the annual amount of the adjusted immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date to the annual amount of the adjusted immediately commencing Straight Life Annuity under SamCERA at age 65, both determined without applying the limitations of this regulation. For this purpose, the adjusted immediately commencing Straight Life Annuity under SamCERA at the Member's Annuity Starting Date is the annual amount of such annuity payable to the Member, computed disregarding the Member's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing Straight Life Annuity under SamCERA at age 65 is the annual amount of such annuity that would be payable under SamCERA to a hypothetical Member who is age 65 and has the same accrued benefit as the Member.

b. **Probability of Death**. No adjustment will be made to the Annual Benefit Limit to reflect the probability of death between age 65 and the Annuity Starting Date unless the Member's benefit is forfeited at death before the Annuity Starting Date.

5. **Minimum Benefit Permitted.** The benefit otherwise accrued or payable to a Member under SamCERA is treated as not exceeding the Annual Benefit Limit if:

   a. **Minimum Benefit Limit Allowed.** The sum of the retirement benefits payable under any form of benefit with respect to the Member for the Limitation Year or for any prior Limitation Year under SamCERA and all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Member's Employer does not exceed $10,000 multiplied by a fraction – (i) the numerator of which is the Member's number of years (or part thereof, but not less than one year) of service (not to exceed 10) with the Member's Employer , and (ii) the denominator of which is 10; and

   b. **Condition.** The Member has never participated in any qualified defined contribution plan maintained by the Member's Employer.

B. Participation In Multiple Defined Benefit Plans

1. **Application of Limit to Aggregate Benefits.** If the Member is, or has ever been, a participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Member's SamCERA Employer, the sum of the participant's Annual Benefits from all such plans may not exceed the Annual Benefit Limit.

2. **Multiple Plan Benefit Limit Coordination.** Where the Member's SamCERA employer provided benefits under all such defined benefit plans (determined as of

the same age) would exceed the Annual Benefit Limit applicable at that age, the benefits accrued under all such other plans shall be reduced first in order to avoid exceeding the limit and shall be reduced under SamCERA only to the extent that the reduction under such other plans is insufficient to avoid exceeding the limit.

C. Multiple Employer Plan. Benefits attributable to the Member attributable to all of the Employers participating in SamCERA are taken into account for purposes of applying the Annual Benefit Limit.

D. Grandfather Rules.

1. **Annual Benefit Limit Equals Accrued Benefit**. Notwithstanding anything herein to the contrary, the Annual Benefit Limit with respect to a Qualified Member shall not be less than the accrued benefit of the Qualified Member under SamCERA determined without regard to any amendment made after October 14, 1987.

2. **Qualified Participant**. For purposes of this section, the term "Qualified Member" means a Member who first became a Member in SamCERA before January 1, 1990.

3. **Election**. Pursuant to California Government Code section 31899 et seq., the election has been made to have this Section apply.

E. Purchase of Permissive Service Credit

1. **General Rule**. If a Member makes one or more contributions to SamCERA to purchase Permissive Service Credit under SamCERA, then the requirements of this regulation will be treated as met only if:

   a. The requirements of this regulation are met, determined by treating the accrued benefit derived from all such contributions as an Annual Benefit for purposes of this regulation; or

   b. The requirements of SamCERA's regulation governing the limits on annual additions applicable to defined contribution plans are met by treating all such contributions as annual additions.

2. **Permissive Service Credit Defined**. For purposes of this Section, "Permissive Service Credit" means:

   a. Credit recognized by SamCERA for purposes of calculating a member's benefit under SamCERA; and

b. Credit which such member has not received under SamCERA; and

c. Credit which the member may receive only by making a voluntary additional contribution in an amount determined under SamCERA, which does not exceed the amount necessary to fund the benefit attributable to the service credit purchased; and

d. Credit which the member is authorized to purchase under Article VII of these regulations.

3. Limitation on Nonqualified Service Credit. SamCERA will fail to satisfy the requirements of this regulation if:

a. More than 5 years of Nonqualified Service Credit is taken into account for purposes of this Section; or

b. Any Nonqualified Service Credit is taken into account under this Section before the Member has at least 5 Years of Participation under SamCERA.

