

September 1, 2010

To: Members of the Retirees Committee

From: Liz Koppenhaver, Elected Retired Trustee

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

Trustee Liz Koppenhaver called the September 1, 2010 meeting to order at 10:45a.m. Committee members present were Annette Cain-Darnes, George Dewey and Elizabeth Rogers. Other Board members present were David Safer, Darryl Walker, George Wood, and Keith Carson. Staff present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Bob Gaumer, Chief Counsel; Latrena Walker, Project and Information Services Manager; J.P. Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; and Mike Fara, Communications Manager.

ACTION ITEMS

1. Presentation and Adoption of Supplemental Retiree Benefits Reserve (SRBR) Funding Report/Study

Andy Yeung of the Segal Company, ACERA's Actuary, presented the status on the annual GASB Statements No. 25 and 43 Actuarial Valuation of the post retirement medical, dental, and vision benefits as well as Non-Other Post Employment (Non-OPEBS) benefits provided through the Supplemental Retiree Benefits Reserve (SRBR) Pension account as of December 31, 2009. This report provides the current levels of the benefits and how long will we be able to pay out benefits to members. This report is also used to satisfy ACERA's accounting disclosure requirement.

There are two types of benefits that are funded by the SRBR fund:

- Tax-Free Health Benefits paid out of the 401(h) account.
 - MMA
 - Medicare Part B
 - Dental and Vision
- Non OPEB Benefits
 - Supplement cost of living benefit.
 - Active Death Equity Benefit
 - Retired Death Benefit

In the last SRBR valuation, Segal applied an assumption of 9% medical inflation from 2009 to 2010 which was reduced by 0.5% each year until it reached 5.0%. For

this valuation, it was recommended to the Board that the medical inflation be modified so that a 10% medical inflation would be assumed from 2010 to 2011 and the inflation assumption reduced by 0.5% each year until reaches 5.0%.

With the exception that the 2011 Monthly Medical Allowance (MMA) is expected to be maintained at the same level as 2010, it is assumed that all future MMA's will increase at one-half of the rate of our anticipated medical inflation assumptions.

The terminal year of the SRBR was determined by projecting how long the SRBR can provide for all OPEB benefits under the substantive plan. OPEB benefits can be paid through 2026, while non-OPEB benefits can be paid through 2031. Last year, it was projected that both OPEB and non-OPEB benefits could be paid through 2028.

For OPEB benefits, the terminal year of the SRBR has been projected to be earlier than it was in last year's study, due to: (1) actual smoothed return on the actuarial value of assets less than the 8.0% rate assumed in the last valuation and (2) the 7.9% investment return assumption adopted for the December 31, 2009.

For non-OPEB benefits, the terminal year is expected to be later than it was in last year's valuation in spite of the above factors described for OPEB, due to the decrease in the inflation assumption from 3.75% to 3.50% adopted for the December 31, 2009 valuation, which results in lower expected Supplemental COLA cash flow.

Staff put forth its recommendation that the Committee adopt the Report/Study of the Supplemental Retiree Benefits Reserve (SRBR) which estimates the depletion of the SRBR Fund funds in 2026 versus previously estimated depletion of funds in 2028. The recommendation was moved by George Dewey, seconded by Elizabeth Rogers, and passed unanimously.

2. Review, Discussion, and Possible Motion to Adopt Amendments, if any, and renew the Supplemental Retiree Benefits Reserve (SRBR) Policy.

I. Policy Review

- a) Staff requested the adopting of the non-substantive and substantive changes to the Supplemental Retiree Benefits Reserve (SRBR) Policy.
- b) Staff identified several non-substantive changes related to terminology that is now used when discussing SRBR benefits. For example, the term "Part B Medicare" is now "Medicare Part B", the word "health" has been replaced by the word "medical", and the word "qualified" is replaced by the word "eligible". Some wording was changed for better flow or clarity.

The substantive changes include:

1. Long Term Funding Policy: The second paragraph was rewritten to state, “In managing the relationship between assets and liabilities, The BOARD shall manage approved SRBR benefits with a goal towards meeting the projected liabilities of the plan over a 15 year period, as determined by the actuary. It previously stated, “In managing the relationship between assets and liabilities, the Board shall manage approved SRBR benefits so as to provide a minimum of a 90% level of certainty of meeting the projected liabilities of the plan over a 20 year period, as determined by the actuary. The recommendation to change the period of 20 years to 15 years is based on the proposed Sustainability Policy which was presented to the Committee earlier this year. Also included in the proposal is a suggestion to consider a benefits mitigation rule that allows for an increase or decrease in benefits of no more than 5% if in any given year the SRBR Valuation provides a lifespan of more or less than 15 years. Staff recommends that further discussion take place before implementing this rule into the Policy.
2. Current SRBR Benefits: Header for “ACERA Health Insurance Premium Contribution” was changed to “ACERA Monthly Medical Allowance” Under Benefit Amount. The second sentence was changed from “The MMA is based on the Alameda county management employees health care contribution” to read, “The MMA is based on an amount determined by The BOARD. The maximum MMA amount is limited to the single-party premium or one hundred percent (100%) of the MMA amount, whichever is lower, for retirees with 20 or more years of service, and is prorated for retirees with less than 20 years of service.” The amount of the current MMA was deleted as the Policy may not be updated annually.
3. Medicare Part B Reimbursement: Removed current amount as Policy may be updated annually. Restate that amount is based on Medicare Part B lowest standard premium.
4. Dental Care Coverage: Added word “contribution” to header. Under Eligibility, struck “or their surviving beneficiaries”. Under Benefit Amount, struck “Delta” in order to not restrict contribution to only be covered under Delta Dental Plan in the event dental plan carrier should change.
5. Vision Care Coverage: Added word “contribution” to header. Under Eligibility, struck “or their surviving spouses”. Under Benefit Amount, struck word “service” and “VSP” in order to not restrict contribution to only be covered under VSP plan in the event vision plan carrier should change.

