

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

JULY 2, 2012

AGENDA

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

II. APPROVAL OF AGENDA

III. APPROVAL OF MINUTES

A. Business Meeting of May 21, 2012.

B. Disability Meeting of June 4, 2012.

IV. PENDING DISABILITY APPLICATION STATUS REPORT

1 - 40

V. APPLICATIONS FOR DISABILITY RETIREMENT

A. Application for Non-Service Connected Disability Retirement; Michael Rhineheart, Case No. 11-016.

UNDER
SEPARATE
COVER

1. Application for Non-Service Connected Disability Retirement and Supporting Documentation.

2. Hearing Notice.

V. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

**B. Application for Service Connected Disability Retirement;
Patricia A. Gonzales, Case No. 10-035.**

**UNDER
SEPARATE
COVER**

1. Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Hearing Officer, Kenneth A. Perea, dated April 4, 2012.
2. Respondent's Objection to Recommendation of Hearing Officer, Submitted by John I. Gilman, Attorney at Law, dated April 16, 2012.
3. Applicant's Reply to Respondent's Objections to Recommendation of Hearing Officer, Submitted by Patricia A. Gonzales, dated April 25, 2012.
4. Hearing Notice.

**C. Application for Service Connected Disability Retirement,
Veronica L. Long, Case No. 09-037.**

**UNDER
SEPARATE
COVER**

1. Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Hearing Officer Mark Burstein, dated May 19, 2012.
2. Respondent's Objection to Recommendation of Hearing Officer, Submitted by Marshall W. Graves, Attorney at Law, dated June 1, 2012.
3. Applicant's Reply to Respondent's Objections to Recommendation of Hearing Officer, Submitted by Veronica L. Long, dated June 4, 2012.
4. Hearing Notice.

VI. ACTUARIAL INFORMATION

**UNDER
SEPARATE
COVERS**

- A. Review and Approval of the Economic Actuarial Assumptions for the June 30, 2012 Actuarial Valuation.

VI. ACTUARIAL INFORMATION (continued)

UNDER
SEPARATE
COVERS

- B. COLA Calculations for Beneficiaries Under Alternative Retirement Benefit Options.
- C. Reconsideration of Entry Age Normal.

VII. NEW BUSINESS

UNDER
SEPARATE
COVERS

- A. Education and Travel Policy Review.
- B. Renewal of Disability Referee Services Contracts.
- C. Proposed Site Visit of Hexavest and Sprucegrove.
- D. Letter from the Ventura County Deputy Sheriffs' Association (VCDSA).
- E. RFP for Investment Consultant for Both Non-Discretionary and Discretionary Services.
- F. Participation in SACRS' IRS Tax Determination Efforts.
- G. Conference Report: CALAPRS Trustees' Roundtable on June 8, 2012 –Trustee Art Goulet.

VIII. PUBLIC COMMENT

IX. BOARD MEMBER COMMENT

X. ADJOURNMENT

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

MAY 21, 2012

MINUTES

**DIRECTORS
PRESENT:**

William W. Wilson, Chair, Public Member
Steven Hintz, Treasurer-Tax Collector
Peter C. Foy, Public Member
Albert G. Harris, Public Member
Joseph Henderson, 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:**

Tracy Towner, Vice Chair, Safety Employee 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 May 21, 2012, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

MOTION: Mr. Harris moved, seconded by Mr. Hansen, to approve the agenda.

Motion passed unanimously. Mr. Towner absent. Mr. Foy absent for this item. Mr. Chris Johnston voting.

III. CONSENT AGENDA

THE FOLLOWING ITEMS ARE ANTICIPATED TO BE ROUTINE AND NON CONTROVERSIAL. CONSENT ITEMS WILL BE APPROVED WITH ONE MOTION IF NO MEMBER OF THE BOARD WISHES TO COMMENT OR ASK QUESTIONS. IF COMMENT OR DISCUSSION IS DESIRED, THE ITEM WILL BE REMOVED FROM THE CONSENT AGENDA AND TRANSFERRED TO THAT SECTION OF THE AGENDA DEEMED APPROPRIATE BY THE CHAIR.

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of April 2012.
- B. Report of Checks Disbursed in April 2012.
- C. Asset Allocation as of April 2012.
- D. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Investments & Cash Equivalents, and Schedule of Investment Management Fees for the Month Ended February 29, 2012.
- E. Budget Summary for the Month Ended April 30, 2012, Fiscal-Year 11-12.
- F. Conference Report; CRCEA Fall Conference – Trustee Art Goulet.
- G. Conference Report; Pension Bridge Conference – Trustee Art Goulet.
- H. BlackRock Asset Management Report for the U.S. Equity Market Fund, Extended Equity Market Fund, ACWI EX-US Fund, U.S. Debt Index Fund for the Month Ended April 30, 2012.

MOTION: Mr. Goulet moved, seconded by Mr. Hansen, to approve the Consent Agenda.

Motion passed unanimously. Mr. Towner absent. Mr. Foy absent for this item. Mr. Chris Johnston voting.

END OF CONSENT AGENDA

IV. INVESTMENT INFORMATION

- A. Sprucegrove Annual Investment Presentation, Arjun Kumar, Senior Investment Analyst, and Mark Shevitz, Fair Haven Partners.

Mark Shevitz and Arjun Kumar were present on behalf of Sprucegrove to review the firm's organization, investment results for VCERA's accounts, investment process, and outlook.

NO ACTION TAKEN.

- B. GMO Mandate Update and Subscription Agreement, Retirement Administrator, Donald Kendig.

MOTION: Mr. Harris moved, seconded by Mr. Hansen, to authorize the Retirement Administrator to execute the updated mandate form and subscription agreement from GMO.

Motion passed unanimously. Mr. Towner absent. Mr. Foy absent for this item. Mr. Chris Johnston voting.

- C. Hewitt ennisknupp, Kevin Vandolder, CFA, Kevin, Chen, Russ Charvonja, ChFC, CFP, Esq., Phillip M. Kivarkis, FSA, EA, CFA and Armand Yambao.

1. First Quarter 2012 Performance Report.

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to receive and file the Hewitt ennisknupp's Quarterly Report for First Quarter 2012.

Motion passed unanimously. Mr. Towner absent. Mr. Foy absent for this item. Mr. Chris Johnston voting.

IV. INVESTMENT INFORMATION (continued)

C. Hewitt ennisknupp (continued)

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

MOTION: Mr. Goulet moved, seconded by Mr. Hansen, to receive and file Monthly Investment Manager Report: Monthly Investment Update, Monthly Manager Updates, and Manager Watchlist, April 2012.

Motion passed unanimously. Mr. Towner absent. Mr. Foy absent for this item. Mr. Chris Johnston voting.

Mr. Foy entered the meeting at 10:01a.m.

3. Highlights and Research, May 2012

- a. Asset Liability Study
- b. Medium Term Views
- c. Global Fixed Income Transition
- d. Portfolio Rebalancing Allocations
- e. HEK Onsite Due Diligence Agenda
- f. RREEF Update

MOTION: Judge Hintz moved, seconded by Mr. Henderson, to adopt an asset allocation of 34% US Equities, 16% Non US Equities, 10% Global Equities, 10% Real Return, 5% Private Equities, and 25% Fixed Income (comprised of 65% core, 15% high yield, and 20% global).

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

IV. INVESTMENT INFORMATION (continued)

C. Hewitt ennisknupp (continued)

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to authorize staff to round to whole percentage targets, for individual managers, in the asset allocation as part of the transition to global fixed income.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

MOTION: Mr. Henderson moved, seconded by Mr. T. Johnston, to receive and file the Highlights and Research for May 2012.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

V. NEW BUSINESS

A. Personnel Committee (PC) Report on the Proposed Retirement Administrator Evaluation Criteria.

1. Exhibit A:

- a. Proposed Retirement Administrator Performance Evaluation Policy
- b. Legislative Mark-up of the Current Retirement Administrator Performance Evaluation Policy
- c. Current Retirement Administrator Performance Evaluation Policy

2. Exhibit B: Schedule for the Retirement Administrator's Initial Six (6) Month and Annual Reviews.

Mr. Goulet expressed concerns regarding the proposed policy and review timeframe. The Retirement Administrator suggested that the item be pulled from the agenda and that no action is taken.

NO ACTION TAKEN

B. Request to Attend the CALAPRS Trustees' Roundtable – Trustee Art Goulet.

C. Request to Attend the SACRS Public Pension Management Program – Trustee Tom Johnston.

V. NEW BUSINESS (continued)

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to approve the attendance of Trustee, Art Goulet, to the CALAPRS Trustees' Roundtable and Trustee, Tom Johnston, to the SACRS Public Pension Management Program.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

VI. OLD BUSINESS

A. Actuarial Information.

1. Letter from Segal dated May 2, 2012: Follow-up to Promotional and Merit Salary Increase Assumption Recommended in 2011 Actuarial Experience Study.
2. Letter from Segal dated May 2, 2012: Additional Information Regarding Recommendation to Determine General Tiers 1 and 2 Basic UAAL Rates on a Combined Basis.
3. Letter from Segal dated May 4, 2012: Additional Information Regarding Proposed Modification to Entry Age Normal Cost Method.
4. Letter from the County of Ventura dated May 2, 2012.
5. Letter from Segal dated May 10, 2012: Response to County Questions re: Actuarial Experience Study and Proposed Modification to Entry Age Normal Method.
6. Proposed Actuarial Funding Policy.
7. Materials from April 16, 2012 Business Meeting:
 - a. Non-Economic Assumptions Portion of the Actuarial Experience Study for the Period from July 1, 2008 to June 30, 2011
 - b. Letter from Segal dated April 4, 2012 Review and Discussion of Actuarial Funding Policy
 - c. Presentation by Segal

VI. OLD BUSINESS (continued)

A. Actuarial Information. (continued)

MOTION: Mr. Hansen moved, seconded by Mr. T. Johnston, to receive and file the Actuarial Information Items VI. A. 1 through 7.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

Comments were received from Michael Powers, CEO, County of Ventura and Paul Derse, Asst. CEO, County of Ventura.

MOTION: Mr. Foy moved, seconded by Mr. Hansen, to adopt Segal's recommend change in the Entry Age Normal Cost Method, deferring implementation for one year.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

MOTION: Mr. Hansen moved, seconded by Mr. Mr. Henderson, to adopt the Experience Study containing the non economic assumptions.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

MOTION: Mr. Goulet moved, seconded by Mr. Hansen, to adopt Segal's recommendation to determine General Tiers 1 and 2 Basic UAAL Rates on a combined basis, showing the non-combined basis in the appendix.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

MOTION: Mr. Hansen moved, seconded by Mr. Harris, to adopt the proposed Actuarial Funding Policy.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

VI. OLD BUSINESS (continued)

- B. INFORMATIONAL ITEM: Additional Questions for Hewitt ennisknupp for Due Diligence Trip.

MOTION: Mr. Hansen moved, seconded by Mr. Goulet, to receive and file the additional questions for Hewitt ennisknupp's Due Diligence site visit.

Motion passes unanimously. Mr. Towner absent. Mr. Chris Johnston voting.

VII. PUBLIC COMMENT

Mr. Kendig pointed the Board's attention to three notable handouts, which were the business card order form, the LA Times Article update, and the Investment Trends Summit Agenda, this event will be held in Santa Barbara, September 12 – 14, 2012.

VIII. BOARD MEMBER COMMENT

Mr. Goulet asked how the Hewitt ennisknupp's conference costs were being handled.

Mr. Kendig answered that staff is working with Hewitt ennisknupp on obtaining an invoice, so that VCERA can pay those costs.

IX. CLOSED SESSION

The Board of Retirement adjourned into Closed Session to discuss the evaluation of a Public Employee: Retirement Administrator, pursuant to the provisions of Government Code 54957.

The Board took no reportable action.

X. ADJOURNMENT

The Meeting adjourned at 12:24 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Donald C. Kendig", written over a horizontal line.

DONALD C. KENDIG, CPA, Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

JUNE 4, 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
Joseph Henderson, Public Member
Robert Hansen, General Employee Member
Tom Johnston, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

**DIRECTORS
ABSENT:**

None.

**STAFF
PRESENT:**

Donald C. Kendig, Retirement Administrator
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:

9:01 a.m.

ITEM:

I. INTRODUCTION OF MEETING

Chairman Wilson called the Disability Meeting of June 4, 2012, to order at 9:01 a.m.

II. APPROVAL OF AGENDA

Mr. Towner asked about the minutes. Mr. Kendig reported that the minutes of April 16, 2012 have taken several hours due to transcribing the smoothing of the smoothing item, and the Minutes of May 21, 2012 will be ready soon after.

MOTION: Mr. Goulet moved, seconded by Mr. Henderson to approve the agenda.

Motion passed unanimously.

III. PENDING DISABILITY APPLICATION STATUS REPORT

MOTION: Mr. Harris moved, seconded by Judge Hintz to receive and file the pending disability application status report.

Motion passed unanimously.

IV. APPLICATIONS FOR DISABILITY RETIREMENT

A. Application for Service Connected Disability Retirement; Maria A. Christine, Case No. 10-018.

1. Application for Service Connected Disability Retirement and Supporting Documentation.
2. Hearing Notice.

Paul Hilbun was present representing the County of Ventura, Risk Management. Stephen D. Roberson, Attorney at Law, was present representing the County of Ventura, Risk Management. The applicant, Maria A. Christine, was present representing herself.

