

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
SPECIAL BOARD OF RETIREMENT MEETING MINUTES
◆ DECEMBER 3, 2014 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: Randy Goodman, John Sakowicz, Supervisor John McCowen, Tim Knudsen, Richard Shoemaker, and Shari Schapmire. Also present: Jim Andersen, Interim Retirement Administrator, Jeff Berk, Legal Counsel, Judy Zeller, Administrative Assistant, Kathryn Cavness, Elected General Member, and Katrina Bartolomie, Assistant Registrar of Voters. Absent: Ted Stephens and Craig Walker.

PUBLIC COMMENT: Lenord Swope addressed the Board regarding the Triennial Experience Study.

1) SWEARING IN OF BOARD MEMBER KATHRYN CAVNESS (KATRINA BARTOLOMIE, COUNTY CLERK)

Presenter/s: Chair Schapmire introduced Katrina Bartolomie, Assistant Registrar of Voters, and Kathryn Cavness, Elected General Member. Ms. Bartolomie read aloud the Oath of Office. Ms. Cavness accepted and signed the Oath of Office document. Ms. Bartolomie witnessed the document, therefore completing the swearing in of Ms. Cavness. Ms. Cavness stated that she was honored to be a member of the board.

Chair Schapmire asked the members of the public to introduce themselves. Introductions included: Andy Yeung of Segal Consulting, Chris Ruhl, Superior Court CEO, April Allen, Superior Court CFO, Heidi Dunham, County Executive Office, Carmel Angelo, County CEO, Ursula Partch of the Willits Weekly, and Ned Walsh, Retiree.

Mr. Walker entered the meeting at 8:45 a.m.

2) DISCUSSION AND POSSIBLE ACTION REGARDING ELECTION OF BOARD OF RETIREMENT OFFICERS FOR 2014/2015 AND APPOINTMENT TO AUDIT AND BUDGET COMMITTEE

Presenter/s: Chair Schapmire began the discussion regarding election of board officers. Supervisor McCowen asked Chair Schapmire if she would consider serving as Chair for one more year to provide better continuity with a new Retirement Administrator and new board members. She agreed that she would consider one more year with a succession plan for next year. Supervisor McCowen nominated Shari Schapmire as Board Chair, Randy Goodman as

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Vice Chair, and Tim Knudsen as Secretary, and motioned to close nominations. The Board unanimously approved the nominations.

Chair Schapmire mentioned the Audit and Budget Committee stating that the committee had lost two members, Bob Mirata and Lloyd Weer. She announced that she was appointing Randy Goodman as Committee Chair and Kathryn Cavness. They will join existing committee members, Ted Stephens and Tim Knudsen effective December 1, 2014.

3) DISCUSSION AND POSSIBLE ACTION REGARDING 2015 BOARD MEETING CALENDAR

Presenter/s: Mr. Andersen referenced the Board meeting calendar for 2015 stating that all meetings are held on the third Wednesday of each month unless noted by an asterisk on the calendar. Please note that May and November meetings are early due to SACRS. The December meeting is held early for the Annual Valuation report due to a conflict of Segal's meeting with the Imperial County Employees' Retirement Association. There will only be one meeting in December which will be held on December 2, 2015. On March 18, 2015 we anticipate a joint meeting with Board of Supervisors and suggest having our regularly scheduled meeting in the a.m. and the joint meeting in the p.m. The Board agreed to have one full day of meetings.

Supervisor McCowen mentioned that he has a conflict on November 12, 2015 due to a prior commitment every second Wednesday of the month. He suggested changing the meeting to November 5th or November 13th.

Board Action: Motion was made by Supervisor McCowen to adopt the 2015 Board meeting calendar including change of the November meeting to November 13th. Mr. Walker seconded the motion and it was approved by the following vote: Ayes: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor John McCowen, Craig Walker, Tim Knudsen, and Shari Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

Following this action it was noted by Mr. Shoemaker that November 12, 2015 fell on a Thursday and that Wednesday November 11, 2015 was the Veteran's Day holiday. The Board unanimously agreed that the November meeting should be held on Thursday November 12, 2015.

4) MINUTES OF THE BOARD MEETINGS HELD NOVEMBER 5, 2014

Presenter/s: Chair Schapmire referenced the minutes of the board meeting held November 5, 2014.

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Mr. Knudsen referenced page 2 of the minutes stating that Mr. Stephens statement regarding the rate of return should be changed to "more" than 6.75%. Supervisor McCowen added that his motion was to allow Mr. Stephens to add a two sentence statement to the record with approval of the Chair. He then referred to page 5, first paragraph, last sentence, which mentioned his preparation of an agenda item for the Board of Supervisors. He asked that a period be placed after "next meeting" and to strike the remainder of the sentence from the record.

Board Action: Motion was made by Mr. Knudsen to approve the minutes of the board meeting held November 5, 2014. Ms. Cavness seconded the motion and it was approved by the following vote: Ayes: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor John McCowen, Craig Walker, Tim Knudsen, and Shari Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

5) APPROVAL OF CONSENT AGENDA

Presenter/s: Chair Schapmire referenced the Consent Agenda which included 5-A Retirement Administrator's report, 5-B Fechter and Company Agreement for Accounting Services, 5-C Membership, and 5-D Retirements Processed in November 2014.

