



Alameda County Employees' Retirement Association
BOARD OF RETIREMENT

OPERATIONS COMMITTEE/BOARD MEETING
NOTICE and AGENDA

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Wednesday, April 3, 2019
9:30 a.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 TH STREET, 10 TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	OPHELIA BASGAL, CHAIR	APPOINTED
	DALE AMARAL, VICE CHAIR	ELECTED SAFETY
	TARRELL GAMBLE	APPOINTED
	JAIME GODFREY	APPOINTED
	HENRY LEVY	TREASURER

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee.

The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

OPERATIONS COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 – Wednesday, April 3, 2019

Call to Order: 9:30 a.m.

Action Items: Matters for Discussion and Possible Motion by the Committee

None

Information Items: These items are not presented to Committee for action but consist of status updates, presentations and cyclical reports

1. Operating Expenses as of February 28, 2019

Report on the status of ACERA's budget vs. actual as of February 28, 2019

- Margo Allen

2. Statement of Reserves

Statement of Reserves as of December 31, 2018, and the report on the interest posted to member and employer accounts for the six months ended December 31, 2018.

- Margo Allen

Future Discussion Items

Trustee Remarks

Public Input

Establishment of Next Meeting Date

June 5, 2019, at 9:30 a.m.


Adjournment



MEMORANDUM TO THE OPERATIONS COMMITTEE

DATE: April 3, 2019

TO: Members of the Operations Committee

FROM: Margo Allen, Fiscal Services Officer 

SUBJECT: Operating Expense Budget Summary for the period ended February 28, 2019

ACERA's operating expenses are \$220K under budget for the period ended February 28, 2019. Budget overages and surpluses worth noting are as follows:

Budget Overages

1. *Professional Fees:* Professional Fees are \$3K over budget. This amount comprises overage in legal consultant fees of \$11K, which is offset by surplus in operations consultant fees of (\$8K).

Budget Surpluses

1. *Staffing:* Staffing is \$106K under budget. This amount comprises surplus in staff vacancies of (\$121K) and fringe benefits of (\$86K), which are offset by overage in temporary staffing of \$101K due to vacant positions filled by temporary staff.
2. *Staff Development:* Staff Development is \$23K under budget. The is due to savings from unattended staff trainings and vacant permanent positions.
3. *Office Expense:* Office Expense is \$1K under budget. This amount comprises surpluses in bank charges and miscellaneous administrative expenses of (\$3K), office maintenance and supplies of (\$3K), communication expense of (\$2K), building expense of (\$1K), and minor equipment and furniture of (\$2K), which are offset by overages in printing and postage of \$1K and equipment lease and maintenance of \$9K.
4. *Member Services:* Member Services are \$51K under budget. This amount comprises surpluses in disability legal arbitration and transcripts of (\$13K), disability medical expense of (\$26K), health reimbursement account of (\$1K), members training and education of (\$1K) and members printing and postage of (\$10K).
5. *Systems:* Systems are \$17K under budget. This amount comprises surpluses in software maintenance and support of (\$8K) due to delays in database migration project, business continuity expense of (\$10K) and computer maintenance of (\$2K)), which are offset by overages in county data processing of \$1K and minor computer hardware of \$2K.

6. Board of Retirement: Board of Retirement is \$24K under budget. This amount comprises surpluses in board election expense of (\$13K), board miscellaneous expense of (\$2K), board compensation of (\$2K), and board conferences & training of (\$7K).

Staffing Detail

As of February 28, 2019, ACERA had the following vacant positions:

Department	Position	QTY	Comments
Benefits	Retirement Technician	5	Filled by temporary staff - currently budgeted until 12/2019
Benefits	Retirement Support Specialist	1	Filled by temporary staff - currently budgeted until 12/2019
Investments	Admin Support Specialist	1	Filled by temporary staff - currently budgeted until 12/2019
Investments	Investment Analyst	2	Vacant - currently budgeted until 12/2019
Total Positions		9	



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TOTAL OPERATING EXPENSE SUMMARY

