



MINUTES

RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

9:00 a.m.

January 28, 2015

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

Present: Debora Allen, Scott Gordon, Brian Hast, Jerry Holcombe, Louie Kroll, Karen Mitchoff, John Phillips, Gabe Rodrigues, Todd Smithey, Jerry Telles and Russell Watts

Absent: William Pigeon

Staff: Gail Strohl, Retirement Chief Executive Officer; Kurt Schneider, Deputy Retirement Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; Karen Levy, Retirement General Counsel; Wrally Dutkiewicz, Retirement Compliance Officer; Vickie Kaplan, Retirement Accounting Manager; Karen Davis, Retirement Benefits Manager; and Christina Dunn, Retirement Administration Manager

Outside Professional Support:

Harvey Leiderman
Paul Angelo
John Monroe
Joe Wiley

Representing:

Reed Smith LLP
Segal Consulting
Segal Consulting
Wiley, Price & Radulovich LLP

1. **Pledge of Allegiance**

Hast led all in the *Pledge of Allegiance*.

2. **Accept comments from the public**

No members of the public offered comment.

3. **Staff presentation on survey of 1937 Act systems regarding pay items included in "Pensionable Compensation"**

Schneider reviewed the results of the survey requested by the Board pertaining to what elements of pay beyond base pay other 1937 Act systems include in "pensionable compensation." He noted that the CalPERS regulation includes 99 pay items beyond base pay in "pensionable compensation" for PEPRA members.

There was a discussion on including pay items beyond base pay in "pensionable compensation" for PEPRA members and the previous Board decisions to limit "pensionable compensation" to base pay and exclude items of compensation beyond base pay. There was a lengthy discussion on employers including differentials in base pay. It was noted that Stanislaus County recently included FLSA pay in base pay.

Telles requested that the item of changing the Board's policy and including more than base pay in pensionable compensation be placed on a future agenda. Chairperson Hast so directed. Leiderman noted that the Board may consider whether to change its policy and this is not a motion for reconsideration under Roberts Rules of Order.

In public comment, Jared Palant, Local 1230, spoke in regards to employers including the differentials into base pay. He noted during the last contract negotiation between Local 1230 and the Contra Costa County Fire Protection District they requested the differentials be included in base pay and the County denied the request. He feels that members are paying more for retirement and are receiving lower benefits than what CalPERS is providing their members. This difference in contribution rates has created a retention and recruitment problem for the Contra Costa County Fire Protection District.

Levy noted that none of CCCERA's stakeholders including employers have expressed an official position on this issue. The only exception is the letter from the Deputy Sheriffs Association (DSA), which is included in the agenda materials. Gordon noted that the matter has been on the Board's publicly noticed agendas but employers have not appeared to speak to the issue.

Ken Westermann, DSA Board member, thanked the board for considering the letter he wrote to the Board in September. He feels this issue really transcends DSA. They have lost 50 deputy sheriffs within the last year to competing agencies. At competing agencies the salaries and retirement benefits are higher at a lower cost to the employee. He feels that employers should be concerned with this due to the high cost of recruitment and training.

Jim Bickert, Rains Lucia Stern representing the DSA, noted when PEPRA was introduced in late 2012 it was not clear what pay items should be included in "pensionable compensation". Since that time other retirement systems, CalPERS and the Governor have determined certain differentials should be included "pensionable compensation". With this additional information he encourages the Board to reconsider their previous determination to limit "pensionable compensation" to base pay.

Mark Williams, Contra Costa County Assistant Sheriff, noted he is speaking on behalf of Sheriff Livingston, and that they are in full support of reconsideration of this issue. He stated the Sheriff's Office is struggling with retention and recruitment.

Mike Mohun, Local 3546, noted the Local 3546 and San Ramon Valley Fire contract does not end until 2018. There are requirements of the position that are compensated through a differential so it should be included in "pensionable compensation". When the Board made the decision to limit "pensionable compensation" some of the Board members cited it was due to the decision that CalPERS originally made. He will be negotiating to have these differentials included in base pay when the contract is negotiated in 2018 but feels it would be prudent for the Board to take action now to collect the necessary retirement contributions on the differentials paid to PEPRA members. He believes that these incentives will be ultimately included in base pay in his district.

Mitchoff noted that it is not clear whether CalPERS is in fact implementing its policy of including more than base pay in pensionable compensation and requested staff to research the item.

4. Consider and take possible action on leave cashout assumption for Tier Safety C

Angelo provided an overview of the leave cashout assumptions used in the annual actuarial valuation. He noted at the August 13, 2014 meeting there was significant discussion regarding the adopted Safety Tier C leave cashout assumption of .25%. After researching the actual experience during the period from January 1, 2010 through December 31, 2012 and the benefits provided to

members in this Tier he recommended that the leave cashout assumption be reduced from .25% to 0%.

