ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475-14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

July 16, 2015

To: Members of the Actuarial Committee

From: Keith Carson, Chair

Subject: Summary of the July 16, 2015 Actuarial Committee Meeting

Actuarial Committee Chair Keith Carson called the July 16, 2015 Actuarial Committee meeting to order at 12:32 p.m. Committee members present were Keith Carson, Chair, Ophelia Basgal, Liz Koppenhaver, Elizabeth Rogers, and George Wood. The other Board members present were Dale Amaral and Annette Cain-Darnes, and alternate member David Safer. Staff present were Kathy Foster, Interim Chief Executive Officer; Joseph Fletcher, Chief Counsel; Betty Tse, Chief Investment Officer; Latrena Walker, Project and Information Services Manager; Harsh Jadhav, Internal Auditor; Victoria Arruda, Human Resources Officer; and Sandra Dueñas-Cuevas, Benefits Manager.

ACTION ITEM

1. **Discussion and possible motion to adopt the Actuarial Valuation and Review as of December 31, 2014, including the employer and employee contribution rates**

   Staff reported that the substance of the 2014 actuarial funding valuation was previously discussed during the April and June committee meetings. During the June meeting, Segal was asked to revise language in the summary concerning the quantification of the potential impact to the investment return assumption regarding the future 50% allocation of future excess earnings to the SRBR. According to the revised ASOP No. 4, Segal needs to measure and quantify plan provisions that are difficult to measure using traditional valuation procedures, such as gain sharing provisions, and disclose them in the valuation for informational purposes only.

   Paul Angelo, Senior Vice-President and Actuary, and Andy Yeung, Vice-President and Associate Actuary, Segal Consulting (Segal), discussed the language revised by Segal in Section 1, page iv, paragraphs 1 and 2 of the funding valuation.

   In order to explain the potential effect of the allocations to the SRBR on future liabilities and future contributions, Segal stated in the revised text of the funding valuation that they performed a stochastic model to estimate the impact of the future 50% allocation of future excess earnings to the SRBR. The results of the model indicated that the 50/50 allocation of future excess earnings would have the same impact as an "outflow" (i.e. assets not available to fund benefits) that would average approximately 0.75% of assets over time. Applying the results of the stochastic model to the 2014 valuation (for informational purposes only), Segal estimated the annual outflow would increase the Actuarial Accrued Liability (AAL) measured in this valuation, using a 7.60% investment return assumption, from $7.59 billion to $8.28 billion (for a difference of $0.69 billion), and it would increase the employers' contribution rate by 5% - 6% of payroll.

   Trustee Amaral asked why Segal originally used the discount rate. Mr. Angelo replied that from an actuarial perspective, if the discount rate is set equal to the expected return on assets that are available to fund the benefits, and if the SRBR reduces the amount of future returns available to fund the benefits, the mechanism to address these liabilities would be to lower the discount rate. Mr. Angelo explained that this could be viewed as a reduction in the expected return, which is how Segal and both of ACERA's auditing actuaries viewed it.

Trustee Basgal asked for further clarification on the effect of applying the results of the stochastic model to the increase in employer's contribution rate of about 5% - 6% of payroll. Mr. Angelo responded that if you were to take the expected impact of these future outflows and build those into the funding valuation as though they were an additional stream of benefit payments, then those additional future benefits would increase the accrued liability and therefore increase the contributions.

Participating Employer representatives from the County of Alameda and Alameda Health Systems were present at the meeting. Alameda County's actuary was also in attendance.

It was moved by Ophelia Basgal and seconded by Elizabeth Rogers that the Actuarial Committee recommends to the Board of Retirement that the Board adopt the Actuarial Valuation and Review as of December 31, 2014, with the language revised in Section 1, page iv, paragraphs 1 and 2, and including the employer and employee contribution rates.

Trustee Carson commented that even though ACERA meets annually with the employers, if there is something that is going to have a material impact on the employers, in the future ACERA should move more quickly to have meetings with the employers to discuss options on how to approach the matter. Secondly, Trustee Carson said that there are implications to the reference of the potential 5% - 6% increase in the employers' contribution rate, so in the future we have to figure that out a little bit more, as this would, to use an actuarial term, "smooth" things out.

The motion passed with 6 yes (*Basgal, Cain-Darnes, Carson, Koppenhaver, Rogers, and Wood*), 1 no *(Amaral)*, and 0 abstentions.

INFORMATION ITEMS

There were no information items for discussion.

TRUSTEE/PUBLIC INPUT

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for September 17, 2015 at 12:30 p.m.

MEETING ADJOURNED

The meeting adjourned at 1:04 p.m.