YEAR TO DATE - ACTUAL VS. BUDGET					
<u>February 28, 2019</u>					
	Actual	Budget	YTD	2019	% Actual to
	<u>Year-To-Date</u>	<u>Year-To-Date</u>	<u>Variance</u>	<u>Annual</u>	<u>Annual Budget</u>
			<u>(Under)/Over</u>	<u>Budget</u>	
Staffing	\$ 2,326,324	\$ 2,431,900	\$ (105,576)	\$ 15,122,000	15.4%
Staff Development	53,608	77,110	(23,502)	510,000	10.5%
Professional Fees (Next Page)	173,812	170,940	2,872	1,187,000	14.6%
Office Expense	108,376	109,140	(764)	554,000	19.6%
Insurance	213,979	213,970	9	1,305,000	16.4%
Member Services	27,418	78,140	(50,722)	527,000	5.2%
Systems	167,438	185,080	(17,642)	1,152,000	14.5%
Depreciation	20,084	20,960	(876)	126,000	15.9%
Board of Retirement	58,011	82,120	(24,109)	711,000	8.2%
Uncollectable Benefit Payments	-	-	-	39,000	0.0%
Total Operating Expense	\$ 3,149,050	\$ 3,369,360	\$ (220,310)	\$ 21,233,000	14.8%



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

PROFESSIONAL FEES

YEAR TO DATE - ACTUAL VS. BUDGET

February 28, 2019

	<u>Actual</u> <u>Year-To-Date</u>	<u>Budget</u> <u>Year-To-Date</u>	<u>YTD Variance</u> <u>(Under)/Over</u>	<u>2019</u> <u>Annual</u> <u>Budget</u>	<u>% Actual to</u> <u>Annual Budget</u>
<u>Professional Fees</u>					
Consultant Fees - Operations and Projects ¹	\$ 54,769	\$ 63,020	\$ (8,251)	\$ 388,000	14.1%
Actuarial Fees ²	30,000	30,000	-	415,000	7.2%
External Audit ³	49,600	49,600	-	149,000	33.3%
Legal Fees ⁴	39,443	28,320	11,123	235,000	16.8%
Total Professional Fees	\$ 173,812	\$ 170,940	\$ 2,872	\$ 1,187,000	14.6%


	<u>Actual</u> <u>Year-To-Date</u>	<u>Budget</u> <u>Year-To-Date</u>	<u>YTD Variance</u> <u>(Under)/Over</u>	<u>2019 Annual</u> <u>Budget</u>	<u>% Actual to</u> <u>Annual Budget</u>
<u>¹ CONSULTANT FEES - OPERATIONS AND PROJECTS:</u>					
Benefits					
Segal (Benefit Consultant/Retiree Open Enrollment)	20,935	19,200	1,735	115,000	18.2%
Segal (Retirees Health Insurance Benefit)	-	10,000	(10,000)	70,000	0.0%
Benefit Consultant (County Retirees Medical)	21,000	21,000	-	126,000	16.7%
Total Benefits	41,935	50,200	(8,265)	311,000	13.5%
Human Resources					
Lakeside Group (County Personnel)	12,833	12,820	13	77,000	16.7%
Total Human Resources	12,833	12,820	13	77,000	16.7%
Total Consultant Fees - Operations	\$ 54,769	\$ 63,020	\$ (8,251)	\$ 388,000	14.1%
<u>² ACTUARIAL FEES</u>					
Actuarial fees (562-00-005)	30,000	30,000	-	315,000	9.5%
GASB 67 & 68 Valuation (562-00-005)	-	-	-	46,000	0.0%
GASB 74 & 75-Actuarial (562-00-005)	-	-	-	14,000	0.0%
Actuarial fees-SRBR (562-00-007)	-	-	-	40,000	0.0%
Total Actuarial Fees	\$ 30,000	\$ 30,000	\$ -	\$ 415,000	7.2%
<u>³ EXTERNAL AUDIT</u>					
External audit (562-00-004)	42,000	42,000	-	126,000	33.3%
GASB 67 & 68 (562-00-004)	4,000	4,000	-	12,000	33.3%
GASB 74 & 75-External Audit (562-00-004)	3,600	3,600	-	11,000	32.7%
Total External Audit Fees	\$ 49,600	\$ 49,600	\$ -	\$ 149,000	33.3%
<u>⁴ LEGAL FEES</u>					
<u>Fiduciary Counseling</u>		10,000	(10,000)	110,000	
Manatt, Phelps & Phillips	-	-	-	-	
Nossaman, LLP	4,128	-	4,128	-	
Baker Hostetler	129	-	129	-	
Shaw Law Group	34,136	-	34,136	-	
Kroll LLC	-	-	-	-	
Meyers/Nave Professional Law Corporation	-	-	-	-	
Reed Smith (ACD Sheriff's)	1,050	-	1,050	-	
Subtotal	39,443	10,000	29,443	110,000	35.9%
<u>Tax and Benefit Issues</u>					
Hanson, Bridgett, LLP	-	4,000	(4,000)	39,000	
Subtotal	-	4,000	(4,000)	39,000	0.0%
<u>Litigation</u>				66,000	
Byers/Richardson	-	11,000	(11,000)	-	
The Law offices of Elizabeth F. McDonald	-	-	-	-	
Subtotal	-	11,000	(11,000)	66,000	0.0%
<u>Investigation Services</u>					
Law offices of Amy Oppenheimer	-	3,320	(3,320)	20,000	
Subtotal	-	3,320	(3,320)	20,000	0.0%
Total Legal Fees	\$ 39,443	\$ 28,320	\$ 11,123	\$ 235,000	16.8%