4. Nonqualified Service Credit. For purposes of subsection 3, the term "Nonqualified Service Credit" means permissive service credit other than that allowed with respect to:

a. Service (including parental, medical, sabbatical, and similar leave) as an employee of the government of the United States, an State or political subdivision thereof, or any agency or instrumentality of any of the foregoing (other than military service or service for credit which was obtained as a result of repayment described in subsection 6 of this Section);

b. Service (including parental, medical, sabbatical, and similar leave) as an employee (other than as an employee described in subparagraph (a) or (d) of this paragraph) of an educational organization described in Code section 170(b)(1)(A)(ii) which is a public, private, or sectarian school which provides elementary or secondary education (through grade 12), or a comparable level of education, as determined under the applicable law of the jurisdiction in which the service was performed,

c. Service as an employee of SamCERA of employees who are described in subparagraph (a) or (d) of this paragraph; or

d. Military service (other than qualified military service under Code section 414(u)) recognized by SamCERA.

In the case of service described in subparagraphs (a), (b), and (c), of this paragraph, such service will be nonqualified service if recognition of such service would cause a Member to receive a retirement benefit for the same period of service under more than one plan.

Even if the proposed service credit purchase meets the above requirements, to the extent such proposed service credit purchase is not permitted under Article VII of these regulations, or is prohibited by CERL or PEPRA, SamCERA will not process such service credit purchase.

5. Trustee-to-Trustee Transfers. In the case of a trustee-to-trustee transfer to SamCERA to which Code section 403(b)(13)(A) or 457(e)(17)(A) applies, (without regard to whether the transfer is made from a plan that is maintained by the same Employer):

a. The limitations of subsection 3 of this subsection shall not apply in determining whether the transfer is for the purchase of Permissive Service Credit; and

b. The distribution rules applicable under the Code to SamCERA shall apply to such amounts and any benefits attributable to such amounts.

6. Redeposits. In the case of any repayment of contributions (including interest) to SamCERA with respect to an amount previously refunded upon a forfeiture of service credit under SamCERA or similar repayment of contributions to another governmental plan maintained by a state or local government employer with in the State of California, any such repayment shall not be taken into account for purposes of this regulation.

F. Definitions.

1. Annual Benefit. "Annual Benefit" means a benefit that is payable annually in the form of a Straight Life Annuity. Except as provided in Section A(1)(e), where a benefit is payable in a form other than a Straight Life Annuity, the benefit shall be adjusted (solely for purposes of applying the limits of Code section 415 and of this regulation) pursuant to Section A(1)(g), to an actuarially equivalent Straight Life Annuity that begins at the same time as such other form of benefit and is payable on the first day of each month.

2. **Annual Benefit Limit.** "Annual Benefit Limit" means the limit described in Section Section A(1)(a) of this regulation.

3. **Annuity.** "Annuity" for purposes of this regulation does not mean "annuity" as defined in the County Employee Retirement Law but instead means a retirement benefit that is payable by SamCERA, as provided in section 415 of the Code.

4. **Annuity Starting Date**. "Annuity Starting Date" means the first day of the first period for which a retirement benefit is payable as an annuity or, in the case of a retirement benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Member to payment under SamCERA.

5. **Applicable Interest Rate.** "Applicable Interest Rate" means the "applicable interest rate" defined in section 417(e)(3)(C) of the Code.

6. **Applicable Mortality Table**. "Applicable Mortality Table" means the "applicable mortality table" defined in section 417(e)(3)(B) of the Code.

7. **Employer.** "Employer" means an employer who participates in SamCERA. Solely to the extent provided in the Code and applicable guidance from the Internal Revenue Service with respect to public agencies the term "Employer" will also include all "Affiliated Employer" which means the entities within the controlled group of the Employer.

8. **Limitation Year.** "Limitation Year" means the calendar year.

9. **Straight Life Annuity.** "Straight Life Annuity" means an Annuity payable in equal installments for the life of the member and terminating on the Member's death.

10. **Spouse.** A person who is a legally married spouse under either state law or federal law.