It was M/S/C to reduce the Safety Tier C leave cashout assumption from 0.25% to 0% effective with the December 31, 2014 actuarial valuation. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

5. **Consider and take possible action regarding employer/member cost sharing of leave cashout assumption**

Angelo discussed the items included in the leave cashout assumption and provided a background on how the leave cashout assumption is funded. He noted at the August 13, 2014 meeting the Board took action to also include the leave cashout assumptions in the development of the Basic member contribution rates effective with the December 31, 2014 valuation. However, no action was taken regarding which option would be used in the implementation. He reviewed the two options noting they differ in how the leave cashout assumptions are pooled across different cost groups with the same tier. Option A (more pooling and is less reflective of individual member experience) pools by tier while Option B (less pooling and is more reflective of individual member experience) pools by cost group.

In public comment, Ken Westermann, DSA Board member, noted that Option B increases the rates for members and decreases the rates for employers. Most members do not receive terminal pay but they are now paying more to not receive the benefit because there may be others in their cost group that do receive terminal pay.

Dan Borenstein, Contra Costa Times, questioned if differentials were included in "pensionable compensation" would this discussion need to be had for PEPRA members.

Levy noted that leave cashouts are specifically excluded from "pensionable compensation" for PEPRA members by statute.

Angelo noted the differentials are throughout the member's career so it would not be included in the leave cashout assumption.

It was M/S/C to adopt Option B as recommended by Segal Consulting and apply the leave cashout assumptions for each cost group in developing separate Basic member rates for members in each cost group. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

Allen and Rodrigues were not present for subsequent discussion and voting.

6. **Consider and take possible action on employer contribution rates effective July 1, 2015 for Central Contra Costa Sanitary District**

Schneider reported Central Contra Costa Sanitary District (District) made a \$5 million prepayment towards the District's Unfunded Actuarial Accrued Liability (UAAL). He noted with the reduction in the UAAL, the prepayment reduces the District's required UAAL contribution rate. The effect of the prepayment is a reduction of the District's UAAL contribution rate of 1.27% of payroll.

It was M/S/C to adopt the contribution rates for Central Contra Costa Sanitary District as recommended by Segal Consulting effective July 1, 2015. (Yes: Gordon, Hast, Holcombe, Mitchoff, Phillips, Smithey, Telles and Watts)

7. **Consider and take possible action on contribution rates effective January 1, 2015 and July 1, 2015 for Contra Costa County Fire Protection District**

Schneider reported the Board of Directors of the Contra Costa County Fire Protection District approved a Memorandum of Understanding (MOU) with IAFF, Local 1230, which grants employees who become new Safety members of CCCERA, on or after January 1, 2015, a post retirement cost-of-living adjustment limited to 2% per year. Segal Consulting has calculated member and employer rates for the Contra Costa County Fire Protection District for Safety Tier E.

It was **M/S/C** to adopt the employer contribution rates as shown in the Segal Consulting letter for members employed by Contra Costa County Fire Protection District in PEPR Safety Tier E. (Yes: Gordon, Hast, Holcombe, Mitchoff, Phillips, Smithey, Telles and Watts)

In public comment, Bob Campbell, Contra Costa County Auditor-Controller, asked when this would be provided to the Board of Supervisors for adoption.

Allen and Rodrigues were present for subsequent discussion and voting.

8. Consider and take possible action on renewal of contract with Segal Consulting for actuarial services

Strohl reported the current agreement between CCCERA and Segal Consulting expired on December 31, 2014.

It was **M/S/C** to approve the renewal of the contract with Segal Consulting as presented. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

9. Consider and take possible action to adopt Resolution 2015-1 providing for salary and benefits for unrepresented employees of CCCERA effective January 1, 2015

It was **M/S** to adopt Resolution 2015-1 providing for salary and benefits for unrepresented employees of CCCERA effective January 1, 2015.

In public comment, Kurt Schneider, Deputy Retirement Chief Executive Officer, expressed concerns that the draft CCCERA unrepresented employees resolution does not include a differential for the CEBS designation. He encouraged the Board to consider continuing to offer a differential for the designation for unrepresented employees at CCCERA.

The Board discussed the CEBS designation and whether the knowledge gained from the designation provides a benefit to CCCERA.

Dunn reviewed the changes in the CCCERA Unrepresented Employees Resolution from the Contra Costa County Management Resolution noting staff are working on streamlining the documents that currently govern positions at CCCERA.

A substitute motion was **M/S** to adopt Resolution 2015-1 providing for salary and benefits for unrepresented employees of CCCERA effective January 1, 2015 including a 2.5% differential for the CEBS designation. (Yes: Hast, Rodrigues, Smithey, Telles; No: Allen, Gordon, Mitchoff, Phillips and Watts) **motion failed.**

The original motion was **M/S/C** to adopt Resolution 2015-1 providing for salary and benefits for unrepresented employees of CCCERA effective January 1, 2015. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey and Watts; No: Telles)

10. Consider and take possible action to adopt the pay schedules for all CCCERA classifications effective January 1, 2015.

