



September 18, 2014

To: Members of the Actuarial Committee

From: George Wood, Chair

Subject: Summary of the September 18, 2014 Actuarial Committee Meeting

Actuarial Committee Chair George Wood called the September 18, 2014 Actuarial Committee Meeting to order at 11:08 a.m. Committee members present were George Wood, Chair, Dale Amaral and Liz Koppenhaver. The other Board members present were Annette Cain-Darnes, Elizabeth Rogers, and alternate members David Safer and Darryl Walker. Staff present were Vince Brown, Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Marguerite Malloy, Associate Counsel; Betty Tse, Chief Investment Officer; Margo Allen, Fiscal Services Officer; Latrena Walker, Project and Information Services Manager; Rose Kwong, Benefits Manager; Harsh Jadhav, Internal Auditor; and Victoria Arruda, Human Resources Director.

ACTION ITEM

1. Discussion and possible motion to approve the treatment of the 1% balance in the Contingency Reserve Account (CRA) when crediting interest in an alternative scenario

Margo Allen, Fiscal Services Officer, explained that during the course of finalizing the interest crediting policy, Segal Consulting (Segal) asked for clarification of ACERA's preferred treatment of the CRA when there is an interest shortfall in one six month interest crediting period and another interest shortfall in the subsequent six month interest crediting period.

Paul Angelo, Segal's Senior Vice President and Actuary, and Andy Yeung, Segal's Vice President and Associate Actuary, discussed the options for the treatment of CRA balance in this alternative scenario. Lori Schnall, Associate Counsel, explained that Government Code Section 31616 is ambiguous with regards to using the restored balance in the CRA in the same interest crediting period or carrying over the restored balance to the subsequent interest crediting period, and therefore the Board can make a choice among the options.

After a discussion, it was moved by Liz Koppenhaver that the Actuarial Committee recommends to the Board of Retirement, when the beginning balance of the CRA is below 1% because the CRA was used to meet an interest shortfall in the prior interest crediting period and the CRA is restored to 1% of market value in the current interest crediting period, the Board approve *not* using the restored 1% balance in the CRA to credit interest shortfalls in the valuation reserves, the 401(h) reserve account and the SRBR in the current interest crediting period and carry over the 1% ending balance in the CRA to the subsequent interest crediting period. *There was no second to the motion.*

Afterwards, it was moved by Elizabeth Rogers that the Actuarial Committee recommends to the Board of Retirement, when the beginning balance of the CRA is below 1% because the CRA was used to meet an interest shortfall in the prior interest crediting period and the CRA is restored to 1% of market value in the current interest crediting period, the Board approve using the restored 1%

balance in the CRA to credit interest shortfalls in the valuation reserves, the 401(h) reserve account and the SRBR in the current interest crediting period and carry over the 1% ending balance in the CRA to the subsequent interest crediting period. *There was no second to the motion.*

As a result, the committee requested staff to bring the treatment of the CRA back to the committee for further discussion.

2. Discussion and possible motion to adopt the Actuarial Funding Policy

Margo Allen, Fiscal Services Officer, stated that the proposed Actuarial Funding Policy was presented at the June committee meeting and staff is now recommending adoption of the policy.

After a discussion, it was moved by Liz Koppenhaver and seconded by Dale Amaral that the Actuarial Committee recommends to the Board of Retirement that the Board adopt the Actuarial Funding Policy.

The motion passed with 3 yes (*Amaral, Koppenhaver, Wood*).

INFORMATION ITEMS

1. Actuarial Experience Study

Paul Angelo, Segal's Senior Vice President and Actuary, and Andy Yeung, Segal's Vice President and Associate Actuary, presented the Actuarial Experience Study, which is an analysis of actuarial experience during the period December 1, 2010 through November 30, 2013. Segal is recommending changes in the assumptions for inflation, investment return, individual salary increases, retirement for active employment, pre-retirement mortality, healthy life mortality, disabled life mortality, turnover (vested and withdrawal of contributions), and disability (service connected and non-service connected).

Mr. Angelo stated that Segal is recommending that the Board develop the investment return assumption on a net of investment expenses but *not* net of administrative expenses basis, which appears as Option A in Segal's report. Mr. Angelo explained that this is more consistent with the new practice required by GASB for financial reporting, and will also provide for the funding of administrative expenses in a more transparent manner. The recommendation is to reduce the investment return assumption from 7.8% *net* of administrative expenses to 7.75% *gross* of such expenses, and add an *explicit* administrative expense loading of 1.6% of payroll.

Mr. Angelo also discussed Option B, which he explained is consistent with the current practice for funding. If this option is preferred by the Board, Segal's recommendation is to reduce the investment return assumption used for funding from 7.8% to 7.5%. Under this alternative, setting the investment return assumption at 7.5% for funding and using that same 7.5% for financial disclosure purposes under GASB means that even though the same rate is used, it would be considered *net* of administrative expenses for funding but *gross* of administrative expenses for financial disclosures. The administrative expense would continue to be funded *implicitly*.

Margo Allen, Fiscal Services Officer, stated that no action is intended for this meeting, but rather staff will make a recommendation at the next committee meeting concerning the investment return assumption.

RECOMMENDATION

The Committee recommends, and I move, that the Board of Retirement adopt the Actuarial Funding Policy.

TRUSTEE/PUBLIC INPUT

ESTABLISHMENT OF NEXT MEETING DATE

October 16, 2014 at 11:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 12:54 p.m.