8.8 Defined Contribution Limits. The regulations set forth herein reaffirm and clarify the existing practices of SamCERA with respect to the limits on annual additions under section 415(c) of the Internal Revenue Code (the "Code"). These regulations may be applicable in certain cases when Members make service credit purchases. For these regulations, the Code includes Treasury regulations issued under section 415(c). To the extent there is a conflict between these regulations and the Code, the Code governs. SamCERA may establish reasonable procedures for complying with the limits on annual additions under section 415(c) of the Code that it deems necessary or advisable for complying with applicable tax laws or for administrative purposes. Capitalized terms used in this Regulation are defined in Section B. Terms used in this regulation 8.8 are defined in the County Employees' Retirement Law of

1937 (“CERL”) or the California Public Employees’ Pension Reform Act of 2013 (“PEPRA”) apply here unless otherwise stated.

A. Annual Additions Limitation. Notwithstanding anything to the contrary contained in SamCERA, the total Annual Additions allocated to a Member’s Account under SamCERA, when added to the Annual Additions allocated to the Member’s accounts under all other Aggregated Plans maintained by the Employer for any Limitation Year, shall not exceed the Maximum Permissible Amount; provided, however, that the limit described in B (7)(b) shall not apply to an individual medical benefit account (as defined in section 415(l) of the Code).

B. Definitions. Solely for purposes of this regulation 8.8, the following definitions shall apply:

1. **Account.** “Account” means the separate Member account provided under SamCERA for benefits that are separate and apart from the retirement benefits (annuity and pension) otherwise provided under the County Employees Retirement Law.

2. **Aggregated Plan.** “Aggregated Plan” means any defined contribution plan which is aggregated with SamCERA pursuant to Section C of this regulation.

3. **Annual Additions.** “Annual Additions” means the sum of the following amounts credited to a Member’s Accounts under the Plan and any Aggregated Plans for the Limitation Year:

   a. Employer contributions allocated to the member’s Account that is separate and apart from any pension or annuity benefits provided under the County Employees Retirement Law;

   b. Employee contributions (after-tax), including mandatory contributions (as defined in section 411(c)(2)(C) of the Code and Treasury regulations issued thereunder), as well as voluntary employee contributions used to purchase permissive service credit (as Defined in Code section 415(n)(3)) if an election is made to treat those amounts as Annual Additions in the year contributed pursuant to Code section 415(n)(1).

   c. Forfeitures;

   d. Amounts allocated to the Member’s individual medical account (within the meaning of section 415(l)(2) of the Code), which is part of a pension or annuity plan maintained by the Employer, except that such amounts are not included in Annual Additions for purposes of applying the 100% of compensation limit.

4. The term “Annual Additions” excludes:

a. Repayments of cash-outs as described in Code section 415(k)(3) (for example, to purchase restoration of an accrued benefit that was lost when employee contributions were previously cashed out) for the limitation year in which the restoration occurs;

b. Catch-up contributions made in accordance with Code section 414(v);

c. Restorative payment described in Treasury regulations section 1.415(c) 1(b)(2)(ii)(C);

d. Excess deferrals that are distributed in accordance with Treasury regulations section 1.402(g)-1(e)(2) or (3);

e. Rollover contributions (as described in Sections 401(a)(31), 402(c)(1), 403(a)(4), 403(b)(8), 408(d) and 457(e)(16) of the Code);

f. Employee contributions to a qualified cost-of-living arrangement described in Code section 415(k)(2)(B);

g. Employee contributions picked up by the Employer under Code section 414(h)(2);

h. Make-up contributions attributable to a period of qualified military service, as defined in Code section 414(u), with respect to the year in which the contribution is made (but not with respect to the year to which the contribution relates); and

i. Employee contributions to purchase permissive service credit (as defined in Code section 415(n)(3)) if an election is made to treat to treat the accrued benefit derived from all such contributions as an annual benefit subject to the limits of Code section 415(b).

5. **Employer.** **“**Employer” means an employer who participates in SamCERA. Solely to the extent provided in the Code and applicable guidance from the Internal Revenue Service, with respect to public agencies, the term "Employer" will also include “Affiliated Employer” which means all entities within the controlled group of the Employer.

6. **Limitation Year.** "**Limitation Year" means the calendar year.**

7. **Maximum Permissible Amount**. "Maximum Permissible Amount" means the lesser of:

   a. The amount allowable under section 415(c) of the Code as adjusted for increases in the cost-of-living under section 415(d) of the Code; or

   b. 100 percent of the Member's Total Compensation for the Limitation Year.