MEMORANDUM TO THE OPERATIONS AND RETIREES COMMITTEES

DATE: April 3, 2019

TO: Members of the Operations and Retirees Committees

FROM: Margo Allen, Fiscal Services Officer 

SUBJECT: Statement of Reserves and Supplemental Retirees Benefit Reserve (SRBR)
Status as of December 31, 2018

Executive Summary

The Statement of Reserves as of December 31, 2018, is attached for your review. The semi-annual interest crediting as of December 31, 2018 was completed on February 21, 2019.

For the six-month period ended December 31, 2018, approximately \$269.5 million of total interest was credited to all the valuation reserve accounts, including the 401(h) account and the SRBR.

- Regular earnings of \$269.5 million were credited to the valuation reserve accounts, the 401(h) account and the SRBR at the rate of return of 3.3861%, slightly short of one half of the assumed crediting rate of return of 3.6250%.
- The earnings were below the expected rate of return and as a result there was no crediting of earnings above the assumed rate of return (excess earnings).

The total interest crediting rate to the valuation reserve accounts and the 401(h) account as well as the SRBR was 3.3861% (See Table 1 below).

Table 1 Interest Crediting Rate					
	Valuation Reserve & 401(h) Accounts			SRBR	
	Amount	Rate		Amount	Rate
Regular Earnings	\$238,606,525	3.3861%		\$30,864,398	3.3861%
Excess Earnings	0	0.0000%		0	0.0000%
Total Interest Credited	\$238,606,525	3.3861%		\$30,864,398	3.3861%

The process for crediting interest as of December 31, 2018, is presented in the Table 2 on page 2. Note that for this semi-annual interest crediting period, the Contingency Reserve Account (CRA) was restored to 1% of total assets as of December 31, 2018, and the entire balance of \$78,063,689 was subsequently withdrawn of from the CRA to fund the interest crediting shortfalls. Without the use of the CRA funds the interest crediting rate would've been 2.4052%

Table 2 Interest Crediting Methodology as of December 31, 2018	
Expected Actuarial Earnings for the period	\$ 293,029,560.86
10 % Amortization of deferred amounts – (Sum of the last 10 periods)	(108,074,272.46)
Actuarial Earnings on a Smoothed Basis	184,955,288.40
CRA adjustment to 1% of total assets as of 12/31/2018	6,451,945.97
Actuarial Earnings Available for Interest Crediting at 2.4052%	191,407,234.37
CRA usage to cover the interest crediting shortfall	78,063,688.82
Total amount to credit interest at 3.3861%	\$ 269,470,923.19

There was a market *loss* of approximately \$457.5 million for the six-month period ended December 31, 2018, which was lower than the expected actuarial earnings of approximately \$293.0 million. As a result, \$750.5 million in *losses* were added to the market stabilization reserve (the difference of the actual market gain and the expected actuarial earnings). In addition, \$108.1 million of net *losses* from the previous ten (10) interest crediting cycles were recognized in the current interest cycle period. Thus, the market stabilization reserve deferred *gains* decreased from \$73.3 million as of June 30, 2018, to \$569.1 million in deferred *losses* as of December 31, 2018.

Supplemental Retiree Benefit Reserve (SRBR) Status Report

The 10-year history of SRBR activity through December 31, 2018, is attached for your review. The December 31, 2018, ending balance of the SRBR account is approximately \$919.5 million.

