

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆SEPTEMBER 16, 2015 AT 8:30 A.M.◆

CALL TO ORDER

Shari Schapmire, Board Chair, called the meeting to order at 8:30 a.m.

ROLL CALL

Roll call was conducted with the following members present: Kathryn Cavness, John Sakowicz, Supervisor Dan Gjerde, Ted Stephens, Tim Knudsen, Jerilyn Harris, and Shari Schapmire. Also present: James Wilbanks, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Administrative Assistant. Absent: Randy Goodman, Craig Walker, and Richard Shoemaker.

PUBLIC COMMENT: None

1) MINUTES OF THE PLANNING MEETING HELD AUGUST 13, 2015 AND BOARD MEETING HELD AUGUST 19, 2015

Presenter/s: Chair Schapmire referenced the August 13, 2015 and August 19, 2015 meeting minutes.

Mr. Stephens asked to amend the August 19, 2015 meeting minutes as follows: The second paragraph on page 2 should state that Mr. Stephens disclosed that Clearwater Analytics, Boise Idaho, was a retirement plan client of his; the third paragraph on page 3 should state that Mr. Stephens thought the benefit of having separately managed accounts was unclear and he really did not see any savings other than staff being able to get valuation quickly and not needing a Bank Guarantee to move funds; in the same paragraph the fee savings should be immediate with Janus; and the motion on page 4 by Ms. Harris should specify that we will reallocate funds to our other international investment managers.

Chair Schapmire asked to amend the August 19, 2015 meeting minutes as follows: The last paragraph on page 3 should state that Chair Schapmire stated that all 58 County Treasuries in the state are required by law to have a custodial bank.

Board Direction: Staff will amend the August 19, 2015 minutes per Mr. Stephens and Chair Schapmire's request.

Board Action: Motion was made by Ms. Harris to approve the August 13, 2015 minutes and August 19, 2015 meeting minutes as amended. Mr. Sakowicz seconded the motion and the minutes were approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman and Mr. Walker.

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2) CONSENT AGENDA

A. August 2015 Retirement Report

Presenter/s: Chair Schapmire referenced the consent agenda which included the August 2015 Retirement Report.

Board Action: Motion was made by Mr. Knudsen to approve the Consent Agenda. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman and Mr. Walker.

3) DISCUSSION AND POSSIBLE ACTION REGARDING ANY CONSENT AGENDA ITEM NEEDING SEPARATE ACTION

None

4) DISCUSSION AND POSSIBLE ACTION REGARDING INTERNAL REVENUE SERVICE (IRS) CYCLE E DETERMINATION LETTER FILING

Presenter/s: Dr. Wilbanks referenced the IRS Cycle E Determination Letter filing prepared by staff and Hanson Bridgett. He provided a brief summary of a letter from Judy Boyette and the IRS filing documents. This filing for favorable determination letter limits the ability of the IRS to go back and look at issues if the plan is audited and it shows that we are in compliance with the code. All plan documents will be submitted with this filing. Many were included in the previous filing in 2011. Mr. Stephens asked about the information included in the filing regarding 401(h) and whether we could strike that section. He also wanted to know if we need to show language regarding the County 457 Deferred Compensation Plans. Dr. Wilbanks replied that we do not administer County 457 plans which are separate and distinct, and an item that the County should address.

Chair Schapmire volunteered to speak with Lloyd Weer, County Auditor Controller, regarding County Deferred Compensation plans and if there has been discussion regarding any requirement for determination letter filings. She thought that the 401(h) language needs to be included in this IRS filing because we had addressed the issue in our last 2011 filing. Dr. Wilbanks thought this was a better question for Judy Boyette to answer and explained that a favorable determination letter limits how far back the IRS can look in an audit. The deadline for filing is Jan 31, 2016 and is before the board for approval so that we may get this submitted early. There is a potential for rejection by the IRS which could delay the process.

