



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
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## AGENDA

BOARD OF RETIREMENT  
832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room**  
Modesto, CA 95354

**October 8, 2014**  
**2:00 p.m.**

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

**CONSENT ITEMS:** These matters include routine administrative actions and are identified under the Consent Items heading.

**PUBLIC COMMENT:** Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

**BOARD AGENDAS & MINUTES:** Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: [www.stancera.org](http://www.stancera.org).

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

**AUDIO:** All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <http://www.stancera.org/sections/aboutus/agendas>.

**NOTICE REGARDING NON-ENGLISH SPEAKERS:** Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

**REASONABLE ACCOMMODATIONS:** In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items
  - a. Approval of the September 23, 2014 Investment Meeting Minutes [View](#)
  - b. Executive Director Goals Update Quarter 3 2014 [View](#)
  - c. StanCERA Complaint Log [View](#)

5. Consent Items (Cont.)

d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

1. Banks, Robert – Sheriff – Effective 10-05-2014
2. Blair, Susan – CSA – Effective 10-23-2014
3. Blancett, Donna – CSA – Effective 10-04-2014
4. Coito, Cathy – CSA – Effective 10-04-2014
5. Figueroa, Luis – Assessor – Effective 10-01-2014
6. Hernandez, John – CSA – Effective 10-04-2014
7. Hidalgo, John – CSA – Effective 10-13-2014
8. Miller, Georgeanna – DCSS – Effective 10-25-2014
9. Ortiz, Mary – HSA – Effective 09-20-2014
10. Potter, Jeffrey – Parks & Recreation – Effective 10-25-2014
11. Ratana, Kam – CSA – Effective 10-04-2014
12. Rodriguez, Maria E. – HSA – Effective 10-02-2014
13. Takher, Daljit – HSA – Effective 10-08-2014
14. Williams, David – GSA – Effective 10-18-2014

e. Approval of Deferred Retirement(s) – **Section 31700**

1. Canales, Vincent – StanCOG – Effective 08-16-2014
2. Daniels, Richard – CSA – Effective 08-09-2014
3. Hernandez, Kimberly – CSA – Effective 08-23-2014
4. Jensen, Jill – CSA – Effective 06-03-2014
5. Segarini, Rochelle – CSA – Effective 08-30-2014
6. Thrasher, Deborah – OES – Effective 09-06-2014
7. Urbina, Jorge – BHRS – Effective 07-19-2014

f. Approval of Death Benefit – **Sections 31781, 31781.1, and 31781.3**

1. LaFromboise, Candice Lynn Deceased, September 25, 2014, Active Member
2. Davis, Jamie, Deceased, September 17, 2014, Deferred Member
3. Brimoanbi, Claudia, Deceased, September 8, 2014, Active Member

g. Approval of Disability Retirement – **Section 31724**

1. Guzman, Regina - CSA, Non-Service Connected, Effective 03-19-2014
2. Holcomb, Kimberly - BHRS, Non-Service Connected, Effective 06-11-14
3. Humble, Jennifer - Sheriff, Service-Connected, Effective 02-06-14

h. Withdrawal of Application for a Disability – **Section 31727**

1. Byers, Raymond – Public Works

6. Executive Director

- a. StanCERA Monthly Staff Report – Rick Santos [View](#)
- b. StanCERA 10-Year Strategic Realignment [View](#)
- c. Creation/Funding of Investment Officer classification [View](#)
- d. Legislative / Legal Update – Dawn Lea [View](#)

7. Closed Session

- a. Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets  
Government Code Section 54956.81
- b. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants,  
LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)
- c. Conference with Legal Counsel – Pending Litigation – One Case:  
O'Neal et al v. Stanislaus County Employees' Retirement Association  
Stanislaus County Superior Court Case No. 648469  
Government Code Section 54956.9(d)(1)
- d. Conference with Legal Counsel – Pending Litigation – One Case:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate  
District, Case No. H038894 Government Code Section 54956.9(d)(1)

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

9. Adjournment



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**PLEASE POST FOR EMPLOYEE VIEWING**

**BOARD OF RETIREMENT MINUTES**

**September 23, 2014**

**Members Present:** Gordon Ford, Maria De Anda, Darin Gharat, Michael O'Neal  
Jim DeMartini, Donna Riley and Jeff Grover

**Member Absent:** Mike Lynch and Jason Gordo

**Alternate Member Present:** Joan Clendenin, Alternate Retiree Representative

**Staff Present:** Rick Santos, Executive Director  
Kathy Herman, Fiscal Services/Operations Manager  
Kellie Gomes, Executive Board Secretary

**Others Present:** Fred Silva, General Legal Counsel  
Doris Foster, Chief Executive Office

1. Meeting called to order at 2:02 p.m. by Gordon Ford, Chair.
2. Roll Call
3. Announcements

Kellie announced the read out from past closed session item regarding Real Estate allocation as follows:

On April 22, 2014 in closed session action was taken on Item# 9.a. Motion was made by Jeff Grover and Seconded by Jason Gordo to allocate \$30 Million to American Reality and directed staff to begin the legal review process with Hanson & Bridgett and negotiate the contracts with the approved manager. Roll call vote carried unanimously. Trustee Darin Gharat was absent during the vote.

Further, after legal review and the negotiation process StanCERA committed \$30 million to American Strategic Value Realty Fund, LP on September 3, 2014

4. Public Comment  
None

5. Consent Items

a. Approval of the September 10, 2014 Administrative Meeting Minutes

Motion was made by Darin Gharat and seconded by Jeff Grover to approve consent items as presented excluding Item 5.b pulled by Joan Clendenin.

Motion carried unanimously.

Item 5.b pulled by Joan Clendenin for clarification.

b. SACRS Legislative Proposal

Motion was made by Darin Gharat and seconded by Jeff Grover to approve consent items 5.b as presented.

Motion carried unanimously.

6. Annual Update and Review – Dodge & Cox Fixed Income / Equities

a. Quarterly Value Added Report

Annual update and review was presented by Deirdre Curry, Wendell Birkhoffer and Bob Thompson.

7. Strategic Investment Solutions (SIS), Inc.

a. Monthly Performance Review for the Month Ending August 31, 2014

Rick Santos, Executive Director asked that Pyramis and Legato be placed “under review” and notified as per our Investment Policy outlined on page 21.

b. Report on “Top 10 Holdings” by StanCERA Investment Managers as of August 31, 2014

8. Executive Director

a. Infrastructure Investment Option Presentation

Break at 3:20 p.m.  
Reconvene at 3:24

8. Executive Director (Cont.)

a. Infrastructure Investment Option Presentation

i. Morgan Stanley Investment Partners (MSIM)

Presentation provided to the Board by:

Chris Koski

Jim Wilmott

Robert Harkins

ii. Kohlberg Kravis Roberts (KKR)

Presentation provided to the Board by:

Dan McLaughlin

Raj Agrawal

Break at 4:18 p.m.

Reconvene at 4:22 p.m.

9. Closed Session

Motion was made by Darin Gharat and seconded by Michael O'Neal to enter into closed session at 5:03 p.m.

a. Discussion and Action Regarding Allocation of StanCERA's Infrastructure Assets  
Government Code Section 54956.81

b. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants,  
LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)

c. Conference with Legal Counsel – Pending Litigation – One Case:  
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District, Case No. H038894 Government Code Section 54956.9(d)(1)

Michael O'Neal and Joan Clendenin recused themselves at 5:28 p.m.

Motion was made by Maria DeAnda and seconded by Donna Riley to enter into open session at 5:32 p.m.

Nothing from closed session to report out at this time.

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

None

9. Adjournment

Meeting adjourned at 5:33 p.m.

Respectfully submitted,

Rick Santos, Executive Director

A handwritten signature in blue ink, appearing to read "Rick Santos", written over a horizontal line.

APPROVED AS TO FORM:  
FRED A. SILVA, GENERAL LEGAL COUNSEL

By:   
Fred A. Silva, General Legal Counsel

A handwritten signature in blue ink, appearing to read "Fred A. Silva", written over a horizontal line.



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## **For the Retirement Board Meeting**

**Held on October 8, 2014**

TO: StanCERA Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: Executive Director Goals Update Quarter 3 2014
- II. ITEM NUMBER: 5.b
- III. ITEM TYPE: Consent
- IV. RECOMMENDATION: Approve progress on Executive Director Goals for Quarter 3
- V. ANALYSIS: This is the third quarter update on the Executive Director Goals for 2014. For the past couple years, the Executive Director put out both a Strategic Plan and Executive Director Goal update each quarter. This was in keeping with past historical practice for the Organization. However, because of the implementation of the new Strategic Plan effective January 1, 2014 and the fact that the Executive Director Goals are explicitly intertwined with the Strategic Plan, this past practice of dual reporting will be replaced by this one report. Attachment 1 shows the Quarter 3 progress on the goals for 2014. Progress (if any) is highlighted in blue, completed tasks are in black. The document breaks out tasks that are general in nature and ongoing and required to be completed in 2014 from those tasks that are explicitly tied to the Strategic Plan (also required to be completed in 2014).

### *Ongoing/Required Items*

Quarter 3 was a very busy time for the Organization as many of the strategic requirements were completed. Of note this quarter, staff completed several tasks related to the transition to the Alternative Investment Class and the final tasks of the custodial bank transfer were finished. After 9 months of research, the strategic realignment analysis is complete and is ready for presentation to the Board. StanCERA staff continues to play a major role in our ongoing lawsuits as court proceedings and mediation issues/sessions have taken place this quarter.

All aspects of the day to day administrative functions at StanCERA were completed in a timely manner. Of significance this quarter, the outstanding number of disability cases dropped from 14 at the end of Quarter 2 to 10 today. This is partly due to the transference of the organizational aspect of the process to special counsel. As noted in the realignment analysis, staff fully intends to make this a core competency of the Organization within the next 10 years and bring the process back in house.

### *Items tied explicitly to the Strategic Plan*

Staff made extraordinary progress on the Strategic Plan this quarter. Progress was made on a cash flow projection program that will allow staff to project future benefit payments and contributions to the System. This information goes hand in hand with our ability to manage our liabilities. Board education regarding options and portfolio insurance was also completed this quarter.



Internally, staff was very busy accomplishing tasks related to Strategic Objective 3 regarding organizational culture and accountability. This quarter, staff continues to promote teamwork, education and awareness by engaging in IT forum meetings and monthly team meetings. Staff has also very nearly completed the standardization of all relevant StanCERA documents (letters, agenda, memos, etc.). And finally, the office reorganization was completed in July. The office reorganization was done to bring staff into closer proximity with each other as we attempt to promote and encourage a team environment.

As mentioned earlier, staff has completed the 10-year strategic realignment. Within the realignment is analysis regarding long-range solutions for our pension management system and software and the development of long-range technology solutions for the Organization. The analyses of these issues are directly related to the completion of two aspects of Strategic Objective 4.

*Items yet to be completed this year*

Again, the Organization made tremendous strides towards completion of the required tasks embedded within the Strategic Plan for 2014. In fact, only a few items on our checklist remain. Staff will still need to complete its cash flow projection program, however, the mathematical projection techniques needed for completion should be fairly easy to program. Lastly, staff still needs to develop policy and process for the following:

- Onsite active manager visits to StanCERA
- Trustee directed investment opportunities
- Criteria for determining whether a new investment is suitable for StanCERA
- Criteria for procedures at onsite due diligence trips

Staff plans on working with the investment consultant on these policies and doesn't anticipate any issues regarding our 2014 deadline.

VI. RISK: None

VII. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET: No impact



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Rick Santos, Executive Director



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Kathy Herman, Operations Manager



## ***Ongoing/Required Items***

1. Continued communication, outreach and transparency with major stakeholders such as County, County BOS, Local Governments, Special Districts and Employee Groups
  - *Ongoing discussions with County Executive Staff regarding various pension issues*
2. Facilitate completion of the transition to alternative investments
  - *Completion of diligence and negotiation for American Realty deployment*
  - *Continued legal diligence and negotiation for PRIME deployment*
  - *Infrastructure education presentation*
  - *Infrastructure manager vetting*
  - *Complete/facilitate various capital calls*
3. Complete Custodial Bank Transition
  - Custodial Bank transition complete – Quarter 3
4. Complete Trustee Elections
  - Trustee Elections complete – Quarter 2
5. Complete intermediate and long-term Organizational Structure Review
  - 10 Year Strategic Realignment analysis complete – Quarter 3
6. Continued monitoring of StanCERA lawsuits
  - *Respond to correspondence and requests from general counsel and actuaries*
  - *Multiple meetings with attorneys and actuaries to discuss settlement issues*
  - *Attend court proceedings*
  - *Attend mediation session*
7. Director Professional Development
  - *Administrator's Institute*



8. Facilitate RFP for an Investment Consultant

- *Postponed until Q1 2015*

9. Oversee and complete day to day administrative functions

- *Disabilities; Organizational goal of 18 or less outstanding disabilities at any one time. Outstanding disabilities have gone from 14 in Quarter 2 down to 10 at the end of Quarter 3. Director note: Staff has now farmed out the organizational aspect of the process to counsel. As StanCERA moves through its realignment process, it is the intent to make the disability process a core competency of the Organization within the next 10 years and to bring back most of the process in-house.*
- *Agenda and minute production for all Board and Committee Meetings*
- *Facilitation of Board and Staff travel*
- *All retiree payrolls completed on time*
- *Member contributions and refunds up to date*
- *Monitoring of Investment Policy and Bylaws*
- *Daily monitoring of pension issues in media*
- *Ongoing and regular meetings with Investment Managers*

**Items Explicitly Tied to the 2014-2016 Strategic Plan**

- Strategic Plan Objective #1
  - a. Task: Create a StanCERA cash flow projection program
    - *Program created (Quarter 3) that allows the user to pull cash flow data by source from different user-defined historical periods for analysis; projection analytics yet to be completed*
  - b. Task: Create a valuation program to determine the cost to immunize StanCERA liabilities
    - Task Complete – Quarter 1
  - c. Task: Contract with specialists in the area of asset-liability management
    - *Nothing to report; most likely will commence in early 2015 along with the glide path creation*



