VENTURA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 16, 2012

MINUTES

DIRECTORS PRESENT: William W. Wilson, Chair, Public Member
                             Tracy Towner, Vice Chair, Safety Employee Member
                             Steven Hintz, Treasurer-Tax Collector
                             Peter C. Foy, Public Member
                             Albert G. Harris, Public Member
                             Tom Johnston, General Employee Member
                             Robert Hansen, General Employee Member
                             Arthur E. Goulet, Retiree Member
                             Chris Johnston, Alternate Employee Member
                             Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT: Joseph Henderson, Public Member

STAFF PRESENT: Donald C. Kendig, Retirement Administrator
                        Henry Solis, Chief Financial Officer
                        Lori Nemiroff, Assistant County Counsel
                        Chantell Garcia, Program Assistant

PLACE: Ventura County Employees' Retirement Association
            Second Floor Boardroom
            1190 South Victoria Avenue
            Ventura, CA 93003

TIME: 9:00 a.m.

ITEM:

I. INTRODUCTION OF MEETING

Chairman Wilson called the Business Meeting of April 16, 2012, to order at
9:02 a.m.
II. APPROVAL OF AGENDA

MOTION: Mr. Towner moved, seconded by Mr. Foy, to approve the agenda.

Motion passed unanimously. Mr. Henderson absent.

III. APPROVAL OF MINUTES

A. Business Meeting of March 19, 2012.

Mr. Kendig proposed the following corrections:

Page 4, item V. C. 3. Hewitt ennisknupp, Highlights and Research, March 2012 report, add to the Motion, the following statement, ‘and Transition in Relationship Manager memo.’ and remove this item from New Business.

Page 5, item VI. H. New Business, SACRS 2012 Spring Conference Items, remove the verbiage ‘under previous motion’ and replace with ‘per motion under item G.’

Page 6, item VII. B. Old Business, PIMCO Update, correct the plural word ‘Boards’ to read the possessive word ‘Board’s’.

MOTION: Mr. Hansen moved, seconded by Mr. Goulet, to approve the minutes of March 19, 2012 as corrected.

Motion passed unanimously. Mr. Henderson absent.

B. Disability Meeting of April 2, 2012.

MOTION: Mr. Goulet moved, seconded by Mr. Hintz, to approve the minutes of April 2, 2012.

Motion passed unanimously. Mr. Henderson absent.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of March 2012.


C. Asset Allocation as of March 2012.
IV. CONSENT AGENDA (continued)


MOTION: Mr. Hintz moved, seconded by Mr. Foy, to approve the Consent Agenda.

Motion passed unanimously. Mr. Henderson absent.

V. INVESTMENT INFORMATION

A. Hewitt ennisknupp, Russ Charvonia, ChFC, CFP, Esq.


2. Monthly Manager Updates and Manager Watchlist, March 2012.
   a. Sprucegrove
   b. Hexavest
   c. Walter Scott
   d. GMO
   e. Acadian
   f. Western
   g. Reams
   h. Loomis Sayles
   i. K2

MOTION: Mr. Foy moved, seconded by Mr. Harris, to receive and file the Monthly Investment Update, Monthly Manager Updates and Manager Watchlist for March 2012.

Motion passes unanimously. Mr. Henderson absent.

V. INVESTMENT INFORMATION (continued)

A. Hewitt ennisknupp. (continued)

Russ Charvonia, of Hewitt ennisknupp, gave an update on K2's currency fund and the departure of its portfolio manager, and that it was recommending VCERA close out its relationship with K2; however, that K2 had communicated that it was closing the fund, so VCERA would not need to act.

Mr. Kendig suggested that the Board adopt Hewitt ennisknupp's original recommendation to close out its relationship with K2 as soon as possible and move the assets in the most cost efficient manner.

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to terminate the relationship with K2.

Motion passes unanimously. Mr. Henderson absent.

VI. ACTUARIAL INFORMATION

A. Actuarial Information.

Paul Angelo, FSA, EA, MAAA, FCA, Senior Vice President & Actuary and John Monroe, ASA, EA, MAAA, Vice President & Associate Actuary from The Segal Company were present.

Mr. Kendig pointed out a correction to his cover letter indicating that the economic assumptions would be presented to the Board in July as opposed to June.