8. **Severance from Employment.** "Severance from Employment" means the Member ceases to be an employee of the Employer. A Member does not have a Severance from Employment if, in connection with a change of employment, the Member's new employer maintains SamCERA with respect to the Member.

9. **Total Compensation.** "Total Compensation" for purposes of this regulation only, means all items of remuneration described in paragraph (a) and excludes all items of remuneration described in paragraph (b), below.

   a. **Items Included.** Total Compensation includes all of the following items of remuneration for services:

      i. A Member's wages as defined within the meaning of Code section 3401(a) and all other payments of compensation to an employee by an employer for which the employer is required to furnish the employee a written statement under Code Sections 6041(d), 6051(a)(3) and 6052 (including amounts that would have been includible in gross income but for an election under Code section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b)) and will be determined without regard to any rules under Code Section 3401(a) that limit the remuneration included in wages based on the nature or location of employment or the services performed.

      ii. Amounts described in Code section 104(a)(3), 105(a), or 105(h), but only to the extent that these amounts are includible in the gross income of the Member;

      iii. Amounts paid or reimbursed by the Employer for moving expenses incurred by a Member, but only to the extent that at the time of the payment it is reasonable to believe that these amounts are not deductible by the Member under Code section 217;

iv. The amount includible in the gross income of an Member upon making the election described in Code section 83(b);

v. Amounts that are includible in the gross income of a Member under the rules of Code section 409A or Code section 457(f)(1)(A), or because the amounts are constructively received by the Member; and

vi. An amount that is excludable under Code section 106 that is not available to a Member in cash in lieu of group health coverage because the Member is unable to certify that he or she has other health coverage; provided, however, that the Employer does not request or collect information regarding the Member's other health coverage as part of the enrollment process for the health plan.

b. Items Excluded. The following items are excluded from Total Compensation:

i. Employer contributions (other than elective contributions described in Code section 402(e)(3), 408(k)(6), 408(p)(2)(A)(i), or 457(b)) to a deferred compensation plan (including a simplified employee pension described in Code section 408(k) or a simple retirement account described in Code section 408(p), and whether or not qualified) to the extent such contributions are not includable in the Member's gross income for the taxable year in which contributed, and any distributions (whether or not includible in gross income when distributed) from a deferred compensation plan (whether or not qualified) other than amounts received during the year by a Member pursuant to a nonqualified unfunded deferred compensation plan to the extent includible in gross income;

ii. Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are excludible from the gross income of the Member, and are not salary reduction amounts that are described in Code section 125);

iii. Other items of remuneration that are similar to any of the items listed in (i) and (ii), above.

c. Timing.

i. In order to be taken into account for a Limitation Year, Total Compensation must be paid or made available (or, if earlier, includible in the gross income of the Member) during the Limitation Year. For this purpose, compensation is treated as paid on a date if it is actually paid on that date or it would have been paid on that date but for an election under Code section 125, 132(f)(4), 401(k), 403(b), 408(k), 408(p)(2)(A)(i), or 457(b).

ii. In order to be taken into account for a Limitation Year, Total Compensation must be paid or treated as paid to the Member prior to the Member's Severance From Employment with the Employer; provided, however, that Total Compensation includes amounts paid to the Member by the later of 2½ months after Severance From Employment or the end of the Limitation Year if the amounts are regular compensation for services during the Member's regular working hours, compensation for services outside the Member's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar compensation that absent a Severance From Employment would have been paid to the Member while the Member continued in employment with the Employer.

iii. Total Compensation does not include amounts paid after Severance From Employment that are severance pay, unfunded nonqualified deferred compensation, or any other payment that is not described in the preceding paragraph, even if paid within 2½ months, except for:

(A.) Payments to an individual who does not currently perform services for the Employer by reason of Qualified Military Service to the extent that these payments do not exceed the amounts that the individual would have received if the individual had continued to perform services for the Employer rather than entering Qualified Military Service; and

(B.) Payments to a Member who is permanently and totally disabled; provided, however that salary continuation applies to all Members who are permanently and totally disabled for a fixed or determinable period. For this purpose, a Member is permanently and totally disabled only if the Member is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than 12 months.

d. **Limit.** A Member's Total Compensation shall not include compensation in excess of the limitation of Code section 401(a)(17) that is in effect for the calendar year in which such Limitation Year begins.