Both parties accepted into the record pages 1 through 120 of the Application for Service Connected Disability Retirement.

Both parties declined an offer to make a statement.

MOTION: Mr. Goulet moved, seconded by Mr. Harris, to approve Risk Management's recommendation and grant the applicant, Maria A. Christine, a service connected disability retirement.

Motion passed unanimously.

Both parties agreed to waive preparation of Findings of Fact and Conclusions of Law.

IV. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

B. Application for Service Connected Disability Retirement; Patrick MacAuley, Case No. 10-007.

1. Application for Service Connected Disability Retirement and Supporting Documentation.
2. Hearing Notice.

Paul Hilbun was present representing the County of Ventura, Risk Management. The applicant, Patrick MacAuley, did not appear, nor was he represented.

Risk Management accepted into the record pages 1 through 220 of the Application for Service Connected Disability Retirement.

Risk Management declined an offer to make a statement.

Following a discussion by the Board, the following motion was made.

MOTION: Mr. Foy moved, seconded by Mr. Hansen, to approve Risk Management's recommendation and grant the applicant, Patrick MacAuley, a service connected disability retirement.

Motion passed. Mr. Goulet abstained.

Risk Management agreed to waive preparation of Findings of Fact and Conclusions of Law.

C. Application for Non-Service Connected Disability Retirement; Joan L. Norris, Case No. 12-009.

1. Application for Non-Service Connected Disability Retirement and Supporting Documentation.
2. Hearing Notice.

Paul Hilbun was present representing the County of Ventura, Risk Management. Joseph Norris, applicant's spouse, was present representing the applicant, Joan L. Norris, who was not present.

Both parties accepted into the record pages 1 through 35 of the Application for Non-Service Connected Disability Retirement.

IV. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

- C. Application for Non-Service Connected Disability Retirement; Joan L. Norris, Case No. 12-009. (continued)

Risk Management declined an offer to make a statement.

Mr. Norris made a statement on behalf of his wife.

MOTION: Mr. Goulet moved, seconded by Mr. Harris, to approve Risk Management's recommendation and grant the applicant, Joan L. Norris, a non-service connected disability retirement.

Motion passed unanimously.

Both parties agreed to waive preparation of Findings of Fact and Conclusions of Law.

- D. Application for Service Connected Disability Retirement; Patricia A. Gonzales, Case No. 10-035.

1. Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Hearing Officer, Kenneth A. Perea, dated April 4, 2012.
2. Respondent's Objection to Recommendation of Hearing Officer, Submitted by John I. Gilman, Attorney at Law, dated April 16, 2012.
3. Applicant's Reply to Respondent's Objections to Recommendation of Hearing Officer, Submitted by Patricia A. Gonzales, dated April 25, 2012.
4. Hearing Notice.

The Board also received a written request for a continuance from Mr. John I. Gilman, Attorney at Law, for the County of Ventura, Risk Management.

Paul Hilbun was present on behalf of the County of Ventura, Risk Management. The applicant, Patricia A. Gonzales, was present representing herself.

Mr. Hilbun stated that Mr. Gilman was not able to be present as he suffered an injury over the weekend. Mr. Hilbun further stated that Mr. Gilman prepared the objections and therefore he, Mr. Hilbun, was not

IV. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

- C. Application for Non-Service Connected Disability Retirement; Joan L. Norris, Case No. 12-009. (continued)

prepared to argue the case. Mr. Goulet also indicated that he had questions for Mr. Gilman regarding this case.

MOTION: Mr. Goulet moved, seconded by Mr. T Johnston, to continue the hearing of this case, for a service connected disability retirement for Patricia A. Gonzales, to the next Board of Retirement Disability Meeting.

Motion passed unanimously.

- E. Application for Service Connected Disability Retirement; Christina A. Valle, Case No. 11-015.

1. Request for the Applicant to attend an Independent Medical Evaluation by Dr. Richard Rosenberg and continue the hearing set for July 10, 2012, Submitted by Stephen D. Roberson, dated April 26, 2012.
2. Applicant's Objection to the Request for the Applicant to attend an Independent Medical Evaluation and continue the hearing set for July 10, 2012, Submitted by Edward L. Faunce, Attorney at Law, dated May 11, 2012.

Paul Hilbun was present representing the County of Ventura, Risk Management. Stephen D. Roberson, Attorney at Law, was present representing the County of Ventura, Risk Management. The applicant, Christina A. Valle, was not present, nor was her counsel, Edward L. Faunce, Attorney at Law.

Risk Management made a brief statement.

MOTION: Mr. Hintz moved, seconded by Mr. Henderson, to grant an Order for an Independent Medical Evaluation based on Section 17 of the Disability Hearing Procedures.

Motion passed unanimously.

V. NEW BUSINESS

A. 2012 – 13 Proposed Administrative and Information Technology Budget.

Mr. Kendig presented the 2012-13 proposed budget. Several questions were offered by the Board.

Following Board discussion, it was determined that with the absence of Mr. Solis, VCERA's CFO, it would be best to hold another presentation of the budget until Mr. Solis was available.

Mr. Kendig recommended that the Board members provide Mr. Solis with any questions they may have regarding the budget prior to the next meeting.

MOTION: Mr. Towner moved, seconded by Mr. Hansen, to table the 2012-13 proposed budget.

Motion passed unanimously.

VI. PUBLIC COMMENT

Mr. Kendig commented that he had provided the Board with two hand-outs. One was a letter from our outside auditor. The other was the written request for a continuance from Mr. John I. Gilman, Attorney at Law mentioned under item IV. D. Mr. Goulet asked why the signature in the letter was the audit firm instead of an individual. Mr. Kendig referred Mr. Goulet to the VCERA CAFR and indicated that it was an industry practice to sign with the firm's name.

Mr. Kendig reported to the Board that their iPads would be available later this week or the following week. The issuance of the iPads was the next phase in the electronic agenda project. Discussion by the Board followed.

Mr. Kendig concluded by announcing that there would be another photo opportunity at the June 18, 2012 Board meeting.

VII. BOARD MEMBER COMMENT

Mr. Goulet inquired if the documents for the Patricia A. Gonzales, Service Connected Disability case should be returned to staff.

Mr. Kendig replied that the Board may leave their documents as long as the documents did not contain any written notes.

VIII. ADJOURNMENT

There being no further items of business before the Board, Chairman Wilson adjourned the meeting at 9:58 a.m.

Respectfully submitted,



DONALD C. KENDIG, CPA, Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: REVIEW AND APPROVAL OF THE ECONOMIC ACTUARIAL
ASSUMPTIONS FOR THE JUNE 30, 2012 ACTUARIAL VALUATION**

Dear Board Members:

Please find Segal's report on its review of economic actuarial assumptions for the June 30, 2012 Actuarial Valuation and Segal's presentation slides in a two-per-page format, under attachments 1 and 2 respectively.

Segal will review the economic assumptions and answer any question you may have.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachments

Attachment 1

Segal's report on its review of economic actuarial assumptions
for the June 30, 2012 Actuarial Valuation

**VENTURA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

**Review of Economic Actuarial Assumptions
for the June 30, 2012 Actuarial Valuation**



**100 Montgomery Street, Suite 500
San Francisco, CA 94104**

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JUNE 2012



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June 21, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

**Re: Review of Economic Actuarial Assumptions
for the June 30, 2012 Actuarial Valuation**

Dear Members of the Board:

We are pleased to submit this report of our review of the June 30, 2012 economic actuarial assumptions for the Ventura County Employees' Retirement Association. This report includes our recommendations and the analysis supporting their development.

Please note that we have also reviewed the non-economic actuarial experience for the three-year period from July 1, 2008 to June 30, 2011. The non-economic actuarial assumption recommendations were provided in a separate report.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

A handwritten signature in cursive script, reading "Paul Angelo".

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary

A handwritten signature in cursive script, reading "John W. Monroe".

John W. Monroe, ASA, MAAA, EA
Vice President and Associate Actuary

AW/hy

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TABLE OF CONTENTS

	Page
I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS	1
II. BACKGROUND AND METHODOLOGY	3
III. ECONOMIC ASSUMPTIONS	4
A. INFLATION	4
B. INVESTMENT RETURN	5
C. SALARY INCREASE	13
IV. COST IMPACT OF ECONOMIC ASSUMPTION CHANGES	16

I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

To project the cost and liabilities of the pension fund, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are modified, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions in effect assumes that experience was temporary and that, over the long run, experience will return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important to maintain adequate funding, while paying promised benefit amounts to participants already retired and to those near retirement. The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the economic actuarial assumptions. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 27, "Selection of Economic Assumptions for Measuring Pension Obligations." This Standard of Practice puts forth guidelines for the selection of the economic actuarial assumptions utilized in a pension plan actuarial valuation.

We are recommending changes in the assumptions for investment return and inflation. We are recommending no change in the “across the board” salary increase assumption. The promotional and merit salary increase assumption was reviewed in the triennial actuarial experience study of non-economic assumptions performed earlier this year. Our recommendations for the economic actuarial assumptions for the June 30, 2012 actuarial valuation are as follows:

Investment Return – The estimated average future net rate of return on current and future assets of the Association as of the valuation date. This rate is used to discount liabilities.

Recommendation: Reduce the rate from 8.00% per annum to 7.75% per annum.

Inflation – Future increases in the Consumer Price Index (CPI) which drive investment returns and active member salary increases, as well as cost-of-living adjustments (COLAs) for retirees.

Recommendation: Reduce the rate from 3.50% per annum to 3.25% per annum.

Individual Salary Increases – Increases in the salary of a member between the date of the valuation and the date of separation from active service. This assumption has three components:

- Inflationary salary increases,
- Real “across the board” salary increases, and
- Promotional and merit increases.

Recommendation: Reduce the current inflationary salary increase assumption from 3.50% to 3.25% and maintain the current real “across the board” salary increase assumption at 0.75%. This means that the combined inflationary and real “across the board” salary increases will decrease from 4.25% to 4.00%. Please note that the promotional and merit increase assumption recently adopted by the Board ranges from 0.50% to 8.50% and is a function of a member’s years of service. The promotional and merit increase assumption was reviewed as part of our triennial actuarial experience study of non-economic assumptions.

Section II provides some background on basic principles and the methodology used for the review of the economic actuarial assumptions. A detailed discussion of each of the economic assumptions and the reasons behind the recommendations is found in Section III.

II. BACKGROUND AND METHODOLOGY

For this study, we analyzed the “economic” assumptions only. Our analysis of the “non-economic” assumptions for the June 30, 2012 valuation has been provided in a separate report. The primary economic assumptions reviewed are inflation, investment return, and salary increases.

Economic Assumptions

Economic assumptions consist of:

Inflation – Increases in the price of goods and services. The inflation assumption reflects the basic return that investors expect from securities markets. It also reflects the expected basic salary increase for active employees and drives increases in the allowances of retired members.

Investment Return – Expected long-term rate of return on the Association’s investments after expenses. This assumption has a significant impact on contribution rates.

Salary Increases – In addition to inflationary increases, it is assumed that salaries will also grow by real “across the board” pay increases in excess of price inflation. It is also assumed that employees will receive raises above these average increases as they advance in their careers. These are commonly referred to as promotional and merit increases. Payments to amortize any Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase each year by the price inflation rate plus any real “across the board” pay increases that are assumed.

The setting of these assumptions is described in Section III.

III. ECONOMIC ASSUMPTIONS

A. INFLATION

Unless an investment grows at least as fast as prices increase, investors will experience a reduction in the inflation-adjusted value of their investment. There may be times when “riskless” investments return more or less than inflation, but over the long term, investment market forces will generally require an issuer of fixed income securities to maintain a minimum return which protects investors from inflation.

The inflation assumption is long term in nature, so it is set using primarily historical information. Following is an analysis of 15-year and 30-year moving averages of historical inflation rates:

Historical Consumer Price Index – 1930 to 2011 (U.S. City Average - All Urban Consumers)			
	<u>25th Percentile</u>	<u>Median</u>	<u>75th Percentile</u>
15-year moving averages	2.7%	3.5%	4.8%
30-year moving averages	3.3%	4.2%	5.0%

The average inflation rates have continued to decline gradually over the last several years due to the relatively low inflationary period over the past two decades. Also, the later of the 15-year averages during the period are lower as they do not include the high inflation years of the mid-1970s and early 1980s.

In the 2011 public fund survey published by the National Association of State Retirement Administrators, the median inflation assumption used by 126 large public retirement funds in their 2010 valuations has remained unchanged from the 3.50% used in the 2009 valuations. We note that these state systems tend to be slow to adjust their assumptions and so may lag behind emerging practice.

VCERA’s investment consultant, Hewitt Ennis Knupp, anticipates an annual inflation rate of 2.10%. Note that, in general, the investment consultants’ time horizon for this assumption is shorter than the time horizon we use for the actuarial valuation.

To find a forecast of inflation based on a longer time horizon, we referred to the 2012 report on the financial status of the Social Security program. The projected average increase in the Consumer Price Index (CPI) over the next 75 years under the intermediate cost assumptions used in that report was 2.8%. We also compared the yields on the thirty-year inflation indexed U. S. Treasury bonds to

comparable traditional U. S. Treasury bonds. As of May 2012, the difference in yields is 2.25%, which provides a measure of market expectations of inflation.

