

September 1, 2010

To: Members of the Operations Committee

From: Elizabeth Rogers, Chair

Subject: Summary of the September 1, 2010 Operations Committee Meeting

Operations Committee Chair Elizabeth Rogers called the September 1, 2010 Operations Committee Meeting to order at 9:06 a.m. Committee members present were Elizabeth Rogers, Chair; Dale Amaral, Ophelia Basgal, Keith Carson and Liz Koppenhaver. Other Board members present were Annette Cain-Darnes, George Dewey, George Wood, and alternate members David Safer and Darryl Walker. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Betty Tse, Chief Investment Officer; Victoria Arruda, Human Resources Officer; Latrena Walker, Project and Information Services Manager; JP Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; and Harsh Jadhav, Internal Auditor.

ACTION ITEMS

1. U.S. Healthworks Contract

Since 1992 ACERA has contracted with U.S. Healthworks for Dr. Robert Wagner's medical evaluation services regarding disability applications. The current contract will expire September 30, 2010. ACERA pays U.S. Healthworks \$2,000 per disability case review and \$250 for expert testimony and attendance at Board Meetings. Staff recommended that ACERA enter into a one-year contract with U.S. Healthworks in order to continue the services of Dr. Wagner. The cost of this contract will depend on the amount of disability cases that are reviewed. In 2011, Staff will conduct a Request for Proposal (RFP) for Medical Advisor Services next year to ensure that ACERA is receiving services at the most competitive cost.

After discussion by the Committee, Ms. Liz Koppenhaver moved and Mr. Dale Amaral seconded that the Committee recommend to the Board that the Board continue Dr. Robert Wagner's medical evaluation services for disability applications and approve a one-year contract with U.S. Healthworks effective September 30, 2010. The motion carried.

2. The Segal Company Contract and RFP for an Actuarial Valuation Audit

The Segal Company has been ACERA's actuary since 2003. During this time the Agreement for actuarial services was auto-renewed and extended to 2008. The current Agreement term ends December 31, 2010.

In 2007 Staff recommended and the Board approved that ACERA not issue a Request for Proposal (RFP) for actuarial services but to instead perform its due diligence by issuing an RFP for an actuarial valuation audit of Segal's December 31, 2005 valuation report. This actuarial audit was conducted by Milliman who found that Segal's actuarial study was accurate.

Staff recommended that ACERA not change actuarial firms at this time. Paul Angelo and Andy Yeung of The Segal Company have served as ACERA's actuaries for many years and are very knowledgeable about our processes, procedures and data. Furthermore, Staff recommended that the Agreement with The Segal Company be extended for five years, and that ACERA perform its due diligence by issuing a RFP for an actuarial valuation audit of Segal's December 31, 2010 valuation report.

During the discussion, the Committee asked that Staff identify the actuarial firms of the other '37 Act retirement systems and bring this information back to the Committee with The Segal Company contract. Ms. Ophelia Basgal moved and Ms. Liz Koppenhaver seconded that the Committee recommend to the Board that Board authorize Staff to negotiate an extension of the current contract with The Segal Company to provide actuarial services to ACERA through December 31, 2015, and if negotiations are successful that an RFP be issued for an actuarial valuation audit of Segal's December 31, 2010 report. The motion carried.

3. 2010 Board of Retirement Off-site Agenda

The Board Chair requested that the agenda for the 2010 Board Off-site be brought to the full Board for their approval at the September Board Meeting. The Board Off-site is schedule for October 28th.

The Committee gave Staff several suggestions for the agenda:

- a) Include the negotiations of fees that are paid to advisors in the discussion around investments,
- b) From the March 30th SRBR Workshop, bring Segal's alternative SRBR valuation projections which include scenarios based on investment earnings assumptions of zero, 4%, 6%, 8%, 10%, and then 8% for each year through 2014 for the discussion around the SRBR sustainability,
- c) For the discussion about the proposed 2011 budget, bring detailed department budgets which roll up into the overall budget,
- d) The department presentations should be more interactive, and in their presentations the Senior Managers should present the challenges they are facing in their departments and how the Board can be more supportive.