1. Actuarial Experience Study.

Received Public Comment from Paul Derse, Chief Financial Officer, County of Ventura. Mr. Derse requested that the Board defer decision on the actuarial recommendations to enable the County additional time to review the recommendations and provide comment. Public comment was also received from Ramon Rubalcava, Director of Research and Policy, SEIU Local 721.

Mr. Towner asked the County how much time it would need to fully review the Actuarial Experience Study and proposed Funding Policy, and the County indicated it would be ready for May's meeting. In response, Mr. Towner asked if the County could provide its concerns in writing ahead of time so that the Actuary could review them and comment, and the County agreed.
VI. ACTUARIAL INFORMATION (continued)

MOTION: Mr. Towner moved, seconded by Mr. Hansen, to table the receipt of the Actuarial Experience Study until the next Business meeting and directed Segal to provide a formal letter with additional information on the promotional and merit salary increase assumptions.

Motion passes unanimously. Mr. Henderson absent.

Chairman Wilson called a ten minute break at 10:18 a.m.


Chairman Wilson called the meeting back to order at 10:28 a.m.

Mr. Angelo and Mr. Monroe summarized the Segal Company's recommended adjustment to the asset smoothing method for the June 30, 2012 actuarial valuation. Mr. Angelo confirmed that Segal is recommending no change in the five-year asset smoothing period, nor are they recommending that VCERA implement a smoothing corridor. Instead, the recommended adjustment is designed to manage “tail volatility” which occurs when a loss is followed by a gain. In effect, the recommendation entails offsetting the loss with the gain, then recognizing the net loss over a four year period, in four even pieces. In actual numbers, this would mean recognizing a loss of $16 million in each of four successive years. If this change is not made, we would be recognizing two more years of smoothing the 2008 and 2009 losses, resulting in increased contribution rates, followed by the smoothing of gains, resulting in decreased contribution rates. The proposed adjustment manages this volatility.

The Board confirmed that Segal's proposal smooths the smoothing.

Mr. C. Johnston asked about the spread of the 19 basis points (bps). Mr. Angelo, of Segal, explained that the 19 bps, is spread over 15 years and is the variance of fund balance (unfunded liability) at the end of 5 years, due to the relative difference that is created as a result of smoothing the average loss of $64M evenly each year as opposed to recognizing the large losses in the earlier years, and raising contributions, and the large gains in the later years, and lowering contributions.

Mr. Foy asked what it costs VCERA to do that. Mr. Angelo, replied that it does not cost VCERA anything to do this, but what it will do is save the sponsors a lot during a short period of time in the terms of dollars and
then the sponsors will pay back a much smaller amount over a longer period of time.

Mr. Angelo added that while it would appear that you are 'kicking the can down the road' what you are really doing as one of your tasks, in the terms of funding policy, is managing contribution volatility. Any time you smooth a loss, you are kicking the can down the road, as was the case during the five year smoothing of the 'huge' 2008-09 loss. Rather than have the employer [sponsors] pay for that entire loss in one year, you gave them five years to build it into their cost structure, and then 15 years to pay it off. So, part of volatility management always involves taking gains and losses and spreading them out. All we are talking about here is how you spread it out.

Mr. Wilson asked about 2009 and what would we have done when we had years of good return and then two disastrous years? Mr. Angelo brought the Board's attention to slide 21 and said the only reason Segal was bringing this to the Board is because the smoothed value and the market value are so close together, within 2% of each other. In 2008, 2009, the market value plunged and there was a very wide spread between the two, and on slide 23, it was as bad as it got and there was $860M of deferred losses. The ratio between the smoothed value and market value was between 130% and 140%. When you have 40% of deferred losses, step back and let the smoothing method do what it is going to do. Now since they are so close together, instead of continuing to ride the roller coaster, smooth it out.

Mr. Goulet asked about the implications in terms of impact on potential earnings, assuming we make the target of 8%, if VCERA has those losses paid off sooner; VCERA has more funds to invest.

Mr. Angelo concurred with Mr. Goulet's observations, stating that any time you collect more money now; you have more money that can be invested now. Mr. Angelo added, however, that doing so in order to time the market is not a common strategy among retirement systems. Also, there is a one year lag between the time the system sets the rates and the time the contributions are collected, which allows for interim movement in the market.