Based on all of the above information, we recommend that the current 3.50% annual inflation assumption be reduced to 3.25% for the June 30, 2012 valuation.

B. INVESTMENT RETURN

The investment return assumption is comprised of two primary components, inflation and real rate of investment return, with adjustments for expenses and risk.

Real Rate of Investment Return

This component represents the portfolio's incremental investment market returns over inflation. Theory has it that as an investor takes a greater investment risk, the return on the investment is expected to also be greater, at least in the long run. This additional return is expected to vary by asset class and empirical data supports that expectation. For that reason, the real rate of return assumptions are developed by asset class. Therefore, the real rate of return assumption for a retirement system's portfolio will vary with the Board's asset allocation among asset classes.

The following is the Association's current target asset allocation and the assumed real rate of return assumptions by asset class. The first column of real rate of return assumptions are determined by netting Hewitt Ennis Knupp's total return assumptions by their assumed 2.10% for inflation. The second column of returns (except for Private Equity) represents the average of a sample of real rate of return expectations. The sample includes the expected annual real rate of returns provided to us by Hewitt Ennis Knupp and eight other investment advisory firms retained by Segal's California public sector retirement system clients. We believe these averages reflect a reasonable consensus forecast of long-term future market returns.

VCERA's Target Asset Allocation as of June 30, 2012 and Assumed Arithmetic Real Rate of Return Assumptions by Asset Class and for the Portfolio

Asset Class	Percentage of Portfolio	Hewitt Ennis Knupp's Assumed Real Rate of Return ⁽¹⁾	Average Real Rate of Return from a Sample of Consultants to Segal's California Public Sector Clients ⁽²⁾
US Equity	39.00%	7.34%	6.22%
Developed International Equity	21.00	8.91	6.78
Core Bonds	16.25	1.53	1.06
Credit Strategies	3.75	4.75	4.18
Global Bonds	5.00	1.81	1.45
Real Estate	10.00	6.30	5.05
Private Equity	<u>5.00</u>	<u>11.08</u>	<u>11.08</u> ⁽³⁾
Total Portfolio	100.00%	6.44%	5.31%

⁽¹⁾ Derived by netting Hewitt Ennis Knupp's rate of return assumptions by their assumed 2.10% inflation rate; gross of any applicable investment expenses.

⁽²⁾ These are based on the projected arithmetic returns provided by the investment advisory firms serving the county retirement systems of Ventura, San Bernardino, Alameda, Contra Costa, Fresno, Orange, the LA City Employees' Retirement System, LA Department of Water and Power Retirement Plan and the LA Fire & Police Pensions. These return assumptions are gross of any applicable investment expenses.

⁽³⁾ For this asset class Hewitt Ennis Knupp's assumption is applied in lieu of the average because there is a larger disparity in returns for this asset classes among the firms surveyed and using Hewitt Ennis Knupp's assumption should more closely reflect the underlying investments made specifically for VCERA.

Please note that the above are representative of “indexed” returns and do not include any additional returns (“alpha”) from active management. This is consistent with the Actuarial Standard of Practice No. 27, Section 3.6.3.e, which states:

“Investment Manager Performance — Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic). Few investment managers consistently achieve significant above-market returns net of expenses over long periods.”

The following are some observations about the returns provided above:

1. The investment consultants to our California public sector clients have each provided us with their expected real rates of return for each asset class, over various future periods of time. However, in general, the returns available from investment consultants are projected over time periods shorter than the duration of a retirement plan’s liabilities.
2. Using an average of expected real rates of return allows the Association’s investment return assumption to reflect a broader range of capital market information and should help reduce year to year volatility in the Association’s investment return assumption.
3. Therefore, we recommend that the 5.31% portfolio real rate of return be used to determine the Association’s investment return assumption. This is 0.16% lower than the corresponding real rate of return that was used three years ago, which in turn was based on our survey of real returns from two years earlier, i.e., 2007. This difference is due to lower expected real returns by asset classes provided to us by the investment advisory firms since 2007 (-0.64%) offset by an increase due to changes in the Association’s target asset allocation (+0.48%).

Association Expenses

The real rate of return assumption for the portfolio needs to be adjusted for administrative and investment expenses expected to be paid from investment income.

The following table provides these expenses in relation to the actuarial value of assets for the five years ending June 30, 2012.

Administrative and Investment Expenses as a Percentage of Actuarial Value of Assets
(All dollars in 000's)

FYE	Actuarial Value of Assets ⁽¹⁾	Administrative Expenses	Investment Expenses ⁽²⁾	Administrative %	Investment %	Total %
2007	\$2,793,666	\$2,589	\$7,666	0.09%	0.28%	0.37%
2008	3,107,222	3,370	8,051	0.11	0.26	0.37
2009	3,112,308	3,535	6,451	0.11	0.21	0.32
2010	3,134,978	4,081	6,629	0.13	0.21	0.34
2011	3,236,217	4,387	7,789	<u>0.14</u>	<u>0.24</u>	<u>0.38</u>
Average				0.12%	0.24%	0.36%

⁽¹⁾ *As of end of plan year*

⁽²⁾ *Net of securities lending expenses. Because we do not assume any additional net return for this program, we effectively assume that any expenses will be offset by related income.*

The average expense percentage over this five-year period is 0.36%. Based on this experience, we have maintained the future expense assumption component at 0.40%. This assumption will be re-examined in subsequent assumption reviews as new data becomes available.

Risk Adjustment

The real rate of return assumption for the portfolio is adjusted to reflect the potential risk of shortfalls in the return assumptions. The Association's asset allocation also determines this portfolio risk, since risk levels are driven by the variability of returns for the various asset classes and the correlation of returns among those asset classes. This portfolio risk is incorporated into the real rate of return assumption through a risk adjustment.

The purpose of the risk adjustment (as measured by the corresponding confidence level) is to increase the likelihood of achieving the actuarial investment return assumption in the long term. The 5.31% expected real rate of return developed earlier in this report was based on expected mean or average arithmetic returns. This means there is a 50% chance of the actual return in each year being at least as great as the average (assuming a symmetrical distribution of future returns). The risk adjustment is intended to increase that probability. This is consistent with our experience that retirement plan fiduciaries would generally prefer that returns exceed the assumed rate more often than not.

Three years ago, Segal recommended an investment return assumption of 7.75%, however, the Board adopted an investment return assumption of 8.00%. In combination with the inflation, real return and expense components from three years ago, the return assumption adopted implied a risk adjustment of 0.57%, reflecting (coincidentally) a confidence level of 57% that the actual average return over 15

years would not fall below the assumed return, assuming that the distribution of returns over that period follows the normal statistical distribution.¹

In our model, the confidence level associated with a particular risk adjustment represents the likelihood that the actual average return would equal or exceed the assumed value over a 15-year period. For example, if we set our real rate of return assumption using a risk adjustment that produces a confidence level of 60%, then there would be a 60% chance (6 out of 10) that the average return over 15 years will be equal to or greater than the assumed value. The 15-year time horizon represent an approximation of the “duration” of the fund’s liabilities, where the duration of a liability represents the sensitivity of that liability to interest rate variations.

If we use the same 57% confidence level from the return assumption adopted three years ago to set this year’s risk adjustment, based on the current long-term portfolio standard deviation of 13.5% provided by Hewitt Ennis Knupp, the result is a risk adjustment of 0.67%. Together with the other investment return components, this produces a net investment return assumption of 7.49%, which is substantially lower than the current assumption of 8.00%.

Because this would be such a substantial change in this long term assumption, we evaluated the effect on the confidence level of an alternative investment return assumption. In particular, a net investment return assumption of 7.75%, together with the other investment return components, would produce a risk adjustment of 0.41%, which corresponds to a confidence level of 54%.

We note that the risk adjustment model and associated confidence level is most useful as a means for comparing how the Association has positioned itself relative to risk over periods of time.² The use of a 54% confidence level should be considered in context with other factors, including:

1. As noted above, the confidence level is more of a relative measure than an absolute measure, and so can be reevaluated and reset for future comparisons. Note that Segal’s other California public retirement system clients generally have risk adjustments corresponding to confidence levels in the range of 50% to 60%.

¹ Based on an annual portfolio return standard deviation of 11.41% provided by Hewitt Ennis Knupp in 2007. Strictly speaking, future compounded long-term investment returns will tend to follow a log-normal distribution. However, we believe the Normal distribution assumption is reasonable for purposes of setting this type of risk adjustment.

² In particular, it would not be appropriate to use this type of risk adjustment as a measure of determining an investment return rate that is “risk-free.”

2. The confidence level is based on the standard deviation of the portfolio that is determined and provided to us by Hewitt Ennis Knupp. The standard deviation is a statistical measure of the future volatility of the portfolio and so is itself based on assumptions about future portfolio volatility and can be considered somewhat of a “soft” number.
3. A lower level of inflation should reduce the overall risk of failing to meet the investment return assumption. Lowering the confidence level to some extent could be justified as consistent with the change in the inflation assumption.
4. As with any model, the results of the risk adjustment model should be evaluated for reasonableness and consistency. This is discussed in the following “Test of Risk Adjustment” section, including (1) a discussion of the relationship between the inflation assumption and the risk adjustment and (2) a comparison with assumptions adopted by similarly situated public sector retirement systems.

Taking into account the factors above, our recommendation is for a change in the net investment return assumption from 8.00% to 7.75%. In terms of our “risk adjustment” methodology, this return implies a risk adjustment of 0.41%, reflecting a confidence level of 54% that the actual average return over 15 years would not fall below the assumed return.

Recommended Investment Return Assumption

The following table summarizes the components of the investment return assumption developed in the previous discussion. For comparison purposes, we have also included similar values from the last study.

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2012 Valuation Recommended Value	June 30, 2009 Valuation Adopted Value
Inflation	3.25%	3.50%
Plus Portfolio Real Rate of Return	5.31%	5.47% ⁽³⁾
Minus Expense Adjustment	(0.40)%	(0.40)%
Minus Risk Adjustment	<u>(0.41)%</u>	<u>(0.57)%</u>
Total	7.75%	8.00%

⁽³⁾ Note that this weighted real return was taken from the 2007 review of economic assumptions.

Based on this analysis, we recommend that the investment return assumption be reduced from 8.00% to 7.75% per annum. Our analysis indicates that in order to be consistent with the current assumption on a risk-adjusted basis, the Board should even consider a 7.50% investment return assumption with a corresponding 57% confidence level.

Test of the Risk Adjustment

The original development of the risk adjustment component of our investment earnings model arose from our experience with many retirement boards over many years. We consistently observed that combining the board's inflation assumption with the real return and expense components (i.e., using no risk adjustment) produced – and produces – a substantially higher assumed return than what the boards actually adopt, regardless of the consulting actuary or the methods involved in the process. This led to the development of a risk adjustment component for our model.

There is a range of risk adjustment methodologies that may be incorporated in the development of an earnings assumption. Ideally, the particular risk adjustment selected should reflect the “downside” risk tolerance of the boards making the decision. This is similar to the volatility risk that boards consider when selecting an appropriate asset allocation.

In addition to the generally risk adverse attitude of retirement plan boards as noted above, we believe another reason for the use of a risk adjustment is to control the risk of overstating the effect of the inflation assumption on the assumed investment return. As noted earlier, the inflation assumption for actuarial valuations is generally longer term than that used by investment consultants. For many years, that has led to higher actuarial valuation inflation assumptions. A higher inflation assumption has a conservative effect – higher current cost – on the wage increase and COLA assumption, but is less conservative as part of the investment earnings assumption. In effect, the risk adjustment compensates for this by offsetting the effect of the higher inflation assumption on assumed investment earnings.

One way to test the reasonableness of the risk adjustment incorporated in our recommendation is to compare our risk adjusted investment return (i.e., 7.75%) against the expected net investment return that would result from using the average of all the capital market assumptions – including the lower inflation assumptions – of the investment consultants in our sample.

The following table shows that comparison. This table shows how the difference between our recommended return and that derived using the average of all the capital market assumptions of the investment consultants in our sample can be attributed to the relationship between the two different inflation assumptions and the risk adjustment.

Assumption Element	Risk Adjusted Investment Return	Average of Investment Consultant Sample	Difference
Inflation	3.25%	2.60%	0.65%
Risk Adjustment	(0.41)%	0.00%	(0.41)%
Real Rate of Return	5.31%	5.31%	0.00%
Expenses	<u>(0.40)%</u>	<u>(0.40)%</u>	<u>0.00%</u>
Total	7.75%	7.51%	0.24%

This indicates that with the lower confidence level the risk adjustment offsets about two-thirds of the effect of using an inflation assumption higher than that used in the capital market assumptions. The resulting 0.24% (24 basis points) difference between the two calculations represents about a 2% lower confidence level under the risk adjusted method. Note that this is generally consistent with the difference between the 57% confidence level from the 2009 valuation and the 54% confidence level associated with the recommended investment return assumption of 7.75%.

Comparing with Other Public Retirement Systems

One final test of the recommended investment return assumption is to compare it against those used by other public retirement systems, both in California and nationwide.