It was M/S/C to adopt the pay schedules for all CCCERA classifications effective January 1, 2015 as presented. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

It was M/S/C to add an item to consider and take possible action to adopt Resolution 2015-2 to continue the tax deferred status of retirement contributions for CCCERA employees pursuant to Govt. Code Section 54954.2(b)(2) because there is a need for the board to take immediate action and the need for action came to the attention of CCCERA subsequent to the agenda being posted. Levy discussed the immediate need for action noting that CCCERA was just notified by the County Auditor-Controller that the Resolution must be adopted prior to the first payroll of 2015 in order to be in compliance. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

Consider and take possible action to adopt Resolution 2015-2 to continue the tax deferred status of retirement contributions for CCCERA employees

Hast stated this is a housekeeping item to comply with requirements from the IRS. Prior to January 1, 2015 CCCERA staff were covered under the Contra Costa County Internal Revenue Code (I.R.C.) Section 414(h)(2) resolution, which provides that employee retirement contributions are not included in the employee's gross income in the year in which such amounts are contributed, but instead, such contributions are includable in the gross income of the employee in the taxable year in which such amounts are distributed. In order to preserve status quo, the Board of Retirement, as the governing board of the CCCERA District, must take formal action and adopt its own I.R.C. Section 414(h)(2) resolution covering District employees.

It was M/S/C to adopt Resolution 2015-2 to continue the tax deferred status of retirement contributions for CCCERA employees. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

11. Consider and take possible action to approve the proposed CCCERA CEO employment agreement and authorize Board Chairperson to execute on behalf of the Board

It was M/S/C to approve the proposed CCCERA CEO employment agreement and authorize the Board Chairperson to execute on behalf of the Board. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

12. Consider and take possible action to revise investment guidelines for Adelante Capital Management

Price noted that investment managers understand that if they have concerns with the investment guidelines they should provide these requests to the staff and Board. Adelante Capital Management has requested two changes to the investment guidelines for the US REIT portfolio that they manage on behalf of CCCERA.

Price noted he believes both requests are reasonable updates and would align the CCCERA portfolio with the firm's recommendation for other Total Return Strategy institutional clients.

It was M/S/C to revise the investment guidelines for Adelante Capital Management and authorize the CEO to execute and amend the investment guideline appendix of the existing Adelante contract. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

13. Consider and take possible action regarding recommendation from Investment Consultant Search Committee regarding finalist candidates

Phillips noted there were 13 responses to the Investment Consultant request for proposal.

Price reviewed the process the Investment Consultant Search committee and staff used to review all of the responses. He noted the Board committee and staff completed due diligence and interviewed the eight qualified firms.

Phillips discussed the Committee's recommendation to the Board noting the current investment consultant is not the recommended firm. The Committee members discussed the reasons for the recommendation noting that Wurts and Associates appears to provide services that can meet the needs of CCCERA.

It was M/S/C to accept the Investment Consultant Search Committee's recommendation and interview Wurts and Associates. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

14. Conference Seminar Attendance

- a. It was M/S/C to authorize the attendance of up to 4 Board members and 1 staff member at the RFK Compass Conference, West Coast, Sausalito, CA, March 4-5, 2015. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)
- b. It was M/S/C to authorize the attendance of 1 staff member at the PIMCO Client Conference, INSIGHT 2015, Newport Beach, CA, March 15-18, 2015. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)

15. Miscellaneous

(a) Staff Report –

Strohl noted CCCERA recently received a public records request for the current Board's Form 700 from pension360.org; the bid responses for the exterior construction project for the Willows building have been received from contractors and are currently being evaluated.

Schneider reported the December 2014 CPI was published and the retiree COLA will be based on a 2.5% increase in CPI from the prior December.

Levy reported Leiderman and she are not able to attend the next meeting. Attorney Jeff Rieger from Reed Smith LLP will be at the meeting to provide legal guidance.

Dunn noted there is a new mileage reimbursement form effective January 1, 2015 and it has been placed in the dropbox.com folder.

Davis recognized staff for their hard work during her absence.

(b) Outside Professionals' Report -

Leiderman suggested placing on a future agenda a discussion on fiduciary insurance.

(c) Trustees' comments –

Mitchoff asked when the discussion on pay items included in "pensionable compensation" will return to the Board. Strohl reported the item will be on an agenda for discussion within a month or two.

Telles reported he understood that the Board directed staff to only review the 188 past retirements that had an increase of 30% or more but recently discovered that staff were reviewing every retirement in the last ten years. Dutkiewicz noted that he has reviewed all

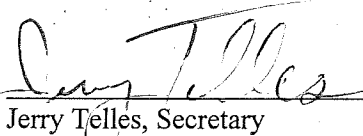
retirements that had a 30% or more increase in their pension amount compared to their salary and then used that parameter on the other retirees to determine how much that particular pay item increased their pension. Telles sought clarification about the Board's direction, noting that he thinks the Board should focus only on the 30% or more cases. He requested this item be placed on a future agenda.

Allen reported there have been changes in the affiliate board members on the SACRS board.

It was M/S/C to adjourn the meeting. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Rodrigues, Smithey, Telles and Watts)



Brian Hast, Chairman



Jerry Telles, Secretary