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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

January 23, 2007

**Members Present:** Maria De Anda, Mike Fisher, Gordon Ford, Wes Hall, Mike Lynch, Ron Martin and Steve Yauch

**Alternate Member Present:** Linda Stotts-Burnett, Alternate Retiree Representative

**Members Absent:** Jim DeMartini, Darin Gharat

**Others Present:** Kelly Cerny, Carol Dunbar-Chief Executive Office, Natalie Elliott, Paul Harte-Strategic Investment Solutions (SIS), Harold Loeb-Buck Consultants, Deirdre McGrath, Hank Skau and Tom Watson

1. Meeting called to order at 2:00 p.m. by Chair Wes Hall.

2. **Announcements**

None.

3. **Public Comment**

None.

4. **Consent Items**

Motion was made by Mike Fisher and seconded by Steve Yauch to approve the following items as listed.

Motion carried.

a. Approval of the January 10, 2007 Minutes

5. **Presentation by Buck Consultants of the Stanislaus County Employees' Retirement Association's Report on the Actuarial Valuation as of June 30, 2006**

Wes Hall, Chair, introduced Harold Loeb, Managing Principal and Consulting Actuary, Buck Consultants. Mr. Loeb gave a presentation of StanCERA's actuarial valuation as of June 30, 2006. Board members had previously received and reviewed the report. Mr. Loeb's presentation included detail of the Executive Summary, such as the actuarial valuation, current assumptions, liability, contribution rates and interest-crediting rate for

5. **Presentation by Buck Consultants of the Stanislaus County Employees' Retirement Association's Report on the Actuarial Valuation as of June 30, 2006 (cont.)**

this period. The data encompasses current members. The market rate of return was 9.90% for the year, above the actuarial assumed rate of 8.16%. The actuarial value of assets rose 10.82%. As of June 30, 2006, the funded ratio of assets to liabilities of the retirement system is 96.6%; the inflation assumption rate dropped from 4.5% to 4.0%; and the employer and member contribution rates reduced by 1.97% and .31% respectively. The new inflation assumption rate and contribution rates reflect economic and non-economic assumptions recommended in the triennial report.

Mr. Loeb answered various questions. Mike Lynch, Trustee, inquired if new employees are 100% whole under the current system when they join the workforce. Mr. Loeb replied that new members do not bear the burden of older members.

The report will be brought back for adoption and further action at the February 14, 2007, Board of Retirement meeting.

6. **Presentation by Buck Consultants of the Stanislaus County Employees' Retirement Association's Triennial Report on the Experience Study for the Period July 1, 2003 through June 30, 2006**

Mr. Loeb continued his presentation with a brief review of the StanCERA triennial report on the experience study for the period of July 1, 2003 through June 30, 2006. This included the executive summary, statistical highlights, summary of actuarial non-economic and economic assumptions. The data contained StanCERA's inactive, retired and active membership. Compared with other 1937 Act counties, the report recommends the current assumed inflation rate of 4.5% be lowered to 4.0%. A review of asset class earnings by Ibbotson and Sinquefeld for the period of 1926 through 2005 demonstrates that StanCERA's current asset allocation should yield a real earnings rate above inflation of 5.46%. Accounting for fees and expenses, and some deduction for adverse financial conditions, the real earnings rate was recommended to increase to 4.0% from the prior 3.5%. This yields a continued use of a recommended annual interest-crediting rate of 8.0% or 4.0% semi-annually (8.16% compounded annually). The major non-economic assumption change was the reduction in estimated general member disability retirements by 50%. In addition, the rate of safety members terminating service with vested benefits was increased 50%.

Mr. Loeb answered board member questions and provided a brief description of the mortality table and the historical inflation rate data.

The Board will adopt the triennial report recommendations at the February 14, 2007, Board of Retirement meeting.

7. **Funding Ratio Educational Presentation by Buck Consultants**

Mr. Loeb provided information to Board members' questions regarding how to determine a proper or prudent funding ratio – the ratio of a pension plan's assets to its liabilities. Mr. Loeb explained that a combination of a fairly low funding ratio and a concern that a system cannot make future contribution requirements would indicate a deteriorating situation and would be cause for alarm. However, even lower funding ratios in the 70%

7. **Funding Ratio Educational Presentation by Buck Consultants (cont.)**

range with certain future member and employer contributions would not be cause for alarm. StanCERA at a 96.6% funded ratio and with stable future member and employer contributions remains soundly funded. The 96.6% funded ratio indicates the current actuarial value of assets is able to pay 96.6% of all currently estimated liabilities for all current members. Mr. Lynch inquired if other 1937 Act counties are lowering their inflation assumptions and not lowering the expected earnings assumptions. Mr. Loeb responded the 1937 Act counties all look at the same indices to determine rates. It was noted some 1937 Act retirement systems had lowered their interest assumption rate to 7.75% while others maintained an 8% assumption rate.