The break-down of the total interest crediting rate is as follows:

- Regular earnings were credited at the assumed rate of return of 3.3861%.
- No earnings above the assumed rate of return (excess earning) were credited.

The total interest credited to the SRBR for the six-month period ended December 31, 2018 was approximately \$30.95 million of regular earning and \$0.0 of excess earnings.

For the six-month period ended December 31, 2018, the net deductions from SRBR were approximately \$22.9 million. These deductions include the net transfer to/from the employer advance reserve for 401(h) contributions of \$22.2 million as well as payments of supplemental COLA and retired death benefits of \$0.7 million.

For the year-ended December 31, 2018, approximately \$64.8 million of regular earnings and \$10.6 million of excess earnings were allocated to the SRBR.

For the year-ended December 31, 2018, the net deductions from SRBR were approximately \$49.7 million. These deductions include the net transfer to/from the employer advance reserve for 401(h) contributions of \$48.4 million (which includes transfer of \$58 million for implicit subsidy) as well as payments of supplemental COLA and retired death benefits of \$1.3 million.

Attachments:

- Statement of Reserves as of December 31, 2018.
- SRBR Status as of December 31, 2018.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF RESERVES
For the Six Months Ended December 31, 2018

	Beginning Balances 6/30/2018	Net Contributions Benefits, Refunds & Transfers 7/1 - 12/31/2017	Interest Crediting Process 7/1 - 12/31/2018 (3.3861%)	Allocation of Excess Earnings 7/1 - 12/31/2018 (0.0000%)	Ending Balances 12/31/2018
Member Reserves:					
Active Member Reserves	1,488,131,971	(3,888,467)	47,908,336 ¹	- ¹	1,532,151,840
Employer Advance Reserve	964,817,691	49,715,191	31,294,710	-	1,045,827,592
401(h) Account - OPEB	8,089,243	1,466,949	273,910	-	9,830,102
Total Employer Reserves	972,906,934	51,182,140	31,568,620 ¹	- ¹	1,055,657,694
Retired Member Reserves	4,588,919,033	(93,640,684)	159,129,569 ¹	- ¹	4,654,407,918
Supplemental Retiree Benefit Reserve:	911,503,016	(22,878,797)	30,864,398 ¹	- ¹	919,488,617
Contingency Reserve	84,515,635		(84,515,635) ²		-
Market Stabilization Reserve	73,293,645		-	(642,413,145)	(569,119,500)
Total Reserves at Fair Value	8,119,270,234	(69,225,808)	184,955,288	(642,413,145)	7,592,586,569

Notes: 1. Interest credited as of 12/31/18 includes \$269,470,923.19 of regular earnings and no excess earning allocation to either the SRBR Reserve or Non-SRBR reserves.

2. Amount includes reduction of the CRA by \$6,451,945.97 to restore the balance at 1% total assets as of 12/31/18; and subsequent withdrawal of \$78,063,688.82 to cover the semi-annual interest crediting shortfall at 12/31/18. As a result, the CRA balance at 12/31/18 was 0.0% of total assets.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF RESERVES
For the Year Ended December 31, 2018

	Beginning Balances 1/1/2018	Net Contributions Benefits, Refunds & Transfers 1/1 - 12/31/2018	Interest Crediting Process 6/30/18 & 12/31/2018 (3.8000%) and (3.3861%)	Allocation of Excess Earnings 6/30/18 & 12/31/2018 (0.1548%) & (0.0000%)	Ending Balances 12/31/2018
Member Reserves:					
Active Member Reserves	1,462,720,919	(32,713,602)	100,021,820 ¹	2,122,703 ¹	1,532,151,840
Employer Advance Reserve	916,408,841	64,784,633	63,329,276	1,304,842	1,045,827,592
401(h) Account - OPEB	7,582,098	1,674,239	562,029	11,736	9,830,102
Total Employer Reserves	923,990,939	66,458,872	63,891,305 ¹	1,316,578 ¹	1,055,657,694
Retired Member Reserves	4,445,419,417	(132,461,977)	334,314,777 ¹	7,135,701 ¹	4,654,407,918
Supplemental Retiree Benefit Reserve:	893,770,614	(49,684,661)	64,827,682 ¹	10,574,982 ¹	919,488,617
Contingency Reserve	77,124,340		(77,124,340) ²		-
Market Stabilization Reserve	309,073,327			(878,192,827)	(569,119,500)
Total Reserves at Fair Value	8,112,099,556	(148,401,368)	485,931,244	(857,042,863)	7,592,586,569

Notes: 1. Interest credited as of 06/30/18 and 12/31/18 were \$293,584,660.68 and \$269,470,923.19, respectively. Allocation of earnings above the assumed rate of return were \$21,149,964.53 as of 6/30/18 and \$0.00 as of 12/31/18.

