

May 19, 2011

To: Members of the Board of Retirement

From: George Dewey, Actuarial Committee Chair

Subject: Summary of Actuarial Committee Meeting, May 19, 2011

The Actuarial Committee was called to order at 12:47 p.m. on May 19, 2011. Committee Members present were George Dewey, Chair, Liz Koppenhaver and Elizabeth Rogers. Other Board members present were Annette Cain-Darnes and George Wood; and Alternate Members David Safer and Darryl Walker.

Staff Members present were Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; J. P. Singh, Chief Financial Officer; Betty Tse, Chief Investment 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 DeLuca 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

1. Actuarial Valuation as of December 31, 2010 and Contribution Rates

Acting CEO Catherine Walker provided background information, including the steps that have been taken to distribute the valuation and rates to representatives of all of ACERA's participating employers, and to afford them opportunities for questions and comments. She then introduced Paul Angelo and Andy Yeung of The Segal Company, ACERA's actuaries.

Mr. Angelo said that no comments or questions have been received after the presentation and distribution of the draft valuation and rates at the April 21, 2011 Actuarial Committee meeting, and no changes have been made to the document as presented. He provided a brief recap of the discussion he and Mr. Yeung led at the April 21 meeting.

The Committee asked if the \$1.5 billion in accrued liability is amortized into the contribution rates. Mr. Angelo answered by referring to page 19 of the valuation and report, the part of Chart 13 which shows for All Categories Combined the break out of the portions of the contribution rate that are attributable to payment of normal cost and the portion that goes toward paying off the unfunded accrued actuarial liability (UAAL). He commented that normal cost is fairly stable year to year, but that the part of the contribution rate that goes toward the UAAL is reflective of whatever volatility there is that affects the unfunded liability. Only three things change the UAAL: if the assumptions used are wrong, i.e., there are unexpected gains or losses; if there are changes in the assumptions; or if there is an amendment to the plan.

County Auditor Pat O'Connell asked whether, in theory, revenue from pension obligation bonds could reduce the contribution rate by paying off the UAAL. Mr. Angelo said that could be done and, in fact, was done by many systems in the 1990's to pay off their unfunded liabilities.

Liz Koppenhaver moved, and Elizabeth Rogers seconded, that the Committee recommend to the Board to adopt the Actuarial Valuation and Review as of December 31, 2010 and the recommended contribution rates. There was no further discussion, and the motion passed unanimously.

INFORMATION ITEMS

1. Draft Request for Proposals (RFP) for Actuarial Audit

Acting CEO Catherine Walker presented the draft request for proposal (RFP) for the actuarial audit. Board policy provides that actuarial audits are to be conducted at 5-year intervals. The last audit was completed in June 2007, auditing the Actuarial Valuation and Report as of December 31, 2006. This RFP is for an audit to be done on the Valuation and Report as of December 31, 2011.

There was a brief discussion about the previous audit. When it was presented to the Committee and Board in 2007 there was a concern expressed about whether the auditor, had exceeded the scope of work in their comments on the economic assumptions used in the December 31, 2006 valuation. The RFP for that audit, like the draft presented here, called for the auditor to review and comment on the assumptions used in the valuation. Trustees, staff and Mr. Angelo agreed that it is appropriate for the scope of work to include review and comment on the assumptions. Mr. Angelo also said that actuarial standards of practice require the auditing firm to offer comments such as those made by the auditor regarding the effect of ACERA's SRBR funding policy.

In June Staff plans to send inquiries to actuarial firms to ascertain which ones may be interested in submitting bids on the RFP.

In response to a question from the Committee, Acting CEO Walker said that the auditing actuaries will receive the same data that is provided to Segal for performing the valuation. It is not the function of the actuarial audit to determine if there are problems with the underlying systems that might generate inaccurate data. That would be a function of the annual external audit or the internal auditor.

Answering a question from Pete Albert, Mr. Angelo said that the auditor's review would include the smoothing and corridor policies.

The Committee offered no recommendations to Staff for changes in the draft RFP.

RECOMMENDATIONS

The Committee recommends that the Board adopt the Actuarial Valuation and Review as of December 31, 2010 and the recommended contribution rates.

TRUSTEE & PUBLIC INPUT

None.

FUTURE DISCUSSION ITEMS

- Approval of Request for Proposals for Actuarial Audit
- Liability Management Policy / Actuarial Funding Policy
- Triennial Experience Study

ESTABLISH NEXT MEETING DATE

To be determined.

ADJOURNMENT

The meeting adjourned at 1:15 p.m.