We note that this 7.75% investment return assumption is within the most common range for this assumption among most California public sector retirement systems. That range, with few exceptions, is from 7.50% to 8.00%. However, two of the largest California systems, CalPERS and LACERA, have recently adopted a 7.50% earnings assumption. Note that CalPERS uses a lower inflation rate of 3.00%, while LACERA uses a comparable inflation assumption of 3.25%.

The following table compares the VCERA recommended net investment return assumptions against those of the nationwide public retirement systems that participated in the National Association of State Retirement Administrators (NASRA) 2010 Public Fund Survey.

Assumption	VCERA	NASRA 2010 Public Fund Survey		
		Low	Median	High
Net Investment Return	7.75%	7.00%	8.00%	8.50%

As you can see, the recommended return assumption is below the median. The detailed survey results show 47 systems at 8.00%, 38 at 7.50% or 7.75%, and 22 at 8.25% or 8.50%. The survey also notes that several plans have reduced their investment return assumption during the last year, and others are considering doing so. As noted earlier in our discussion of inflation, state systems outside California tend to change their economic assumptions slowly and so may lag behind emerging practices in this area.

In summary, while we believe that both the risk adjustment model and other considerations indicate a lower earnings assumptions, the model result of 7.49% (leaving the confidence level unchanged) appears to be a significantly large change for a long term assumption. The recommended assumption of 7.75% continues to provide for some risk margin within the risk adjustment model and is consistent with the Association's current practice relative to other public systems.

C. SALARY INCREASE

Salary increases impact plan costs in two ways: (i) by increasing members' benefits (since benefits are a function of the members' highest average pay) and future normal cost collections; and (ii) by increasing total active member payroll which in turn generates higher UAAL amortization payments (or higher amortization credits if the UAAL is negative). These two impacts are discussed separately below.

As an employee progresses through his or her career, increases in pay are expected to come from three sources:

1. Inflation – Unless pay grows at least as fast as consumer prices grow, employees will experience a reduction in their standard of living. There may be times when pay increases lag or exceed

inflation, but over the long term, labor market forces will require an employer to maintain its employees' standards of living.

As discussed earlier in this report, we are recommending that the assumed rate of inflation be reduced from 3.50% to 3.25%. This inflation component is used as part of the salary increase assumption.

2. Real "Across the Board" Pay Increases – These increases are sometimes termed productivity increases since they are considered to be derived from the ability of an organization or an economy to produce goods and services in a more efficient manner. As that occurs, at least some portion of the value of these improvements can provide a source for pay increases. These increases are typically assumed to extend to all employees "across the board." The State and Local Government Workers Employment Cost Index produced by the Department of Labor provides evidence that real "across the board" pay increases have averaged about 0.6% to 0.8% annually during the last ten to twenty years.

We also referred to the annual report on the financial status of the Social Security program published in April 2012. In that report, real "across the board" pay increases are forecast to be 1.1% per year under the intermediate assumptions.

The real pay increase assumption is generally considered a more "macroeconomic" assumption, that is not necessarily based on individual plan experience. However, we note that the actual average inflation plus "across the board" increase (i.e., wage inflation) over the three-year experience period was 1.7%.

Considering these factors, we recommend maintaining the real "across the board" salary increase assumption at 0.75%. This means that the combined inflation and "across the board" salary increase assumption will decrease from 4.25% to 4.00%.

3. Promotional and Merit Increases – As the name implies, these increases come from advances in an employee's career. This form of pay increase differs from the previous two, since it is specific to the individual. For VCERA, there are service-specific assumed promotional and merit increases. The assumed increases range from 8.50% early in the employee's career to 0.50% in the later years. This assumption was derived from employee-specific information as part of the actuarial experience study for non-economic assumptions.

For the June 30, 2012 valuation, the Board already adopted the promotional and merit increases that were developed in our 2008-2011 triennial actuarial experience study.

All three of these forces will be incorporated into a salary increase assumption which is applied in the actuarial valuation to project future benefits and future normal cost contribution collections.

Active Member Payroll

Projected active member payrolls are used to develop the UAAL contribution rate. Future values are determined as a product of the number of employees in the workforce and the average pay for all employees. The average pay for all employees is assumed to increase only by inflation and real “across the board” pay increases. The merit and promotional increases are not an influence, because this average pay is not specific to an individual.

We recommend that the active member payroll increase assumption be decreased from 4.25% to 4.00% annually, consistent with the combined inflation plus real “across the board” salary increase assumptions.

IV. COST IMPACT OF ECONOMIC ASSUMPTION CHANGES

The tables below show the changes in the employer and member contribution rates due to the recommended economic assumption changes as if they were applied in the June 30, 2011 actuarial valuation along with the changes in demographic assumptions and funding policy already adopted by the Board. If all of the proposed economic assumption changes were implemented, the Plan's average employer rate would have increased by 1.48% of compensation. The average member rate would have increased by 0.19% of compensation. The Plan's UAAL would have increased by \$101 million.

Employer Contribution Rate Impact (% of Compensation)

Contributions	General Tier 1	General Tier 2	General Tier 2C	Safety	Overall
Normal Cost	0.28%	0.21%	0.30%	0.53%	0.33%
UAAL	<u>4.65%</u>	<u>0.60%</u>	<u>0.67%</u>	<u>2.20%</u>	<u>1.15%</u>
Total	4.93%	0.81%	0.97%	2.73%	1.48%

Employer Contribution Rate Impact (Estimated Annual Dollar Amounts in Thousands)

Contributions	General Tier 1	General Tier 2	General Tier 2C	Safety	Overall
Total	\$793	\$1,696	\$2,387	\$4,397	\$9,273

Member Contribution Rate Impact (% of Compensation)

Contributions	General Tier 1	General Tier 2	General Tier 2C	Safety	Overall
Total	0.25%	0.12%	0.12%	0.39%	0.19%

Member Contribution Rate Impact (Estimated Annual Dollar Amounts in Thousands)

Contributions	General Tier 1	General Tier 2	General Tier 2C	Safety	Overall
Total	\$39	\$237	\$270	\$619	\$1,165

Attachment 2
Segal's presentation slides



VCERA Economic Assumptions

VCERA Board of Retirement July 2, 2012

PAUL ANGELO, FSA
Senior Vice President and Actuary

JOHN MONROE, ASA
Vice President and Associate Actuary
The Segal Company

5194434

Economic Assumptions

- Price inflation (CPI)
 - Investment return, salary increases, COLA
- Investment return (investment earnings)
 - Components include price inflation, real return, expenses (investment and administrative)
 - Generally based on passive returns
- Salary increases
 - “Across the board” increases
 - Includes price inflation plus real wage growth
 - Promotional & Merit: based on experience
 - More like a “demographic” assumption

Slide 2



Current Economic Assumptions

- Last full review was for 6/30/2009
 - Price inflation (CPI): 3.50%
 - Real wage growth: 0.75%
 - So wage inflation is 4.25%
 - Investment return: 8.00%
 - So net real return is 4.50%
 - Note that 2009 review used real returns from prior review in 2007
 - Note that 2009 recommendation was 7.75% investment return
 - Recommended net real return was 4.25%

Slide 3

Economic Assumptions - Recommended

- Price inflation: reduce from 3.50% to 3.25%
- Salary increases:
 - Change price inflation to 3.25% plus no change in real wage growth of 0.75%
 - Total wage inflation reduces from 4.25% to 4.00%
- Investment return: decrease from 8.00% to 7.75%
 - No change in net real return assumption
- Cost impact of all recommended economic assumptions
 - +1.5% employer; +0.2% member
 - UAAL increase of \$101 million
 - Funded ratio decrease of 1.9%

Slide 4

Economic Assumptions - Recommended

	<u>6/30/2011 Val'n</u>		<u>Recommended</u>	
	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>
Price Inflation	3.50%	3.50%	3.25%	3.25%
Real Wages	n/a	0.75%	n/a	0.75%
Merit (16+ years)*	n/a	0.75%	n/a	0.50%
Net Real Return	4.50%	n/a	4.50%	n/a
Total	8.00%	5.00%	7.75%	4.50%

*Recommended and already adopted as part of demographic experience study

Slide 5

Price Inflation (CPI)

- Historical Consumer Price Index
 - Median 15-year moving average = 3.5%
 - Median 30-year moving average = 4.2%
- 15-year averages have been declining due to recent low inflation
- NASRA Survey
 - Median inflation assumption is 3.50%
- Social Security Forecast = 2.8%
- Recommend decreasing assumption from 3.50% to 3.25%

Slide 6

Salary Increase Assumption

- Three components
- Price inflation: Reduce from 3.50% to 3.25%
- Real increases: maintain at 0.75%
 - Department of Labor: State and Local Government real productivity increase: 0.6% - 0.8% annually over last 10 - 20 years
- Promotional & Merit:
 - Based on service
 - Already adopted by Board as part of demographic experience study

Slide 7

Payroll Growth Assumption

- Active member payroll based on wage inflation
- Includes price inflation and real wage increases
 - Price inflation: Reduce from 3.50% to 3.25%
 - Real increases: maintain at 0.75%
 - Total reduces from 4.25% to 4.00%
- Used to project total payroll for UAAL amortization

Slide 8

Investment Earnings Assumption

- Also called the assumed interest rate
- Used for contribution requirements
- Affects timing of Plan cost
 - Lower assumed rate means higher current cost
 - Ultimately, actual earnings determine cost
 - “Can’t pay benefits with assumed earnings!”

Slide 9

Setting the Earnings Assumption

- Building-Block Method
 - Real return for each asset class
 - Weighted by asset allocation
 - Expected inflation
 - Assumed expenses (investment and admin.)
 - Risk Adjustment
- Note: no add-on for superior managers
 - “Indexed” returns, no “alpha”
- Sources of real return data:
 - Investment consultants (your Fund and industry)

Slide 10

Setting the Earnings Assumption

- Actuarial Standard of Practice #27 (ASOP 27)
 - “Selection of Economic Assumptions for Measuring Pension Obligations”
 - Issued by the Actuarial Standards Board (ASB)
 - www.actuarialstandardsboard.org
 - Currently under revision
- Determine best-estimate range
- Select point in the range
 - Multi-employers most conservative, public sector next, corporates most aggressive

Slide 11

When to change assumption?

- Easy: change in asset allocation
- Hard: change in best-estimate future real return for an asset class
- Source of data:
 - Investment consultants (industry)
- Actuaries are neither economists nor investment consultants

Slide 12

VCERA Real Rate of Return

Asset Class	Target Allocation	Real Return	Weighted Return
US Equity	39.00%	6.22%	2.43%
International Equity	21.00%	6.78%	1.42%
Core Bonds	16.25%	1.06%	0.17%
Credit Strategies	3.75%	4.18%	0.16%
Global Bonds	5.00%	1.45%	0.07%
Real Estate	10.00%	5.05%	0.51%
Private Equity	5.00%	11.08%	0.55%
Total	100.00%		5.31%

Slide 13

VCERA Earnings Assumption

	Current	Recommended
Assumed Inflation	3.50%	3.25%
Portfolio Real Rate of Return	5.47%*	5.31%
Assumed Expenses	(0.40%)	(0.40%)
Risk Adjustment	<u>(0.57%)</u>	<u>(0.41%)</u>
Assumed Investment Return	8.00%	7.75%
Confidence level	57%	54%

*Based on investment consultant survey from 2007, not 2009

Slide 14

Risk Adjustment Model and Confidence Level

- Compares VCERA's risk position over time
- Confidence level is a relative, not absolute measure
 - Can be reevaluated and reset for future comparisons
- Confidence level is based on standard deviation
 - Measure of volatility based on portfolio assumptions
- Results should be evaluated for reasonableness

Slide 15

Test of Risk Adjustment

Assumption Element	Risk Adjusted Investment Return	Average of Investment Consultant Sample	Difference
Inflation	3.25%	2.60%	0.65%
Risk Adjustment	(0.41%)	0.00%	(0.41%)
Real Rate of Return	5.31%	5.31%	0.00%
Expenses	<u>(0.40%)</u>	<u>(0.40%)</u>	<u>0.00%</u>
Total	7.75%	7.51%	0.24%

Slide 16

Economic Assumptions - Recommended

	<u>6/30/2011 Val'n</u>		<u>Recommended</u>	
	<u>Return</u>	<u>Pay</u>	<u>Return</u>	<u>Pay</u>
Price Inflation	3.50%	3.50%	3.25%	3.25%
Real Wages	n/a	0.75%	n/a	0.75%
Merit (16+ years)*	n/a	0.75%	n/a	0.50%
Net Real Return	4.50%	n/a	4.50%	n/a
Total	8.00%	5.00%	7.75%	4.50%

*Recommended already adopted as part of demographic experience study

Slide 17

Always remember:

$$C + I = B + E$$

Contributions + Interest Income
equals

Benefit Payments + Expenses

- Actuarial valuation determines the current or “measured” cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

Slide 18

Asset Allocation and Earnings Assumption

- Investment return assumption is based on the asset allocation
 - Asset allocation results from a balance of risk and return, reflecting a plan's tolerance for risk
- Asset allocation is NOT based on the earnings assumption!
 - Earnings assumption is NOT a target, benchmark, hurdle or goal that the allocation seeks to achieve
 - Do not set asset allocation to “chase” your current earnings assumption

Slide 19



QUESTIONS

Slide 20

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: COLA CALCULATIONS FOR BENEFICIARIES UNDER ALTERNATIVE RETIREMENT BENEFIT OPTIONS

Dear Board Members:

The Contra Costa County Employees' Retirement Association (Association) has questioned why the Cost-of-Living Adjustment (COLA) assumption is not included in calculating actuarially equivalent benefit amounts under optional forms of payment, and it is investigating what actions it should take.