Mr. Wilson stated, under Proposition 162, the primary responsibility of the Retirement Board is to provide pension benefits, and the secondary goal deals with the employer contributions. Mr. Wilson asked for clarification as to this provision.
VI. **ACTUARIAL INFORMATION** (continued)

Mr. Angelo responded that this provision requires that the Board minimize employer contributions, and explained why this provision may not help guide the Board in this instance. Mr. Angelo explained, as an example, that if you had a gain followed by a big loss, resulting in $64M of deferred gains, and was to be followed by big losses, the graph would look upside down, showing a steep decrease in contributions followed by a steep increase. Mr. Angelo said that in such a circumstance, Segal would come in and make the same recommendation. Whether the Board decides to accept such a recommendation would be a practical issue, and Segal is well aware of that, but for Segal, gains and losses are just pluses and minuses.

Mr. Wilson pointed out that this is actually a very significant reduction in the County contribution, everything else being the same. It looks like one and a half percent in the first year.

Mr. Angelo agreed and Mr. Monroe clarified it would be 1.8%.

Mr. Kendig recommended a motion that the Board adopt Segal’s proposed ad hoc adjustment to the asset smoothing component of VCERA’s funding policy, and a motion was made by Mr. Hansen and seconded by Mr. Harris.

Mr. Wilson asked for any further discussion and if any member of the public wished to comment on this.

Mr. Towner confirmed, “that if I hear you correctly - that even if it flips, you [Segal] are still going to recommend this same procedure, and the question is whether this Board in those good times would consider this.”

Mr. Angelo responded that if we had a curve where the contributions were going to follow the same line, but in opposite directions from the current curve, and the alternative was to have contributions stay more flat, Segal would certainly bring it to the Board’s attention. Controlling volatility on the down side is just as much volatility management, as controlling volatility on the up side. Mr. Angelo expressed hesitation in telling the Board that it will know in advance when it has something exactly the opposite as the current situation, but Mr. Angelo assured the Board that if the contribution curve went in the opposite direction and it was as clear a situation as this one, Segal would certainly bring it to the Board’s attention and recommend the re-smoothing, which would defer short term, extra gains.
VI. **ACTUARIAL INFORMATION** (continued)

Mr. Towner stated that his biggest fear is the fact that he does not want the Board to be inconsistent just depending on the economics. Mr. Towner stated that the question is whether, going forward for the next 30 years, this is the sound thing to do, and what Mr. Angelo is telling the Board is yes.

Mr. Angelo confirmed.

Mr. Hansen asked the Chair to solicit public comment again.

Mr. Wilson solicited public comment.

Paul Derse, Chief Financial Officer, County of Ventura stated that, from the County's standpoint, it does not take a position one way or another and that it made its projections based on the volatile chart and would just redo its projections based on a more smoothed chart. He agreed that this would save the County in the short term and cost a little more in the long term. The 19 bps difference in the long term would be about $1.5M dollars for the 15 years to make up for the 1.5% reduction in the current year. Fundamentally, from the County’s standpoint it makes sense, but it didn’t have a formal position one way or the other.

Ramon Rubalcava, Director of Research and Policy, SEIU Local 721 stated that Local 721 does have an opinion that it stated back in January 2012. He stated that this is sound policy as the Board’s Actuary has explained in its letter. It is not a change in the Board’s current policy and it makes perfect sense. It is not kicking the can down the road, but is an opportunity to take advantage of. It does provide a little bit of relief in the short term, but it is not mitigating a loss. It is making sure the sponsors still pay the loss off in a prudent way so that it does not add an additional, unnecessary cost on the employer, and sponsors are still making the payments of the normal cost and lowering the unfunded liability. Mr. Rubalcava concluded by asking the Board to adopt the proposal as recommended by its Plan Actuary.

Mr. Wilson asked for any other comments.

Mr. Foy stated that he believed that if VCERA goes down that path, like Paul [Mr. Derse] had said, the County will be stuck paying an extra million and half, or two million more, for years and years to come, and that is the biggest problem with government. You just keep pushing these liabilities further down instead of just pay the bill when you got the bill. It is going to be tough for a couple of years, but a couple million less over 15 years is a
VI. **ACTUARIAL INFORMATION** (continued)

lot of jobs and service to the public. Mr. Foy stated that he just doesn’t believe we should be continuing to push this down the road.

Mr. Charvonia, of Hewitt enniskupp, asked if Segal could come up with any additional contribution amount that could be paid over that 4 year period of time that could eliminate the 19 bps.