- d. Ongoing: Enhance the knowledge base of StanCERA staff regarding asset-liability management
  - *Staff attendance on formal pension risk management principles*
  - *In house discussions with staff regarding investment governance issues and potential resolutions*
- e. Task: Board education sessions
  1. Futures
  2. Options
  3. Portfolio Insurance
  - Tasks complete Quarter 3. Topical presentation complete; staff intends to bring in a specialist sometime in 2014 to discuss the idea further
- f. Task: Develop policy that defines and describes StanCERA's philosophy and approach to minimizing pension risk
  - Policy complete – Quarter 2 (Agenda item late 2014/early 2015)
- g. Task: Create a glide path approach that defines the conditions when it is appropriate for StanCERA to migrate into risk reducing assets
  - *Item postponed until early 2015*
- Strategic Plan Objective #2
  - a. Develop policy and processes for:
    1. Onsite Active Manager visits to StanCERA
    2. Trustee directed investment opportunities
    - *Nothing to report; anticipate completion November 2014*
  - b. Develop objective criteria for determining whether a new investment is suitable for StanCERA
    - *Nothing to report; anticipate completion November 2014*



c. Develop criteria for procedures at onsite due diligence trips

- *Nothing to report; anticipate November 2014*

- Strategic Plan Objective #3

a. Continue to cross train staff while establishing multiple levels of backup

- *Cross Training complete in the following areas – all Quarter 2*

- New hire process
- Member name change process
- Member status change process
- Member buyback notification process
- Mailing of member statements
- Tracking changes to bylaws
- Error review of refund checks
- Error review of accounts payable checks
- Error review of death benefit checks
- Printing service retirement and disability packets
- Website update process
- Election balloting process
- Cross training begun for member file audits

b. Establish in-house training opportunities for staff

- *Nothing to report*

c. Review and reassess the Organizational Structure in alignment with long-term goals and needs of the Organization

- Task Complete – Quarter 3

d. Reestablish monthly team meetings

- Task complete through Quarter 3

e. Establish monthly IT Forum team meetings

- Task complete through Quarter 3



- f. Standardize all StanCERA documents (agenda items, external communication, etc.)
  - Letterhead, agenda item and memo standardization complete – Quarter 3
  - Business card template complete – Quarter 3
  - Audit confirmation letters complete – Quarter 3
  - Return envelopes complete – Quarter 3
- g. Reorganize Office layout
  - Task complete – Quarter 3
- Strategic Plan Objective #4
  - a. Develop long-range solution for StanCERA Pension Management System and software
  - b. Develop long-range technology requirements for StanCERA
    - Tasks complete – Quarter 3. Presentation to the Board on October 8<sup>th</sup>



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DATE: September 30, 2014  
TO: Retirement Board  
FROM: Mary Williams, Administrative Assistant  
SUBJECT: StanCERA Complaint Log

There were four (4) complaints logged between July 1, 2014, and September 30, 2014. The retiree health insurance complaints were regarding issues connected with the former services provided by Patrick McTighe's agency. A summary of all of these complaints follows:

Number of Complaints	Caller Status	Nature of Complaints
1	Retiree	Health insurance provider sent retiree a notice that coverage would be terminated at the end of the month even though retiree had paid premiums every month.
1	Retiree	Dental insurance had been cancelled and retiree was unable to get a call back from RESCO Insurance.
1	Retiree	RESCO Insurance did not remedy past due billings from retiree's medical providers and collection threats, including letters from lawyers, were continuing to arrive in retiree's mail.
1	Member	Customer service complaint from Sheriff's office

The number of complaints decreased by 15 complaints compared to the previous report period April 1, 2014, through June 30, 2014.

  
Mary Williams, Administrative Assistant

  
Kathy Herman, Operations Manager



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**For the Board of Retirement Meeting  
Held on October 8, 2014**

TO: Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: StanCERA Monthly Staff Report
- II. ITEM: 6.a
- III. ITEM TYPE: Information
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: The monthly staff report's intent is to report out to the Board of Retirement important issues/tasks staff has been working on over the past month.
  - a. *Regular workload* – Staff's main focus over the past month has been getting the regular work product out. StanCERA was down 2 staff members this past month. During the past month, StanCERA shuffled several workloads, hired one temporary person and begun recruitment to fill the vacant accounting specialist position. Staff hopes to have the vacant position filled in November. There have been some issues with the Tyler system and the calculation of benefits. Staff has implemented a manual override procedure until the problem can be permanently fixed.
  - b. *Strategic Realignment* – Research on the 10-year strategic realignment complete. Several staff members spent many hours completing the analysis this past month.
  - c. *Allocation to the Alternative Investment Class* – Staff continues to make progress towards completion of the allocation to the alternative asset class. During the past month, legal diligence and the negotiation process with American was completed. Staff is currently in negotiations with the PRIME real estate fund. Staff also completed the Infrastructure education and manager allocation decision. Staff will begin the legal diligence and negotiation process with the proposed Infrastructure manager this month.
  - d. *Annual Audit* – Staff has been heavily involved in the year-end close and annual audit process as they continue to work with the financial auditor and actuary on the preparation of the annual reports. This year's annual audit has been more time consuming and labor intensive due to the inclusion of the new GASB 67/68 rules. The Comprehensive Annual Financial Report is scheduled to be completed and presented to the Internal Governance Committee on November 6, 2014.
- VI. RISK: None



- VII. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.
- VIII. ADMINISTRATIVE BUDGET IMPACT: None



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Rick Santos, Executive Director



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Kathy Herman, Operations Manager



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Dawn Lea, Benefits Manager



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**For the Board of Retirement meeting  
Held on October 8, 2014**

TO: The Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: StanCERA 10-Year Strategic Realignment
- II. ITEM NUMBER: 6.b
- III. ITEM TYPE: Discussion
- IV. STAFF RECOMMENDATION: None
- V. ANALYSIS: For at least the last 6 years, StanCERA has administered its operations and benefit delivery services in a reasonably lean and efficient manner. These efficiencies were borne mostly out of a cost conscious management, an uncomplicated asset allocation, a well tenured, experienced and dedicated staff and a pension software system put to work in 2006. Customer service levels have remained high over this period as evidenced by a nearly nonexistent number of customer complaints directed at StanCERA. While these efficiencies have served the Organization well in the past, StanCERA has now entered into a period where it must seek out and employ additional resources over the next 10 years that will allow it to maintain current efficiencies, reestablish some lost and create new ones as well.

***Background***

In the summer of 2013, the StanCERA Board approved the 2014-2016 Strategic Plan for the Organization. Strategic Objective 4 specifically states:

*"Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently"*

Further, Strategic Objective 4, Strategy II states:

*"Enhance StanCERA technology in order to optimize our human resources and productivity"*

This agenda item lays out the 10-year strategic realignment for StanCERA and is meant to satisfy the objective, the strategy and some of the action tasks that are associated with it.

Over the past 9 months, staff has spent time researching the challenges and resource requirements the Organization faces over the next 10 years. Some were quickly self-evident while others took time to uncover. And in fact, some issues were simply exposed through the natural course of business.

This agenda item is not intended to lay out a specific course of action or commit the Organization to any idea or solution. It is simply a “state-of-the-system” assessment of where the Organization is today and what it needs over the next 10 years to efficiently and effectively administer its required functions.

### ***Analysis Format***

The format of the accompanying analysis (*Stanislaus County Employees’ Retirement Association 10-Year Strategic Realignment*) describes several issues that the Organization must confront and deal with over the next 10 years. Each issue is described and a corresponding 10-year plan (solution set) follows. Some of the issues are described at a very high level, while others are laid out in much greater detail. In some ways, many of the issues overlap one another. For example, *StanCERA Staff Demographics* and *Organizational Work Load* issues are closely related to each other, yet each deserves its own discussion and solution set, even though one particular solution may be common to both issues.

Afterwards, the paper compares StanCERA to other 1937 Act Systems in terms of budget size, staff size, benefits paid, etc. It also looks at and compares the history of StanCERA’s annual budget as a percentage of other variables such as assets, liabilities and benefits paid. It then concludes with a look at how other 1937 Act Systems allocate human resources across various functional areas within their Organizations.

### ***Summary of Issues***

The following is a summary of those issues that are discussed in the analysis along with a short description:

- *Institutional Knowledge Base* – For various reasons, the Organization does not possess a deep knowledge base on various issues regarding pension administration, most notably Investment governance and enterprise risk management.
- *Staff Demographics* – The distribution of knowledge at StanCERA is skewed dramatically towards only a few employees, while the average age of all staff is 48 years. Staff demographics such as these can, have and will produce challenges for StanCERA.
- *Organizational Work Load* – StanCERA as an Organization is growing. Its retiree base is expected to increase 75% by 2024, while the portfolio is expected to top \$3 billion over that same period. The Organization must set itself up today to meet this inevitable growth tomorrow.
- *Investment Governance* – The traditional 65% equity/35% fixed income, buy and hold portfolio is a thing of the past. As the portfolio grows in size and sophistication, the role of governance in asset management becomes critical. StanCERA must take greater control of this function and work to understand every aspect of asset and pension risk management.
- *Customer Self-Service Enhancements* – As the world goes “online”, so too is our StanCERA membership. StanCERA must have the tools in place to capture the work efficiencies that can be gained as our members continue to move online.

- *Pension Software* – StanCERA's pension software is at a point where it can only be maintained. It cannot be enhanced to account for future, desired functionality or grow with the Organization. If StanCERA is to keep up with the growth of the System and move technologically into the 21<sup>st</sup> century, it must possess the pension software to do it.
- *Website Renovation* – Currently, StanCERA's website cannot be integrated with customer self-service enhancements or our pension software. Further, information management and maintenance on the website is essentially manual.

### **Costs**

While staff has a very general accounting of future costs for the processes, people and technological ideas discussed in the accompanying paper, the intent of the paper/discussion is not to lay out anticipated future costs. In fact, staff is not asking the Board for any direction, approval or decision. Again, this paper is meant only to open the discussion on what resources the Organization is anticipated to need over the next 10 years. It will ultimately be up to staff to bring significant capital projects and expenditures to the Board for final approval.

### **Timing**

Towards the end of the paper, the timing regarding hiring of additional staff is discussed. With respect to some of the technological changes discussed here, their application would necessarily coincide with the implementation of the new pension software. Some of the process changes discussed can be implemented immediately or very soon at little or insignificant cost to the System.

### **Summary**

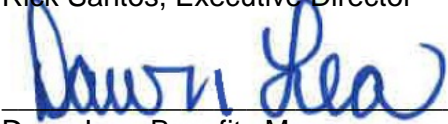
StanCERA has possessed and gained tremendous efficiencies over the past decade. Output and productivity levels have increased as measured by the fact that our budget as a percentage of assets, liabilities and benefits paid has been decreasing for at least the past 6 years. However, future system growth, investment complexity, technological deficiencies, risk management issues and greater stakeholder awareness suggest that StanCERA most likely has stretched productivity gains to its limit.

Perhaps most importantly, StanCERA will need to become a more involved and aware player in the investment governance process and need to revamp its pension software to handle technological and system growth in the future. Many of the issues discussed in the accompanying analysis are directly related to investment governance and our pension software. Knowing where StanCERA is today and where it needs to be in 10 years is perhaps the most important step in the Organization's ability to administer and deliver its services down the road.

- VI. RISK: None
- VII. STRATEGIC PLAN: Strategic Objective 4; Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently
- VIII. ADMINISTRATIVE BUDGET IMPACT: To be determined and approved over time



Rick Santos, Executive Director



Dawn Lea, Benefits Manager



Kathy Herman, Operations Manager

***Stanislaus County Employees' Retirement Association  
10-Year Strategic Organizational Realignment***

***October 8, 2014***

## ***Executive Summary***

For at least the last 6 years, StanCERA has administered its operations and benefit delivery services in a reasonably lean and efficient manner. These efficiencies were borne mostly out of a cost conscious management, an uncomplicated asset allocation, a well tenured, experienced and dedicated staff and a pension software system put to work in 2006. Customer service levels have remained high over this period as evidenced by a nearly nonexistent number of customer complaints directed at StanCERA. While these efficiencies have served the Organization well in the past, StanCERA has now entered into a period where it must seek out and employ additional resources over the next 10 years that will allow it to maintain current efficiencies, reestablish some lost and create new ones as well.

## ***Background***

In the summer of 2013, the StanCERA Board approved the 2014-2016 Strategic Plan for the Organization. Strategic Objective 4 specifically states:

*“Refine StanCERA’s business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently”*

Further, Strategic Objective 4, Strategy II states:

*“Enhance StanCERA technology in order to optimize our human resources and productivity”*

This paper lays out the 10-year strategic realignment for StanCERA and is meant to satisfy the objective, strategy and some of the action tasks that are associated with it.

Over the past 9 months, staff has spent time researching the challenges and resource requirements the Organization faces over the next 10 years. Some were quickly self-evident while others took time to uncover. And in fact, some issues were simply exposed through the natural course of business.

This paper is not intended to lay out a specific course of action or commit the Organization to any idea or solution. It is simply a “state-of-the-system” assessment of where the Organization is today and what it needs over the next 10 years to efficiently and effectively administer its required functions.

## ***Analysis Format***

The format of this paper describes several issues that the Organization must confront and deal with over the next 10 years. Each issue is described and a corresponding 10-year plan (solution set) follows. Some of the issues are described at a very high level, while others are laid out in much greater detail. In some ways, many of the issues overlap one another. For example, StanCERA *Staff Demographics* and *Organizational Work Load* issues are closely related to each other, yet each deserves its own discussion and solution set, even though one particular solution may be common to both issues.

Afterwards, the paper compares StanCERA to other 1937 Act Systems in terms of budget size, staff size, benefits paid, etc. It also looks at and compares the history of StanCERA’s annual budget as a

percentage of other variables such as assets, liabilities and benefits paid. It then concludes with a look at how other 1937 Act Systems allocate human resources across various functional areas within their Organizations.

### ***Summary of Issues***

The following is a summary of those issues that are discussed in the analysis along with a short description:

- *Institutional Knowledge Base* – For various reasons, the Organization does not possess a deep knowledge base on various issues regarding pension administration, most notably investment governance and enterprise risk management.
- *Staff Demographics* – The distribution of knowledge at StanCERA is skewed dramatically towards only a few employees, while the average age of all staff is 48 years. Staff demographics such as these can, have and will produce challenges for StanCERA.
- *Organizational Work Load* – StanCERA as an Organization is growing. Its retiree base is expected to increase 75% by 2024, while the portfolio is expected to top \$3 billion over that same period. The Organization must set itself up today to meet this inevitable growth tomorrow.
- *Investment Governance* – The traditional 65% equity/35% fixed income, buy and hold portfolio is a thing of the past. As the portfolio grows in size and sophistication, the role of governance in asset management becomes critical. StanCERA must take greater control of this function and work to understand every aspect of asset and pension risk management.
- *Customer Self-Service Enhancements* – As the world goes “online”, so too is our StanCERA membership. StanCERA must have the tools in place to capture the work efficiencies that can be gained as our members move online.
- *Pension Software* – StanCERA’s pension software is at a point where it can only be maintained. It cannot be enhanced to account for future, desired functionality or grow with the Organization. If StanCERA is to keep up with the growth of the System and move technologically into the 21<sup>st</sup> century, it must possess the pension software to do it.
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StanCERA has possessed and gained tremendous efficiencies over the past decade. Output and productivity levels have increased as measured by the fact that our budget as a percentage of assets, liabilities and benefits paid has been decreasing for at least the past 6 years. However, future system growth, investment complexity, technological deficiencies, risk management issues and greater stakeholder awareness suggest that StanCERA most likely has stretched productivity gains to its limit.