Board Action: Motion was made by Supervisor McCowen to approve the Consent Agenda. Mr. Goodman seconded the motion and it was approved by the following vote: Ayes: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor John McCowen, Craig Walker, Tim Knudsen, and Shari Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

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

None

7) PRESENTATION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2014 ACTUARIAL VALUATION STUDY (SEGAL CONSULTING)

- **Discussion Regarding Fiscal Year 2015/2016 Retirement Plan Contributions with Adjustments to Reflect a Two- Year or Three-Year Phase in of Employer Contribution Rates**

Presenter/s: Andy Yeung of Segal Consulting referenced the June 30, 2014 Actuarial Valuation Study and highlighted some of the important sections of the report. The table of contents lists Sections 1 through 4 and the items each section includes. Section 1, discusses the significant issues in this Valuation year including assumption recommendations, adoption of resolution 2014-04 pertaining to cost of living adjustments (COLA) to surviving beneficiaries, the

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unfunded actuarial accrued liability (UAAL) and amortization. Gains and losses, changes in assumptions, and the delay in calculation to implementation of contribution rates were all considered, as well as the investment return assumption reduction from 7.75% to 7.25% to develop contribution rates in this valuation. The increase in rates is mainly due to the 7.25% rate assumption change and resolution 2014-04, adopted September 16, 2014. Beginning after September 16, 2014 only 60% of the COLA will be paid to the surviving beneficiary. This was assumed by Segal to be the practice in the past and we are recognizing for the first time that there was a 100% COLA provided to surviving beneficiaries prior to September 16, 2014. This has resulted in an additional \$600,000 in cost in this valuation. Previous years went to the UAAL. Each valuation study all liabilities are brought up to date. Here we added \$600,000 in employer contributions instead of building additional UAAL. He explained that Segal had followed the 60% COLA practice of other retirement systems and was not previously aware of MCERA's 100% approach. Mr. Andersen added that although there is increase in the UAAL and in rates, going forward with this COLA policy should reduce liability over time.

Mr. Yeung referenced the funded ratio decrease to 69% stating that the Market value funded ratio is 75% which looks better. He referenced Page 42 and how the UAAL compares from the beginning of the year to the end and explained what has affected the UAAL. If there had not been a change in actuarial assumptions the UAAL would be higher than expected. The board commented on amortization and Mr. Yeung added that an amortization chart will be provided after this valuation approval.

Supervisor McCowen thought it would be useful going forward to include both actuarial and market value reporting in the summary section. The UAAL should also show a market value which would be approximately \$33 million less in this valuation. Mr. Andersen commented that much thought had been put into the 7.25% rate recommendation and many pieces of data were considered to make that recommendation. Mr. Yeung agreed and added that the process is not the same for all. We looked at your asset allocation and sampled 10 investment consultants, we observed the expected rate of return going down, and we reduced the inflation assumption. Most assumptions are customized for MCERA. The only exception is inflation which is consistently the same assumption for all of our clients.

Mr. Yeung explained the employer contribution aggregate rate increase from 26% to 33.38% of total payroll. Page 19 shows the employee contribution rate increase from 9.3% to 10.15% on average. Changes in actuarial assumptions are the main reason for this increase. Employees share in the normal cost and all other change in unfunded liability falls on the employers per the 37 Act. Page iii, explains how we take into account investment gains or losses. \$33 million in investment gains will not be brought in all at once due to smoothing. If we took all \$33 million in this study the funded status would have gone up close to 75.7%. Lastly, page 5, shows how we develop smoothing to recognize the good news over 5 years and only recognize 20% in this valuation.

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Ms. Schapmire referenced the phase in of employer rates stating that the Board had directed Segal to provide this information and to include in a side letter. Mr. Yeung explained the phase in over 2 and 3 year periods adding that a rate impact delay will compound in the next valuation due to interest. Each time we delay payment we will see an increase in the employer cost each valuation. Supervisor McCowen added that deferred amounts will be amortized over an 18 year period with interest and this is why the Board of Supervisors unanimously directed not to support a phase in. They plan to make an additional payment to reduce negative amortization and to assist in paying off the UAAL. It will be difficult to fund the new contribution rates, but the Board of Supervisors is supportive of doing so. The revenue will be found in the budget and we are still going to make the additional payment.

Public Comment: Carmel Angelo, County CEO, stated that the Board of Supervisors had a good discussion about the phase in and have been preparing for a retirement cost increase. The County is in a better position with reserves today and is working with Lloyd Weer, Auditor Controller. The Board of Supervisors has directed full payment of the \$4 million increase. She thanked the Board of Retirement for the phase in letter.

