



December 18, 2014

To: Members of the Actuarial Committee

From: George Wood, Chair

Subject: Summary of the December 18, 2014 Actuarial Committee Meeting

Actuarial Committee Chair George Wood called the December, 2014 Actuarial Committee Meeting to order at 10:04 a.m. Committee members present were George Wood, Chair, Ophelia Basgal, Vice-Chair, Dale Amaral, Keith Carson and Liz Koppenhaver. The other Board members present were Annette Cain-Darnes, Elizabeth Rogers, and alternate member David Safer. Staff present were Vince Brown, Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Joseph Fletcher, Chief Counsel; Betty Tse, Chief Investment Officer; Margo Allen, Fiscal Services Officer; Latrena Walker, Project and Information Services Manager; Rose Kwong, Benefits Manager; Harsh Jadhav, Internal Auditor; and Victoria Arruda, Human Resources Director.

ACTION ITEM

1. Discussion and possible motion to modify the investment return assumption

Paul Angelo, Segal Consulting's (Segal) Senior Vice President and Actuary, and Andy Yeung, Segal's Vice President and Associate Actuary, reviewed the components of ACERA's proposed investment return assumption, i.e., the inflation factor, the portfolio's real rate of return, investment and administrative expense adjustments, and the risk adjustment. With that came Segal and staff's recommendation to reduce the investment return assumption from 7.8% to 7.5%.

In compliance with GASB 67, a 7.5% rate would be used for both funding and financial disclosures, and therefore would be considered net of administrative expenses for funding, but gross of administrative expenses for financial disclosure. Consequently, administrative expenses would continue to be funded implicitly through investment returns. ACERA's CEO, Vince Brown, reminded the trustees that the Board may choose to phase in the economic impact to the changes made to the economic assumptions over a 3 year period in accordance with resolution (12-112) passed in October 2012.

Alameda County Administrator, Susan Muranishi, addressed the County's concerns over the proposed 7.5% investment return assumption. In her letter addressed to Annette Cain-Darnes, Chair, Board of Retirement, and George Wood, Chair, Actuarial Committee, dated December 17, 2014, Ms. Muranishi asked that the Actuarial Committee and the Board of Retirement "consider reducing the investment return assumption rate to 7.65% for the coming year while additional research is conducted on ACERA's investment expenses. The analysis would provide valuable information regarding the cost-effectiveness of paying active management expenses for the majority of the investment portfolio which could lead to adjustments to the assumed investment expenses." A copy of the aforementioned letter was given to the trustees and staff during the Actuarial Committee meeting. The County's actuary, John Botsford, Milliman, presented his actuarial opinion on the investment expense adjustment and answered related questions. In a written analysis prepared by Mr. Botsford, he explained that "the County proposes a 15 basis point

reduction in the investment expense adjustment from 0.65% to 0.50% based on the assumption that [ACERA's] active investment managers will achieve an assumed investment return, net of expenses, that is neither superior nor inferior to a passively managed investment strategy for the portion of assets invested in publicly traded equity funds." Mr. Botsford said that this proposal was not backed up by any data.

ACERA's CEO, Vince Brown, recommended that the County's research request be referred to the Investment Committee for the required analysis. Mr. Brown further stated that although the request is valid, it is prospective, and therefore he recommends that any decision on the valuation be made based on work and recommendations made by Segal. The Board directed Betty Tse, CIO, to conduct research and analysis on ACERA's active and passive investment management expenses through the Investment Committee.

After an extensive discussion, it was moved by Liz Koppenhaver and seconded by Elizabeth Rogers that the Actuarial Committee recommends to the Board of Retirement that the Board reduce the investment return assumption from 7.8% to 7.5%.

The motion did *not* pass with 2 yes (*Koppenhaver, Rogers*), 5 no (*Amaral, Basgal, Cain-Darnes, Carson, Wood*), 0 abstentions.

Trustee Ophelia Basgal proposed a reduction of 10 basis points in the investment expense adjustment in recognition of the expense for active management while not having any data available. Subsequently, it was moved by Ophelia Basgal and seconded by Annette Cain-Darnes that the Actuarial Committee recommends to the Board of Retirement that the Board reduce the investment return assumption from 7.8% to 7.6%.

The motion carried with 5 yes (*Amaral, Basgal, Cain-Darnes, Carson, Wood*), 2 no (*Koppenhaver, Rogers*), 0 abstentions.

2. Discussion and possible motion to adopt the Actuarial Experience Study for the period December 1, 2010 through November 30, 2013

Paul Angelo asked if the trustees wanted another review of the remaining proposed assumptions in the Actuarial Experience Study and they declined.

It was moved by Elizabeth Rogers and seconded by Dale Amaral that the Actuarial Committee recommends to the Board of Retirement that the Board adopt the Actuarial Experience Study for the period December 1, 2010 through November 30, 2013.

The motion carried with 7 yes (*Amaral, Basgal, Cain-Darnes, Carson, Koppenhaver, Rogers, Wood*), 0 no, 0 abstentions.

INFORMATION ITEMS

There were no information items for discussion.

RECOMMENDATIONS

1. The Committee recommends, and I move, that the Board of Retirement reduce the investment return assumption used for funding and financial disclosures under GASB, from 7.8% to 7.6%.

2. The Committee recommends, and I move, that the Board of Retirement adopt the Actuarial Experience Study for the period December 1, 2010 through November 30, 2013.

TRUSTEE/PUBLIC INPUT

ESTABLISHMENT OF NEXT MEETING DATE

February 19, 2015 at 10:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 12:40 p.m.