Perhaps most importantly, StanCERA will need to become a more involved and aware player in the investment governance process and need to revamp its pension software to handle technological and system growth in the future. Many of the issues discussed in this analysis are directly related to investment governance and our pension software. Knowing where StanCERA is today and where it needs to be in 10 years is perhaps the most important step in the Organization's ability to administer and deliver its services down the road.

### ***Institutional Knowledge Base***

Over the years, administration at StanCERA has grown increasingly complex. Legal issues, multiple benefit structures, investment governance and risk management are relatively new to StanCERA. As these issues have unfolded, the need to retain experienced individuals to manage them has increased. StanCERA has responded by engaging the services of consultants specializing in those areas, and while these consultants are necessary and a prudent move, their use inherently impedes the growth of a deep institutional knowledge base. Staff tends to defer complex and time consuming issues to the consultant. While this certainly is under the domain of the contracted consultant, it represents a missed opportunity to strengthen our institutional knowledge base in certain necessary areas and mature as an Organization.

#### ***Institutional Knowledge Base; 10-Year Plan***

- ✓ Take in house a substantial portion of the responsibilities related to investment governance
- ✓ Hire talented and experienced staff most likely to succeed in pension administration
- ✓ Offer and encourage more technical professional development opportunities for staff

Over the next 10 years, StanCERA should strive to take in-house as much as possible, work that's currently being performed by outside consultants. This could occur in areas such as disability, technology and investment governance. However at this time, given StanCERA's size and administrative

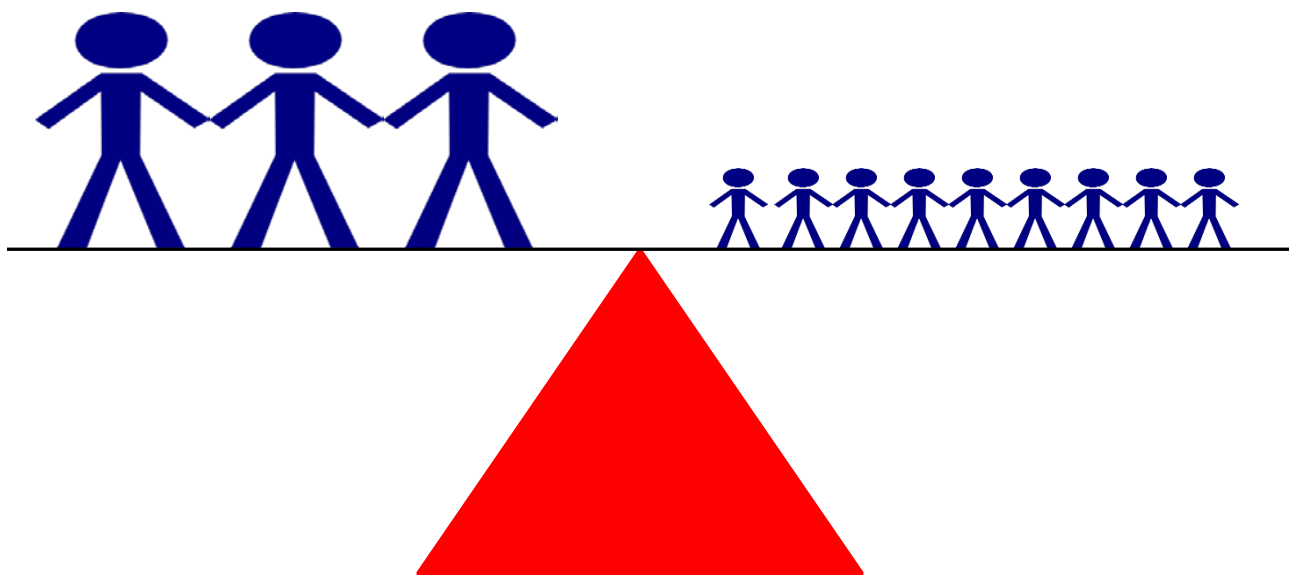
constraints, it seems prudent to look only at investment governance. There are immediate efficiencies and value that can be gained by hiring an investment professional. Not only will this enhance the Organization's knowledge base, but it will serve to strengthen staff's understanding of the investment process which will allow us to hold outside vendors, consultants and investment managers more accountable.

Additionally, as StanCERA hires and replaces staff over the next 10 years, we should strive to hire experienced and talented individuals that understand contemporary pension principles and are most likely to succeed and add value in this environment. Finally, StanCERA should offer and encourage staff to undertake professional development training in technical and complex areas of pension administration.

### ***Staff Demographics***

Currently, the average age of all StanCERA staff is 48 years. All 3 executive level staff and the staff accountant are already eligible to retire and have an average of 20 years of earned retirement service. There are over 95 years of institutional knowledge currently employed at StanCERA, with just three employees accounting for slightly over half.

### **Distribution of StanCERA Institutional Knowledge**



Currently, StanCERA's size and customer service business requirements present many staffing challenges. Personal issues, family emergencies and vacation time can leave small Organizations vulnerable at times. StanCERA staff demographics dictate that most employees need to be cross-trained across several functional areas within the Organization.

On average at any given time, whether through vacation, sick leave or extended leave, StanCERA is staffed up at around 85% (down 1.5 FTE's or full-time equivalents). This figure can and has dropped to 65% (down 4 FTE's) on occasion. As a result, management believes that at least 3 employees must have intimate knowledge and know how to process many administrative functions at all times. Retiree and staff payroll, retirement and disability counseling, retirement and disability requests, reconciling and posting employer and employee contributions, running the retiree monthly health premium deduction process and quarterly account reconciliations are tasks that cannot be put aside and are among the most important.

While it will always be prudent to maintain certain levels of redundancy, the Organization suffers from the idea that no one can really focus or become the "specialist" in any one area of pension administration. As staff's capacity to administer pension benefits is diluted across the Organization, not enough time is spent within certain functional areas researching and acquiring contemporary knowledge and honing the practical knowledge needed to efficiently administer benefits.

Staff demographics also affect management's ability to focus on their core responsibilities. Executive staff's main focus should be the direction of the Organization and managing employee workload and expectations, not day to day production. The staffing vulnerabilities mentioned earlier prevent optimal use of management's time. While this is perfectly natural from time to time in smaller Organizations, chronic use of management's time in this way is counter-productive, inefficient and extremely costly.

Staff demographics such as these can and have produced challenging situations for StanCERA at times. StanCERA's particular demographic makeup can have effects on timely customer service delivery, the ability to concentrate knowledge and job focus to a specific employee and the ability to distribute workload evenly.

#### ***Staff Demographics; 10-Year Plan***

- ✓ Enhanced training for current and new employees
- ✓ Hire 2 new benefit specialists/technicians
- ✓ Cross train 2 technicians across the communications, disability and service retirement functions
- ✓ Train 3 specialists; 1 devoted to disability and 2 to service retirement

Part of the challenge to StanCERA's demographic issue is creating a balance between the need to have employees specializing in only one functional area versus cross-training across multiple disciplines to handle those times when the Organization is short staffed. The benefits side of the Organization is most vulnerable, since timely customer service and benefit delivery is extremely important and requires a high level of human involvement.

Over the next 10 years, StanCERA should hire 1 benefit specialist and 1 benefit technician. With 5 benefit staff in total, the Organization will have the ability to cross train 2 benefit technicians across multiple disciplines and retain 3 benefit specialists that can focus solely on the administration of service retirement and disability benefits.

Training is also an important part of the solution. New employees must be quickly assimilated into StanCERA's way of business and learn the basic principles of pension administration. This can be achieved through a formal "mentor" program where a benefit or operations specialist will be responsible for the training and development of a new employee.

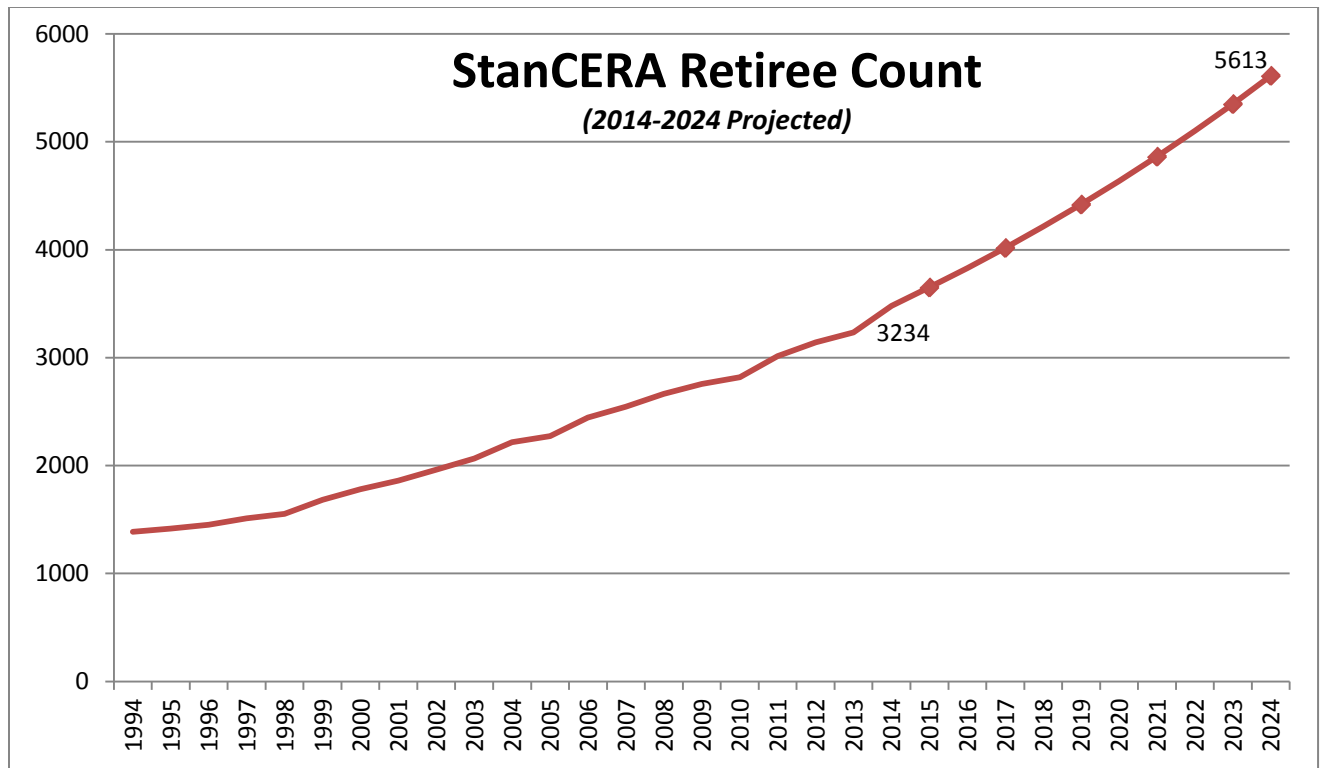
All employees must stay educated and informed on the contemporary issues facing pension systems. To the extent possible, the 10-year realignment will require all employees to attend CALAPRS roundtables throughout the year. These sessions provide StanCERA employees a chance to network with employees from other 1937 act systems and discuss issues of the day. Employees will also receive semi-regular training on various office tools such as Excel and Access that will allow them to become more efficient at their jobs.

### ***Organizational Work Load***

Overall work load is expected to increase over the next 10 years. Benefit payouts, assets managed and member counts are all expected to increase, and based on StanCERA's historical growth rates, these plan variables tend to double every 12.5 years. By 2024, both retiree counts and benefits paid are projected to increase by around 75%<sup>1</sup>. In fact, 66% of all non-retired StanCERA members today will be retirement eligible by 2024. As a result, tasks such as benefit delivery, asset management and information technology services that are directly correlated with member counts will be impacted.

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<sup>1</sup> Projected benefits paid are derived from Cheiron. Retiree counts are projected by linear regression using data beginning in 2008



### *Benefit Delivery Services*

In most public pension systems, customer service is a core competency. Over the years, StanCERA has prided itself on the timely and thorough delivery of benefit services and has strived to be very “customer centric”. Benefit delivery services are StanCERA’s end product. They consume a considerable amount of the Benefit division’s time. Benefit delivery services include things such as individual counseling, processing retiree benefit payments, the actual retirement process, maintenance of member records, and member and stakeholder communication. These services are described in more detail in the following paragraphs.

Once a member chooses their retirement date, they begin the process by completing an application packet and turning it in by mail or in person. Applications are manually tracked on a spreadsheet to ensure that they move through each step of the process timely. Reciprocal salary information is requested from other Systems. Benefits are manually calculated and paperwork is prepared for the retiring member. The applicant is then invited to the StanCERA office for a face to face counseling session to ensure that he or she fully understands the options that are available to him.

One of the cornerstones of StanCERA customer service has been one-on-one member counseling sessions. These sessions provide members the opportunity to meet with a StanCERA staff member to discuss issues such as service retirement, disability retirement and service buybacks. Staff routinely spends on average around 40 minutes per session and service on average 8-15 members per week.

Currently, StanCERA processes approximately 3,200 benefit payments a month. Although the majority of the process is automated, a few manual processes remain. Upon retirement, each member needs to

be set up in the pension payroll system. Tax withholding options, direct deposit and beneficiary information must be manually entered. Checks for members who do not wish to have a direct deposit are hand folded and stuffed within our own office. Advice notices, to retirees enrolled in direct deposit, are currently mechanically folded and hand stuffed by StanCERA staff. All existing retiree demographic/data changes received each month need to be manually entered before benefit payments can be processed.

Retiree electronic and paper files need to be kept current. When a retiree reports a change of address or change in beneficiary information, it is manually entered into the system and the paper documentation is filed in the retiree file. Changes such as death or divorce require the submission of additional paperwork, additional calculations and adjustment of benefits. These types of changes can also create overpayments that need to be collected from a surviving spouse or the retiree's estate. Overpayment information is maintained on a spreadsheet, which is then used to make manual adjustments during the 1099-R process.

Active employee data is uploaded to the pension software system through the contribution import process for all of the larger employers. New employee data for employees of the four smaller districts must be entered by StanCERA staff. Reciprocity must be established for members coming from reciprocal systems. Members returning from leave of absence are notified of buy back options. Changes to a member's name or marital status are revealed through exception reports. These changes require follow up with the member to provide copies of necessary documents including but not limited to divorce documents and proof that the member has changed their name with the Social Security office.

Member and stakeholder communications include all written, electronic and verbal forms of communication. Members and stakeholders include active and retired members, plan sponsors, professional consultants, vendors, investment managers, the custodial bank and inquiries into StanCERA's business from the general public. Most StanCERA staff spends a considerable amount of time communicating in one form or another with members and stakeholders. Some of these types of communications also require other tasks such as data gathering, research and the creation, processing and mailing of numerous documents throughout the year.

The amount of resources needed to deliver all the above benefit services are directly related to StanCERA's member counts. Since retiree counts are expected to increase by 75% over the next 10 years, demand on staff time should increase proportionately as well. However, management does not feel the solution lies only in hiring additional staff. As described in other sections of this report, current processes and technology are in need of attention and can also add efficiencies.