Staff has confirmed that the COLA assumption is not included in VCERA's calculations.

In the attached letter, dated June 6, 2012, to the Association's Chief Executive Officer, Segal explained the situation and concluded that:

Absent any contrary guidance from legal counsel, we [Segal] do not believe there is any absolute actuarial requirement to reflect the COLA assumption in the calculation of these optional benefit amounts. However, the Board should be aware that this practice does result in the small and unmeasured actuarial losses described above [in the June 6, 2012 letter] each time a retiring member elects Optional Settlements 2 through 4 [pertaining to Contra Costa].

If the Board wants to eliminate these specific losses related to COLAs and optional forms of payment, then the most direct way would be to include a COLA assumption in the optional form calculations that matches the COLA assumption used in the actuarial valuation.

What has caused a simple calculation correction to blossom into a more complicated legal matter is the attached confidential memorandum, dated June 5, 2012, from the Association's counsel, Harvey Leiderman, indicating that if COLA assumptions are used to value the system's liabilities generally, as is the case for CCCERA and VCERA, the COLA assumptions should also be used in the determination of "actuarial equivalence"

Cola Calculations for Beneficiaries under Alternative Retirement Benefit Options

July 2, 2012

Page 2 of 2

for optional benefit allowances. News reports highlighting that retirees have been overpaid have not helped the matter.

Segal has formally responded, in the attached letter dated June 22, 2012, to a Contra Costa Times Article dated June 16, 2012, also attached.

While the letters, article, and opinion are all very interesting, our Board needs to decide whether or not to include the COLA assumption in VCERA's calculations.

Staff recommends that the Board direct Lori Nemiroff, of Board counsel, to 1.) Investigate the legality of including the COLA assumption, or leaving the calculation as is, 2.) and if a correction is warranted, determine what action(s) should be taken for existing retirees, and 3.) Report back to the Board.

I would be happy to respond to any questions you may have on this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Donald C. Kendig", with a stylized flourish at the end.

Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachments

Attachment 1:

Segal letter dated June 6, 2012, to the Association's Chief Executive Officer



THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

June 6, 2012

Ms. Marilyn Leedom
Chief Executive Officer
Contra Costa County Employees' Retirement Association
1355 Willow Way, Suite 221
Concord, CA 94520

**Re: Contra Costa County Employees' Retirement Association
Cost-of-Living Adjustment Assumptions for Optional Forms of Payment**

Dear Marilyn:

Pursuant to your request, we are providing information from an actuarial perspective concerning the inclusion of the Cost-of-Living Adjustment (COLA) assumption in calculating actuarially equivalent benefit amounts under optional forms of payment.

Background

The County Employees Retirement Law of 1937 (CERL) requires that optional forms of payment ("optional settlements") such as Optional Settlements 1 through 4 be determined on a basis that is actuarially equivalent.

§31760. Election of actuarial equivalent of retirement allowance

Until the first payment of any retirement allowance is made, a member or retired member, in lieu of the retirement allowance for his life alone, may elect to have the actuarial equivalent of his retirement allowance as of the date of retirement applied to a lesser retirement allowance payable throughout life in accordance with one of the optional settlements specified in this article.

Two streams of benefit payments are actuarially equivalent when they have the same present value based on a set of actuarial assumptions. The definition of actuarial equivalence from the CERL is as follows:

§31456. "Actuarial equivalent" defined

"Actuarial equivalent" means a benefit of equal value when computed upon the basis of the mortality tables adopted by the board of supervisors and regular interest thereon.

Benefits, Compensation and HR Consulting Offices throughout the United States and Canada



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Current Policy

The following actuarial assumptions are currently used in the calculation of benefit amounts under optional forms of payment:

Interest Rate: 7.75%

Mortality Table: RP-2000 Combined Healthy Mortality Table set back 3 years for males and set back 2 years for females, weighted 30% male and 70% female for the member and weighted 70% male and 30% female for the beneficiaries.¹

COLA: 0% (i.e., none)

These assumptions are based on the December 31, 2009 actuarial valuation and were implemented at the same time that contribution rates from that valuation were implemented (July 1, 2011). Note that the mortality tables from the valuation were blended into a single unisex table based on the weightings shown above. The Optional Settlements are determined to be actuarially equivalent to the Unmodified allowance that the member could have received at retirement, assuming that there is no survivor continuation under the Unmodified allowance.

As was noted by the Board of Retirement, there is no COLA assumed in the calculation of benefit amounts under optional forms of payment. This means that the Unmodified allowance and the Optional Settlement allowance are only actuarially equivalent assuming no COLAs are paid under either. As far as we know, this has always been the practice for CCCERA. We also understand that it is the current practice for all but two of the retirement systems covered under the CERL.

The origin of the current practice of not reflecting COLAs in these calculations is unknown; however, it could be due to the fact that there were no COLA provisions in the CERL until the mid-1960s, while the actuarial equivalent definition has remained unchanged since 1947.

The current practice could also be due to the fact that only regular interest and mortality tables are mentioned in the CERL definition of actuarial equivalent and Government Code Section 31760 applies that definition to the "retirement allowance as of the date of retirement." We understand that CCCERA's legal counsel is researching this issue to determine if it is even permissible to reflect the COLA assumption in this determination of actuarial equivalence. While we defer to counsel on this issue, for the purposes of the discussion that follows we have assumed that it would be allowable to reflect the COLA in the calculations of benefit amounts under optional forms of payment.

¹ Note that the above mortality tables are used in determining life expectancies for members who retire from the General Tiers with a service retirement benefit and their beneficiaries. There are different tables used for Safety service retirements and their beneficiaries. The mortality tables used for disability retirements also differ.

Impact of COLA Assumption in Calculation of Benefit Amounts Under Optional Forms of Payment

It is our understanding that the great majority of members (roughly 90%) elect the Unmodified allowance at retirement so the impact of electing an Optional Settlement applies to a generally small portion of retiring members.

The current practice of excluding the COLA assumptions in the calculation of benefit amounts under optional forms of payment results in higher benefit amounts payable under Optional Settlements 2 through 4 as compared to the benefit amount that would result if the COLA assumption was included. This is because the value of the future COLAs expected to be paid over both the lives of the member and the beneficiary are proportionately greater than the value of the future COLAs expected to be paid over just the member's life. Since members (and their survivors) actually do receive COLAs, this policy results in a slight subsidy to members whenever they elect Optional Settlements 2 through 4.² This subsidy would be mitigated for members who forfeit the value of the automatic continuance benefit under the Unmodified allowance so that they can increase the continuance benefit to their eligible spouse or domestic partner to the 100% continuance payable under Optional Settlement 2. Ultimately, the cost impact of this subsidy is borne by the employer, as we discuss next.

The impact on the results of the annual actuarial valuation of not reflecting the COLAs in the calculation of these optional form of payment elections is as follows:

- Since assumed future COLAs are reflected in the annual actuarial valuation, there is an actuarial loss that is recognized in the first valuation after the electing member's date of retirement. These losses are combined with the other gains and losses that occur in each valuation (including other gains and losses that occur at retirement) and are amortized over 18 years under the Board's funding policy.
- More specifically, the amortization of the actuarial loss due to the optional form of payment election results in an increase in the employer contribution rate in the valuation that it is first recognized and would last 18 years.
- After the loss is reflected in the valuation and as long as future experience matches the assumptions used in the valuation, there would be no future actuarial gains or losses. In other words, the cost impact of any loss resulting from this election would be fully reflected in the first valuation after it occurs.

Note that reflecting the COLA assumption in the calculation of benefit amounts under optional forms of payment would eliminate the actuarial loss at retirement that is associated with this aspect of the optional form election.

² This letter focuses on Optional Settlements 2 through 4. For the Social Security Modification under Gov. Code §31810 (which we understand is seldom elected by CCCERA members) the COLA assumption impacts this calculation in the opposite direction. For Optional Settlement 1 (cash refund annuity), it is possible that the COLA assumption may impact this calculation in an opposite direction as compared to Optional Settlements 2 through 4.

Conclusion

Absent any contrary guidance from legal counsel, we do not believe there is any absolute actuarial requirement to reflect the COLA assumption in the calculation of these optional benefit amounts. However, the Board should be aware that this practice does result in the small and unmeasured actuarial losses described above each time a retiring member elects Optional Settlements 2 through 4.

If the Board wants to eliminate these specific losses related to COLAs and optional forms of payment, then the most direct way would be to include a COLA assumption in the optional form calculations that matches the COLA assumption used in the actuarial valuation. This would be consistent from the following paragraph on page i of the actuarial valuation report:

"One of the general goals of an actuarial valuation is to establish contributions that fully fund the system's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates."

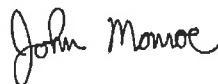
As in all matters pertaining to the interpretation and application of the law, Plan or individual Optional Settlement calculation provisions, you should be guided by the advice of the Plan's Legal Counsel.

Please let us know if you have any comments or questions.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President and Actuary



John Monroe, ASA, MAAA, EA
Vice President and Associate Actuary

/kek

Attachment 2:

Confidential Memorandum dated June 5, 2012 from Harvey Leiderman
to the Association

From: Harvey L. Leiderman

Direct Phone: 415.659.5914

Email: hleiderman@reedsmith.com

Reed Smith LLP

101 Second Street

Suite 1800

San Francisco, CA 94105-3659

+1 415 543 8700

Fax +1 415 391 8269

reedsmith.com

To: Board of Retirement
Contra Costa County Employees' Retirement Association

Cc: Marilyn Leedom, Chief Executive Officer
Kurt Schneider, Deputy Chief Executive Officer
Karen Levy, General Counsel

Date: June 5, 2012

Subject: Optional Settlement Allowances

The Board recently considered a member's request for an "Option 4 Settlement," pursuant to §31764 of the County Employees' Retirement Law of 1937 ("CERL"). The member requested a modified retirement allowance during her lifetime, with a continuance to two beneficiaries thereafter.

The statute relating to all optional settlement elections, CERL §31760, provides that any elected option shall be the "actuarial equivalent" of the member's unmodified retirement allowance, based upon the advice of the system's actuary. In the instance of this particular member's request, the actuary indicated that it was including a "0%" cost-of-living adjustment ("COLA") assumption in calculating the anticipated payments to the member and beneficiaries when determining whether those payments were the "actuarial equivalent" of what the member's unmodified benefit might be.

In Contra Costa County, most retired members are entitled to up to a 3% COLA annually, depending on increases in the applicable Consumer Price Index, and if the CPI exceeds 3% in any year, the difference is "banked" for use at a later time when the CPI drops below 3%. The system's experience for many years has been to pay a COLA virtually every year, to retired members and their beneficiaries. The anticipated COLA increase is an assumption used by the actuary in its regular annual valuation of system liabilities.

You have asked us to advise on whether the determination of "actuarial equivalence" legally must include assumptions about COLA increases that may affect optional settlement allowances. Based upon the plain meaning of the applicable statutes, and relevant case law, we conclude that "actuarial equivalence" requires that the actuary compare the present value of the two different streams of payments being examined using the same actuarial assumptions and methodologies for both streams of payments as are used in the actuary's regular valuation of system liabilities. If the present values are the same, they are "actuarially equivalent." If not the same, they are not "actuarially equivalent."

THE LAW

Article 11 of the CERL (§§31760 to 31768) provides a series of elective options that a member may choose from in order to leave varying sums to her spouse and other beneficiaries. CERL §31760 imposes an overarching limit on all such choices: in essence, no optional election shall provide any greater amounts of allowances than if the member has stayed with the conventional (“unmodified”) allowance and not made the election.

Section 31760 provides that a member may elect to have the “actuarial equivalent” of her “retirement allowance as of the date of retirement” paid to her and one or more beneficiaries “in accordance with one of the optional settlements...” If the member chooses to elect Optional Settlement 4 (CERL §31764), “upon the advice of the actuary” the member may have a reduced allowance paid to her during her lifetime, then a continuing benefit paid to other designated persons.¹

CERL §31456 defines “actuarial equivalent” as a “benefit of equal value when computed on the basis of adopted mortality tables and regular interest thereon.” The determination of “actuarial equivalence” is used repeatedly throughout the CERL for many purposes. For example, when an employer seeks to implement an early retirement program due to layoffs or other personnel changes, and to grant up to two years of additional service credit to retiring employees, CERL §31641.04 (a) (3) requires the employer to contribute into the retirement system “an amount...which is the actuarial equivalent [of the allowance attributable to the additional service credit].” “Actuarial equivalence” is required for many early retirement benefit programs (*see, e.g.*, CERL §§31486.4, 31490.7, 31497.3), for calculating alternative death benefits (§31486.6), for determining the actuarial impact of salary and benefit enhancements (§31515.5), for correcting errors (§31539(c)), for calculating the service annuity (§31674), for determining whether the cost of a DROP program is “cost neutral” (§31770.4(a) and 31776.3(a)(2)), and, in Contra Costa County, for calculating the optional monthly allowance payable to a surviving spouse of a member who died during service (§31781.31).