Judy Boyette of Hanson Bridgett entered the discussion by telephone. Mr. Stephens asked again about striking the language regarding 401(h). Ms. Boyette confirmed that we are

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required to include 401(h) language due to the last filing. There is also a section included where we show our response to the last voluntary correction program. She suggested adding a statement that we will no longer continue the 401(h) process in this filing.

Ms. Boyette announced that this will be the last IRS determination letter request filing. The IRS is closing the program and no ongoing determination letter requests will be required. Ms. Boyette was recently appointed by the Secretary of Treasury to consult with the IRS Committee regarding determination filings.

Ms. Boyette will modify the current filing to state that we will not use 401(h) going forward. Mr. Stephens asked if there was a 457 plan determination program. Ms. Boyette replied that there is no program, but they are subject to audits. Most 457 plans should have letters on file from the IRS approving the language of their plans. It would be important for the County to make sure their vendors have this information from the IRS.

Board Direction: The IRS Cycle E filing for MCERA will include statements that the 401(h) will no longer be used going forward.

Board Action: Motion was made by Supervisor Gjerde to approve the IRS Cycle E determination letter filing for MCERA with clarification regarding discontinuance of 401(h). Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman and Mr. Walker.

**5) DISCUSSION AND POSSIBLE ACTION REGARDING THE GOVERNMENT
ACCOUNTING STANDARDS (GAS) 68 ACTUARIAL VALUATION BASED ON JUNE
30, 2014 MEASUREMENT DATE FOR EMPLOYER REPORTING AS OF JUNE 30, 2015**

Presenter/s: Dr. Wilbanks referenced the GAS 68 Actuarial Valuation report prepared by Segal Consulting and announced that our actuaries will be participating by telephone. The board had a brief discussion regarding the assumed rate of return and the last triennial experience study. Dr. Wilbanks defined total pension liability, net pension liability, and unfunded actuarial accrued liability. He explained that GAS 68 will focus on the accounting of plans and that net pension liability allocation is new due to GAS 68.

The board commented on how this report will look to the public financially and that other counties will be in the same situation as well. They discussed Other Post-Employment Benefits (OPEB) liability and the fact that rating agencies are all aware of this new accounting process. The information is already there, rating agencies are aware, and any downgrade in ratings is not expected. Dr. Wilbanks added that this is not new information, we are just moving the

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same information from the footnotes to the financial statements, and it does not require changes to the funding of the retirement system.

Mr. Knudsen noticed errors in Section 2, page 2, regarding retirement eligibility that should be addressed. Chair Schapmire also noted the reference to both final average compensation and highest average compensation in the report and thought that highest average compensation should be used consistently throughout the report. Supervisor Gjerde mentioned that the County has \$3.6 million reserved in a pension gap fund which will be used as a one-time pay down of prior debt. Mr. Stephens and Mr. Knudsen both had questions regarding reconciliation of pension expense, employer contributions, and employee contributions.

Andy Yeung, Paul Angelo, and Dirk Adamsen, Segal Consulting, entered the meeting by telephone. Mr. Angelo explained the GASB 68 report which builds on results from the GASB 67 report, is required for employer reporting, and includes allocation among MCERA's three employers. Exhibit 7 includes a schedule for the plan's proportionate share of total liabilities and the GASB 68 report provides schedules for each employer's financial reporting using the method prescribed by GASB.

Discussion continued regarding adjusting the market value of assets to an actuarial value, asset smoothing with deferred inflows and outflows, amortization, cost of living methodology, member contributions, pension expense, and funding. Mr. Angelo explained that GASB has recognized change in liability over service life, combining the active and inactive members. The average service life of both active and retired is 3.42 years which is partly due to having more retired members than active. This is the main reason why the expense for the year and contributions for the year are different. Mr. Yeung added that this report will change in future years with new assumption changes and stated that there is no new information reported here that was not included in past valuations.