### *Asset Management*

Today, StanCERA's long-term structural shortfall<sup>2</sup> (benefits paid less sponsor contributions) as a percentage of total assets is approximately 2.2% annually. Consequently, if the assumed long-term rate of return realized on investments is 7.75% (net of investment expenses), this translates into expected asset growth of around 5.55% annually. At this rate, assets can be expected to top \$3 billion (68% increase) in 10 years. While an increasing asset base over time does not necessarily translate into additional necessary resources (proportionally), due diligence, shareholder litigation, trade execution costs, transparency in reporting and alternative investments will increase the amount of time needed to devote to managing StanCERA's assets.

### *Information Technology*

The Information Technology (I.T.) Coordinator is the conduit for all I.T. related issues. The I.T. Coordinator is responsible for I.T. security and must be a data base expert. The position is the in-house expert for the pension software system and stays current with enterprise standards that impact StanCERA. The position understands I.T. networking issues, as well as multiple stand-alone software products; such as Windows, Adobe and Quickbooks. The position is responsible for all I.T. related equipment used by StanCERA staff and Board. Currently the Operations manager is the sole backup for the I.T. Coordinator. Over time, StanCERA membership will grow and software will become obsolete. In order to serve our membership, additional I.T. solutions and staff will be required. Continuing to rely on just one person for all of the StanCERA I.T. needs will become more problematic and put StanCERA at risk of unpredictable system failures.

### ***Organizational Work Load; 10-Year Plan***

While certainly adding more bodies to the Organization could solve most of the Organizational work load issues, it is not a viable or efficient long-term solution. The solution discussed here weighs more heavily towards process improvements, automation and technological improvements. Further, staff size is addressed more appropriately in other areas of this analysis.

### *The Retirement Process*

- ✓ Employ software with case management capabilities
- ✓ Integrate online customer service enhancements within the pension software
- ✓ Develop online capabilities that allow members to view personal data
- ✓ Develop online capabilities that allow members to complete and submit applications or data change requests online
- ✓ 95% of all benefit estimates done without human intervention

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<sup>2</sup> Although "shortfall" is generally the term used in this context, it sometimes elicits negative connotations. It should be understood that it is perfectly natural and in fact expected that mature pension plans reach a state where benefit payments exceed plan sponsor contributions.

As the technological capabilities and sophistication of our membership evolves over time, so too will their willingness and ability to access, understand and change information electronically. StanCERA will need to capitalize on this natural evolution to improve upon its own efficiencies.

Nearly all forms of benefit, refund and buyback calculations should be incorporated into the pension software once the data audit has been complete. Other than a final audit of salary information used to calculate a member's final benefit, there should be only minor differences between a routine benefit estimate and a final one. This capability would allow our members to receive a reasonably accurate estimate of their benefit at any time without having to wait and without the necessity of a StanCERA staff member having to produce one manually.

Finally, many processes at StanCERA require manually opening and chronologically documenting a "member case". For instance, when a member inquires about retirement, a case for that member is opened and any action is manually recorded, documented and stored until some resolution is reached. Software with case management capabilities will allow staff the luxury of not having to recall or remember certain aspects of a member inquiry or action. It also gives staff the ability to follow up with members on certain unresolved issues of an open case before some resolution (benefit payout for example) can be reached. Currently, this process is kept in an excel spreadsheet.

The benefit delivery process at StanCERA is an area where technological and process changes can improve overall efficiency. Many of the processes are manual simply because the technology is outdated and/or not maintainable. As a result, human intervention and time is required for tasks that could be accomplished using today's technology. The manual processes that still exist introduce a greater likelihood of error and prevent staff from moving beyond the performance of rote tasks and developing more analytical skill sets that allow them to become better employees. Over the next 10 years, StanCERA should strive to implement as many of the above changes and processes as possible.

#### *Individual Counseling*

- ✓ Use additional benefit staff to handle increased individual counseling load
- ✓ Increased use of group counseling sessions
- ✓ Use of web-based training videos and educational material

While it is certain that counseling demands on staff time will increase over the next 10 years, management proposes a combination of additional staff and potentially shorter session times as the primary solution. As a secondary solution, staff is looking into ways to educate our members in more efficient ways and get members to become more accountable and take a more proactive role in the understanding of their benefits. As a result, staff is planning on using web-based training videos as a way to answer frequently asked questions and more frequent use of group counseling sessions throughout the year.



## *Data Management and Recordkeeping*

- ✓ Development of an electronic document management system

Currently, when documentation that needs to be recorded and stored is received by StanCERA, an employee has to set up a physical folder to store that information and make an arbitrary decision regarding how and where to electronically save it. While this process has worked adequately for StanCERA in the past, it is labor intense and is prone to information being misplaced or even lost resulting in time spent trying to locate the documentation. Additionally, as our System grows, physical storage of this documentation will become cumbersome and demand greater space resources. An electronic document management system (EDM) will allow StanCERA to manage its information with greater efficiency.

An EDM system is much more than archiving paper electronically. An EDM system supports data management compliance with rules for how the data is indexed, stored, managed and retrieved. By indexing data embedded in a document, an EDM allows a user to search for a document using simple words or phrases. This eliminates the need for a user to know where data is stored or what the name of the document is that contains the desired information. An EDM provides automated back-up and archiving procedures, a history log and audit trail of user actions, automated workflow capabilities, and template forms that conform to specific submission rules. An EDM system can also help keep confidential information protected.

StanCERA has started working with the County's I.T. department to incorporate their EDM system (Alfresco Share) into StanCERA's work flow. Incorporating the Alfresco Share system into StanCERA's current work flow is a low cost efficient way to start building our own electronic document management database.

## *Communications*

- ✓ Use a benefit technician to specialize in StanCERA communications issues

Currently, all StanCERA staff has some verbal form of contact or communication with most StanCERA stakeholders. In addition, nearly all StanCERA staff has been called upon from time to time to produce documents meant for general distribution to most StanCERA stakeholders. As the Organization moves towards a more functional structure, the area of communications is a natural one for specialization.

As our system grows, we need to ensure that we have adequate staff, with specific skills sets, to keep all StanCERA members, retirees and plan sponsors informed. This position will be responsible for developing strategic communication plans and processes utilizing a broad range of mediums to communicate information to diverse audiences. Some of the essential functions of this position will be maintaining the material presented on the StanCERA web site, producing newsletters, designing the CAFR, PAFR, member handbooks and informational pamphlets. This position would also be responsible for creating and presenting retirement training seminars. It is anticipated that the position would have

the technician designation and would also know and understand the benefit delivery process including service retirement and/or disability.

### *Asset Management*

- ✓ Use additional investment and accounting staff to handle increased work load

In the past, given the size of the portfolio and StanCERA staff size, the value of performing certain forms of diligence have been marginal at best. However, we are now at a point where there are diligence tasks that should seriously be considered, enhanced or augmented for a portfolio the size of StanCERA's. Trade transaction and execution costs, manager compliance, shareholder litigation issues and transparency in alternative investment accounting and reporting are areas that require more attention, understanding and monitoring. As a result, the goal over the next few years will be to use investment and accounting staff to perform and add value in these areas.

### *Information Technology*

- ✓ Hire one Technology Specialist

To create continuity and prevent potentially critical work stoppages, the Organization should hire a Technology Specialist to work with the Technology Coordinator. It is highly desirable that this position be staffed prior to implementation of the new pension software.

Integrated pension software is very complex. Vendor staff and StanCERA staff have moved on since the last implementation was complete. While taking care of network, security, hardware and many software issues, the current I.T. Coordinator has spent the last two years attempting to gain a full understanding of the current system. Having the Technology Specialist position filled prior to conversion to a new system would greatly enhance StanCERA's ability to continue operations if there were an unforeseen break in staff continuity. Additionally, having this new position filled prior to conversion would allow the position to learn the new System from the ground up.

In addition, implementation under a best case scenario is a multi-year project, requiring a great deal of planning, organization and testing. It is unlikely that StanCERA can successfully implement a new pension software system if the one I.T. Coordinator is forced to be a generalist as well as a project manager, coordinator and system testing agent.

### ***Investment Governance***

In this analysis, investment governance is defined as any function related to the investment process at StanCERA. This can include things such as due diligence, performance reporting, performance monitoring, manager disposition, risk assessment and reporting, cash flow analysis, asset reconciliation and manager relations. While StanCERA's investment consultant has typically handled some of these functions in the past, there are some on the list that have not been addressed or where StanCERA staff are already playing a much greater role today.

As transparency in investments and the investment process has become a much greater issue in today's pension world, so too has the demand for resources dedicated to these functions. In the past, the traditional pension asset model of 65% equity, 35% fixed income, and a buy and hold strategy required little oversight. Today's contemporary pension asset model is much more complex as funds look to non-traditional asset types to enhance returns. In addition, funds are also focusing on pension risk management techniques which ultimately require an understanding and willingness to use complex risk management tools. Recently, the StanCERA Board has shown heightened interest in risk management, the due diligence process and manager performance. It is estimated that over 80% of policy issues and time spent at monthly Board meetings is devoted to investment governance.

There is a need to have dedicated staff on hand that can devote their entire time to the principles of investment governance. The Organization should strive to create more accountability and responsibility from within and give StanCERA, the Board and our stakeholders a greater sense of control, confidence and understanding regarding the investment process.

#### ***Investment Governance; 10-Year Plan***

- ✓ Hire one Investment Officer
- ✓ Hire one Investment Account Technician
- ✓ Hire one Operations Technician

The solution to the investment governance issue is grounded in the idea of taking more responsibility, control and accountability for the process itself<sup>3</sup>. It is critical that the Organization understand every aspect of the investment process which in turn, should enhance our overall comfort level. While the Board always has ultimate control over the decision making process, there are pension management tools and governance issues that have never been addressed or fully vetted. It is only natural that those most intimate with the System and most accountable should play the greatest role in the decision-making process. StanCERA should develop core competencies in the following areas:

- Asset allocation
- Manager relations
- Cash disposition and allocation
- Performance data gathering, reporting and monitoring
- Manager disposition
- Pension risk management
- Advisor to the Board
- Alternative Investment oversight
- Manager Policy Compliance

Even though StanCERA would never completely eliminate the use of an outside investment consultant, if the Board chooses to hire an investment officer, the above tasks would move under the domain of staff

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<sup>3</sup> It should be understood that investment governance in this context does not mean actively managing (buying and selling) our own investments

and the consultant's role would be considered more as a "second set of eyes" for the Board and staff. Additionally, the investment consultant has access to and has years of relationship building with managers that StanCERA may want to consider in the future. The investment consultant could also be used to add an additional, independent element in the due diligence process.

The investment process at StanCERA touches nearly every part of the Organization. Accounting and operations are both "investment centric". As such, over the next 10 years, StanCERA will be in need of an Investment Officer, an Investment Account Technician and an Operations Technician.

The requirements of an Investment Officer will be at a very technical level and would be dedicated almost completely to the governance process itself. Among other things, the Investment Officer will be required to perform the following primary duties:

- Setting and reporting forward looking capital market expectations on a semi-regular basis
- Pension risk monitoring including semi-regular reporting on funding level risk and plan sponsor contribution risk
- Asset risk monitoring including total portfolio and asset class risk, contributions to overall portfolio risk and diversification value by manager
- Value added reporting by manager
- Monthly reporting to the Board of Retirement
- Monitoring trade execution costs
- Cash management
- Shareholder governance
- Transparency in reporting
- Manager relations
- Manager Policy Compliance

The position of Investment Account Technician would serve under the Investment Officer and the main duties of that position include the following:

- Gathering, assimilating and analyzing investment data
- Investment data entry
- Cash flow monitoring and projection
- Investment account reconciliations
- Report production
- Working closely with the Custodial Bank
- Intimate working knowledge of the Bloomberg application

The position of Operations Technician would serve mainly as a support position for investments, accounting and technology. The position would also function at a clerical level and provide backup across the Operations division as needed.

## ***Customer Self-Service enhancements***

As shown in the Organizational Workload section of this paper, there are many processes at StanCERA that currently require significant amounts of staff time, and as the system grows, so will these demands. While it is entirely possible to continue to employ more staff to handle this growth, it is not efficient and cost effective.

As today's world goes more "online", so too will our StanCERA members. Currently, StanCERA does not offer any tools to allow members to perform basic functions that should require little or no human intervention. Submitting a retirement application online, accessing personal retirement data, requesting changes to personal data, scheduling appointments and online education are all candidates for self-service. At some point in the future, StanCERA membership will most likely be demanding these types of capabilities.

### ***Customer Self Service; 10-Year Plan***

- ✓ Use web-based training videos as a member educational tool
- ✓ Integrate web-based customer service functionality within the pension software

Part of the solution for the increasing workload over time will be grounded in the idea of customer self-service. Many processes that are manual today and involve a significant amount of staff time (organizational work load) are candidates for self-service enhancements.

Giving our members the tools to calculate their own benefit, educate themselves on the retirement process, the ability to fill out and submit forms online and to access personal data will save the Organization time and add efficiencies to our work processes.

#### ***Web-based training videos***

Currently, staff devotes a considerable amount of time to member education. The idea behind web-based training videos would include a series of educational videos meant to inform members on various aspects of the retirement process. The use of these types of educational videos has been shown to be popular among age groups 35 to 55. These short videos are relatively inexpensive to produce and store and have been successfully used on various websites where customer service and education are important.

#### ***Web-based self-service functionality***

Should the Board ultimately approve funding for a new pension software system, the system should include integration capabilities with our website that would allow a member to go online and schedule appointments, fill out and submit forms, view and make change requests to personal data and to procure a reliable estimate of their benefit if they are retirement eligible.

The software would be used to produce the benefit estimates, accept and store change request forms, record appointments and would be the database of record for viewing personal information.

## ***Pension Software***

The most important factor regarding StanCERA's ability to keep up with growing work product requirements over the next 10 years lie in its pension software. The Organization will need robust pension software capabilities to efficiently deal with the inevitable growth in workload. Currently, there are many areas of production within the Organization that could and should be produced with little or no human intervention. Unfortunately, our current system does not and will not have the ability to accommodate these needs or processes in the future.

### *History*

In 2003, seeing the need to accommodate future growth and automate several processes, StanCERA went out to bid for an integrated pension software system. The 2 finalists each projected a 5 year implementation schedule and after thorough review of the proposals and due diligence on the vendors, the board accepted a proposal from Tyler Technologies (formerly known as TACS) in an amount just over \$1 million. During implementation, it was realized that the system required considerably more customization than originally planned and to keep costs from becoming out of control, several aspects of the project were set aside.

In spite of the implementation and cost difficulties, the pension software did provide several process improvement opportunities. These opportunities enabled StanCERA to maintain its small work force during the growth of the system over the last 10 years.