In each of these instances, and others under CERL, the actuary is tasked with determining “actuarial equivalence” between two streams of projected payments under two comparative scenarios. The references in the definition of “actuarial equivalence” in §31456 to mortality tables and regular interest are meant to eliminate mortality rates and assumed interest accrual as variables in determining “actuarial equivalence” – i.e., holding them constant on both sides of the comparison. Similarly, just as the actuary employs certain assumptions and methodologies in projecting the present value of members’ benefits for purposes of determining the system’s liabilities, so too should the actuary hold those same assumptions

¹ Section 31764 also provides that the “designation, shall not...place any additional burden upon the retirement system.” We believe that “burden” here refers to *administrative* burden – administrative costs and processes – rather than an *actuarial cost* burden. Since §31760 already requires actuarial equivalence, for §31764 to repeat that admonition would be unnecessary surplusage.

and methodologies constant when projecting the present value of a members' unmodified allowance and the present value of alternatives available under the various optional settlements.

Section 31760 picks the point in time at which the present values of the unmodified benefit and of the optional benefit are to be determined: "as of the date of retirement." Accordingly, the actuary's task is to present value the two streams of payments as of that date based on the scenarios presented – comparing, for example, the present value of a benefit to the member for life on the one hand, to the present value of a benefit to the member for life with a continuance to one or more beneficiaries on the other hand. For each calculation, the same mortality tables and interest calculation should be used, as well as the same actuarial assumptions and methodologies that the actuary uses in calculating the system's future liabilities.

We understand that one of the assumptions the actuaries employ in calculating the present value of the system's liabilities is that the law generally applicable in Contra Costa County provides a 3% COLA to retired members and their beneficiaries, with a "banking" of the difference between actual CPI and 3% in years when the CPI is greater than 3%. CERL §31870.1. This is as much a locked-in part of the retirement benefit formula in Contra Costa County as are the basic benefit formulas (*e.g.*, 1.67%@55, 2%@50) and the calculation of pensionable "compensation earnable." As reported in the actuary's Actuarial Valuation and Review as of December 31, 2010 ("Valuation Report"), one of the key assumptions is that members and beneficiaries will receive

"3% per year except for Tier 3 disability benefits and Tier 2 benefits that are valued as a 3.5% increase per year. Safety Tier C benefits are assumed to increase at 2% per year. All increases are contingent upon actual increases in CPI." Valuation Report, p. 87.

In addition, both employers and employees contribute towards the cost of future cost-of-living increases to members' projected benefits in retirement. *See* Valuation Report at pp. 20-51 (charts of contribution rates by cost groups), 106-07.

If the actuary includes an assumption about future cost-of-living adjustments to a member's projected benefits for purposes of calculating the system's liabilities, it follows that the same assumption should be used to calculate the "actuarial equivalence" of the unmodified allowance and the comparative optional settlement allowance. The actuary can explain to the Board whether it arrives at "actuarial equivalence" in this manner or through other means of calculation.

From a legal standpoint, we simply need to focus on the fundamental tenet embedded in all the calculations of "actuarial equivalence" under CERL, whether for determining optional settlements, service purchases, alternative death benefits, and other choices available to the members: the election of the option should not provide greater benefits or cost the employer more than if the option was not elected. In order to satisfy that legal test, we believe the operative rule under CERL can be stated as follows:

To determine “actuarial equivalence,” the board, on the advice of its actuary, must compare the present value of the two different proposed streams of payments using the same actuarial assumptions and methodologies as are used to value the system’s liabilities generally. If the present values are the same, they are “actuarially equivalent.” If not, they are not “actuarially equivalent.”

Since the Board must rely on the expertise of its actuary to perform these calculations, we believe the Board can satisfy its fiduciary responsibility under CERL by (1) requiring the actuary to explain the assumptions and methodologies it uses to determine “actuarial equivalence” and then to approve (or disapprove) them; and (2) requiring the actuary to certify in each instance that it has determined the proposed optional settlement to be the actuarial equivalent of the unmodified allowance using the assumptions and methodologies approved by the Board. This is no different from the process the Board uses in setting employer and employee annual contribution rates.

If the cost-of-living assumption built into the annual actuarial valuation is not mirrored in the calculation of both the unmodified benefit and the comparative optional settlement allowance, there is a risk that the benefits paid under the optional allowance over time could exceed those paid under the unmodified allowance. Unless sufficiently funded by both employer and employee contributions, this excess payment could create an unfunded actuarial accrued liability (“UAAL”) that would be born entirely by the county and other employers. Added UAAL attributable to members’ election of optional settlement allowances is contrary to the fundamental tenet of “cost neutrality” that is read throughout the use of “actuarial equivalence” in the CERL. The courts have invalidated such benefit calculation practices. *See, e.g., City of San Diego v. San Diego City Employees Retirement System* (2010) 186 Cal.App.4th 69 (city charter provided that “the cost of Creditable Service purchased under section 24.1312 is the amount the Board determines to be the *employee and employer cost* of that Creditable Service...and the exercise of this privilege by a . . . member *shall not require the City to make any additional contributions.*”)

The Board’s responsibility is to administer the system according to the terms of its plan documents – in this case, the CERL. It is the province of the plan sponsors to grant benefits and benefit increases, and when they do, they are required by the law to disclose publicly the added costs to the system. *See, e.g., CERL §31516* (“The board of supervisors, in compliance with Section 7507 shall secure the services of an enrolled actuary to provide a statement of the actuarial impact upon future annual costs before authorizing increases in benefits...[and the] future annual costs as determined by the actuary shall be made public at a public meeting...”) The Board may not interpret the law in a manner that grants some members increased benefits over others. Accordingly, the Board should avoid practices that knowingly grant unanticipated additional benefits to members and create underfunding risks for the plan sponsors.

We look forward to further discussions on these matters with the Board and its actuary.


Attachment 3:
Segal response dated June 22, 2012



THE SEGAL COMPANY
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Paul Angelo, FSA
Senior Vice President & Actuary
pangelo@segalco.com

MEMORANDUM

To: Administrators, 1937 CERL Systems
From: Paul Angelo 
Date: June 22, 2012
Re: Daniel Borenstein's Contra Costa Times Article

In an article dated June 16, 2012, Contra Costa Times columnist Daniel Borenstein reports on a discussion held on June 13 by the Contra Costa County Employees' Retirement Association (CCCERA) regarding the actuarial assumptions used to determine benefit amounts under optional forms of payment. We believe that article misrepresents both the substance of that discussion and the range of conclusions that could be reasonably drawn from that discussion. In particular, the article claims that because of "improper" calculations, CCCERA has been overpaying certain of its pensioners. This claim is completely untrue – CCCERA's calculations of the optional form of payment amounts are:

- Consistent with long-established practice utilized by Segal, by predecessor actuarial firms serving CCCERA and by actuaries serving other similar retirement systems, and
- In accordance with the requirements of the statutes governing these systems.

Background

CCCERA is a retirement system operating under the County Employees Retirement Law of 1937 (CERL). When a participant retires from CCCERA (or any CERL system), his or her benefit is calculated in accordance with a formula based on the participant's years of service and final average pay. Absent an election to the contrary, the retiree will receive an "unmodified allowance" of this amount, payable for the retiree's lifetime. If the retiree is married (or has a domestic partner), then 60% of this unmodified amount is continued to the surviving spouse upon the retiree's death. At CCCERA (as well as for most CERL system benefit tiers), after retirement the retiree's benefit (and the surviving spouse's) increases annually with a Cost of Living Adjustment (COLA) based on actual price inflation, subject to a maximum percentage.

The retiree may elect one of four “optional settlement allowances” which provide for survivor benefits of varying amounts, payable to a spouse or one or more non-spouse beneficiaries. If the retiree elects one of these optional forms of payment, the monthly benefit amount is reduced to an amount that is the “actuarial equivalent” of the unmodified amount (excluding the automatic 60% continuance to a spouse). Generally, two streams of benefit payments are actuarially equivalent when they have the same present value based on a set of actuarial assumptions. Here the reduction is to recognize that the optional payment form may be paid for a period longer than the retiree’s lifetime.

The issue at hand is what actuarial assumptions to include when determining the actuarially equivalent optional payment form amounts. Consistent with the explicit directive of the CERL, current practice at CCCERA and at most other CERL systems is to include assumptions only as to interest and mortality. The discussion at the recent CCCERA meeting was on whether also to include an assumption for future COLA increases.

Statutory Provisions Regarding Actuarial Equivalent

The term “actuarial equivalent” and its application to optional forms of payment are defined in two sections of the CERL (emphasis added):

§31456. “Actuarial equivalent” defined

*“Actuarial equivalent” means a benefit of equal value when computed **upon the basis of the mortality tables adopted by the board of supervisors and regular interest thereon.***

§31760. Election of actuarial equivalent of retirement allowance

*Until the first payment of any retirement allowance is made, a member or retired member, in lieu of the retirement allowance for his life alone, may elect to have the actuarial equivalent of his retirement allowance **as of the date of retirement** applied to a lesser retirement allowance payable throughout life in accordance with one of the optional settlements specified in this article.*

The current practice at CCCERA and similar CERL systems is in compliance with a plain reading of both of these sections. The definition of actuarial equivalent refers only to mortality and interest, and the application refers to “the actuarial equivalent of his retirement allowance as of the date of retirement”, i.e., before the addition of any future COLA. Segal and predecessor actuarial firms have followed the long-established practice of determining actuarial equivalence using the mortality and interest assumptions required by the CERL, and reflecting only the benefit as of the date of retirement.

Review of Procedures for Determining Optional Payment Form Amounts

Recently the CCCERA Board asked both Segal and outside counsel Reed Smith to prepare discussions of whether a COLA assumption should be incorporated into the determination of actuarially equivalent optional payment form amounts. Segal prepared a discussion dated

June 6. Reed Smith prepared a confidential memo dated June 5 which was released to the public at the June 13 CCCERA Board meeting. Both of those letters are attached. Note that Segal was not involved in the development of the Reed Smith opinion, and was first provided a copy on June 11.

The issue received a thorough discussion at the CCCERA board meeting on June 13, including both of the discussion letters. In that discussion, as discussed above, Segal noted that current practice is consistent with a plain reading of the relevant CERL sections. Furthermore, we noted that some of the interpretations in the Reed Smith letter are in direct conflict both with governing pension law and actuarial best practices.

For example, the Reed Smith letter concludes “that ‘actuarial equivalence’ requires that the actuary compare the present value of the two different streams of payments being examined using the same actuarial assumptions and methodologies for both streams of payments as are used in the actuary’s regular valuation of system liabilities” (emphasis in the original). This is simply not true. Specific to the optional form conversions, the actuarial valuation uses different mortality assumptions for male and female members. As this would be illegal, sex-based discrimination if used to determine the optional payment form amounts, those calculations use a unisex mortality assumption. For another example, when pricing actuarially equivalent additional service purchases, some systems use a retirement age assumption different from the valuation assumption, to reflect the different retirement patterns observed among members who purchase additional service.

We would also note that, to our knowledge, this requirement linking actuarial equivalence assumptions and valuation assumptions is not found in the CERL.

In the June 13 discussion, we also emphasized that the question of whether two payment streams are actuarially equivalent is not as clear-cut as the Reed Smith letter would indicate. Two payment streams can be more or less actuarially equivalent depending on the assumptions used. That is why both our June 6 letter and our June 13 discussion sought to inform the CCCERA board that (1) while the current practice for determining actuarial equivalence is consistent both with the statutory definition and with many decades of established practice, it can produce increases in liability (that are reflected in the next actuarial valuation) when retirees elect optional forms of payment, and (2) adding a COLA assumption to the actuarial equivalence calculation would reduce but not eliminate such increases in liability. The question we believe needed to be addressed by counsel was whether including a COLA assumption was legally permissible, given that the relevant language of the CERL would seem to indicate otherwise.

Finally we acknowledge that the above discussion may appear to contradict our customary statement (as found in our June 6 letter) that “As in all matters pertaining to the interpretation and application of the law, Plan or individual Optional Settlement calculation provisions, you should be guided by the advice of the Plan’s Legal Counsel.” We believe that the system actuary has specific and distinctive professional competence to understand and evaluate all the

considerations relevant to actuarial concepts such as “actuarial equivalence.” For that reason we believe that, when obtaining legal opinions on actuarial matters, it is essential that retirement systems have their legal counsel and their actuary work together in the development of counsel’s legal opinion. We regret that in this case that opportunity was not available. We would hope that Reed Smith would reconsider its views, taking into account a more complete analysis of both the governing law and actuarial best practices. Failing that, CERL systems (including CCCERA) should consider seeking an alternative legal opinion that would address the matter in full.

Conclusion

In summary, we believe that the prevalent current practice of calculating actuarial equivalent optional payment form amounts based only on mortality and interest assumptions is an acceptable definition of actuarial equivalence and is consistent with the plain text of the County Employees Retirement Law of 1937. We note that our documentation of the basis for these calculations has consistently stated that actuarial equivalence was based on mortality and interest only and did not include an assumption related to COLAs. We also believe that if a CERL system retirement board wishes to avoid the actuarial losses that can result from the prevalent current practice, then an appropriate action might be to incorporate a COLA assumption in the actuarial equivalent calculations. We defer to system counsel as to whether such use of a COLA assumption is legally permissible under the CERL, or whether a change in the law would be required.

