

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

Page 1

July 12, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, July 12, 2006, in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, Brian Hast, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support:	Representing:
Ashley Dunning	Steeffel, Levitt and Weiss
Paul Angelo	The Segal Company
John Monroe	The Segal Company

Other Attendees:

Tracy Kroll	Contra Costa County Employees' Retirement Association (CCCERA)
Joelle Luhn	CCCERA Staff
Luz Casas	CCCERA Staff
John Keel	San Ramon Valley Fire Protection District (SRVFPD)
Joan Wood	SRVFPD
Melissa Theofauopoulos	SRVFPD
Craig Bowen	SRVFPD
Jason Crapo	County Administrator's Office (CAO)
Robert Campbell	CAO
Lisa Driscoll	CAO
Laura Strobel	CAO
C.L. Morris	Retiree Support Group (RSG)
E.K. Irwin	RSG
Douglas Pipes	RSG
Sue Milligan	RSG
Greg Wy	Housing Authority Contra Costa County
John Noble	Deputy Sheriff's Association (DSA)
Jim Bickert	DSA
Mike George	Contra Costa County Fire Protection District (CCCFPD)
David O'Brien	CCCFPD
Pat Soler	Moraga Orinda Fire District
Carl Doolittle	Contra Costa County Retired Employees' Association (CCCREA)
Lori Gentles	Human Resources
Colette Curtis-Brown	Contra Costa County Sanitary District (CCCSD)
Debbie Ratcliff	CCCSD
Ron Walker	Local 1230
Stacey Allen	Local #1

**1. Public Comment**

Hast noted those requesting to speak before particular items would be allowed to do so later in the meeting. No members of the public offered comment at this time.

**2. Board Reorganization**

Wedington, Hast and Pollacek were nominated for Chair, Vice Chair, and Secretary respectively. It was M/S/C to close the nominations and cast a unanimous ballot for the members as nominated. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

**3. Approval of Minutes**

It was M/S/C to approve the minutes of the June 28, 2006 meeting. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

Viramontes requested a copy of the May 17, 2006 minutes in preparation for the reconsideration of the vote on Item 9, the Interest Crediting and Excess Earnings (IC & EE) Policy.

**4. Routine Items**

It was M/S/C to approve the routine items of the July 12, 2006 meeting. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

The Board moved into closed session pursuant to Govt. Code Section 54957 and 54956.9 (c) to consider the Medical Advisor and or staff's recommendation regarding disability retirement applications and to consult with counsel regarding whether to initiate litigation.

The Board moved into open session.

**5. Disability Retirements**

It was M/S/C to accept the Medical Advisor's recommendation and grant the following disability benefits:

- (a) Robert Hansen, Service Connected (Yes: Cabral, Gaynor, Hast, Katz, Kroll, Pollacek, Telles, and Viramontes)

**6. Potential Litigation**

No reportable action taken.

**3. Approval of Minutes (revisited)**

Item 3 was revisited and there was a motion to amend the minutes on Page 5, 6<sup>th</sup> paragraph by changing "supervising and working" with Dunning to "collaboration" with Dunning and five lines from the bottom of the paragraph "supervise" Dunning to "collaborate with" Dunning and on the motion in the seventh paragraph to change "supervisory authority over" Dunning to "collaboration with" Dunning. It was M/S/C to approve the minutes of the June 28, 2006 meeting as amended. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

**7. Valuation Report as of 12/31/05 - John Monroe, Paul Angelo**

Angelo began by noting this was a relatively low news valuation and results are relatively flat. He then reviewed significant issues in the valuation year.

Angelo summarized the key valuation results noting the ratio of actuarial value of assets to actuarial accrued liabilities increased from 82.0% to 84.8%. The aggregate employer rate calculated in this valuation has decreased from 29.33% of payroll to 28.63% of payroll. The increase in the funded ratio and the decrease in the aggregate employer rate was due primarily to the receipt of \$153.1 million in pension obligation bond proceeds from the Contra Costa County Fire District and Moraga Orinda Fire District. The aggregate member rate has increased slightly from 11.40% of payroll to 11.42% of payroll. He noted these aggregate rates are before any employer or employee subvention.

The results of this valuation reflect two changes in economic actuarial assumptions. The inflation assumption was lowered from 4.00% to 3.75% and the "across the board" salary increase assumption was increased from 0.25% to 0.50%. There is no impact on employer or member contribution rates due to the combined effect of these two assumption changes.

Discussion followed on the 20 year amortization period used by CCCERA, and at the point of this valuation, 18 years were remaining on that amortization period. Angelo noted that the first 3 years of a 20 year amortization period results in negative amortization. In response to a board member question, Angelo advised that this methodology is a generally accepted and commonly used practice.