Unfortunately, Tyler was unable to sell its product to any other 37 Act System and as a result, its business model no longer includes support beyond maintaining the current system. All other 1937 Act Systems are now using some other proprietary pension software. Since the Tyler system cannot be enhanced, it will not be able to keep up with the future needs of the Organization. Below are some of the needs of our pension software system that staff has identified as necessary to efficiently manage future business growth:

- Extensive web-based employer, member and retiree self-service through Internet browser-based access
- A more comprehensive audit trail of all transactions
- Ability to interface with multiple benefit providers
- Adaptable to required enterprise changes in I.T. infrastructure
- More robust reporting and querying capabilities
- Interface with electronic document management system
- Integrated workflow and business process management elements with electronic storage of member files
- Production capabilities for member statements that is more robust regarding information that can be reported and transmitted
- Online access to documents, forms, letters and other vital communication
- Ability to handle hybrid defined contribution plan information, data and benefits

### ***Pension Software; 10-Year Plan***

- ✓ Implement a new pension software system beginning in 2018-2019

The maintenance contract for the Tyler pension system is set to expire March 1, 2015. Tyler has stated they will continue to maintain the pension system; however they are not prepared to enhance it. While this is not good news, it is not all bad. Staff now has the unique opportunity to fully prepare for the next conversion, keep what works and determine what is needed. The following is a rough timeline for implementation of a new system that includes everything we now have and the ability to grow with StanCERA by adding the functions listed above and interfacing with other stand-alone solutions. The following is a proposed timeline for implementation:

FY 2014-2015 – Renegotiate a 3-5 year maintenance agreement with Tyler.

FY 2014-2016 – Complete the member file audit, capturing the most accurate member data possible in preparation of the final data conversion

FY 2015-2016 – Identify the Project Manager

FY 2016-2018 – Partner with a consulting firm to identify and formally document all of StanCERA's business practices, determine the specific needs of the organization and produce the request for proposal (RFP). This process will include documentation for electronic member file access and member web access. Multiple RFP's will be necessary.

FY 2018-2019 – Complete the RFP processes and begin implementation in phases

FY 2019-2022 – Phase one of the implementation of the new pension system is completed.

FY 2022-2023 – Phase two, member web portal is implemented

FY 2023-2024 – Phase three, member files are scanned and available electronically

StanCERA needs a pension software provider who will continue to support clients who prefer to stay with earlier versions and who continue to improve and enhance their product line for new and existing clients who require different functionality or have additional requirements to meet the growing demand of their Boards and membership. Choosing a smaller more flexible vendor has its advantages, however using a known vendor, with multiple 37 Act systems in their client base, improves StanCERA's continuity of operations and knowledge base far past the initial ten years outlined above.

Successful project completion depends on successful pre planning and documentation. At least two other systems recently, Sonoma and Imperial County have successfully implemented new software systems. It is highly anticipated that StanCERA would rely heavily on these systems for implementation guidance and advice.

## ***Website Renovation***

In today's web-centric world, a website tends to be the first point of outside contact for virtually any modern, public-facing organization. The quality of a website can easily increase positive public perception and acts as a vehicle for effective member relations. That being said, the StanCERA website, while a fairly good source of information, is obsolete in both its visual aesthetic and presentation of information by today's standards.

How the information is managed on a website is just as critical as the design. In order to prevent further overhead in staff processes, an easy and effective system of website content management is required.

### ***Website Renovation; 10-Year Plan***

- ✓ Hire a professional consultant to renovate StanCERA's website
- ✓ Integrate electronic interface capabilities into StanCERA's website

In order to improve upon StanCERA's public-facing website, our next step would be to procure the services of a professional web-design service, preferably one which has had experience working with other organizations that serve the public. We would then communicate the concerns and wants of StanCERA as previously mentioned: a strong focus on design aesthetic; user experience; expandability; and ease of administration/content management.

Managing information and content on the website should not fall to any one individual within StanCERA and should be a collaborative process. One of the main focuses of a website redesign would be to simplify the practice of managing said content, regardless of staff experience level.

Staff has already found that there are several price points with wide ranges for website renovation and design. Higher price points are correlated with more additional functionality that would afford StanCERA the ability to electronically interface with our members, such as through electronic newsletters and communications which would be member optional. These types of functionality go hand-in-hand with the customer self-service capabilities the Organization should be pursuing.



## ***System Comparison***

It is worthwhile to compare StanCERA with other 1937 Act Systems in terms of current budgeting and staff. The following exhibit displays administrative statistics across Systems that can be used for comparison<sup>4</sup>:

<u>System</u>	<u>Assets</u> <sup>5</sup>	<u>Retirees</u>	<u>Benefits</u> <sup>6</sup>	<u>Budget</u> <sup>7</sup>	<u>Staff</u>
Imperial	\$0.60	975	\$28.2	\$1.4	8
Marin	1.72	2,790	101.7	3.8	19
Merced	0.56	2,046	54.3	1.5	7
San Joaquin	2.16	4,897	143.1	3.9	20
Sonoma	1.90	4,258	123.8	3.0	14
Stanislaus	1.55	3,234	87.1	2.1	11
Tulare	<u>1.01</u>	<u>2,542</u>	<u>58.5</u>	<u>1.8</u>	<u>11</u>
Average	\$1.36	2,963	\$85.2	\$2.5	12.9

This group of 7 1937 Act Systems represents ranks 13 through 19 in terms of asset size across all 20 1937 Act Systems. The following graph shows how StanCERA compares to the average of this group across all the above statistics<sup>8</sup>.

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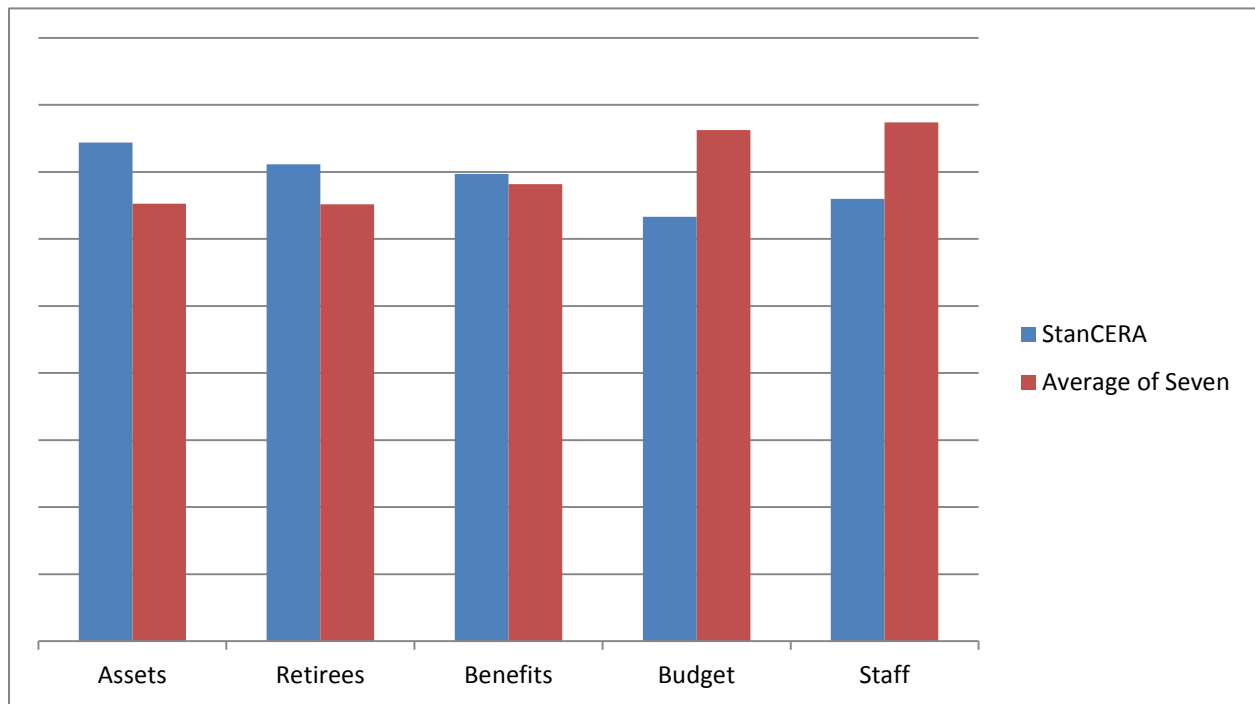
<sup>4</sup> All information taken from Systems' 2013 CAFR

<sup>5</sup> In billions

<sup>6</sup> Annual, in millions

<sup>7</sup> 2012-2013, in millions

<sup>8</sup> Values are proportional between variables but not across variables

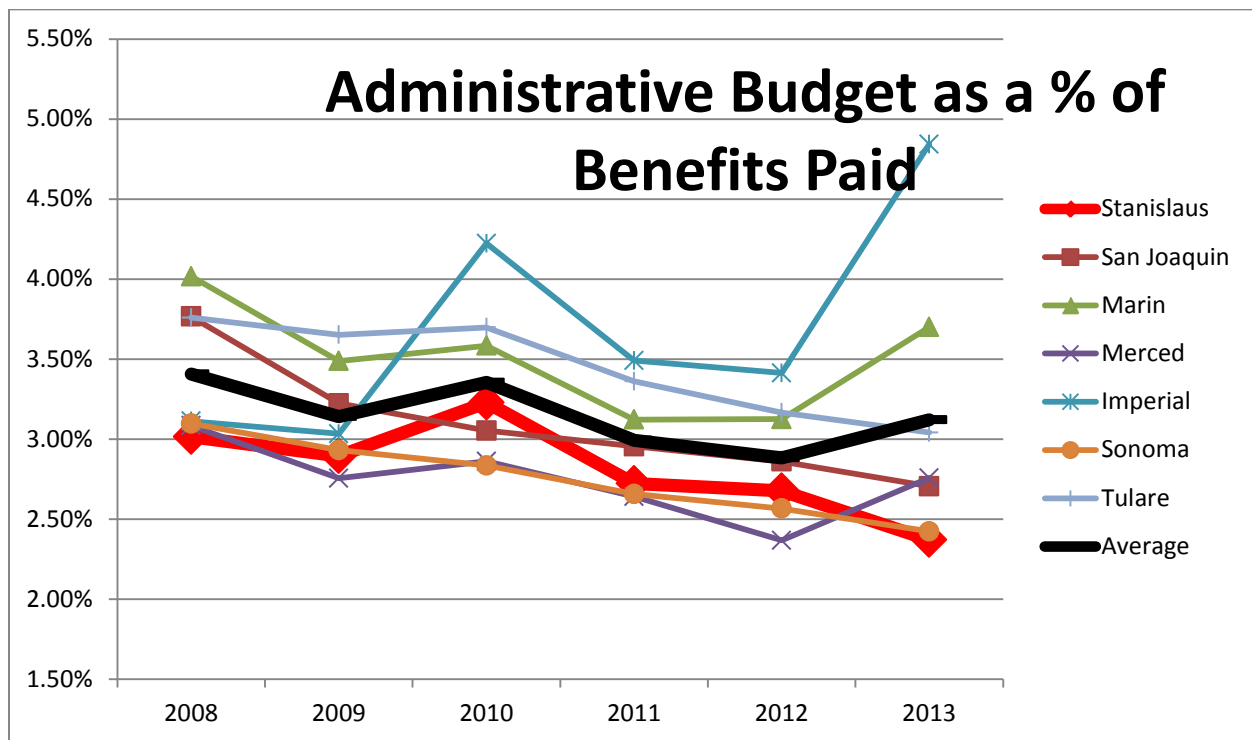
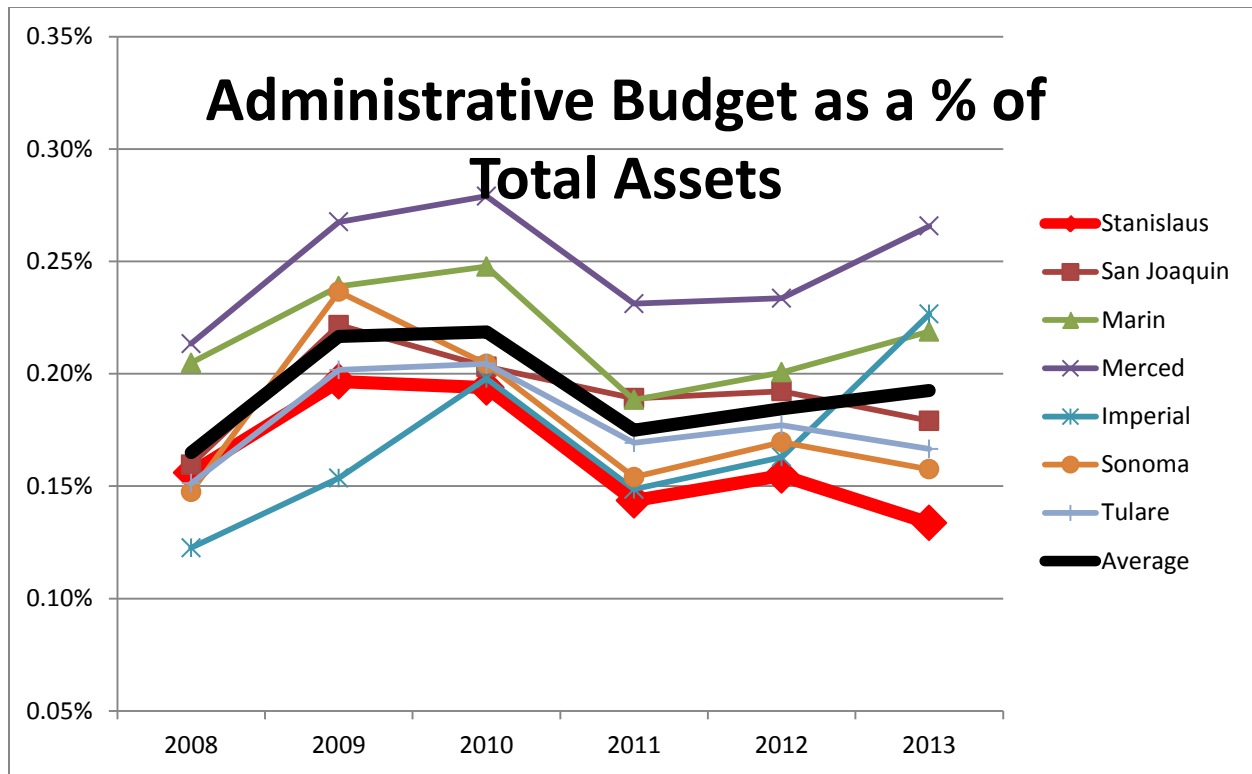