8. **Strategic Investment Solutions, Inc. (SIS) Monthly Performance Review for the Month Ending December 31, 2006**

Paul Harte, SIS, presented the monthly performance review for the period ending December 31, 2006. StanCERA's portfolio is \$1.38 billion, an increase of 0.96% for the month. The fiscal year to date return is 10.16% below StanCERA's policy index of 10.29%, yet above the 8.16% actuarial rate of assumption, which is 4.08% for the six-month period. Paul indicated StanCERA's portfolio has had a 10% return on investments for the past six months.

9. **Discussion and Action on Strategic Investment Solutions (SIS) Draft of the Special Situations Fund Policy and Procedures January 2007**

Paul Harte gave an overview of a draft policy and procedures for the special situations fund. The concept of a special situations fund was adopted by the Board of Retirement at its August 22, 2006 meeting. The special situations fund calls for the establishment of new types of investments such as investments in global equity, emerging market debt, real estate investment trusts (REITs) and treasury inflation protection securities (TIPS).

Upon review of the draft document, the Board of Retirement requested it be incorporated into StanCERA's Investment Policy to maintain the consistency of the investment management program. The Board requested to continue educational sessions on new asset classes.

10. **Administrator**

a. StanCERA Complaint Log of October 1, 2006 through December 31, 2006

Tom Watson, Retirement Administrator, noted board members received Hank Skau, Operations Manager's written report of StanCERA's complaint log for the fourth quarter of 2006. A total of five complaints were logged this quarter, down from 11 complaints for the previous quarter. The decrease in complaints is due to staff making a concerted effort to refer insurance-related calls to BMTI, the insurance broker, as the Board had previously requested. The Board expressed its appreciation to staff for their efforts.

10. **Administrator (cont.)**

b. BMTI Complaint/Contact Log of October 1, 2006 through December 31, 2006

Tom Watson noted board members received Hank Skau's written report of BMTI's complaint/contact log for the fourth quarter of 2006. The Board reviewed the report and did not have any questions.

11. **Committee Reports & Recommendations for Action**

**STANDING COMMITTEES**

a. Education Committee – Gordon Ford, Chair

i. Discussion and Action on Attendance and Travel Costs for The Opal Financial Group's 8<sup>th</sup> Annual Investment Education Symposium, February 14-16, 2007, New Orleans, Louisiana

Gordon Ford, Chair, noted that board members had received written material about the symposium and asked if there was interest among board members to attend. After a brief discussion, no action was taken.

ii. Discussion and Action on Attendance and Travel Costs for the California Society of Municipal Finance Officers' (CSMFO) 2007 Annual Conference, March 6-9, 2007, Modesto, California

Gordon Ford, Chair, gave a summary of the upcoming CSMFO Conference to be held in Modesto. Mr. Ford mentioned some topics to be addressed at the conference that may be of value to the retirement system such as a discussion on pension obligation bonds.

Motion was made by Steve Yauch and seconded by Maria De Anda to approve the Board of Retirement and staff's attendance and travel costs for the California Society of Municipal Finance Officers' (CSMFO) 2007 Annual Conference, March 6-9, 2007, Modesto, California.

Motion carried.

12. **Members' Forum (Information and Future Agenda Requests Only)**

Gordon Ford distributed a paper entitled, "*Soft Dollar Arrangements By Fund Managers.*" He also distributed an informational sheet entitled, "*Limited OPEB Liability Exposure,*" that was part of a Stanislaus County presentation to rating agencies.

12. **Members' Forum (Information and Future Agenda Requests Only) (cont.)**

Ron Martin commented that the Board may want to consider adding a chief investment officer (CIO) to the staff in the future. Ron mentioned it became apparent to him after attending the various conferences and seminars on behalf of the retirement system, that given StanCERA's fund size, there is a fiduciary need to consider this. The position would complement StanCERA's current staff and SIS, StanCERA's investment consultant.

13. **Adjournment**

Meeting adjourned at 3:53 p.m.

Respectfully submitted,

Tom Watson, Retirement Administrator

APPROVED AS TO FORM:  
MICHAEL KRAUSNICK, COUNTY COUNSEL

By: \_\_\_\_\_  
Deirdre McGrath, Deputy County Counsel