PPA/jc

Attachment 4:
Contra Costa Times Article dated June 16, 2012

BORENSTEIN: CONTRA COSTA PENSION OVERPAYMENTS A STATEWIDE PROBLEM - CONTRA COSTA TIMES

By Daniel Borenstein
Staff columnist contracostatimes.com

Posted: 06/16/2012 04:00:00 PM PDT

June 18, 2012 1:43 PM GMT Updated: 06/18/2012 06:43:26 AM PDT

Because of improper actuarial calculations, Contra Costa's public employee retirement system overpays about 10 percent of its pensioners -- and taxpayers must make up the resulting shortfall.

It's a statewide problem. Paul Angelo, senior vice president for The Segal Co., the retirement system's actuary, says 18 of 20 county-level pension systems in California, including Alameda County, use the same calculation method. Segal is the actuary for a majority of those systems.

The size of overpayments depends on the ages of retirees when they start drawing their benefits and of people they designate to receive their benefits after they die. The cumulative cost to taxpayers has not been computed.

Harvey Leiderman, attorney for the Contra Costa Employees' Retirement Association, says the calculation method, which fails to account for future cost-of-living adjustments to pension payments, violates state law.

The association's trustees, meeting Wednesday, instructed Angelo and Leiderman to figure out a fix before the board's July 11 meeting. The board didn't specify when it would implement changes or whether they would be applied to current workers and retirees.

Meanwhile, knowing they had a problem, trustees nevertheless irresponsibly approved more inflated payments for new retirees.

The Contra Costa association administers pension benefits for 17 public agencies, the largest being the county. At retirement, most employees choose the standard pension plan: Payments are based on formulas that consider years worked, top salary and retirement age. Upon the retiree's death, a spouse, domestic partner or minor child receives 60 percent of the benefit.

Following state law, the retirement system also offers retiring workers options of smaller pensions but, upon death, they can pass on the monthly benefits to one or more survivors for the rest of their lives. Those survivors could be grandchildren with much longer life expectancies. In fact, they need not even be relatives.

For those choosing optional payouts, an actuary calculates how payments to retirees should be reduced to ensure sufficient funds are left for payments to their designated survivors. The value in today's dollars of the future benefits should be the same if the employee chooses the

standard retirement plan or one of the options. It should be, according to the law, "actuarially equivalent."

But in making those calculations, Angelo acknowledges, his firm doesn't account for pension cost-of-living increases of up to 3 percent annually. Consequently, the retirement system has not sufficiently reduced the payments to the retirees or surviving beneficiaries.

For example, consider someone retiring at age 57 who designates a 27-year-old beneficiary. According to Angelo, the pension payments to both are 12 percent higher than if the cost-of-living adjustments had been factored in. The younger the surviving beneficiary, the greater the overpayment.

The cost of overpayments must be shouldered by public agency employers, in this case, Contra Costa taxpayers. Pension contribution rates for employees are unaffected.

The practice apparently has been going on for decades. It came to light when Segal in May submitted benefit payment calculations for a retiree. Trustee Debora Allen noticed the assumptions included no cost-of-living adjustment.

If ever there was an argument for financial experts on pension boards, this is it. Allen is a certified public accountant whom county supervisors last year appointed as a trustee.

Ironically, at the same May meeting, the retirement board majority approved a policy change allowing staff to approve the calculations on its own, without board review. So, if Allen hadn't caught the error that day, the practice might have continued undetected.

Making matters worse, it turns out that retirement system staff sends out checks to most all new retirees before the board signs off.

It's time for change. Payments should not begin without board approval. Optional pension calculations should be subjected to board review. And financial experts should serve as pension trustees across the state.

According to Angelo, the 16 other county-level systems not considering cost-of-living adjustments when calculating optional benefit payments are: Fresno, Imperial, Kern, Los Angeles, Marin, Mendocino, Merced, Orange, Sacramento, San Bernardino, San Mateo, Santa Barbara, Sonoma, Stanislaus, Tulare and Ventura.

Finally, state lawmakers must address a key public policy question: Why allow retiring workers to designate someone other than a spouse or dependent minor as a recipient of lifetime pension benefits? There's no rational answer.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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(805) 339-4250 • Fax: (805) 339-4269
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July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: RECONSIDERATION OF ITEM VI. A. ON MAY 21, 2012, REGARDING
THE PROPOSED MODIFICATION TO THE ENTRY AGE NORMAL
METHOD**

Dear Board Members:

Under item VI. A. of the May 21, 2012 business meeting, Mr. Foy moved, seconded by Mr. Hintz, to adopt Segal's recommended change in the Entry Age Normal Cost Method, deferring implementation for one year.

Trustee Foy, requests that the proposed modification to the Entry Age Normal Method be reconsidered, and if the reconsideration is approved, Trustee Foy would like to propose an alternative motion.

Three attachments from the May 21, 2012 meeting are provided for information. They include 1.) The letter from Segal dated May 4, 2012: Additional Information Regarding Proposed Modification to Entry Age Normal Cost Method, 2.) The letter from the County of Ventura dated May 2, 2012, and 3.) The letter from Segal dated May 10, 2012: Response to County Questions re: Actuarial Experience Study and Proposed Modification to Entry Age Normal Method.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachments

Attachment 1:

Letter from Segal dated May 4, 2012:
Additional Information Regarding Proposed Modification to
Entry Age Normal Cost Method.



THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

VIA E-MAIL

May 4, 2012

Mr. Donald Kendig
Retirement Administrator
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**Re: Ventura County Employees' Retirement Association
Additional Information Regarding Proposed Modification to
Entry Age Normal Cost Method**

Dear Mr. Kendig:

This letter provides additional information regarding a recommendation in our April 4, 2012 letter entitled "Review and Discussion of Actuarial Funding Policy." That recommendation concerned a modification to the current version of the Entry Age Normal (EAN) Cost Method used by VCERA. That modification involved calculating the Normal Cost on an individual basis for each member covered in a cost group as opposed to determining the Normal Cost on an aggregate basis for all members in a cost group.

Background Information

Attachment 1 to this letter contains the text from the "Actuarial Cost Method" section of our April 4, 2012 letter, which contained detailed information about the cost method and the proposed modification to the current method. That discussion described three main reasons for changing this method. Those are summarized below, along with a related fourth reason that is further developed in this letter.

- Consistent with method required in GASB Exposure Draft;
- More commonly used method.
- Consistent with fact that the Actuarial Accrued Liability (AAL) is determined on an individual basis; and

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- Avoids actuarial losses produced by current method by recognizing each member's full costs in the years they are incurred. This avoids amortizing those annual losses over 15-year periods resulting in interest savings and more level costs.

Current Method Produces Actuarial Losses Even if All Assumptions are Met

From the standpoint of an actuarially sound funding policy, the third and fourth items above are the main reasons for recommending use of the individual method to determine the Normal Cost. That is because, based on VCERA's current demographics, the current method will produce actuarial losses even if the actuarial assumptions are met each year, while the proposed method will not produce such losses. Those losses lead to higher interest costs and a pattern of gradually increasing employer contributions

Attachment 2 to this letter shows a projection of future valuation results for General Tier 2 (w/o COLA) members using the current version of the EAN method. In this example, we have assumed that all future experience follows the actuarial assumptions in the June 30, 2011 actuarial valuation. Note that, for illustration purposes, this projection is based on a closed group of members (no future members).

The projection results using the current aggregate version of the EAN method show that there are actuarial losses each year. Attachment 2 shows, in particular, that the actuarial losses that occur under the current method are roughly 1% of payroll, which is consistent with the cost impact of the recommended change in method described in our April 4, 2012 letter.

The reason that the current aggregate version of the EAN method produces actuarial losses each year is that, for each of VCERA's cost groups, the Normal Cost determined using the current methodology reflects an expected future working lifetime and expected salaries using the average for all members in that cost group. In contrast, the AAL calculation anticipates that the next year will accrue a Normal Cost for each member based on each member's expected future working lifetime and expected salaries. Those individual Normal Costs are larger in total than the aggregate Normal Cost, so in effect the AAL grows faster than the amount being funded (i.e., the aggregate Normal Cost).

To see why the total individual Normal Cost is larger than the aggregate Normal Cost, consider a pension plan that has two members, a retirement age assumption of age 65 and no other decrements assumed. Both members have five years of service, but one member is age 64 and the other is age 34. The Normal Cost under the current method would be based on the average expected future working lifetime for both members of 16 years.

Note that in the following year, the older member retires at age 65. Since the older member's benefit has not been fully funded yet there will be an actuarial loss. This is because the Normal Cost for the older member was determined based on a funding period of 16 years (as described above) even though in fact that member is expected to retire in the next year.

The proposed method determines the Normal Cost on an individual basis for each member's specific expected future working lifetime and expected salaries and thereby eliminates this issue. As a result, the proposed method more appropriately recognizes the full cost for each year of service in the year that the cost is incurred instead of amortizing a portion of those costs over a series of 15-year periods. This results in lower contributions in the long term due to interest savings, as well as more stable or level contributions over time.

For example, Attachment 2 shows that in the June 30, 2012 valuation an actuarial loss of \$2 million is expected to occur under the current method. The total payments necessary to amortize that amount over a 15-year period are about \$3.6 million. By including the \$2 million in the current cost, the proposed method avoids future interest costs of about \$1.6 million.

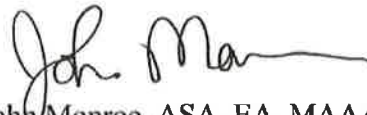
We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions and we look forward to discussing this with you.

Sincerely,



Paul Angelo, FSA, EA, MAAA
Senior Vice President and Actuary



John Monroe, ASA, EA, MAAA
Vice President and Associate Actuary

JZM/hy

Attachment 1
Excerpt from April 4, 2012 Letter on
Review and Discussion of Actuarial Funding Policy

ACTUARIAL COST METHOD

The ultimate costs of the plan is determined by the actual benefits paid from the plan, offset by actual investment income. Each year, an actuarial valuation is completed to develop the next year's annual contribution for the pension plan. The valuation uses a funding method to allocate the ultimate expected costs for active members to each year of service, and thus among past service, current service, and future service. As described above, the cost attributed to the current year of service is the plan's Normal Cost. The accumulated costs attributed to past service is the plan's AAL. The plan's annual contribution is the Normal Cost, plus an amount to fund or "amortize" the plan's UAAL.

Currently, the plan is funded using the Entry Age Normal (EAN) method. This method is considered a reasonable funding method under the Actuarial Standards of Practice and is acceptable under the current accounting standards promulgated by the GASB. Further this method is most consistent with the policy goal of having the Normal Cost bear a consistent relationship to payroll. In fact, for that reason, the GASB Exposure Draft proposes requiring all plans to report their liabilities for accounting purposes using the EAN method.

In current practice there are some variations in the details of how the EAN method is applied. For VCERA, the AAL for each of the cost groups is currently calculated by summing up the individual AAL for each member covered in that group. However, the Normal Cost for each cost group is calculated on an aggregate basis by taking the Present Value of Future Normal Costs (for all members in the cost group) divided by their Present Value of Future Salaries to obtain a single Normal Cost rate for all employees covered in that cost group. The Normal Cost for the cost group is then that aggregate Normal Cost rate applied to the salary for the cost group.

While the current practice of calculating Normal Cost using an aggregate approach will continue to be permitted under the Actuarial Standards of Practice for funding purposes, that approach will no longer be allowed for financial disclosure purposes if the recently proposed accounting requirements are adopted by GASB. Under the proposed requirements, the Normal Cost for each membership group has to be calculated by summing up the next year's individual Normal Costs for each member covered in that cost group. Note that the Normal Cost rate would then be that total Normal Cost divided by the total salaries for that cost group.

Even though the proposed accounting disclosure requirements will require other major changes such as more rapid recognition for investment gains/losses and much shorter amortization for actuarial gains/losses, we believe it would still be advantageous to change VCERA's current practice so that the same Normal Cost can continue to be used for both financial reporting purposes and for funding purposes. Furthermore, we believe that the more individually based version of the EAN method is more commonly used by public plans in the U.S., and is more consistent with the fact that, even under the current, aggregate version of EAN, the Normal Costs are first determined on an individual basis.

For this reason, we would recommend that for funding purposes the Board continue the current EAN actuarial cost method but adopt the modification as described above to calculate the Normal Cost.