The board asked who is responsible for payment of this report. Mr. Angelo replied that the employers are paying for administrative expense; ultimately it is all paid for by the taxpayers. In this case, having this report done assists MCERA with being in compliance. The number one issue addressed here with GASB is the apportionment among employers. Mr. Stephens referenced California Public Employees' Retirement System (CALPERS) actuarial changes in assumptions and asked if there were any actuarial changes planned for 37 Act Systems. Mr. Angelo replied that actuaries must include adequate margins in mortality. The next look at assumptions for MCERA will be in 2017 during the triennial experience study. The mortality margins may need to be modified more conservatively and the expected rate of return will need to be looked at again.

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Mr. Knudsen asked if this report needs to be presented to the Board of Supervisors for adoption. Mr. Berk will review this issue and will report back to Dr. Wilbanks with his determination.

Board Direction: Mr. Berk will determine whether the GAS 68 Actuarial Valuation report should be submitted to the Mendocino County Board of Supervisors for adoption.

Board Action: Motion was made by Mr. Sakowicz to approve the GAS 68 Actuarial Valuation report with the changes discussed previously. Ms. Harris seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman and Mr. Walker.

6) DISCUSSION AND POSSIBLE ACTION REGARDING INVESTMENT CONSULTANT REQUEST FOR PROPOSAL (RFP)

Presenter/s: Dr. Wilbanks referenced a draft Investment Consultant RFP stating that it has been 6 years since the last RFP and that this process is necessary for due diligence purposes. The board discussed whether the consultant should attend every board meeting as well as any off site meetings. Dr. Wilbanks mentioned that the document template was sourced from the Los Angeles County Employees Retirement Association (LACERA). Mr. Knudsen stated that LACERA has a separate investment board that meets monthly. Dr. Wilbanks mentioned that once we have a custodian we will have numbers that are meaningful. Most funds have their investment consultant present at every board meeting.

The board discussed whether they should take a look at State Street's performance reporting product. Dr. Wilbanks stated that it was not our intent to have State Street do our performance reporting and he cautioned against eliminating the financial consultant due to fiduciary responsibility and the need for asset liability studies. Ms. Harris mentioned that risk management and our capabilities were of concern. Mr. Sakowicz agreed that as fiduciaries we want an advisor like Callan Associates. Dr. Wilbanks reflected on previous discussion during the off site meeting when all agreed that investments are important to our role as trustees. Important enough to look at investment more than we do, more often than quarterly, so we see how managers perform on a consistent basis. Supervisor Gjerde agreed and suggested meeting by teleconference as an option. Mr. Knudsen agreed with phone conferencing, including a short written report, and then receive a complete report quarterly. Mr. Stephens thought it important to stay on top of our investments. There may be unknown benefit to monthly meeting attendance, but this may cause increased costs.

Supervisor Gjerde asked about our timeframe and whether we should have an Ad Hoc Committee work with staff to bring a revised RFP back to board. Dr. Wilbanks stated that the

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current contract ends at the end of this year. Page 8 of the RFP includes the proposed timeline. Chair Schapmire stated that we are currently negotiating a contract with State Street and asked whether we need to look at their performance proposal or wait and work with our custodian for a year or two. Ms. Cavness made motion to approve the RFP with quarterly presentations and month to month teleconferencing. Mr. Knudsen seconded the motion. Mr. Stephens stated that he would vote against this motion because we are unsure as to what we want a provider to do. This RFP needs to be specific to our needs.

Chair Schapmire suggested issuing the RFP and assigning a committee to review proposals. Mr. Stephens again questioned the scope of service. Dr. Wilbanks suggested asking Callan to extend their contract 1 more year to allow for the custodian to come on board. This would save much staff time, but a future RFP must be done for due diligence purposes. Ms. Cavness and Mr. Knudsen both withdrew their motions. The board directed staff to bring back renewal of the contract with Callan to the next board meeting. Then an ad hoc committee can be appointed to refine the Investment Consultant RFP. The board also discussed the possibility of appointing an investment committee that would meet monthly and could include some or all members of the retirement board.

Board Direction: Staff will work with Callan Associates on an extension of their contract for one more year and will bring this to the board for approval in October.

