ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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May 21, 2015

To: Members of the Actuarial Committee

From: Elizabeth Rogers, Vice Chair

Subject: Summary of the May 21, 2015 Actuarial Committee Meeting

Actuarial Committee Vice-Chair Elizabeth Rogers called the May 21, 2015 Actuarial Committee Meeting to order at 12:30 p.m. Committee members present were Elizabeth Rogers, Vice-Chair, Ophelia Basgal, and George Wood. The other Board members present were Dale Amaral, Annette Cain-Darnes, Terrell Gamble, Donald White, and alternate members David Safer and Darryl Walker. Staff present were Kathy Foster, Interim Chief Executive Officer; Margo Allen, Fiscal Services Officer; Joseph Fletcher, Chief Counsel; Betty Tse, Chief Investment Officer; Latrena Walker, Project and Information Services Manager; Harsh Jadhav, Internal Auditor; Sandra Dueñas-Cuevas, Benefits Manager; and Victoria Arruda, Human Resources Director.

ACTION ITEM

There were no action items for discussion.

INFORMATION ITEMS

1. **Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2014**

   Paul Angelo, Senior Vice-President and Actuary, and Andy Yeung, Vice-President and Associate Actuary, Segal Consulting (Segal), reviewed the GASB Statement 67 Actuarial Valuation as of December 31, 2014. Robert Griffin, Partner, Williams, Adley, ACERA's external auditor, discussed his perspective on the implementation of GASB 67. Participating Employer representatives from the County of Alameda, Livermore Area Recreation and Park District (LARPD), Alameda Health Systems, and First 5 were present at the meeting.

   As Segal discussed at the April 16, 2015 Actuarial Committee meeting, the 7.60% investment return assumption adopted by the Board for use in the December 31, 2014 funding valuation was developed without considering the future impact of any future 50/50 excess earnings allocation to the SRBR. Mr. Angelo explained that although the GASB 67 statement and implementation guide do not specifically address a situation such as the SRBR and Alameda County's Article 5.5 statue, the implementation guide does suggest that the liabilities associated with benefits that are paid when the investment return assumption exceeds the actuarially assumed rate should be treated as automatic, and therefore included in the plan's financial reporting. Mr. Griffin stated that he held discussions with Segal and the GASB 67 project leader, and that the impact of the gain sharing should be considered in the assumed rate of return used for GASB 67 financial reporting purposes.
   Staff explained that ACERA asked Segal to model the accounting change for reporting the Total Pension Liability (TPL) in order for ACERA to comply with GASB 67, and in turn asked Williams, Adley if Segal's methodology is sound. Mr. Angelo explained that Segal studied the future impact of the 50% allocation of future excess earnings to the SRBR in a stochastic model, consistent with the guidance found in the revised Actuarial Standard of Practice (ASOP) No. 4, and estimated that the allocation would have the same impact on the total employer contribution rate as that calculated

using an investment return assumption of 6.85% (that is a 0.75% reduction of the 7.60% investment return assumption). Mr. Angelo affirmed that this same 6.85% investment return assumption was used in preparing the GASB 67 report and the unaudited Net Pension Liability (NPL). Mr. Griffin commented that Segal's approach to re-measuring pension liabilities using the 6.85% investment return assumption was reasonable and that their methodology was sound. In response to Trustee Amaral's question about the dollar impact to the employers, Mr. Yeung said that the difference between using the 6.85% investment return assumption and the 7.60% assumption equated to an approximate increase of $650-700 million in the NPL.

Staff recapped that the GASB 67 reporting requirements are independent of funding requirements, and since the 6.85% assumption rate is used only for reporting and not funding, there is no impact to the employers' contribution rates. Ultimately the Participating Employers will be required by GASB 68 to include a proportionate share of the audited NPL in their respective financial statements. Mr. Griffin emphasized that financial statements should be presented with clarity and transparency.

Staff recounted that the GASB 67 report will be discussed with the employers at the May 26, 2015 Participating Employers meeting, and the trustees will be asked to consider adopting the funding valuation at the June 18, 2015 committee and board meetings. Additionally, the TPL and NPL will be calculated using the 6.85% investment return assumption and disclosed in ACERA's financial statements.

TRUSTEE/PUBLIC INPUT

Steve Manning, County Auditor-Controller, stated that the County has been informed about the change in the assumption, however the County does not necessarily agree with everything that has been said. Fred Tse, Division Chief of the County Auditor-Controller's office, stated that there is an accounting problem because the OPEB liability is being reported under the current GASB statement until a new OPEB statement is issued in the future. Mr. Angelo underscored that the OPEB liabilities will be addressed when the complementary new OPEB statement is released. Don Humphrey, LARPD Finance Manager, asked whether there would be excess funds in ACERA if the employers were to pay their pension liability in full. Mr. Yeung clarified that the pension liability is measured at a point in time and is subject to the volatility of the market. Dennis Bozanich, CAO Administrative Analyst, asked for clarification on whether the Actuarial Required Contribution (ARC) would be affected. Mr. Angelo explained that the term ARC has been replaced by Actuarially Determined Contribution (ADC), and that there is no impact to the employers' ADC because the 7.60% investment return assumption is used to calculate the contributions for funding purposes. Mr. Angelo further explained that the increase to the NPL does not increase the unfunded actuarial accrued liability (UAAL), which is used for funding liability purposes. Mark Rasiah, First 5 Finance Manager, asked where the 7.60% investment return assumption is on the scale. Mr. Angelo replied that in California the investment return assumption at other systems having been trending downward and is currently between 7.25% and 7.50%; however, nationally the 7.60% is on the lower end of the scale because the rest of the nation moves more slowly than California.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for June 18, 2015 at 12:30 p.m.

MEETING ADJOURNED

The meeting adjourned at 1:54 p.m.