C. **Aggregation with Other Defined Contribution Plans.** All defined contribution plans (as defined in section 1.415(c)-1(a)(2) of the Treasury regulations and whether or not terminated) maintained by the Employer shall be aggregated with SamCERA, and all plans so aggregated shall be considered as one plan in applying the limitations of this regulation 8.8.

D. **Coordination with Other Defined Contribution Plans.** In the event that a Member participates in another defined contribution plan of the Employer that is a tax-qualified defined contribution plan, contributions or allocations that would otherwise be made on behalf of the Member to the other plan shall first be reduced to the extent necessary to avoid exceeding the limitations of this regulation.

E. **Correction.** Any excess Annual Additions shall be corrected using the methods specified in Revenue Procedure 2013-12 or any subsequent guidance promulgated by the Secretary of the Treasury describing the procedures for correcting excess Annual Additions under the Employee Plans Compliance Resolution System ("EPCRS") or its successor.

8.9 **Actuarial Equivalent**. For determining benefits provided by SamCERA, actuarial equivalents shall be established by the Board as being a benefit of equal value when computed upon the basis of mortality tables and interest assumptions adopted by the Board from time to time upon the recommendation of SamCERA's actuary as reflected in SamCERA's actuarial valuation.

8.10 **Normal Retirement Ages.** The normal retirement ages set forth below shall be in effect until such time as action taken by the Legislature, Congress, Internal Revenue Service or other government agencies whose actions take precedence as a matter of law over the actions of

SamCERA establish or require establishment of normal retirement ages that differ from those established in this regulation. The Board may change the normal retirement age to the extent required to comply with section 401(a) of Title 26 of the United States Code or for any other reasons determined by the Board. The normal retirement age determined herein does not create any vested rights under California or federal law including but not limited to the contracts clause of the California Constitution. These normal retirement ages are based upon SamCERA' s calculation of the average actual retirement ages of members and was reviewed by SamCERA's actuary.

A. General Members. The normal retirement age for general members shall be the later of age 60 or the age at which the member is entitled to receive a monthly retirement allowance under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. Normal retirement age is not later than age 70.

B. Safety Members. The normal retirement age for safety members shall be the later of age 53 or the age at which the member is entitled to receive a monthly retirement allowance under the County Employees Retirement Law of 1937 contained in Government Code sections 31450 et seq. Normal retirement age is not later than age 70.

8.11 Post Retirement Employment

A. No Pre Arrangement of Post-Retirement Employment. A member who retires at an age younger than normal retirement age, as defined in section 8.10, may not, prior to the date the member's retirement commences, enter into an agreement, either oral or written, to be reemployed while retired by the County or any other employer whose employees are members of SamCERA, regardless of the length of the member's break in service after retirement.

B. Required Break in Service Prior to Post Retirement Employment. Regardless of a member's age, every member who is reemployed by a SamCERA employer consistent with the terms of Government Code section 7522.56, or any amendments thereto, shall have a 180-day break in service from the date of retirement to the commencement of the reemployment. If a member is reemployed within the 180 days, pursuant to Government Code section 7522.56, and the member retired at an age younger than normal retirement age, as defined in section 8.10, there must be at least a continuous 90-day break in service from the date of the member's retirement prior to such reemployment unless such reemployment is to respond to an emergency declared by a government agency or an emergency that may prevent the stoppage of public business. Said breaks in service set forth above shall constitute a bona fide" separation from service to the extent required by Section 401(a) of Title 26 of the United States Code.

8.12 Prohibited Transactions. Effective as of July 1, 1989, SamCERA may not engage in a transaction prohibited by Section 503(b) of the Internal Revenue Code. Prohibited transactions include, but are not limited to the following transactions with certain related parties, such as participating employers: a loan without adequate interest or security, the payment of excessive compensation, the purchase of securities or property for more than adequate consideration, or the sale of securities or property for less than adequate consideration.

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