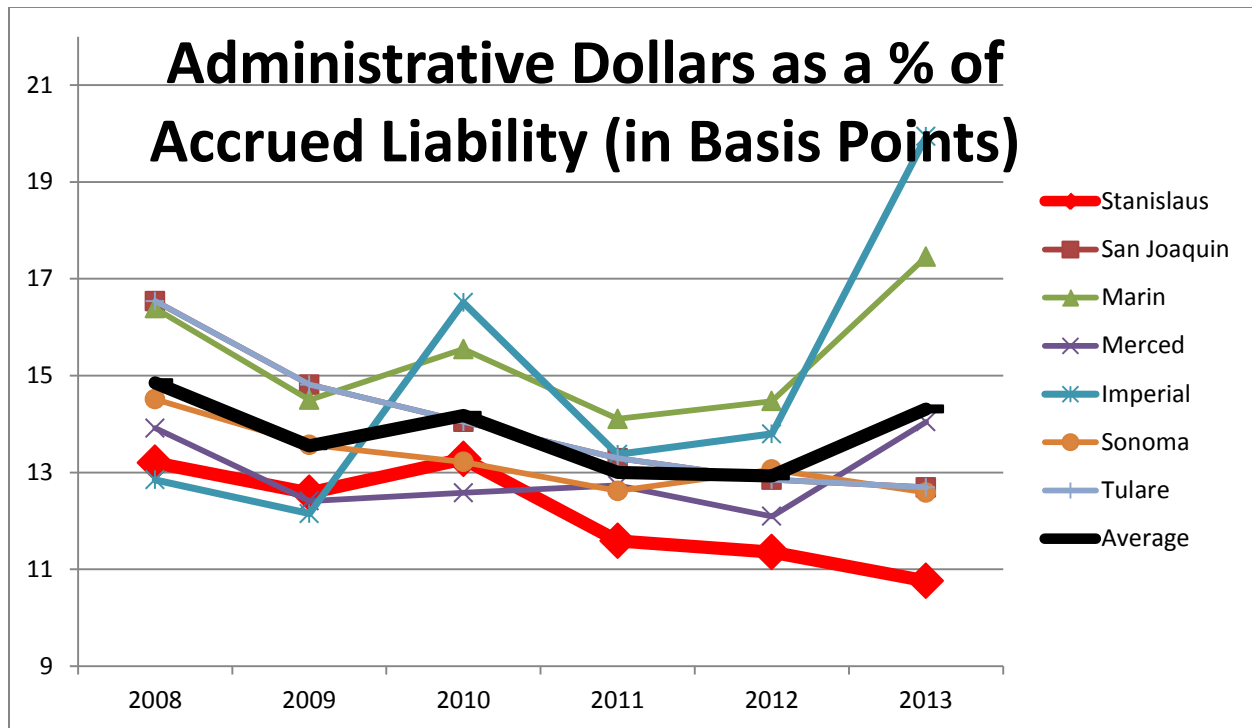
It is clear that while StanCERA ranks above the average in terms of assets managed, retirees served and benefits delivered, it ranks below the average in terms of annual budget and staff size.

Since 2008, the administrative budget at StanCERA has been flat. In addition, staff size today is exactly what it was in 2008. The following is a history of StanCERA’s administrative budget since fiscal year ending 2008:

<u>Fiscal Year Ending</u>	<u>Administrative Budget in Millions</u>
2008	\$2.04
2009	2.08
2010	2.31
2011	2.04
2012	2.15
2013	2.07
2014	2.25

It is also useful to take a look at the evolution over time of the annual administrative budget as a percentage of certain economic and demographic variables. With this type of analysis, one can observe important trends in each of the Systems’ budget compared to each other and to the group’s average. The following graphs portray this information for the same 7 1937 Act Systems analyzed above.





On one hand, these pictures paint an extremely positive picture of StanCERA's ability to administer benefits efficiently and cost effectively. It also implies that Organizational productivity must have increased beyond 2008, since benefit delivery and asset management demands have increased. On the other hand, barring further technological or process advances or increased staff levels, these trends cannot persist into the future.

Another interesting area to look at is how other 1937 Act Systems are structured organizationally and how they allocate positions across functional areas. Staff looked at 3 Systems out of the seven that were closest to StanCERA in terms of asset and liability size and analyzed their Organization structure to find out how they allocated staff across 5 different functional areas. The following is a table displaying those results:

Functional Area	Average of 3 Similar Systems	StanCERA Proposed
Investments	11.31%	10.71%
Information Technology	9.80	14.29
Accounting	19.85	17.86
Benefit Delivery Services	37.98	35.71
Operations	21.07	21.43

Finally, staff also looked at one 1937 Act System that has \$3 billion in assets today. StanCERA is projected to have around \$3 billion in assets 10 years from today. The following table compares StanCERA's proposed allocation of staff resources across functional area to this \$3 billion system today:

<u>Functional Area</u>	<u>\$3 Billion System Today</u>	<u>StanCERA Proposed</u>
Investments	11.11%	10.71%
Information Technology	16.67	14.29
Accounting	16.67	17.86
Benefit Delivery Services	38.89	35.71
Operations	16.67	21.43

To summarize, it appears that StanCERA is approaching its limit in terms of productivity gains and output as compared to other Systems of similar size to StanCERA. Additionally, StanCERA's 10-year Organization structure proposes to allocate human resources across functional areas in ways similar to other Systems of like size.

### *StanCERA's Proposed 10-Year Organization Structure*

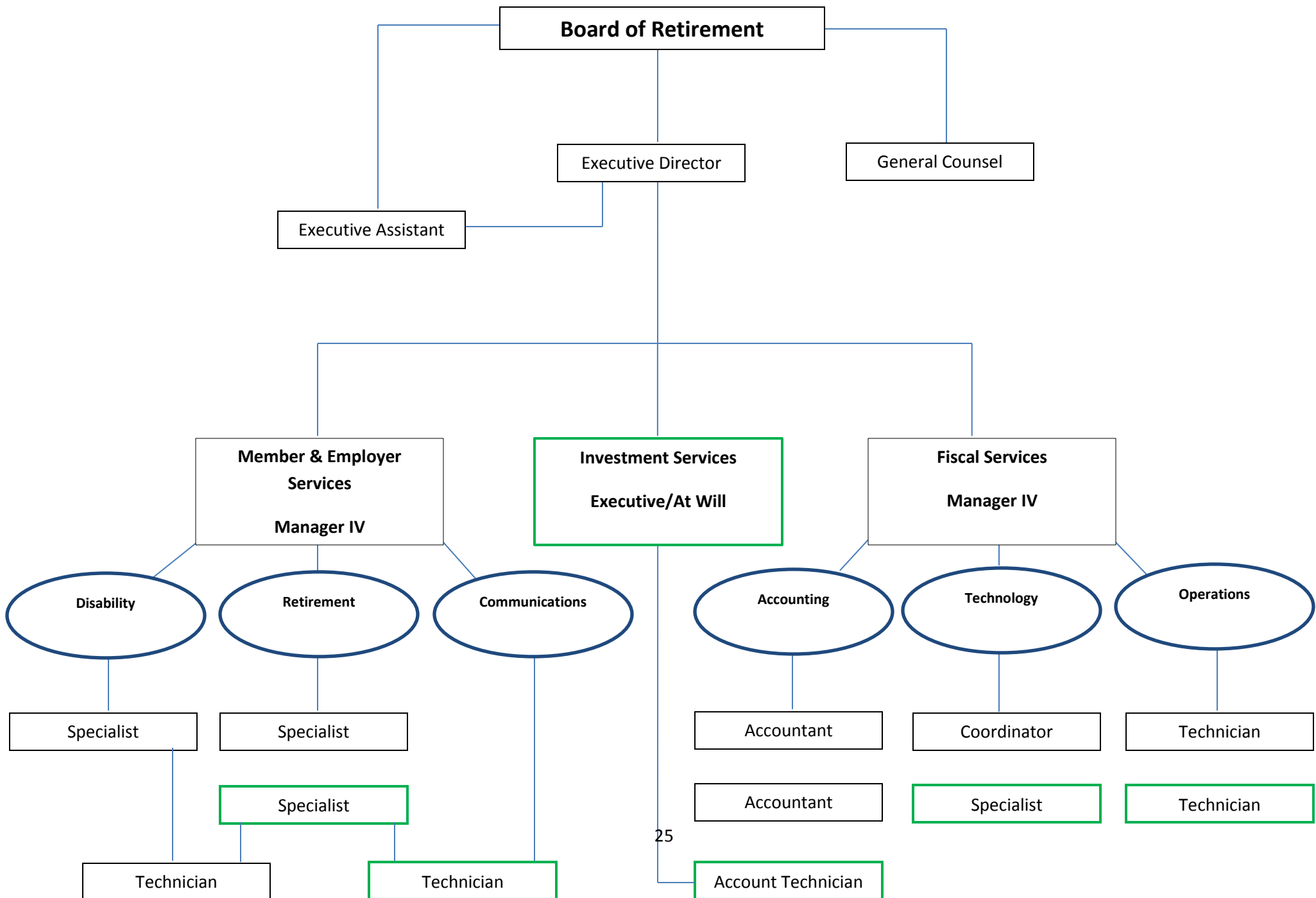
The following table displays anticipated new positions and their proposed fill dates:

<u>Position</u>	<u>Proposed Fill Date</u>
Investment Officer	2014-2015
Retirement Specialist	2017-2018
Retirement/Communications Technician	2015-2016
Investment Account Technician	2022-2023
Technology Specialist	2018-2019
Operations Technician	2020-2021

The Investment Officer and Retirement/Communications Technician positions represent areas of the Organization that are currently in the most need of human resources. The Technology Specialist position would coincide with the approximate time of commencement of the implementation of the new pension software. It is anticipated that the pension software would be fully functional sometime in 2022-2023. The other 3 new positions' fill dates coincide with natural anticipated growth of the System.

The next exhibit displays the proposed 10-Year Organization Structure for StanCERA. Note that all figures that are rectangular in shape represent a body/employee. The ovals in the structure represent functional areas across the Organization. Rectangular positions in green represent new positions over the next 10 years. Specialist positions could attain a level of CA-5. Technician positions could attain a level of CA-3 within the County's current compensation and classification scheme. The proposed Organization Structure replaces the Benefits Division name with *Member & Employer Services* and replaces the Operations Division name with *Fiscal Services*. These names more appropriately capture the functional units within each division.

# StanCERA 10-Year Strategic Realignment Plan





**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12<sup>th</sup> Street, Suite 600  
Modesto, CA 95354  
P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393  
Fax (209) 558-4976  
www.stancera.org  
e-mail: retirement@stancera.org

**For the Board of Retirement meeting  
Held on October 8, 2014**

TO: The Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: Creation of Investment Analyst/Officer classification. Funding for either an Investment Analyst or an Investment Officer.
- II. ITEM NUMBER: 6.c
- III. ITEM TYPE: Discussion and Action
- IV. STAFF RECOMMENDATION:
  - 1. Approve creation of an Investment Officer classification
  - 2. Approve funding for one Investment Officer position with the ability to under fill the position using the existing County classification series of Manager II-IV
  - 3. Approve the use of a recruiting firm to oversee the recruitment process
- V. ANALYSIS:

*Overview*

As transparency in investments and the investment process has become a much greater issue in today's pension world, so too has the demand for resources dedicated to these functions. In the past, the traditional pension asset model of 65% equity, 35% fixed income, and a buy and hold strategy required little oversight. Today's contemporary pension asset model is much more complex as funds look to more non-traditional assets to enhance returns. In addition, funds are also focusing on pension risk management techniques which ultimately require an understanding and willingness to use complex risk management tools. Recently, the StanCERA Board has shown heightened interest in risk management, the due diligence process and manager performance and disposition. It is estimated that over 80% of policy issues and time spent at monthly Board meetings is devoted to investment governance.

As such, there is a need to have dedicated staff on hand that can devote their entire time to the principles of investment governance. The Organization should strive to create more accountability and responsibility from within and give StanCERA, the Board and our stakeholders a greater sense of control, confidence and understanding regarding the investment process.

The solution to the investment governance issue is grounded in the idea of taking more responsibility, control and accountability for the process itself. It is critical that the Organization understand every aspect of the investment process which in turn, should enhance our overall comfort level. While the Board always has ultimate control over the decision making process, there are pension management tools available and potential governance issues that have never been researched or fully vetted. It is only natural that those most intimate with the System and most accountable should play the greatest role in the decision-making process. StanCERA should strive to develop core competencies and play the greatest role throughout the decision making process in these general areas:

- Asset allocation
- Manager relations
- Cash disposition and allocation
- Performance data gathering, reporting and monitoring
- Manager monitoring and disposition
- Pension risk management
- Advisor to the Board
- Alternative Investment oversight

### *StanCERA's Current Investment Consultant*

Even though StanCERA would never completely eliminate the use of an outside investment consultant, some or all of the above tasks would move under the domain of staff. The role of the consultant would be to help the Organization transition to the use of a full-time Investment Officer and help review and analyze strategies, implement new ones, analyze and interpret data and work with investment managers to solve issues as they arise. Eventually, the consultant's role would be considered more as a "second set of eyes" for the Board and would still attend investment meetings. Additionally, the investment consultant has access to and has years of relationship building with Investment Managers managers that StanCERA may want to consider in the future. The investment consultant could also be used to add an additional, independent element in the due diligence process.

### *The Position*

StanCERA's current administrative needs towards managing the governance process suggest that the Investment Officer position be highly technical in nature and require the ability to communicate complex investment and risk information to a wide audience. More specifically, the following is a list of tasks that would be desired of the position:

- Prepares and makes presentations to the Board of Retirement
- Screens investment opportunities
- Performs basic due diligence on current managers and prospective managers
- Works with external investment consultants regarding investment strategies and asset liability management
- Works with general partners and some limited partners of certain alternative investments
- Oversees contract processes in conjunction with special counsel
- Assists in the negotiations of contract terms with general partners
- Oversees the asset allocation process
- Assists in setting capital market expectations
- Oversees Investment Manager relations
- Responsible for cash disposition and allocation
- Performs data gathering, reporting and monitoring
- Responsible for asset risk monitoring including total portfolio and asset class risk, contributions to overall portfolio risk and diversification value by manager
- Responsible for assessing Investment Manager performance and disposition
- Assists Executive Director in applying pension risk management principles
- General Investment Advisor to the Board



- Responsible for all facets of Alternative Investment oversight
- Answer inquiries from members of the Board of Retirement regarding certain investments
- General investment research
- Responsible for shareholder governance including litigation monitoring
- Monitoring trade execution costs

### *Salary Level*

Until StanCERA actually begins the process to fill this position, it is difficult to anticipate what skill sets the field of potential candidates may possess. Comprehensive skill sets such as these may be hard to come by for an Organization the size of StanCERA. Further, positions such as these tend to be located in more urbanized areas and as a result, fully qualified candidates could be hard to lure in.

Because of the potential difficulty in filling the position at the desired level, staff is proposing a fairly wide salary range for this position with the actual salary paid being highly commensurate with the requisite skill sets and the ability to perform the above listed tasks. At the very least, StanCERA should be able to attract a highly qualified Investment Analyst that possesses the mathematical and financial skills necessary to perform or assist in the performance of a significant number of the above required tasks. As such, staff proposes a salary range of \$57,096.00 to \$156,977.60, annually.