The Board made recommendations for some wording additions and changes. The changes include:

Under Implicit Subsidy in the third paragraph, the word “right” was replaced with the word “ability”, along with the addition of the word “dependents” placed before the word “beneficiaries” at the end of the sentence.

Under ACERA Monthly Medical Allowance section, the words “up to” were added underneath the wording, Contribution Percentage.

Based on Staff’s recommendation, it was moved by Elizabeth Rogers, seconded by George Dewey to adopt the recommendation for the non-substantive and substantive changes to the Supplemental Retiree Benefits Reserve (SRBR) Policy along with the Board’s revisions. The motion passed unanimously.

INFORMATION ITEMS

1. History of reports on sustainability of Supplemental Retiree Benefits Reserve fund.

A summary of the lifespan of the Supplemental Retiree Benefits Reserve fund based on prior actuarial valuations were covered starting from 2001 through 2009. Staff researched prior Supplemental Retiree Benefits Reserve fund valuations in order to provide a history of each year’s reported lifespan of the fund. Over the reviewed time period, the lifespan have ranged from 15 to 22 years for OPEBS and 15 to 21 years for Non-OPEBS.

2. SRBR Financial Status

The semi-annual interest posting as of July 31, 2010 was completed August 27, 2010. The interest crediting rate of 0% for this period was used for all the 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 approximately \$66.4 million in the CRA was drawn down. For this period there were insufficient actuarial determined earnings to restore the CRA to 1.4 % of total assets (per Board adopted policy), therefore, the entire approximately \$42.2 million of actuarially determined earnings were allocated to the contingency reserve. This allocation makes the contingency reserve 0.84% of total assets as of June 30, 2010.

After applying the Board’s 5-year asset smoothing policy (which includes a 60%-140% market value corridor), there was a market loss of approximately \$171.1 million for this period compared to actuarial earnings of approximately \$42.2 million.

The ending balance as of June 30, 2010 for the Market Stabilization Reserve is negative \$990.2 million (22.2% of the net market value) which represents accumulated losses that have yet to be recognized.

3. Report on Open Enrollment Preparations

ACERA's Annual Health Fair is scheduled Friday, October 29, 2010 from 10:00 am to 2:00 pm at the Oakland Airport Hilton. The Open Enrollment period will occur November 1 through November 30, 2010.

A Save the Date buck-slip for the Health Fair was included in the August payroll mailing. A flyer announcing the Health Fair, which will include a description of all activities to be held, will be included in the September payroll mailing.

New at the Health Fair this year will be the Wellness Center where Kaiser will be offering to our members a limited amount (600) free flu shots on a first come-first serve basis. United Health is providing health screening and VSP will be accepting old eye glasses to refurbish and provide to those in need.

The Healthcare Enrollment Brochure will be included in the Open Enrollment Packet along with the Retiree Annual Statement. A description of all ACERA's sponsored medical, dental and vision plan coverage and premiums for 2011 will be included in the brochure.

Staff will request that Delta Dental bring lists of providers for in-network and out-of-network coverage in Alameda County and the surrounding areas.

Announcements regarding the Health Fair and Open Enrollment will be placed on ACERA's website.

Staff's goal is to have sample Open Enrollment packet available to present at the next Retiree Committee Meeting on October 6, 2010.

TRUSTEE/PUBLIC INPUT

None.

RECOMMENDATIONS

The Committee recommends, and I move that the Board of Retirement:

1. Adopt the Report/Study of the Supplemental Retiree Benefits Reserve (SRBR) which estimates the depletion of the SRBR Fund funds in 2026 versus previously estimated depletion of funds in 2028.
2. Adopt the recommendation for the non-substantive and substantive changes to the Supplemental Retiree Benefits Reserve (SRBR) Policy along with the Board's revision to the Implicit Subsidy and Years of Service & Contribution Percentage chart.

FUTURE DISCUSSION ITEMS

As noted on the agenda.

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ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for October 6, 2010 at 10:30 a.m.

MEETING ADJOURNED

The meeting adjourned at 11:55 a.m.