7) DISCUSSION AND POSSIBLE ACTION REGARDING MONTHLY INVESTMENT REPORT

- **Janus Overseas Fund Termination Update**
- **Investment Manager Status Update: PIMCO, Royce Total Return, Morgan Stanley**

Presenter/s: Dr. Wilbanks referenced the preliminary July 2015 investment report. Mr. Stephens wanted to know why cash was not included in the statement of changes and asked that it be included in the future.

Dr. Wilbanks reported that Janus Overseas had been notified of the board's August 19, 2015 decision to terminate their investment. Staff is planning for this transition and reallocation of the investment is being done in consultation with Callan Associates. This transition will be completed over a period of time due to frequent market fluctuations. There are no changes to report regarding PIMCO, Royce, or Morgan Stanley since Callan's last quarterly report.

8) MONTHLY FINANCIAL REPORT

Presenter/s: Dr. Wilbanks referenced the preliminary July 2015 financial report.

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Mr. Stephens referenced the Statement of Changes in Plan Net Position noting that there were more deductions in benefit payments than contributions and asked if this was a timing effect. Mr. Knudsen commented that it may be due to June 30 fiscal year end accruals. Dr. Wilbanks will verify this and will report back to the board.

Board Direction: Staff will verify whether the difference between deduction and benefit payments is due to timing or otherwise and will report back to the board.

9) DISCUSSION AND POSSIBLE ACTION REGARDING INTEREST CREDITING AND UNDISTRIBUTED EARNINGS POLICY

Presenter/s: Dr. Wilbanks referenced a red line draft of the Interest Crediting and Undistributed Earnings Policy. He explained that there are two pieces to this policy, interest crediting, and what we do with undistributed earnings. We are only looking at the undistributed earnings portion today. The whole policy does need additional changes that require additional research and staff effort. This policy will be brought back in the future for discussion again. Dr. Wilbanks verified that this draft included a formatting change, the red line change, and addition of the revised on date.

Board Action: Motion was made by Mr. Stephens to approve the revised Interest Crediting and Undistributed Earnings Policy. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Ms. Cavness, Mr. Sakowicz, Supervisor Gjerde, Mr. Stephens, Mr. Knudsen, Ms. Harris, and Ms. Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Goodman and Mr. Walker.

10) RETIREMENT ADMINISTRATOR'S REPORT (Estimated Time 5 min.)

- Pension Administration System Monthly Update
- Administrative and Operations Update
- Board Strategic Planning Off-Site Meeting

Presenter/s: Dr. Wilbanks referenced his administrator's report and confirmed that the next off site meeting will be held at the Yokayo Ranch. Breakfast will be served at 7:30 am and the meeting will begin at 8:30 am. Then he mentioned that reservations are being made for the upcoming SACRS Fall Conference and he asked board members to let Ms. Zeller know if they will be attending.

11) GENERAL BOARD MEMBER DISCUSSION

Mr. Knudsen referenced the preliminary Fall SACRS Conference agenda and noted that SACRS will honor veterans on Thursday November 19, 2015.

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Mr. Stephens commented on the recent press release regarding the Comprehensive Annual Financial Report (CAFR) award from the Government Finance Officers Association (GFOA) and the spirit of full disclosure stating that there had been a recent closed session discussion regarding disclosure. We do have items the public does not see until it is included in our Unfunded Actuarial Accrued Liability (UAAL). Going forward we need to adhere to the spirit of full disclosure. He asked if the overpayment policy will be discussed at our next meeting. Chair Schapmire and Dr. Wilbanks both replied that this policy will be brought back by the end of the calendar year.

Mr. Sakowicz mentioned the West Coast Defined Contribution Conference sponsored by Pensions and Investments and to be held at the Place Hotel in San Francisco October 18-20, 2015. Registration is free for plan sponsors and he thought this may be of interest to the County Executive Officer and the Board of Supervisors.

12) NOTICE OF NEXT MEETING

- A second Board of Retirement planning meeting will be held October 14, 2015 at the Yokayo Ranch located at 800 Hensley Creek Road, Ukiah, CA.
- The next regularly scheduled Board of Retirement meeting will be held October 21, 2015.

ADJOURNMENT (11:47 a.m.)