



October 5, 2016

To: Members of the Operations Committee
From: Keith Carson, Chair
Subject: Summary of the October 5, 2016 Operations Committee Meeting

Operations Committee Chair Keith Carson called the October 5, 2016, Operations Committee Meeting to order at 9:36 a.m. Committee members present were Keith Carson, Chair, Dale Amaral, Liz Koppenhaver, and Elizabeth Rogers. The other Board members present were Tarrell Gamble, and George Wood, and alternate member David Safer. The staff present were David Nelsen, Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Betty Tse, Chief Investment Officer; Margo Allen, Fiscal Services Officer; Harsh Jadhav, Chief of Internal Audit; and, Victoria Arruda, Human Resources Director.

ACTION ITEMS

1. Discussion and possible motion to adopt the Discharge of Benefits Overpayments Receivables Policy.

Staff presented the Discharge of Benefits Overpayments Receivables Policy to the committee for discussion and possible motion. Following a discussion, a motion was made.

It was moved by Liz Koppenhaver and seconded by Elizabeth Rogers that the Operations Committee recommends to the Board of Retirement that the Board approve the Discharge of Benefits Overpayments Receivables Policy.

The motion carried 6 yes (*Amaral, Carson, Gamble, Koppenhaver, Rogers, Wood*), 0 no, 0 abstentions.

INFORMATION ITEMS

1. Operating Expenses as of August 31, 2016

Staff presented the year-to-date operating expenses – budget vs. actual. As of August 31, 2016, actual expenses were \$1,039,619 under budget.

2. Statement of Reserves as of June 30, 2016

Staff presented the Statement of Reserves as of June 30, 2016. Approximately \$237.9 million of regular interest was credited to the valuation reserve accounts (with the exception of the Contingency Reserve Account and market stabilization reserve), the 401(h) account, and the SRBR. The crediting rate was 3.43% or 0.37% below the assumed rate of return of 3.8%. Of note, this is the second interest crediting period to use the Contingency Reserve Account to supplement the assumed rate of return interest crediting shortfall.

There was a market gain of approximately \$75.6 million for the six-month period ending June 30, 2016, compared to expected earnings for approximately \$251.2 million, resulting in \$175.5 million in losses added to the market stabilization reserve. Additionally, \$58.8 million of net losses from the previous ten interest crediting cycles was recognized in the current interest cycle period. The market stabilization reserve decreased from \$364.4 million in deferred losses as of December 31, 2015 to \$463.2 million in deferred losses as of June 30, 2016.

The SRBR received the interest credit of \$29.3 million for the six-month period ended June 30, 2016, resulting in an ending balance of \$861.5 million as of that date.

3. 2016 Board Election Update

Staff provided a summary of the status of the 2016 Board Election. As of September 12, 2016, a total of seven nominees were certified for the five open seats on the Board. Although the election was originally conducted for a total of five open seats, only two of the five seats will move forward as the third, eighth, and alternate eighth candidates went unopposed.

Due to the results of the nomination period, ACERA's 2016 election is now to elect the seventh member and alternate seventh member (safety member and alternate safety member). The first runner up for the seventh member seat will be designated as the alternate seventh member. Staff also provided a timeline of previous and future election-related events.

4. Quarterly Report on Member Underpayments and Overpayments

Staff presented the quarterly report on member underpayments and overpayments and answered questions regarding errors and overpayments reported. This report included the following categories: Overpayments of Retirement Allowance Due to Death, Staff Errors, and Overpayments and Underpayments of Member Contributions.

5. Medical Advisor and Disability Claims Management Request for Proposal Update

Staff provided an update on the RFP process. Following Staff's thorough review of the proposals, one finalist was selected. This finalist will be interviewed by the RFP evaluation team on 10/5/16 and staff will present its recommendation with analysis at the November meeting of the Operations Committee.

TRUSTEE/PUBLIC INPUT

Trustees Safer and Gamble raised concerns regarding recent news of fraudulent practices at Wells Fargo, the institution that holds ACERA's commercial banking accounts for operational use. Staff has offered to have the Wells Fargo account manager come to a November committee meeting for questioning from the Board. Chair Carson requests that this topic be further discussed at an upcoming investment committee meeting.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for November 2, 2016 at 9:30 a.m.

MEETING ADJOURNED

The meeting adjourned at 10:26 a.m.