Ms. Ophelia Basgal moved and Mr. George Dewey seconded that the Committee recommend to the Board that the Board approve the agenda for the 2010 Board Off-site. The motion carried.

INFORMATION ITEMS

1. Monthly Financial Statements

For the month of July there was \$244.8 million in net investment gains, generating a return of 5.5% for the month. However, on a year-to-date basis the net investment gains were \$79 million. This is a 1.92% rate of return, outperforming the policy index by 34 basis points. The total additions are \$207.8 million. Total deductions are \$187.7 million. As of July 31, 2010, net assets held in trust for pension benefits total \$4.70 billion, up from \$4.46 billion in June.

2. Total Operating Expenses – Budget vs Actual as of July 31, 2010

As of July 31, 2010 actual expenditures were under budget by \$218,900. The under spending was mainly in the General Accounts and Consultant Fees – Legal. Year-to-date the Payroll and Staff Training Accounts are \$74,300 over budget, mainly due to the temporary staffing costs related to the EDMS project and other workload related staffing expenses.

3. Statement of Reserves

For the six month period ending June 30, 2010, the interest crediting rate of 0% was used for all reserve accounts except for the Contingency Reserve Account (CRA) and the Market Stabilization Reserve. During the previous semi-annual interest crediting period the entire balance of the CRA was drawn down. Therefore, the entire \$42.2 million of actuarially determined earnings were allocated to the CRA. This brought the contingency reserve to 0.84% of total assets as of June 30, 2010, which is insufficient to restore the CRA to 1.4% of total assets as adopted by the Board.

After applying the Board's 5-year asset smoothing policy (which includes a 60%-140% market value corridor), there was a market loss of \$171.1 million for this period. The market loss when compare with the actuarial earning of \$42.2 million results in earnings shortfall of \$213.3 million. This amount of deferred loss was added to the previous balance in deferred loss in the Market Stabilization Reserve of \$776.9 million. The ending balance as of June 30, 2010 in the Market Stabilization Reserve is a negative \$990.2 million (22.2% of net assets), which represents accumulated losses that have yet to be recognized.

The Committee requested that a graph of the Market Stabilization Reserve be presented at the 2010 Board Off-site.

4. ACERA Participating Employers Exceptions

In April 2010, ACERA began providing all Participating Employers with a report on transmittal exceptions for each pay period. As a result, all Employers have reduced their exception volume. For example, Alameda County's volume has been reduced by half, while the Alameda County Medical Center's volume continues to decrease.

Staff is continuing to review and resolve all current exceptions each pay period. At the same time, prior pay period exceptions are being reviewed for the same members, thereby simultaneously reducing the backlog. In August one temporary staff person was assigned to work exclusively on the exception backlog. A second temporary staff person will be added to the project in the near future. Once the exceptions for 2009 are completely resolved, Staff will be able to estimate how long the remaining exception backlog will take to complete.

The Committee requested that Staff bring a report to the Committee on the number of errors found in the Member Statements and if there are any patterns in the findings.

TRUSTEE/PUBLIC INPUT

RECOMMENDATIONS

1. The Committee recommends, and I move that the Board continue Dr. Robert Wagner's medical evaluation services for disability applications and approve a one-year contract with U.S. Healthworks effective September 2010.
2. The Committee recommends, and I move that the Board authorize Staff to negotiate an extension of the current contract with The Segal Company to provide actuarial services to ACERA through December 31, 2015, and if negotiations are successful that a Request for Proposal (RFP) be issued for an actuarial valuation audit of Segal's December 31, 2010 report.
3. The Committee recommends, and I move that the Board approve the agenda for the 2010 Board Off-site.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for October 6, 2010 at 9:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 10:09 a.m.