February 17, 2011

To: Members of the Board of Retirement

From: George Dewey, Actuarial Committee Chair

Subject: Summary of Actuarial Committee Meeting, February 17, 2011

The Actuarial Committee was called to order at 12:37 p.m. on February 17, 2011. Committee Members present were George Dewey, Chair, Ophelia Basgal, Keith Carson, Liz Koppenhaver, and Elizabeth Rogers. Other Board members present were Dale Amaral and Donald White, and Alternate Member David Safer.

Staff Members present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Victoria Arruda, Human Resources Officer; Michael Fara, Communications Manager; Harsh Jahdav, Internal Auditor; Rose Kwong, Benefits Manager; J. P. Singh, Chief Financial Officer; Betty Tse, Chief Investment Officer; and Latrena Walker, Projects and Information Systems Manager.

ACTION ITEMS

1. **Discussion and motion to recommend to the Board of Retirement to approve a contract with the Segal Company to provide consulting services on Staff's review of the Liability Management Policy.**

Acting CEO Catherine Walker presented the item. In September 2010 the Board approved using the services of The Segal Company to conduct a comprehensive review of the Liability Management Policy and to work with staff to develop recommendations for the Actuarial Committee. As directed, Staff brought the service provider contract to the December 1, 2010 Operations Committee meeting. Segal estimated the cost for this service to be in the range of $25,000 to $35,000. The billings were to be based on actual hours spent on the project. Based on possible complications associated with Article 5.5 arrangements, Segal proposed a "not to exceed" fee estimate of $50,000, and that was the amount recommended to the Committee by Staff. The Committee questioned what particular experience and expertise qualified The Segal Company to review board policies for a public sector pension system. The Committee also asked why this policy review could not be done by Staff in-house.

Ms. Walker explained that Staff will be responsible for the actual review and drafting of language of the policy, but that the underlying work to analyze the parts of the policy that deal with funding is an actuarial process and requires the rigorous calculation, projection and analysis that can only be performed by professional actuaries. ACERA does not have this expertise in-house.

Paul Angelo of The Segal Company spoke to the Committee about the scope of the planned review, and of Segal's qualifications to provide assistance to Staff as the review is undertaken. He began by noting that the estimated cost, not to exceed $50,000, may seem high but it is the result of several factors. As always, ACERA's actuarial policies are complicated by our being a '37 Act pension system, and by ACERA having an SRBR. Mr. Angelo said that the policy review could be viewed as two nearly separate projects: a review of general actuarial funding policy; and then a review of the policies covering the SRBR and the Contingency Reserve.

Segal is suggesting that two parts of the actuarial funding policy should be reviewed at this time. First, the asset smoothing method, particularly the market value corridor which was changed following the market downturn of 2008-09, should be revisited.

Secondly, in recent years the professional actuary community has begun shifting to a new way of considering amortization of actuarial liability. Most systems, including ACERA, have until recently considered all of their liability as a single lump with a single amortization period. Actuarial practice now, however, driven partly by GASB, is moving toward models in which actuarial liability is treated in layers, for example by year and by type of liability. This approach allows questions to be addressed as to the appropriate length of amortization period for various gains and losses, and plan amendments. This review is crucial to ACERA's funding policy going forward, and it is an area in which Segal has particular expertise. Segal has recently completed comprehensive funding policy reviews for Sonoma and Fresno counties, the Los Angeles city system, and the University of California Retirement System. Mr. Angelo was also part of the GASB task force that developed the recent model funding policy.

The second project that is a part of this overall effort is a review of policy affecting the Contingency Reserve. It would be difficult to develop appropriate recommendations regarding the Contingency Reserve without looking at stochastic models of the SRBR like the one that was done for ACERA in 2008 before the market downturn. This modeling makes it possible to consider the probability of various outcomes for the SRBR depending on what happens with various factors, including higher and lower levels of the Contingency Reserve. This information then can inform the Board's discussions and decisions regarding these policies.

Mr. Angelo estimates that the cost of these two project portions of the proposal will be about equal, with each half being about $25,000, or less. The consideration of the funding policy, for example, will cost about $10,000 to $12,000 for Segal's initial work, and the remainder of the cost will vary depending on how much additional work and time, and how many meetings, are needed for the Board to come to conclusions about what actions to take. There are no big drawbacks to doing the review in two parts as discussed here. The review of the Contingency Reserve will happen a bit later than initially thought, but there is no great urgency attached to this.

Ophelia Basgal moved that the Committee recommend to the Board approval of the contract to engage The Segal Company to provide consulting support to Staff's review of the Liability Management Policy, with the work to be bifurcated, one part being the review of the general actuarial funding policy, and the second part being review of the Contingency Reserve and SRBR funding policies; the contract is not to exceed $50,000; and that the work is not to begin until after the permanent CEO is at ACERA. Liz Koppenhaver seconded, and the motion passed unanimously.

INFORMATION ITEMS

1. Actuarial Committee Work Plan for 2011

Catherine Walker presented the draft work plan for the Actuarial Committee for 2011. Most years the Committee meets only 3 or 4 times, but this is an unusually busy year and the Committee is likely to meet 7 or 8 times. In addition to the normal business regarding the annual valuation and contribution rates, this is the year of the triennial experience study, and a request for proposals will be drafted and released to identify an actuarial firm to perform an actuarial audit. Additionally there will be the review of ACERA's funding policies as discussed in action item one, and whatever work will be necessary to decide upon and implement the recommendations that come from that review.

2. 2011 Actuarial Valuation and Contribution Rates

Catherine Walker made a brief presentation about this year's actuarial valuation process. The Board decided last year to use the same actuarial economic assumptions for this year's valuation as last. Responding to a question from the Committee, Staff said that necessary information is getting to the actuaries in a timely manner, and Staff and Segal agreed that the valuation and contribution rates should be on time, coming to the Committee in April.

There will be information meetings with participating employers, and the joint meeting of the Board of Retirement and the Board of Supervisors in March. Information about the assumptions and the actuarial process will be addressed.

TRUSTEE & PUBLIC INPUT

Keith Carson suggested that it would be good for ACERA and Segal to provide an overview of the triennial experience study to the Board and all of the participating employers. This will be a good opportunity to explain the process and all of the assumptions, economic and noneconomic, to the interested parties. Paul Angelo said that Segal will be prepared to do that, including explanations of the terminology, derivation of the various assumptions, and so on.

ADJOURNMENT

The meeting adjourned at 1:18 p.m.