April 21, 2011

To: Members of the Board of Retirement

From: George Dewey, Actuarial Committee Chair

Subject: Summary of Actuarial Committee Meeting, April 21, 2011

The Actuarial Committee was called to order at 12:35 p.m. on April 21, 2011. Committee Members present were George Dewey, Chair, Ophelia Basgal, Keith Carson, Liz Koppenhaver, and Elizabeth Rogers. Other Board members present were Dale Amaral, Annette Cain-Darnes and George Wood; and Alternate Members David Safer and Darryl Walker.

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

Representatives from several ACERA participating employers were present, including: County Administrative Officer Susan Muranishi, and County Auditor Pat O'Connell; Jodi DeLucca and Dennis Manzo of Alameda County Medical Center; Janet Basta of First 5; Don Humphrey of LARPD; and Harry Ma of Superior Court.

ACTION ITEMS

None.

INFORMATION ITEMS

1. **Discussion of the draft Actuarial Valuation as of December 31, 2010**

Acting CEO Catherine Walker noted that staff made an extra effort in consultation with the actuary to be sure that the data would be as accurate as possible in order to assure a smooth actuarial process. She then introduced Paul Angelo and Andy Yeung of The Segal Company.

Mr. Angelo said that this year's valuation does not contain any surprises. The investment losses from 2009 continue to be smoothed in. The valuation includes the actual rate of return for 2010, which exceeded the assumed rate of 7.9%. The gain will be smoothed in over the next 5 years. The valuation is consistent with what had been expected, and is similar to the valuations for Segal's other '37 Act county clients.

Mr. Yeung provided an overview. As a result realizing additional deferred losses, the funded ratio dropped from 81% to about 77.5%. The aggregate employer contribution rate went from 18.57% to 20.84%. In dollars, the combined employers' contribution increased from about $166 million for 2009 to about $187 million for 2010. The contribution is slightly less than had been anticipated because actual salary increases were lower than assumed. The aggregate employee contribution rate only increased from 8.67% to about 8.68%. This is due to the way the '37 Act is written: when there is an adverse actuarial experience such as an investment loss it is only reflected in the employer rate, not the employee rate.

Despite having had a good year of investment returns, the unfunded actuarial accrued liability increased in 2010. This was due in part to negative amortization. Because of the length of ACERA's amortization period, negative amortization will continue for the next 4 or 5 years at roughly 4%. As part of the upcoming review of the Liability Management Policy the Board will be asked to consider its approach to amortization as part of the review of overall funding policy.

The valuation and report includes tables showing specific demographic information and contribution rates for each employer and tier, as well as overall demographic information. It was noted that this was the second consecutive year in which overall active member headcount decreased. Retired member headcount increased by 4.1%.

Mr. Angelo said that it is worth noting that the large investment losses of 2008-09 would have caused ACERA to exceed the asset smoothing corridor had the Board not changed the corridor. There would have been a much steeper increase in employer contribution rates except for the expansion of the corridor. Now ACERA has had two years of very good investment returns and most of the paper losses are gone. Smoothing has had the effect that is intended: while contribution rates have climbed because of the losses, they have climbed less sharply and in a predictable way.

The Committee asked what item 6(d), "Other experience (gain)/loss," on page 45 of the report refers to. Segal said that a deviation in experience, other than investment returns and salaries which are listed separately, from what was assumed, for example a higher or lower mortality rate, is included in this item.

The Committee asked if the valuation would have to be revisited if events, perhaps legislation changing the way retirement systems operate, caused a sudden rush to retire. Segal responded that would be very unlikely. The actuarial process, with annual valuations and triennial experience studies and other parts of the funding policy, provides sufficient control of volatility.

Ms. Walker said that the valuation and contribution rates will be on the Actuarial Committee and Board agendas for adoption in May. Copies have been distributed to all participating employers and interested parties. Anyone with questions should contact her before the next Committee meeting.

TRUSTEE & PUBLIC INPUT

None.

FUTURE DISCUSSION ITEMS

The Actuarial Valuation as of December 31, 2010 and suggested contribution rates will be presented at the May 19, 2011 Committee and Board meetings for adoption.

ESTABLISH NEXT MEETING DATE

The next meeting is scheduled for May 19, 2011 at 12:30 p.m.

ADJOURNMENT

The meeting adjourned at 1:18 p.m.