To account for the hiring difficulties and accommodate the broad salary range, the Investment Position recruitment would be broken into 2 possibilities. A working title of Investment Analyst (County Manager II-IV classification) could be utilized and filled by existing County Manager II-IV classification and have a salary range of \$57,096.00 to \$109,449.60. Additionally, an Investment Officer classification would be created and have a salary range of \$104,644.80 to \$156,977.60. These two options would give the Organization the ability to hire based on the specific skill sets of the pool of applicants.

### *Investment Analyst*

Should the Organization be only able to attract an investment analyst, the focus of the job would center on data gathering, analyzing and presentation and would need to have or become extremely proficient using the Bloomberg application. The analyst would work closely with the Director performing general investment research while maintaining all in-house pension risk management tools. While working with the Investment Consultant, the position would also be responsible for performance monitoring, recommending manager disposition and alternative oversight. With the Investment Analyst position, it would still be the intent to eventually take most of the performance reconciliation, monitoring and reporting in house. As a result, the position would need to possess clear and intelligible communication skills.

### *Investment Analyst versus Investment Officer*

The difference between the two classifications lies mainly in the assigned responsibilities and involvement with and direction from the Executive Director and ultimately the amount of time the Director spends on pension risk management and the administration of benefit delivery services.

While the Director would always be fully responsible and accountable for all staff related investment decisions, the Investment Officer would be given greater latitude, autonomy and

deference regarding investment issues. The Investment Officer would be responsible for all the requisite tasks mentioned earlier and have much greater exposure, involvement and communication with StanCERA's investment managers, the Custodial bank, legal counsel and the Board of Retirement. The Investment Officer would be the primary advisor to the Board of Retirement on investment matters and allow the Director to focus primarily on benefit delivery and pension risk management.

On the other hand, an Investment Analyst would require a much greater level of direction, guidance, oversight and input from the Executive Director, along with assistance from other staff. Additionally, the Investment Consultant would remain the primary advisor to the Board of Retirement on investment matters.

### *The Hiring Process*

It is the intent of staff to hire a recruiting firm to help fill the position. A recruiting firm will have the reach necessary to attract qualified and competent candidates from both inside and particularly outside the area. Staff estimates the costs of hiring a recruiting firm to fall within the range of \$18,000 to \$25,000.

It would be advantageous to have an initial phone interview with the Director and the recruitment officer to screen out any candidates that don't meet the desirable qualifications. After that, the more formal onsite interview would take place. After the field was narrowed to a few candidates, there would be a less formal, lengthy one-on-one interview with the Director. This would give the Director the opportunity to discuss pension and investment issues and ideas and assess whether the candidate truly possess the skill sets, background and experience necessary to succeed in the position.

Finally, if the potential candidate(s) are hiring within the Officer classification, the candidate(s) would then participate in an interview with the Board of Retirement before a final decision is made. If the potential candidate(s) are hiring within the Analyst classification, the Director would make the final selection.

- VI. RISK: There are no significant risks that the Organization faces if it chooses to implement the investment classification. If the Organization chooses not to implement, we face the prospect of not fully vetting the risks we take in a timely manner and the potential consequences of taking those risks. We are underserving ourselves by not fully using all the information and data that we have at our disposal. By creating the investment classification and hiring a full-time employee that can devote his or her entire time to the investment governance process; we are enhancing our ability to administer our fiduciary duty at a much higher level.

VII. STRATEGIC PLAN:

*Strategic Objective 1:* Invest StanCERA assets in such a way that efficiently maximizes the ability to meet current and future benefit obligations while balancing the need for contribution stability and sustainability

*Strategic Objective 2:* Develop efficient and effective processes for the evaluation, monitoring and disposition of StanCERA's active managers

*Strategic Objective 4:* Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently

- VIII. ADMINISTRATIVE BUDGET IMPACT: No additional impact to the 2014-2015 budget. Staff has already allocated 6 months of salary and benefits to this position for this fiscal year. Staff also allocated approximately \$20,000 in this year's budget for the use of a recruitment firm.



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Rick Santos, Executive Director



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Kathy Herman, Operations Manager

**LEGISLATIVE UPDATE TO THE  
BOARD OF RETIREMENT  
October 8, 2014**

**SB 673 (DeSaulnier)**

**Introduced 2/22/2013, Amended 4/15/2013, Amended 5/21/13, Amended 1/6/14, Amended 1/23/14 Enrolled 8/8/14, Chaptered 8/22/14**

Independence for Contra County Employees' Retirement Association

This bill has changed Government Code Section 31468 "District" by adding paragraph (3) which states:

"District" also includes the retirement system established under this chapter in Contra Costa County.

This bill also added Government Code Section 31522.9. This new code section applies only to Contra Costa County. It gives the Contra Costa Board of Retirement the authority to appoint an Administrator and other personnel as are required to accomplish the necessary work of the Board. It further states that the personnel so appointed shall not be county employees but shall become employees of the retirement system.

Other sections were also added or amended to declare that employees of the retirement system are members of the retirement system and that the Board of Retirement shall adopt an annual budget.

**Senate Bill No. 673**

**CHAPTER 244**

An act to amend Sections 31468, 31529.9, 31557.3, and 31580.2 of, and to add Section 31522.9 to, the Government Code, relating to county employees' retirement.

[Approved by Governor August 22, 2014. Filed with  
Secretary of State August 22, 2014.]

**LEGISLATIVE COUNSEL'S DIGEST**

SB 673, DeSaulnier. County employees' retirement: Contra Costa County.

The County Employees Retirement Law of 1937 authorizes counties and districts to establish retirement systems pursuant to its provisions in order to provide pension benefits to their employees. The law defines a district for these purposes and includes specified county retirement systems within that definition. The law generally provides that the personnel of a county retirement system are county employees, but also authorizes the board of retirement in specified counties to appoint certain personnel who are designated employees of the retirement system.

This bill would make the Contra Costa County retirement system a district for purposes of the County Employees Retirement Law of 1937. The bill would authorize the board of retirement to appoint a retirement administrator and other personnel as required to accomplish the necessary work of the board and would authorize the administrator to make appointments on its behalf. The bill would provide that these employees are employees of the retirement system, not the county, and would except them from civil service provisions and merit system rules that would otherwise apply. The bill would make the retirement board a public agency for purposes of collective bargaining and provide that the compensation of the personnel so employed by the board is an expense of the system.

The bill would require the retirement system to retain, for a 90-day transition period, nonprobationary county employees employed at the retirement system's facilities who were covered by a memorandum of understanding, as specified. The bill would provide that, during the 90-day transition period, probationary employees would maintain only those rights they had pursuant to their employment with the county. The bill would require the retirement system to recognize as the exclusive representative of the former county employees who are retained, as specified, those recognized employee organizations that represented the employees when they were employed by the county, and would require that the initial terms and conditions for those employees be as previously established. The bill would make technical and conforming changes in relation to these provisions.

shall have elected whether to become a member of the retirement association established in accordance with this chapter for employees of Los Angeles County or the retirement association established in accordance with this chapter for employees of San Bernardino County. The election shall occur before January 1, 1980. Any employee who fails to make the election provided for herein shall be deemed to have elected to become a member of the retirement association established in accordance with this chapter for the County of Los Angeles.

(3) The South Coast Air Quality Management District shall make application to the retirement associations established in accordance with this chapter for employees of Los Angeles County and San Bernardino County for coverage of employees of the South Coast Air Quality Management District.

(4) An employee of the South Coast Air Quality Management District who commenced employment with the district during the period commencing on February 1, 1977, and ending on December 31, 1978, and who has not terminated employment before January 1, 1980, shall be covered by the retirement association elected by the employee pursuant to paragraph (2). That coverage shall be effected no later than the first day of the first month following the date of the election provided for in paragraph (2).

(5) Each electing employee shall receive credit for all service with the South Coast Air Quality Management District. However, the elected retirement association may require, as a prerequisite to granting that credit, the payment of an appropriate sum of money or the transfer of funds from another retirement association in an amount determined by an enrolled actuary and approved by the elected retirement association's board. The amount to be paid shall include all administrative and actuarial costs of making that determination. The amount to be paid shall be shared by the South Coast Air Quality Management District and the employee. The share to be paid by the employee shall be determined by good faith bargaining between the district and the recognized employee organization, but in no event shall the employee be required to contribute more than 25 percent of the total amount required to be paid. The elected retirement association's board may not grant that credit for that prior service unless the request for that credit is made to, and the required payment deposited with, the elected retirement association's board no earlier than January 1, 1980, and no later than June 30, 1980. The foregoing shall have no effect on any employee's rights to reciprocal benefits under Article 15 (commencing with Section 31830).

(6) An employee of the South Coast Air Quality Management District who commenced employment with the district after December 31, 1978, shall be covered by the retirement association established in accordance with this chapter for employees of San Bernardino County. That coverage shall be effected as of the first day of the first month following the employee's commencement date.

(7) Notwithstanding paragraphs (2) and (4) above, employees of the South Coast Air Quality Management District who were employed between

(d) The compensation of personnel appointed pursuant to this section shall be an expense of administration of the retirement system, pursuant to Section 31580.2, except as provided in Sections 31529.5, 31529.9, and 31596.1.

(e) The board of retirement and the board of supervisors may enter into agreements as they determine are necessary and appropriate in order to carry out the provisions of this section.

(f) The retirement system, upon the effective date of this section, shall retain, for a 90-day transition employment period, nonprobationary employees who, upon the effective date of this section, were covered by a county memorandum of understanding and employed by the county at the retirement system's facilities, unless just cause exists to terminate the employees or legitimate grounds exist to lay off these employees. If during the 90-day period the retirement system determines that a layoff of these employees is necessary, the retirement system shall retain the employees by seniority within job classification. The terms and conditions of employment of the employees retained pursuant to this subdivision shall be subject to the terms and conditions established by the applicable memoranda of understanding executed by the board of retirement and the recognized employee organizations. During the 90-day transition period, probationary employees shall maintain only those rights they initially acquired pursuant to their employment with the county.

(g) Subject to the employees' rights under the Meyers-Milias-Brown Act (Chapter 10 (commencing with Section 3500) of Division 4), the retirement system, upon the effective date of this section, shall recognize as the exclusive representative of the employees retained pursuant to subdivision (f) the recognized employee organizations that represented those employees when employed by the county. The initial terms and conditions for those employees shall be as previously established by the applicable memoranda of understanding executed by the county and recognized employee organizations.

(h) This section shall apply only in Contra Costa County.

SEC. 3. Section 31529.9 of the Government Code is amended to read:

31529.9. (a) In addition to the powers granted by Sections 31522.5, 31522.9, 31529, 31529.5, 31614, and 31732, the board of retirement and the board of investment may contract with the county counsel or with attorneys in private practice or employ staff attorneys for legal services.

(b) Notwithstanding Sections 31522.5, 31522.7, 31529.5, and 31580, the board shall pay, from system assets, reasonable compensation for the legal services.

(c) This section applies to any county of the 2nd class, 7th class, 9th class, 14th class, 15th class, or the 16th class as described by Sections 28020, 28023, 28028, 28030, 28035, 28036, and 28037.

(d) This section shall also apply to any other county if the board of retirement, by resolution adopted by majority vote, makes this section applicable in the county.

SEC. 4. Section 31557.3 of the Government Code is amended to read:

**LEGISLATIVE UPDATE TO THE  
BOARD OF RETIREMENT  
October 8, 2014**

Information regarding AB 1824 was previously presented to the Board at the meeting held on July 9, 2014. This bill has now been chaptered. Government Code Section 31760.8 has been added to the 1937 Act. This section is not applicable in any county until the Board of retirement, by resolution adopted by a majority vote, makes this section applicable in the County.

**AB 1824 (Rendon)**

**Chaptered September 28, 2014**

This bill, upon adoption by a County, would permit a retired member to revise the designated beneficiary for optional settlements two (100% continuance), three (50% continuance) and four (not currently available at StanCERA) in order to provide for a current spouse.

In order for the retiree to make a change to his/her beneficiary, the following criteria must be met:

1. The member was unmarried or was married for less than one year at the time of their retirement.
2. The member must have elected Optional Settlement two, three or four at the time of their retirement.
3. The member's spouse must be at least 55 years of age and must be older than the original beneficiary.
4. The application for a revision of an optional settlement shall include the signature of the original designated beneficiary acknowledging the revision or shall include a written declaration of one or more of the following reasons:
  - A. The original beneficiary has no identifiable community property interest in the benefit.
  - B. The retiree does not know, and has taken all reasonable steps to determine, the whereabouts of the original beneficiary.



- C. The beneficiary has been advised of the application and has refused to sign the written acknowledgment.
- D. The original beneficiary is incapable of executing the acknowledgment because of an incapacitating mental or physical condition.

The purpose of this subdivision is to notify the original beneficiary of the revision because it will affect the entitlement of that person. If a retiree were to knowingly provide false information in the written declaration, he/she will be subject to a civil penalty in addition to civil remedies available to the Board.

If the original beneficiary is a former spouse or domestic partner of the retiree, the application for revision shall also evidence agreement to the revision by the former spouse or domestic partner.

After the revision, the retiree's retirement allowance will remain the same including the cost-of-living increases that have been added to the retirement allowance.

The retirement system has no obligation to locate or contact retired members who may qualify for a revision under this section.

No actions taken pursuant to this section will excuse the obligation of a retiree to provide a continuing benefit to a former spouse or other person pursuant to a court order.

This section will not be applicable in any County until the Board of Retirement, by resolution adopted by a majority vote, makes this section applicable.

**Assembly Bill No. 1824**

**CHAPTER 726**

An act to add Section 31760.8 to the Government Code, relating to county employees' retirement.

[Approved by Governor September 28, 2014. Filed with  
Secretary of State September 28, 2014.]

**LEGISLATIVE COUNSEL'S DIGEST**

AB 1824, Rendon. County employees' retirement: optional settlements revision.

The County Employees Retirement Law of 1937 permits a member or retired member of a retirement system established pursuant to its provisions, prior to the time that the first payment of any retirement allowance is made, to elect certain optional settlements, which operate to reduce the allowance payable to the member through his or her life and provide for a subsequent payment to another party or parties, including his or her spouse. Existing law authorizes a person to revoke a beneficiary nomination at his or her pleasure and nominate a different beneficiary, except for a nomination made under 3 specified optional settlements.

This bill, upon adoption by a county, would permit a retired member to revise the designated beneficiary for those specified optional settlements if, at retirement, the retired member was unmarried or had been married less than one year, the retired member had retired before the county adopted other specified optional retirement settlements, and the application to revise includes the signature of the designated beneficiary of the optional settlement or a written declaration, as specified. The bill would provide a civil penalty for a person who knowingly provides false information in the declaration, to be brought at the option of a public prosecutor. The bill would also require, if the designated beneficiary of the optional settlement is a spouse or domestic partner of the member, that the application for revision evidence that person's agreement to the revision. The bill would require, pursuant to this revision, the retired member's allowance to remain the same as provided by the optional settlement, adjusted for any cost-of-living increases that have been added to the retirement allowance. The bill would provide that the retirement system has no obligation to locate or otherwise contact retired members who may qualify for a revision. The bill would provide that any actions taken, as described above, do not excuse the obligation of a member to provide a continuing benefit to a former spouse pursuant to court order.

(e) The retirement system has no obligation to locate or otherwise contact retired members who may qualify for a revision under this section.

(f) No actions taken pursuant to this section excuse the obligation of a member to provide a continuing benefit to a former spouse or other person pursuant to court order.

(g) This section is not applicable in any county until the board of retirement, by resolution adopted by a majority vote, makes this section applicable in the county. The board's resolution may designate a date, which may be prior or subsequent to the date of the resolution, as of which the resolution and this section shall be operative in the county.

# **SAN DIEGO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION SUES THE COUNTY OF SAN DIEGO OVER SALARY CAPS**

**UPDATE PREPARED FOR THE STANCERA BOARD MEETING HELD ON  
OCTOBER 8, 2014**

On September 5, 2014, the San Diego County Employees' Retirement Association filed a lawsuit against the County of San Diego in an effort to gain control over how much their employees are paid. The lawsuit asks a judge to award sole discretion for compensation to the Board of Retirement. The duty currently rests with the Board of Supervisors.

Pension trustees have complained for years that salary limits constrain their ability to hire and retain top talent. The County Board of Supervisors has refused, on several occasions in recent years, to approve raises or bonuses to the current pension CEO who is at the top of his salary range.

The salary cap was a problem for the trustees when they sought to replace their former Chief Investment Officer in 2009. They were not able to hire anyone within the salary range established by the County. Ultimately they out sourced their investment services on a contractual basis.

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FILED  
Clerk of the Superior Court

SEP 05 2014

FILED  
CIVIL BUSINESS OFFICE 3  
CENTRAL DIVISION

2014 SEP -5 PH 3: 08

CLERK-SUPERIOR COURT  
SAN DIEGO COUNTY, CA

Attorneys for Plaintiff  
SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

*Exempt from filing fee under Cal. Gov't Code § 6103*

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN DIEGO

SAN DIEGO COUNTY EMPLOYEES  
RETIREMENT ASSOCIATION,

Plaintiff,

v.

COUNTY OF SAN DIEGO, and DOES 1  
through 10,

Defendants.

Case No. **37-2014-00030113-CU-MC-CTL**

**COMPLAINT FOR DECLARATORY  
RELIEF**

**"VIA FAX"**

Plaintiff alleges as follows:

**THE PARTIES**

1. Plaintiff San Diego County Employees Retirement Association ("SDCERA") is a public retirement system organized and existing under the County Employees Retirement Law of 1937, Cal. Gov't Code §§ 31450 *et seq.* ("CERL"). Since its formation effective July 1, 1939, SDCERA has existed for the benefit of active, deferred, and retired general and safety employees of the County of San Diego ("County") and other participating employers. SDCERA currently has over 39,000 members, including over 17,500 active members, almost 5,000 deferred members, and over 16,500 retired members. SDCERA collects pension contributions from the participating employers and employees, provides member communication, education, and other member services, administers and pays pension benefits and certain ancillary benefits, supervises

1 investment of trust funds currently in excess of \$10 billion, and performs such other work as is  
2 necessary to conduct its business.

3 2. SDCERA is a separate and independent public entity from the County and the  
4 other participating employers. SDCERA is governed by an independent nine-member Board of  
5 Retirement, consisting of four members elected by SDCERA's members (two active general  
6 member representatives, one active safety member representative, and one retired member  
7 representative), four members appointed by the County Board of Supervisors, and the sitting  
8 County Treasurer-Tax Collector. Cal. Gov't Code § 31520.1(a). CERL provides that "the  
9 management of the system is vested in the board of retirement." Cal. Gov't Code § 31520.  
10 Under the California Constitution, the Board of Retirement has "plenary authority and fiduciary  
11 responsibility for . . . administration of the system." Cal. Const., art. XVI, § 17. This authority  
12 exists "[n]otwithstanding any other provisions of law or this Constitution to the contrary." *Id.*  
13 The Constitution further states that the Board of Retirement has the "sole and exclusive  
14 responsibility to administer the system." Cal. Const., art. XVI, § 17(a).

15 3. Under the ultimate supervision and control of the Board of Retirement, SDCERA  
16 has an internal staff of approximately 80 employees. These employees implement the directions,  
17 decisions, and policies of the Board of Retirement in furtherance of its fiduciary duties.

18 4. Defendant County of San Diego is a California political subdivision existing under  
19 the Constitution and statutes of the State of California. The County is governed by its elected  
20 Board of Supervisors.

21 5. The identities of defendants named herein as Does 1 through 10, inclusive, are  
22 currently unknown to SDCERA, and therefore such defendants are sued by fictitious names.  
23 SDCERA is informed and believes and thereon alleges that the fictitiously named defendants  
24 have a legal interest in this matter. If and when the identities of such defendants, or any of them,  
25 are discovered, SDCERA will amend this complaint to state their true names and capacities.

#### 26 JURISDICTION AND VENUE

27 6. This matter is within the general jurisdiction of this Court.

28 7. Venue is appropriate in this Court under California Code of Civil Procedure

1 section 394(a), which provides that an action, such as this one, against a county may be brought  
2 in that county.

### 3 SUMMARY

4 8. This action concerns the Board of Retirement's authority under CERL and the  
5 Constitution to set the compensation of SDCERA's employees. SDCERA contends that the  
6 Board of Retirement has compensation-setting authority as part of its "plenary authority and  
7 fiduciary responsibility" and "sole and exclusive responsibility" for the administration of the  
8 system. Cal. Const., art. XVI, §§ 17, 17(a). SDCERA further contends that the Board of  
9 Retirement cannot effectively administer the system and perform its fiduciary duties without this  
10 authority. However, the County asserts that its Board of Supervisors has the authority to set the  
11 compensation of SDCERA's employees. SDCERA, through its Board of Retirement, staff, and  
12 counsel, and the County, through its Board of Supervisors, staff, and counsel, have had extensive  
13 discussions about the issue, but the parties have been unable to resolve their differing views. The  
14 Board of Supervisors continues to assert and exercise the power to set the compensation of all of  
15 SDCERA's employees over SDCERA's objection. SDCERA, therefore, files this Complaint for  
16 Declaratory Relief to obtain a declaration from this Court to resolve this important governance  
17 issue.

### 18 RELEVANT CERL PROVISIONS

19 9. Under CERL, SDCERA's Board of Retirement has the express authority and  
20 responsibility to appoint and manage SDCERA's personnel.

21 10. Section 31520 provides that "the management of the retirement system is vested in  
22 the board of retirement." Section 31522.1 provides that the Board of Retirement "may appoint  
23 such administrative, technical, and clerical staff personnel as are required to accomplish the  
24 necessary work of the board[ ]." Section 31522.1 further provides that this staff shall be  
25 appointed "from eligible lists created in accordance with the civil service or merit system rules"  
26 of the County. Section 31522.1 also provides that, "[t]he personnel shall be county employees  
27 and shall be subject to the county civil service or merit system rules and shall be included in the  
28 salary ordinance or resolution adopted by the board of supervisors for the compensation of county

1 officers and employees.” Pursuant to Section 31522.1, SDCERA has appointed and employs  
2 approximately 75 administrative, technical, and clerical staff.

3 11. Section 31522.2, which has been made operative as to SDCERA by resolution of  
4 the Board of Supervisors, provides that the Board of Retirement “may elect to appoint an  
5 administrator.” Section 31522.1 further provides that “the administrator shall not be subject to  
6 county civil service or merit system rules.” Section 31522.2 also provides that the administrator  
7 “shall be a county employee and the position of administrator shall be included in the salary  
8 ordinance or salary resolution adopted by the board of supervisors for the compensation of county  
9 officers and employees.” Section 31522.2 states that the administrator “shall be directed by, shall  
10 serve at the pleasure of, and may be dismissed at the will of,” the Board of Retirement. Pursuant  
11 to Section 31522.2, the Board of Retirement has appointed a Chief Executive Officer.

12 12. Section 31522.3 provides that the Board of Retirement “may elect to appoint  
13 assistant administrators and chief investment officers.” Section 31522.3 further provides that  
14 these employees “shall not be subject to county charter, civil service, or merit system rules.”  
15 Section 31522.3 also provides that these employees “shall be county employees and shall be  
16 included in the salary ordinance or salary resolution adopted by the board of supervisors for the  
17 compensation of county officers and employees.” Section 31522.3 states that these employees  
18 “shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of,” the  
19 Board of Retirement. While SDCERA does not currently employ a chief investment officer,  
20 SDCERA employs, pursuant to Section 31522.3, assistant administrators, including a Chief  
21 Operating Officer and a Director of Member Services.

22 13. Taken together, all of SDCERA’s approximately 80 employees are appointed  
23 pursuant to Sections 31522.1, 31522.2, and 31522.3.

24 14. Section 31580.2 provides that the Board of Retirement has the authority to budget  
25 and pay for SDCERA’s employees as an expense of administering the system. Section 31580.2  
26 further provides that the expenses of administering the system “shall be charged against the  
27 earning of the retirement fund.” Pursuant to Section 31580.2, the salaries of all SDCERA  
28 employees are paid from and charged against SDCERA’s own funds.



1           15. CERL does not specifically or expressly state whether the Board of Retirement or  
2 the Board of Supervisors has the authority to set the compensation for those employees appointed  
3 under Sections 31522.1, 31522.2, and 31522.3. However, the appointment power given by CERL  
4 to the Board of Retirement cannot be effectively exercised in the absence of compensation-setting  
5 authority, which is a central and necessary element in the selection, retention, evaluation, and  
6 management of employees. The ability of the Board of Retirement to administer the system is  
7 impaired in the absence of such authority.

8           16. The Board of Supervisors' role under Section 31522.1, 31522.2, and 31522.3 to  
9 perform the ministerial task of including the compensation determined by the Board of  
10 Retirement in the County's compensation ordinance. Were the Board of Supervisors to have the  
11 authority to actually set the compensation of SDCERA's employees, it would interfere with  
12 SDCERA's status as an independent governmental entity, which is separate from the County, and  
13 it would deprive the Board of Retirement of the independent decision-making power that is  
14 vested in it under CERL with respect to the management of the system.

15                           RELEVANT CONSTITUTIONAL PROVISIONS

16           17. Under article XVI, section 17 of the California Constitution, "[n]otwithstanding  
17 any other provisions of law or this Constitution to the contrary, the [Board of Retirement] shall  
18 have plenary authority and fiduciary responsibility for . . . administration of the system."

19           18. Article XVI, section 17(a) further provides that the Board of Retirement "shall  
20 have the sole and exclusive fiduciary responsibility over the assets of" the system and "shall also  
21 have the sole and exclusive responsibility to administer the system in a manner that will assure  
22 prompt delivery of benefits and related services to the participants and their beneficiaries."  
23 Article XVI, section 17(a) provides that SDCERA's assets "are trust funds and shall be held for  
24 the exclusive purposes of providing benefits to participants in the pension or retirement system  
25 and their beneficiaries and defraying reasonable expenses of administering the system."

26           19. Article XVI, section 17(b) provides that the members of the Board of Retirement  
27 "shall discharge their duties with respect to the system solely in the interest of, and for the  
28 exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing

1 employer contributions thereto, and defraying reasonable expenses of administering the system.”  
2 This language also appears in CERL. *See* Cal. Gov’t Code §31595(a).

3 20. Article XVI, section 17(c) provides that the members of the Board of Retirement  
4 “shall discharge their duties with respect to the system with the care, skill, prudence, and  
5 diligence under the circumstances then prevailing that a prudent person acting in a like capacity  
6 and familiar with these matters would use in the conduct of an enterprise of a like character and  
7 with like aims.” *See* also Cal. Gov’t Code 31595(b).

8 21. Under article XVI, section 17, the “plenary authority” and “sole and exclusive  
9 responsibility” of the Board of Retirement over the administration of the system, including the  
10 system’s “expenses,” is given constitutional dimension. The Constitution is express in  
11 recognizing that this authority exists “[n]otwithstanding any other provisions of law or this  
12 Constitution to the contrary.”

13 22. Taken together, these words give the Board of Retirement the broadest possible  
14 authority over the administration of the retirement system in the exercise of its fiduciary duties.  
15 The constitutional language resolves any perceived ambiguity in the structure and wording of  
16 CERL in favor of the Board of Retirement’s authority in all matters of administration, including  
17 compensation-setting for SDCERA’s employees.

18 23. The Board of Retirement cannot effectively and prudently exercise its plenary and  
19 exclusive authority over the administration of the system and fulfill its fiduciary duties under the  
20 Constitution if it does not have compensation-setting authority. The Board of Retirement’s  
21 authority and duties are implemented in large part through the selection, retention, evaluation, and  
22 management of SDCERA’s employees as the face of the organization and the instrumentalities  
23 through which the Board interfaces with the world and accomplishes its objectives. By exercising  
24 compensation-setting authority, the Board of Supervisors deprives the Board of Retirement of an  
25 important part of its constitutional power.

26 **THE PARTIES HAVE AN ACTUAL CONTROVERSY REQUIRING**  
27 **RESOLUTION BY THIS COURT**

28 24. An actual controversy now exists between SDCERA and the County with respect

1 to compensation-setting authority for SDCERA's employees.

2 25. On the one hand, SDCERA contends that the Board of Retirement has the  
3 authority, under the provisions of CERL and the California Constitution, to set the compensation  
4 for all of SDCERA's employees and that the Board of Supervisors is required, as a purely  
5 ministerial act, to incorporate whatever compensation is decided by the Board of Retirement into  
6 the County's compensation ordinance.

7 26. On the other hand, the County contends that the Board of Supervisors has the  
8 unfettered authority to set the compensation of all of SDCERA's employees and is free to  
9 disregard the decisions of the Board of Retirement with respect to compensation. In fact, the  
10 County has refused to implement decisions of the Board of Retirement as to the amount of  
11 compensation for various of SDCERA's employees.

12 27. SDCERA desires a judicial determination by this Court as to the Board of  
13 Retirement's compensation-setting authority under CERL and the Constitution.

14 28. A judicial determination by this Court is necessary and appropriate at this time so  
15 that the parties will know the extent of and can implement their compensation-setting authority  
16 under CERL and the Constitution with respect to SDCERA's employees.

17 WHEREFORE, SDCERA prays for judgment as follows:

18 1. For a declaration that, under CERL and the California Constitution, the Board of  
19 Retirement has the authority to set the compensation of all of SDCERA's employees and that the  
20 Board of Supervisors is required, as a ministerial act, to incorporate the Board of Retirement's  
21 compensation decisions into the County's compensation ordinance;

22 2. For costs of suit; and

23 3. For such other relief as the Court deems just and proper.

24 DATED: September 5, 2014

CROWELL & MORING LLP

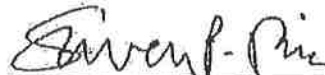
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By:



Steven P. Rice

Attorneys for Plaintiff

SAN DIEGO COUNTY EMPLOYEES  
RETIREMENT ASSOCIATION