Board Action: Motion was made by Supervisor McCowen to approve the employer and employee rates and minimum sponsor dollar contributions contained in the Actuarial Valuation and Review as of June 30, 2014. Mr. Sakowicz seconded the motion and it was approved by the following vote: Ayes: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor John McCowen, Craig Walker, Tim Knudsen, and Shari Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

8) INVESTMENT REPORT

- **Discussion with Matt Clark, CFA, Senior Vice President of PIMCO and Greg DeForrest, Senior Vice President of Callan Associates**
- **Monthly Investment Report**

Presenter/s: Matt Clark, Senior Vice President of PIMCO, who was accompanied by Greg DeForrest of Callan Associates, discussed the extraordinary events at PIMCO this year including the change in Chief Financial Officer (CFO) and Investments. He had prepared a full presentation which will be distributed later due to a delay in delivery.

Mr. Clark began by stating that PIMCO still uses the same methods and resources and will be meeting in Newport Beach in the next week to formulate the plan outlook. PIMCO believes the process of review is still very important and the meeting outcome and key conclusions will be published following the meeting. He discussed the transition process to a team of Chief Investment Officers (CIOs) with over 27 years of investment expertise, an exceptional track record, all united by many years at PIMCO.

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The board asked about investments and the bond market, high yield, and the concern over PIMCO's outflow. Mr. Clark added that PIMCO is absolutely committed to delivering liquidity to our investors and stated that the pace of redemptions is slowing. The first 7 days following the resignation of Bill Gross account for the majority of outflows. Redemptions have not impacted how we manage the portfolio and PIMCO is still in the top 2% of managers and has outperformed its peers.

Mr. DeForrest added that Callan's recommendation to retain PIMCO was a hard one. Going forward we will need to make sure they are doing a great job. Mr. Clark commented that PIMCO was not happy with how this year has transpired as it has taken up so much of our clients' time trying to evaluate the situation and we apologize for that. He asked the board to judge PIMCO on its performance. Our underperformance will recuperate in the next 1-2 years. If there is still underperformance after that, you have no choice. Look at our recent performance in November and staff stability going forward. PIMCO has 2500 in staff and we will have turnover, but if we see an elevated turnover level that would be of concern. PIMCO has 60 partners compensated based on returns that act as shock absorber when income is lower and keep in mind that PIMCO is not one strategy. The plan has \$1.9 trillion in assets and global clients.

The board asked about any new clients of PIMCO, the RV Kuhns Report, and volatility. Mr. DeForrest added that Callan values PIMCO as a partner, but will keep close watch, and expect good results next year. Mr. Clark added that Callan has done an exceptional job and has been meeting with PIMCO every week. He voiced his appreciation for their time.

Presenter/s: Mr. Andersen referenced the preliminary Monthly Investment Report for November 2014.

9) FINANCIAL REPORT (Estimated Time 5 min.)

- **Statement of Plan Net Assets**
- **Statement of Changes in Plan Net Assets**
- **Cash Flow Analysis**
- **Rental Income Net of Expenses**
- **Vendor Ledger**

Presenter/s: Mr. Andersen referenced the preliminary Financial Report for November 2014.

10) CLOSED SESSION

- **Public Employee Appointment, Retirement Administrator, pursuant to Government Code Section 54957**

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- **Conference with Agency Designated Representatives, Interim Retirement Administrator Jim Andersen and Cindy Krebs of Alliance Consulting, regarding salary and benefits for Unrepresented Employee, Retirement Administrator, pursuant to Government Code Section 54957.6**

REPORT OUT FROM CLOSED SESSION

The Board unanimously appointed James Wilbanks as the new Retirement Administrator by the following vote: Ayes: Randy Goodman, Kathryn Cavness, John Sakowicz, Supervisor John McCowen, Craig Walker, Tim Knudsen, and Shari Schapmire. Noes: 0. Abstain: 0. Absent: Mr. Stephens.

Staff was directed to bring his contract to the next board meeting on December 17, 2014 for approval.

11) GENERAL BOARD MEMBER DISCUSSION

- **Report from Attendees of the Fall State Association of Retirement Systems (SACRS) Conference**

Mr. Sakowicz stated that he attended the conference on his own dime per the Board's direction. He was glad he went and felt the exchange of information is crucial. He commented on some of the speakers and felt their speeches included sales pitches. Diane Oakley of the National Institutional on Retirement System Security spoke regarding the impact of defined benefit plans and the real economic impact which was very interesting. Mr. Knudsen agreed that Kaiser's presentation was more sales oriented. He appreciated the presentation on the Ventura County initiative to close defined benefits and felt the County Counsel had good reasons to throw out that initiative. Mr. Knudsen referenced the RV Kuhns report and had prepared a brief recap of MCERA compared to other 37 Act Systems. He asked that his recap be provided to the other board members.

Mr. Andersen commented on the RV Kuhns report stating that MCERA did not fare well in funded status and would need an 80% mark or higher per Standard and Poor's. Mr. Knudsen added that MCERA's information is reported net of fees and we believe most of the others are reported gross of fees. Mr. Andersen stated that this information is provided on the last page of the RV Kuhns report.

ADJOURNMENT (11:40 a.m.)