The total unrecognized investment gain as of December 31, 2005 was about \$147 million. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will serve to offset any investment losses that may occur after December 31, 2005.

There was discussion on the addition of a footnote requested last year that noted the rates include a 50% employer subvention of members' basic contributions for all employers except Safety Districts. The rates do not include any member subvention of employer contributions. As of December 31, 2005, for most Safety employers, Safety

members contribute an extra 9% of compensation that reduces the employer's contribution rate.

**8. Contribution Rates Effective July 1, 2007**

There was a motion to accept the valuation report, noting CCCERA has met all requirements for GASB funding and to adopt the contribution rates as recommended by the actuary. The motion was amended to include the contribution rates are effective July 1, 2007 - July 1, 2008 and to direct staff to notify employers of the new rates, noting the return assumption rate remains at 7.9%. The motion was **M/S/C** as amended. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

The consensus of the Board was that it should be made clear to all employees the contribution rates adopted today are for July 2007 - June 2008 and are not for the increase in Retirement contributions on their August 10, 2006 check.

**8a. Direction to Actuary**

Angelo noted he is requesting direction on the County Administrator's request to provide revised employer and employee contribution rates for the current safety tier and two new safety tiers. It was noted the results would be estimates since it is unknown how many members would transfer into the new safety tiers.

There was discussion on providing the requested valuation on County employees only, since the County is paying the costs for the study. A generic answer would be provided to all. Other Districts can request as needed and pay for their own specific study. The only item that would change the outcome for other entities is if the average age of hire changes, the normal cost would be different.

Pat Soler of the Moraga Orinda Fire District commented they are currently in contract negotiations and would not be a part of the study at this time.

There was a **motion** to delegate authority to the CEO to work out all details of the study between the County and the actuary.

There was a great deal of discussion on who should be included in the study. Leedom noted she has only received requests from the County and the Deputy Sheriff's Association. It was the consensus of the Board that since the original letter and the cost of the study will be borne by the County that the County should have the responsibility of getting letters of requests to be included in the study from other participants. There was continued discussion on how much time should be given for the request.

Pat Soler from Moraga Orinda noted if the County were paying for the study it would be good to understand the positives and negatives of the change, but she fully expects the

current benefits would still be available; however, she noted, this issue has not been raised with their membership.

Mike George of Con Fire said he would need local 1230's buy-in for this.

John Noble from the DSA noted legislation for the tier changes has been requested at the State level and they only have until the middle of August to get this passed in time for this legislature. Leedom asked for a copy of this legislation for informational purposes and was turned down.

The Board noted they were not aware of any deadlines and the motion should go forward with the County information only and to allow the Districts under the County to make a request within the next week, by Wednesday, July 19, 2006.

After amending the original motion to include any additional County Districts in the study that respond within one week from today, it was **M/S/C** to delegate authority to the CEO to work out all details of the study between the County and the actuary and to include in the study any Districts that respond within one week from today. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

- LUNCH -

Kroll was not present for subsequent discussion and voting.

9. Excess Earnings/Interest Crediting Policy

There was discussion as to why this item was included on the agenda. Angelo discussed the Interest Crediting and Excess Earnings (IC & EE) Policy, noting there were two discussion items before the policy could be ratified.

The first issue is Segal's recommendation against and that the Board reconsider, providing for special funding treatment for benefits under Government Code Sec. 31683 (the "\$200" benefit) under CCCERA's IC & EE Policy.

Angelo stated he was unprepared to respond when this was added into the policy at the May 17, 2006 meeting. He reviewed his recommendations against including this benefit in the IC & EE Policy as contemplated; noting one piece of the UAAL should not be sectioned out and treated differently.

A **motion** was made, based upon what has been discussed today and the feeling that the \$200 per month benefit is protected, to reconsider the vote taken on May 17, 2006, and support staff's recommendation.

Cabral expressed his displeasure having this item on the agenda after voting to include the \$200 benefit in the IC & EE Policy. There was discussion on tracking the benefit. Dunning noted once the benefit was approved and granted, it became a vested benefit.

Angelo stated Dollar Power is different than the \$200 benefit, in that additional benefits for retirees can be created under Dollar Power, where the \$200 benefit is for a group of retirees retired by a certain date.

Viramontes **withdrew the motion** noting they did not want to stress retirees and was willing to commit to the extra work involved to assure retirees they would not lose the benefit. Katz, the second on the motion, did not want to withdraw the motion, noting CCCERA hires experts in various fields and doesn't understand why a recommendation from an expert, with certification by counsel, would not be taken. Dunning noted she is comfortable, from a legal prospective, with whatever decision the Board makes.