Mr. Angelo responded that Segal has actually had that question asked before by another board, but Segal could not come up with a solution that made sense. If you collect less money now, you are going to collect more money later, so you either do it or you don’t.

Mr. Goulet asked why not instead of the four and a half increments of $16M, pay the annual $16M with an assumed increase of 8% for each subsequent payment. Then you are not kicking the can down the road and you are paying the interest as you go.

Mr. Angelo responded that the principal is still missing. Under the current schedule, the next year’s liability is $150M, and if you collect any less than that, then, in every future year, whatever you didn’t collect, you are going to have that many fewer dollars. Just paying interest on it, doesn’t change the fact that you collected fewer dollars up front, which means your unfunded liability later on is going to be one dollar bigger, and your employer costs are going to be bigger to pay off that one dollar. It is the principal, more than the interest that makes these two lines different.

Mr. Goulet said that what he was thinking of is, instead of paying $16M a year; pay $18M a year.

Mr. Angelo responded, then you are paying more than you need to. You only have $64M to come up with.

Mr. Goulet said it strikes him as making better sense logically to put a little burden on the County now and not just kick the can down the road.

Mr. Wilson indicated that he didn’t see it as kicking the can down the road because if you look at the road being a finite distance. When you get to the end we are going to have paid the same amount. It is not like the Board would be deferring it forever. Mr. Wilson noted that the Board will be subsequently discussing the experience study, and the recommendations based on that study will have a big impact on the County. Mr. Wilson pointed out that although these are totally unrelated decisions, maybe they should be considered together in terms of the total impact. The recommended change in asset smoothing is going to reduce
VI. **ACTUARIAL INFORMATION (continued)**

the burden and smooth it out, and it is all going to get paid over the same amount of time. It is not like we are sending it down to another generation.

Mr. Foy pointed out that sponsors are going to then pay for another 15 years.

Mr. Wilson responded that over the next four years we are going to pay roughly the same.

Mr. C. Johnston countered that sponsors are going to pay the 19 bps for a long time.

Mr. Towner expressed that it would be fair to say that the taxpayer who incurred the liability today is not going to pay the full boat today because he is going to spread it out, versus the new tax payer that comes in next year who will pay a little extra that he didn't incur, and that is what Mr. Foy is talking about.

Mr. Angelo responded with his thoughts on the tradeoff, “Remember the 19 bps can be misleading, because you get the impression that the 19 bps, the lower cost that is, is somehow going to happen all by itself. The only reason that the blue line is lower is because you collected an extra 1.8% and 2% in those three years. You could artificially bump up your employer contribution rate by 2% of pay today, and if you did, you would have a lower cost later on. That doesn’t mean it is good to over collect now just because it gives you a lower cost later. So when you look at these two, the question is, comparing the red and the blue, if they both recognize the $64M by the end of the four year smoothing period, what is the policy advantage of collecting more in the first two years and less in the next two years? Why not have the $64M come in at a level cost? The only reason that the 19 bps spread is lower on the blue line is because you collect so much more up front.”

Mr. Wilson raised the fact that Mr. Towner brought up a very good point though. When the curves are reversed, will we be as eager to smooth it out, smooth the smoothing?

Mr. Kendig responded that he would recommend it, but the County might not support it at that time, because who doesn’t need the contribution savings. The idea is that the contribution smoothing helps to make the service levels smooth as well. So this prevents that volatility of having to layoff and then having to re-hire.
VI. ACTUARIAL INFORMATION (continued)

Mr. Towner added that this was why he framed the questions because we need for what we do today to be the same action we take in the future, otherwise, we look like we are making this up as we go, and that is not fiduciarily sound. If Mr. Angelo is saying he is going to make the same recommendation 8-10 years down the road, then that is fine. But then the switch may be the County coming in to oppose the smoothing before the Board.

Mr. Hansen said it is what it is, if that comes up.

Mr. Towner cautioned that it does not always work that way, reminding the Board about March of 2004, when Johnny Johnston came in and said, that he doesn't think there is the political will power to set aside funds into a reserve during the time the County was given a contribution holiday due to the system being overfunded.

Mr. Hansen clarified that in his earlier comment, he meant, 'trustees would be making the decision.'