2. Net amount includes addition to the CRA of \$7,391,294.62 as of 6/30/18 and reduction by \$6,451,945.97 as of 12/31/18, to restore the balance at 1% total assets; and subsequent withdrawals of \$0.00 and \$78,063,688.82 to cover the semi-annual interest crediting shortfall at 6/30/18 and 12/31/18, respectively. As a result, the CRA balance at 12/31/18 was about 0.00% of total assets.

**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SUPPLEMENTAL RETIREES' BENEFIT RESERVE (SRBR)
For the Ten Years Ended December 31, 2009 - December 31, 2018**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Beginning Balance	\$ 677,383,980	\$ 658,702,779	\$624,166,664	\$ 602,906,726	\$570,878,929	\$ 643,056,500	\$ 789,826,877	\$ 853,842,371	\$ 874,385,246	\$ 893,770,614
Deductions:										
Transferred to Employers Advance Reserve	27,934,980	29,459,690	31,858,291	33,353,151	32,240,449	34,039,593	36,528,264	33,818,832	38,327,914	43,777,409
Employers Implicit Subsidy	4,149,463	5,287,767	4,402,603	4,411,206	7,370,466	6,992,822	5,320,953	6,021,451	8,787,596	5,800,563
Supplemental Cost of Living	3,534,754	2,984,499	2,556,221	2,345,527	2,067,218	1,849,140	1,555,924	1,350,784	1,231,500	1,134,613
Death Benefit - Burial - SRBR	747,163	810,675	746,102	791,492	5,525	223,529	213,909	187,081	187,060	196,576
ADEB (Active Death)	107,544	828,274	936,133	426,640	-	-	-	-	-	-
Total Deductions	<u>36,473,903</u>	<u>39,370,904</u>	<u>40,499,351</u>	<u>41,328,016</u>	<u>41,683,658</u>	<u>43,105,084</u>	<u>43,619,050</u>	<u>41,378,148</u>	<u>48,534,070</u>	<u>50,909,161</u>
Additions:										
Interest Credited to SRBR	17,792,703	4,834,790	19,239,412	9,300,219	38,786,516	54,031,947	62,722,797	60,730,023	66,715,938	64,827,682
Excess Earnings Allocation	-	-	-	-	75,074,713 (1)	132,455,002	43,770,247	-	-	10,574,982
Transferred from Employers Advance Reserve			-	-	-	3,388,512 (2)	1,141,500	1,191,000	1,203,500	1,224,500
Total Additions	<u>17,792,703</u>	<u>4,834,790</u>	<u>19,239,412</u>	<u>9,300,219</u>	<u>113,861,229</u>	<u>189,875,461</u>	<u>107,634,544</u>	<u>61,921,023</u>	<u>67,919,438</u>	<u>76,627,164</u>
Ending Balance	<u>\$ 658,702,779</u>	<u>\$ 624,166,664</u>	<u>\$602,906,726</u>	<u>\$ 570,878,929</u>	<u>\$643,056,500</u>	<u>\$ 789,826,877</u>	<u>\$ 853,842,371</u>	<u>\$ 874,385,246</u>	<u>\$ 893,770,614</u>	<u>\$919,488,617</u>

Notes

(1) The Excess Earnings allocation of \$75,074,713.03 is a total of \$72,013,436.53 from investment earning above the assumed rate of return and \$3,061,276.50 from additional excess earning made available from the dispersal of the Death Benefit-Burial Reserve as of 12/31/13.

(2) These amounts include reclassification of OPEB Administrative Expense contribution reimbursement activities and interest from January 2012 through June 2014; and normal activities for the six month period of July 2014 through December 2014. The SB 1479 reimbursements from the Employer Advance Reserve were inadvertently booked to the 401(h) account instead of SRBR. A total misclassified balance of \$2,649,500 and regular credited interest of \$182,511.54 were

Amounts are rounded to the nearest dollar and include <\$1 rounding differences.