There was a **motion** not to reconsider the May 17, 2006 vote. The public was asked for comment before the final vote.

**Public Comment**

Ed Irwin - thanked the Board for taking the time and effort for this issue today and for the proposed action.

C.L. Morris- commented that Viramontes "hit the nail on the head" with not stressing retirees. He feels the County has taken a larger part of excess earnings than the retirees. He fears making the \$200 discretionary would be the first step to losing the benefit and does not want to bring a lawsuit to return the vested benefit.

Carl Doolittle - felt it was disturbing that no one has been tracking the \$20 million; his belief is it couldn't be that difficult. He noted the number of retirees affected is decreasing and wondered why the Board would want to disturb and worry these retirees. He felt the active employees are pitted against the retired members and things should be fairer.

The motion was **M/S/C** to **not** reconsider the May 17, 2006 vote and to leave the Interest Crediting and Excess Earnings Policy as initially voted. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes; Abs: Katz) Katz noted he abstained because of the confidence he places in CCCERA's staff.

There was discussion that the Contra Account would need to be replenished before any additional amount for the contingency reserve could be considered, and the Board can consider revisiting increasing the contingency reserve at a future date.

It was **M/S** to reconsider the vote on the IC & EE Policy from the May 17, 2006 meeting to increase the level of assets included within the Board Contingency Designation reserve from 1 percent to 2 percent. (Yes: Gaynor, Katz, Pollacek, Viramontes; No: Cabral, Hast, Rey, Telles) **The motion failed.**

It was M/S/C to ratify the second reading of the Interest Crediting and Excess Earnings Policy. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

**10. Member Services Department**

Leedom noted, to avoid potential lay-offs, staff is requesting approval to restructure certain Member services positions to accurately reflect their duties in the new pension administration system. Leedom has already consulted with the County Human Resources Department regarding the steps needed to complete the process. After the Retirement Board's approval, staff will be working with Human Resources and the unions to complete the reclassification.

After discussion on making this a lateral transfer so seniority rights are protected, it was M/S/C to accept staff's recommendation to approve the new positions and salary ranges as proposed and to make this a lateral transfer to protect the seniority of the affected positions. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Viramontes)

**11. July 19, 2006, Commodities Education**

No action taken.

Viramontes and Cabral were not present for subsequent discussion and voting.

**12. Conference Seminar Attendance**

- (a) It was M/S/C to authorize the attendance of Cabral, Wedington, Hast, Pollacek, and Hally at the Consultants Roundtable, Institutional Investor, October 24-25, 2006, Chicago, IL. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)
- (b) It was M/S/C to authorize the attendance of Cabral, Wedington, Hast, Pollacek, and Hally at the Consultants Roundtable, Hedge Fund Institutional Forum, October 23, 2006. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)
- (c) It was M/S/C to authorize the attendance of Hast at the Liability Driven Investing, Pensions and Investments, September 25-27, 2006, New York, NY. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)
- (d) No one was able to attend the Guns and Hoses, Institute for International Research, September 17-29, 2006, Las Vegas, NV.
- (e) It was M/S/C to authorize the attendance of Rey and Wedington at the Fall Conference, Council of Institutional Investors, September 17-19, 2006, Washington, DC. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)
- (f) No one was able to attend the Advanced Investments Management, Wharton, September 24-28, 2006, Philadelphia, PA.
- (g) It was M/S/C to authorize the attendance of Gaynor at the Certificate of Achievement in Public Plan Policy, IFEBP, October 7-8, 2006, Las Vegas, NV. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)

*CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

Page 8

July 12, 2006

- (h) It was M/S/C to authorize the attendance of Telles at the 52<sup>nd</sup> Annual Employee Benefits Conference, International Foundation of Employee Benefits, October 8-11, 2006, Las Vegas, NV. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)

**8. Miscellaneous**

- (a) Staff Report - Leedom noted the Benefit Statements will go out earlier than anticipated; the statement is slated to go out late next week.
- (b) Outside Professionals' Report - Nothing additional.
- (c) Trustees' Comments - Naramore requested clarification on the tax form and letter sent to retirees in her Board mail box. Leedom noted all Board members received a copy of the letter for their information. The letter and tax form were sent out as a special project to all retirees receiving more than one check that they may need to change their withholdings since they will no longer be receiving multiple checks. Somsen noted if the pension recipient is a member and a survivor they will still receive two separate checks.

It was M/S/C to adjourn. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Telles)

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Clifton Wedington, Chairman

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William J. Pollacek, Secretary