Mr. Towner responded, he agreed with that, and hoped that the trustees 8-10 years down the road will be consistent, which is why he also wanted to make sure that the Actuary is on the record saying it would recommend that.

Mr. Goulet reminded the Board of the motion on the floor.

Mr. Wilson recognized that there was a motion on the floor and shared that this is a difficult decision because the Plan has rules set up and they would dictate that the County would make the higher contribution, and we are looking at now trying to smooth it out. Mr. Wilson invited additional comments that would help with the decision.

Mr. T. Johnston responded that he is in favor of the proposal. It makes a lot of sense. It is a recommendation of the actuary and smoothes the County's contributions that is what the Board ought to do.

Mr. Wilson asked for a vote.

Mr. Towner requested that his comments be in the meeting minutes, as well as the discussion, to reflect the commitment to be consistent for the treatment of a situation like this in the future.
VI. **ACTUARIAL INFORMATION** (continued)

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to adopt Segal’s proposed ad hoc adjustment to the asset smoothing component of VCERA’s funding policy.

Motion passes with a majority vote with Mr. Goulet, Mr. Hansen, Mr. Harris, Mr. T. Johnston, and Mr. Towner, voting for and Mr. Foy, Mr. Hintz and Mr. Wilson against. Mr. Henderson absent.

3. Review and Discussion of Actuarial Funding Policy.

MOTION: Mr. Goulet moved to table the item to the May meeting.

After a brief dialogue, Mr. Goulet withdrew his Motion, and the dialogue continued.

MOTION: Mr. Goulet moved, seconded by Mr. Hansen to table the item to the May meeting.

Motion passes unanimously. Mr. Henderson absent.

VII. **NEW BUSINESS**

A. State Association of County Retirement Systems (SACRS) Board of Directors Elections.

MOTION: Mr. Towner moved, seconded by Mr. Harris, directing the voting delegate to vote for slate as presented.

Motion passes unanimously. Mr. Henderson absent.

B. Retirement Administrator Report.

MOTION: Mr. Goulet moved, seconded by Mr. Harris, to receive and file the Retirement Administrator report.

Motion passes unanimously. Mr. Henderson absent.

C. Request to Attend the Brown Armstrong Accountancy GASB and Audit Update – Fiscal Manager Christina Stevens.

MOTION: Mr. Hansen moved, seconded by Mr. Goulet, to approve the attendance of staff, Christina Stevens, Fiscal Manager, to the Brown Armstrong Accountancy Corporation GASB and Audit Update.
VII. NEW BUSINESS

C. Request to Attend the Brown Armstrong Accountancy GASB and Audit Update – Fiscal Manager Christina Stevens. (continued)

Motion passes unanimously. Mr. Henderson absent.

VIII. OLD BUSINESS

A. Due Diligence Review of Investment Consultant.

Mr. Goulet stated that he believes there is an error on page 13, question 16, in the Hewitt ennisknupp (HEK) RFI report, as it is missing the health insurance consulting agreement Aon has with the County of Ventura. HEK will research it and report back to the Board.

Mr. Goulet and Mr. Hoag left the meeting at 11:58 a.m.

MOTION: Mr. Harris moved, seconded by Mr. T. Johnston, to receive and file HEK’s response to the RFI and authorize trustees attending the HEK client conference to conduct an onsite visit of the Chicago HEK office and directed staff to place an item on the June 18, 2012 agenda to discuss the results of the site visit and the status of the due diligence review.

Motion passes unanimously. Mr. Goulet, Mr. Henderson and Mr. Hoag absent.

IX. PUBLIC COMMENT

Mr. Kendig reported that 1.) the Personnel Committee met on April 12, 2012 and will issue a report to the Board at the May 21, 2012 Business Meeting, 2.) SACRS Spring Conference travel folios for registered trustees will be mailed directly to them, 3.) the May 7, 2012 Disability Meeting is cancelled, 4.) there will be a photo shoot before and after the May 21, 2012 Business Meeting, 5.) a business card template will be provided to the Trustees for VCERA business cards and staff will be researching the cost and logistics for email accounts, and 6.) the Retirement Administrator will be getting an iPad3 this week and will be starting paperless agendas in two or three months (June or July).

X. BOARD MEMBER COMMENT

NONE.
XI. ADJOURNMENT

The Meeting adjourned at 12:02 p.m.

Respectfully submitted,

DONALD C. KENDIG, CPA, Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman