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BOARD OF RETIREMENT MINUTES

April 24, 2009

Members Present: Maria De Anda, Mike Fisher, Gordon Ford, Darin Gharat, Wes Hall, Mike Lynch, Ron Martin, and Clarence Willmon

Alternate Member Absent: Linda Stotts-Burnett (Alternate Retiree Representative)

Member Absent: Jim DeMartini

Staff Present: Tom Watson, Retirement Administrator
Kelly Cerny, Executive Secretary
Hank Skau, Operations Manager

Counsel Present: Deirdre McGrath, Deputy County Counsel
Jeffrey Rieger, Esq., Reed Smith LLP

Others Present: Robert McCrory & Graham Schmidt, EFI Actuaries
Rick Robinson, County Chief Executive Officer

1. Meeting called to order at the Board of Supervisors Chambers, Tenth Street Place, at 2:00 p.m. by Gordon Ford, Chair.

2. Roll Call

3. Announcements

Tom Watson announced the Public Comment format. There will be no discussion or action by the Board relating to retiree ad hoc benefits. The only item for action is the approval of the Minutes of the April 8, 2009, Board of Retirement Administrative meeting. He repeated the main issue facing the Board today is to review various options the Board may have that would affect the actuarial valuation report and the derivation of employer and employee contributions rates. Mr. Watson said there would be no final decisions made today.

Mr. Watson announced today’s meeting is being audio and video recorded, and broadcast live via the local cable television public access channels. It is also being streamed via the Internet. To view and or listen to the meeting go to www.stancera.org. Video and audio recordings will be available on the website.
3. **Announcements (Cont.)**

Mr. Watson noted discussion and action on retiree ad hoc benefits and
discussion and action on the June 30, 2008 actuarial valuation will be on
the Tuesday, April 28, 2009, Board of Retirement Investment meeting Agenda.
The meeting will begin at 2:00 p.m. Tuesday, April 28, 2009, in the Foster Theater
in the Gallo Center for the Arts.

Mr. Watson concluded by saying for those who may attend next Tuesday’s meeting,
and are interested in obtaining the Agenda attachments, they may visit the website and
print the material. Only the Agenda will be available in paper format at the meeting.

4. **Public Comment**

Michael O’Neal, Retiree, and President of the Retired Employees of Stanislaus
County (RESCO), apologized for the postcard mailed to RESCO members that
contained erroneous information regarding the April 24, 2009 and April 28, 2009
Board of Retirement meetings.

Pat Samsell, Active Member (Employee), City of Ceres, requested the Board make
final decisions by December 2009 on the Actuarial Review and Analysis
as of June 30, 2009. The City of Ceres needs the information to balance
its budget and to determine if more lay-offs of employees will occur. Mr. Samsell
requested the Board appoint a Board member as a liaison to the other employers
in the retirement system, so the Board may become familiar with the issues facing
them.

Pat Glattke, County Retiree, asked the Board to consider the financial consequences
for retirees who retired prior to 1981 and the potential effect of losing the non-vested
benefits.

Marlene Jackson, County Retiree, asked that there be transparency
in regards to the employer/employee shared contribution costs. She
recommended the Board receive all financial information from the County
in writing.

Dennis Nasrawi, County Retiree, informed the Board he delivered two position papers for
Board members to the StanCERA office.

Lyn Bettencourt, County Retiree, reminded the Board their number one duty is
to provide retiree benefits. He voiced his concern over possible changes to the
ad hoc benefits. He noted the April 14, 2009 Retiree Benefits Committee meeting
was only posted at the StanCERA building and not on the website. He acknowledged
this met the Brown Act requirements.

Mr. Ford informed those that had no Public Comment but may have questions later,
to contact Mr. Watson in writing.
5. **Consent Items**

Mr. Lynch thanked staff for the availability on StanCERA’s website of recent meetings via audio and video recordings. He was able to listen to the audio of the Retiree Benefits Committee meeting which was very helpful.

Mr. Lynch requested that Item #6a of the April 8, 2009 Administrative meeting Minutes be amended with the following paragraph:

Mr. Leiderman conveyed that the priority for this Board is funding the vested benefits. The Board has a fiduciary responsibility to view this issue with prudence and in the context of the current circumstances.

Mr. Hall noted that the April 8, 2009 Minutes under Item #9, Member’s Forum, paragraph 2, announced there would be a Retiree Benefits Committee meeting at 2:30 p.m. on Tuesday, April 14, 2009.

Motion was made by Wes Hall and seconded by Maria DeAnda to approve the following item as amended.

Motion carried.

a. Approval of the Amended April 8, 2009 Administrative Meeting Minutes

6. **Continuation from the April 8, 2009 Board of Retirement Meeting of the Presentation of StanCERA’s Draft Actuarial Review and Analysis as of June 30, 2008**

Mr. McCrory and Mr. Schmidt, EFI Actuaries, were present to continue the presentation of StanCERA’s draft actuarial review and analysis as of June 30, 2008. Mr. Ford asked for different models to be depicted. Mr. Schmidt reviewed the various graphs demonstrating models of employer costs, funding ratios, smoothing, and market value possibilities. Mr. McCrory explained the meanings of the graphs.

Mr. McCrory reviewed the three areas in which the Board has to make Decisions: 1) How to handle the non-valuation benefits and reserves, 2) funding policies, and 3) determining internal methodologies such as how costs are split between the system’s employers, the County, Superior Courts, City of Ceres, and the special districts.

Mr. Schmidt reviewed the 5-year projections based on a -25% assumed return for fiscal year 2008-2009 with policy options. These include StanCERA’s current policy with no changes, moving funds from the non-valuation reserves to the valuation reserves, lengthening the amortization period, changing the amortization level to a percentage of payroll, and smoothing the asset losses over a longer period. There also was an alternative projection of amortizing the fiscal year 2009 losses separately over a 30-year period.

Board members reviewed and discussed the material presented. Mr. Schmidt and Mr. McCrory answered the Board members’ numerous questions.
6. Continuation from the April 8, 2009 Board of Retirement Meeting of the Presentation of StanCERA's Draft Actuarial Review and Analysis as of June 30, 2008 (Cont.)

Mr. Hall asked for clarification of option four of the four funding options provided to the Board. Mr. Schmidt said the options came from Mr. Leiderman and the staff of Reed Smith as a result of the Retiree Benefits Committee meeting, with some numbers provided by EFI Actuaries. Mr. Schmidt mentioned options one and two were shown today in the models. Mr. Rieger, representing Reed Smith, gave an overview of the options.

Mr. Rieger emphasized to the Board that the list of options was just an example to show the range of the practical impact of the options. He said these are not the only options the Board could utilize.

Mr. Rieger said these options deal with the ad hoc benefit reserves only and not the amortization or smoothing periods. He mentioned options one and two address the transfer of non-valuation assets to valuation assets which would reduce the anticipated unfunded actuarial accrued liability (UAAL) and therefore reduce employer contribution rates accordingly. The third and fourth options are also within the range of the Board's discretion. Mr. Rieger pointed out that the main issue is to maintain reserves against deficiencies per Government Code section 31592, and the second issue is the disposition of excess earnings per Government Code section 31592.2. He said all four options apply to these two mandates on the retirement system. He reminded the Board they have broad discretion to implement both kinds of actions – reserves against deficiencies and disposition of excess earnings. The Board reviewed and discussed the funding options, and the ability to choose one of the four options, or choose a combination of parts of the options that would pertain to the system's condition. At the Board's request, Mr. Schmidt and Mr. McCrory presented additional models for the Board's discussion and review.

Mr. Lynch expressed that the system being in the 50%-70% funded range is dangerous. Mr. Ford asked for EFI Actuaries perspective. Mr. McCrory offered that 100% funded is the way to go. He said his clients are generally an intelligent and conservative group and equally uncomfortable being in this low of a range. They want to respond to requests from employers, not anticipate the requests, but requests from employers for relief have been made and rather specific ones. Generally, employer presentations made to the retirement boards are regarding the employer's budget to enable 10-year projections. Employers want to ensure the contributions owed to the plan are made when they are supposed to be made. It is tough times for everyone. Mr. Ford acknowledged that the County did make a presentation to the StanCFRA Board on April 8, 2009. Mr. McCrory also mentioned that communication with employee and retiree groups is important. Mr. Ford said StanCERA staff have made several presentations and offered written material regarding the impact of future employer/employee retirement contribution rates to the various employer/employee and retiree organizations.

Board members expressed interest in assisting employers and also doing what's best overall for the fund over the long-term. Mr. Lynch inquired as to whether the retirement benefit currently paid out is more than the County's contribution. Mr. Watson said this is correct. Mr. Wilmon said it would be beneficial to hear from the County prior to the April 28, 2009 meeting as to what they might need.
6. Continuation from the April 8, 2009 Board of Retirement Meeting of the Presentation of StanCERA’s Draft Actuarial Review and Analysis as of June 30, 2008 (Cont.)

Public Comment – Item #6

Mr. Bettencourt expressed his concerns as to the decisions the Board will have to make. He reiterated the Board should take care of the fund and make it fair for all involved.

Ms. DeAnda commented that the Board acts independently and the hope is for all to benefit from the system. She reassured the system’s members that no one in particular is getting any extra benefits. The Board wants to do what is right for all the system’s members.

Doug Estes, Retiree expressed his concern about keeping the fund whole and not splitting monies with the County.

Sarah Ragsdale, Administrative Services Director, City of Ceres, shared with the Board that currently 14 City of Ceres employees have been laid off out of 208 employees. Depending on how the future employer contribution rates are developed it may mean the City of Ceres will look at possibly more lay-offs. It is critical information for the City to know what the future rates will be as it prepares its budget and projections. Ms. Ragsdale addressed the Board with some questions regarding the EFI Actuaries information.

Mr. Schmidt and Mr. McCrory addressed Ms. Ragsdale’s questions.

Mr. McCrory suggested a structure of decisions the Board needs to make now regarding the draft actuarial review and analysis as of June 30, 2008. This would entail accepting the analysis with the known errors, move on to deal with the ad hoc uses and the non-valuation reserves and the issue of reserve crediting for Ceres and the special districts before the draft actuarial review and analysis as of June 30, 2009. Once this analysis is ready, there is a better picture of the impact of the -25% loss in assets. Then, finally, decisions or changes can be made on comprehensive funding policies and amortization periods. This is a structure of decisions that would match the information as it is received.

Tom Broderick, Retiree, expressed his appreciation of the civility present in today’s discussion. He mentioned his concern regarding the 248 retirees who retired prior to 1981 and are in the most vulnerable financial situation.

Ms. DeAnda commented that a few years ago a study was done on the approximate average amount a retiree received ($24,000 per year). That is currently below, and was at the time, the poverty level.

Pat Glattke, Retiree, asked questions regarding whether the transfer of money from the ad hoc reserves goes right to the County; whether the Board of Retirement is aware of when the Board of Supervisors approved the enhanced benefits policy, and the Ventura decision. Mr. Watson and Mr. McCrory answered these questions respectively.

Mr. Nasrawi commented on the transfer of money from the ad hoc reserves to other reserves. He said it is important to be fair.
Continuation from the April 8, 2009 Board of Retirement Meeting of the
Presentation of StanCERA’s Draft Actuarial Review and Analysis as of June 30, 2008 (Cont.)

Public Comment – Item #6 (cont.)

Mr. Estes commented the excess earnings should either be made a permanent benefit or not exist. This money should be used to protect and secure the retiree benefit as opposed to helping the County with money they have already received.

Mr. Rieger reiterated that nobody is suggesting giving money to the County. It all stays in the system to pay retirement benefits. Mr. Rieger referred to a footnote on the funding option two that states transfers may only offset the employers’ UAAL contributions; they may not offset normal cost contributions. Under law, this is a reserve against deficiencies and other contingencies such as unfunded liabilities. No matter what happens the County would pay for the benefits earned in the year they are earned. It is important what the actuaries said early it is either pay now or pay later, with exception to the ad hoc reserves. There is no right answer and the Board will collectively come to a judgment as to what it believes is the right answer. Mr. Rieger said this is not an all or nothing situation. The Board can look each year and come to a collective judgment whether to correct immediate problems and protect long-term funding of the system.

Mr. Robinson addressed the Board to clarify that the County’s position is not to ask for a bail-out. The County asks that all funds in the retirement system be treated the same, as funds on deposit to fund vested benefits. The County has asked the Board to recognize what the current market conditions, current economic circumstances dictate. That is to take a conservative approach to the long-term needs and demands of the retirement system and to develop a sustainable vested retirement benefit system in Stanislaus County. Mr. Robinson pointed out that given the current market losses the County encourages the Board to work with the employers that represent the employees who will receive benefits and retired employees who are receiving the benefits and the long-term consequences.

Ms. DeAnda inquired if the Board of Retirement offered the County help this year would the County accept the offer. Mr. Robinson responded if the offer would reduce the County’s contribution then it would accept an offer.

Mr. Lynch commented on the funded percentage of the retirement system and the ad hoc benefits. He noted the reason the system is where it is, is due to the market collapse and mistakes the previous actuaries had made. It is not because the County was not being fair to its retirees or paying its fair share.

Mr. Watson shared information on the condition of the California Public Employees Retirement System (CalPERS), one of the largest retirement systems, to demonstrate how although this system is 66% funded, it is not going away. Defined benefit retirement systems are going through hard economic times. However, they will continue to provide benefits to retirees.

Rick Johnston, Retiree, suggested that in the future the Board think about freezing the retiree health benefit and create a new plan for new employees.
6. Continuation from the April 8, 2009 Board of Retirement Meeting of the Presentation of StanCERA’s Draft Actuarial Review and Analysis as of June 30, 2008 (Cont.)

Public Comment – Item #6 (cont.)

Ms. McGrath mentioned that San Diego County has created something like this. She said it would be the County who would have to develop something because of the fact the County has the ability to go to the labor groups. There are opportunities but it takes cooperation. This Board would not be in a position to take this type of action without the County being interested in doing it.

Ms DeAnda commented that a couple of years ago the amount of the ad hoc benefits was reduced and there was much discussion on what alternatives were available. The goal two years ago was to maintain the retiree health benefit into perpetuity, and to do so the benefit amount had to be reduced. A review determined that due to individual retirees circumstances it is difficult to ascertain what retiree health benefit alternatives are sustainable. This is continuously reviewed and depending on what overall future decisions are made will be looked at again.

Mr. Watson noted at that time information on Voluntary Employees' Associations (VEBAs) and the Retiree Medical Trust (RMT) information was forwarded onto both employer and labor organizations for review.

Mr. Ford noted that anyone who had additional questions could submit them to Mr. Watson.

Mr. Watson restated the time, date, and location of the next Board of Retirement meeting that was mentioned under Item #3 – Announcements.

Gerry Caviness, Retiree, asked for a point of clarification. If the previous actuarial study had not been flawed, then the County would have been contributing more in the past. Mr. Ford concurred.

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

None.

8. Adjournment

Meeting adjourned at 4:34 p.m.

Respectfully submitted,

Tom Watson
Tom Watson, Retirement Administrator

APPROVED AS TO FORM:
JOHN P. DOERING, COUNTY COUNSEL

Deirdre McGrath, Deputy County Counsel