Attachment 2
Closed Group Projection for General Tier 2 w/o COLA Members Only
Based on June 30, 2011 Valuation (\$ Amounts in Millions)

Valuation Date	(A) Present Value of Benefits	(B) Actuarial Accrued Liability	(C) Expected Benefit Payments	(D) = (A) - (B) Present Value of Future Normal Costs	(E) Present Value of Future Salaries	(F) = (D) / E Total Normal Cost (% of Compensation)*
June 30, 2011	902	686	32	206	1,625	12.68%
June 30, 2012	941	746	35	195	1,546	12.59%
June 30, 2013	980	787	39	183	1,467	12.48%
June 30, 2014	1,019	847	42	171	1,386	12.37%
June 30, 2015	1,057	897	46	160	1,304	12.25%
June 30, 2016	1,094	946	50	148	1,221	12.12%
June 30, 2017	1,130	994	55	136	1,137	11.97%
June 30, 2018	1,164	1,039	59	125	1,055	11.82%
June 30, 2019	1,196	1,082	64	114	975	11.66%
June 30, 2020	1,224	1,121	69	103	898	11.50%
June 30, 2021	1,250	1,157	74	94	825	11.33%

(G) Valuation Date	(H) = (F) * (G) Annual Compensation**	(I) = [(B) + (H)] * 1.08 - (C) * 1.04 Expected Actuarial Accrued Liability	(J) = (B) - (I) Actuarial Loss	(K) = (J) / (G) Actuarial Loss as % of Compensation
June 30, 2011	193	25		
June 30, 2012	188	24	744	2
June 30, 2013	184	23	795	2
June 30, 2014	179	22	845	2
June 30, 2015	174	21	895	2
June 30, 2016	168	20	944	2
June 30, 2017	160	19	992	2
June 30, 2018	152	18	1038	2
June 30, 2019	144	17	1080	2
June 30, 2020	135	16	1120	2
June 30, 2021	126	14	1156	1

* Includes Employer and Employee Normal Costs and is assumed to be payable at the beginning of the year

** Reduced to anticipate members who leave active status during the year.

Attachment 2:
Letter from the County of Ventura dated May 2, 2012.

May 2, 2012

Board of Directors
Ventura County Employees Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

J. Matthew Carroll
Assistant County Executive Officer

Paul Derse
Assistant County Executive Officer/
Chief Financial Officer

Catherine Rodriguez
Assistant County Executive Officer/
Labor Relations & Strategic Development

Dear Board Members:

Thank you for allowing our office the opportunity to review, comment, and provide questions regarding The Segal Company's (Segal) Actuarial Experience Study for the three year period ending June 30, 2011. We appreciate the information and effort to identify demographic data that will enhance the County's ability to continue to fund the retirement system at an appropriate level. We also appreciate your Board's understanding and share your concern that the decisions your Board makes has an impact on both County contribution rates and employee contribution rates, which in a number of cases are also paid by the County.

We recognize that the evaluation of a retirement system's demographic experience is complex and interrelated and we think it would add to our understanding if the actuary could provide more detail as to the employer contribution rate increase or decrease from each of the demographic factors. This would help us to potentially improve in areas over which we may have some control.

Demographic Data

It is our understanding that the age of retirement has increased over the years. County employees are waiting to retire at an older age. The Experience Study makes minor adjustments to the retirement age, however, it does not indicate what impact it has on the contribution rate.

How much does that later age of retirement offset the mortality rate? For example, if employees retire at a later age, doesn't that offset somewhat the fact that the retirees may be living longer.

Segal states in their report that there is a preferable actuarial practice to have a 10% margin between actual mortality rates and expected mortality rates to anticipate future improvement in life expectancy. However, the margins of 13% for general members and 19% for safety members exceed those preferred margins. Would adjusting the

margins down to 10% have an impact on contribution rates? We agree with Segal's statement that mortality rates need to be adjusted and closely monitored in future studies. Is the mortality number to be monitored overly conservative?

We are concerned that the difference between the expected rate of disability retirement and the actual rate of disability retirement may not be sufficiently reflected in the new proposed disability rate of retirement. Over the past two actuarial experience studies, the incidence of disability retirement is significantly below the expected levels. We believe that this trend is at least partly due to our County's proactive approach to disability, risk management techniques, and efforts to enable employees to return to work rather than retire due to disability. Does the experience study sufficiently account for the County's efforts in this area?

The ratio of proposed disabilities to the actual disabilities is in excess of 145% for the past two experience studies. Are these ratios in line with industry standards?

When we compare termination rates over the past two experience studies, there is a significant dip in the terminations for the most recent three years. This is logical due to the recession that occurred during this time. Consequently, the proposed termination rates are significantly lower than the current rates. Has there been an allowance for the fact that the low turnover is a cyclical issue due to the recession and not a permanent structural change in the employee demographics?

Entry Age Normal Methodology

Our office would respectfully request that your Board not implement the new Entry Age Normal Actuarial Cost Method recommended by Segal.

A significant rationale for Segal's recommendation to change the Entry Age Normal methodology from an aggregate basis to an individual basis is to reconcile the normal cost between funding purposes and financial reporting purposes. A secondary reason would be to use a method more commonly used by public plans in the U.S. The accounting standard is still in draft form and if passed in its current form, which is probable, the effective date will not be for at least a year. Further, the difference in accounting and funding will most likely be immaterial to the financial statements. In our opinion, VCERA has been, and should be, the example that other public retirement plans use as a model.

As stated in Segal's report, the current practice of calculating Normal Cost using an aggregate approach is perfectly acceptable under actuarial standards. We are concerned about the need for an actuarial change that could increase the employer's

Board of Directors
Ventura County Employees Retirement Association
May 2, 2012
Page 3

contribution by over \$6 million when such a change is neither legally nor actuarially required.

Segal stated that there is no impact from not implementing the change on the unfunded liability. We assume because any potential underfunding in prior years would already be accounted for in the unfunded liability. If the current normal cost methodology has been in place for 15 years, then any theoretical underfunding would already be fully included in the amortization of the UAAL. We would request that your Board not implement an overly conservative contribution methodology in the current economic and budgetary environment.

Thank you again for the opportunity to comment on the actuarial experience study.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul Derse".

Paul Derse
Assistant County Executive Officer
Chief Financial Officer

A handwritten signature in blue ink, appearing to read "Michael Powers".

Michael Powers,
County Executive Officer

Attachment 3:

Letter from Segal dated May 10, 2012:
Response to County Questions re: Actuarial Experience Study
and Proposed Modification to Entry Age Normal Method.



THE SEGAL COMPANY

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

VIA E-MAIL

May 10, 2012

Mr. Donald Kendig
Retirement Administrator
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**Re: Ventura County Employees' Retirement Association
Response to County Questions re: Actuarial Experience Study and Proposed
Modification to Entry Age Normal Method**

Dear Mr. Kendig:

This letter is in response to the issues raised in the County's May 2, 2012 letter concerning proposed demographic actuarial assumptions in our 2008 through 2011 Actuarial Experience Study and a proposed modification to the current Entry Age Normal Actuarial Cost Method as part of the review of VCERA's funding policy.

DEMOGRAPHIC ASSUMPTIONS

As far as proposed demographic assumptions, the County's main questions and concerns were focused on the assumptions for post-retirement mortality, disability incidence rates and termination rates. Each of these assumptions is discussed below.

Post-retirement mortality rates – The County is concerned that the margins for future mortality improvement being proposed may be too conservative. This is based on the 13% (General) and 19% (Safety) margins for non-disabled members that are being proposed in the experience study.

Our experience study report says that “Generally, preferable practice is to have a margin of around 10%;...”. We would note that the use of the word “around” is meant to indicate that this is a general range and not a firm benchmark. In fact if anything current practice would view 10% more as a minimum margin rather than a sufficient margin. In that context we believe that the 13% margin for General members is not overly conservative and provides for a margin of around 10%. Furthermore, each one year of age adjustment (e.g. set back or set forward one year) to the mortality table would result in changes of around 10% to the margin. Even though we might be able to adjust the projection period for future mortality improvements to get closer to a 10% margin, we would not recommend it. As noted above, we believe that our report could have been written to state that at least a 10% margin should be used, and we will consider such language in the future.

For Safety members, the margin is more sensitive because of a significantly smaller number of members. For that reason, here again, we are comfortable with our recommendation. This is expressed in the following text from our experience study: “Because there is considerably less mortality experience available for Safety service retirees as compared to General service retirees, we believe that there is not yet enough experience available to establish that Safety service retirees have shorter life expectancies than General service retirees.”

Disability incidence rates – The County is concerned that the proposed rates of disability incidence have not been lowered enough to reflect disability incidence during the study period (and the prior study period). They indicate that the lower disability incidence rates are a result of the County’s proactive approach to disability using various risk management techniques and want to know if the proposed disability incidence rates sufficiently account for the County’s efforts in this area.

We have proposed decreases in the disability incidence rates not only in the current study, but also the prior study. Chart 16 from the current experience study shows that for General the number of expected disabilities under the proposed assumptions are close to being mid-way between the actual disabilities and expected disabilities under the current assumptions. For Safety members, this is not the case. We lowered the disability incidence rates some, but not near the midpoint between the actual disabilities and those expected under the current assumptions. This is mainly due to the extraordinarily low rates of disability incidence observed at ages 50 through 59 during the three-year period. While our proposed assumptions reflect some decreases at those ages, they deliberately do not reflect much of the actual experience at those ages during that period.

Therefore, we do not believe that our disability incidence rates need any further modifications.

Termination rates – The County noticed the significant decrease in terminations during the study period that was due to the recession. They believe that the proposed termination rates are significantly lower than the current termination rates and want to know if there has been an

allowance for the fact that the low turnover is a cyclical issue due to the recession and not a permanent structural change in the employee demographics.

In our experience study, we noted that we reflected only some of the decrease in termination rates during the current three-year period, and we would wait until the next experience study to see if this trend continues. For that reason, we also believe that our proposed termination rates do not need any further modifications.

Note that in the case of these last two assumptions (disability incidence and termination), from an actuarial standpoint there may be some inconsistency in the issues raised by the County. In the case of the disability incidence rates, the County was concerned that we did not more fully reflect the actual experience while for the termination rates, the County seemed concerned that we might have reflected too much of the recent experience.

ENTRY AGE NORMAL ACTUARIAL COST METHOD

The County has asked the Board not to implement the proposed modification to the Entry Age Normal Actuarial Cost Method to calculate Normal Cost on an individual instead of aggregate basis. They provide reasons backing their position.

As requested at the April 16, 2012 Board meeting, we have examined this subject in more detail in our May 4, 2012 letter entitled "Additional Information Regarding Proposed Modifications to Entry Age Normal Cost Method". Please refer to that letter for more specific details on this subject.

Based on the analysis that we did for that letter, we are now even more convinced that the proposed modification should be adopted by the Board. Here is the main reason as stated in that letter:

"This is because, based on VCERA's current demographics, the current method will produce actuarial losses even if the actuarial assumptions are met each year, while the proposed method will not produce such losses. Those losses lead to higher interest costs and a pattern of gradually increasing employer contributions."

In the County's letter, they mention that we stated that the current method is "perfectly acceptable" under actuarial standards. We did not make that statement. While, the current method is acceptable under actuarial standards, we believe it is clearly not the preferred method because of the future actuarial losses that are expected to arise under that method.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

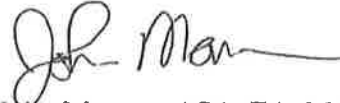
Mr. Donald Kendig
May 10, 2012
Page 4

Please let us know if you have any questions and we look forward to discussing this with you.

Sincerely,



Paul Angelo, FSA, EA, MAAA
Senior Vice President and Actuary



John Monroe, ASA, EA, MAAA
Vice President and Associate Actuary

/bqb

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: EDUCATION AND TRAVEL POLICY

Dear Board Members:

The Board Education and Travel Policy is one of the most discussed policies. This policy has historically been brought to the Board annually since its inception in 1998, and I have heard that Trustees have input every year as to how it can be improved.

This year, I solicited Trustees direct feedback on proposed changes ahead of time, so that I could get them aggregated and implemented in the attached proposed update. My hope is that the Board has a proposed updated policy with everyone's desired changes in it. This will allow the Board to focus on the merits of the changes, as opposed to coming up with changes at the meeting. Going forward, I plan on noting desired policy changes as I hear and receive Trustee feedback during the year, and I will have all of your best ideas already in it when it is presented next year.

This year the policy's presentation to the Board was deferred from June to July, which allowed time for the signing of A.B. No 1519 by the Governor providing for minimum trustee education. Staff recommends adoption of the updated policy.

Attached you will find 1.) The Proposed Education and Travel Policy, 2.) An Education and Travel Policy Legislative Markup, 3.) A Travel Expense Reimbursement Claim, and 4.) A.B. 1519.

I would be pleased to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachments

1.) Proposed Education and Travel Policy

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

EDUCATION AND TRAVEL POLICY

INTRODUCTION

Recognizing its fiduciary responsibility to plan participants, it is the desire of the Board of Retirement (Board) to encourage members of the Board, and its staff, to enhance their knowledge of the financial and benefit aspects of the retirement system by attending educational meetings, conferences and seminars. Attendance at such functions, as well as due diligence trips relating to the operation of the retirement system, is essential to ensure that Board members and staff are able to carry out their fiduciary responsibilities.

PURPOSE

The purpose of this policy is to set forth the guidelines to be followed to ensure Board members and staff members are allowed to cost effectively attend the educational meetings, conferences and seminars the Board believes to be necessary for the performance of their duties.

COMPLIANCE WITH STATE LAW

Effective January 1, 2013, and in compliance with Section 31522.8 of the California Government Code, all Board members shall receive a minimum of 24 hours of trustee education within the first two years of assuming office, and for every subsequent two-year period the board member continues to hold membership on the board. Further, the Board will maintain a record of Board member compliance with the policy. This policy and an annual report on board member compliance shall be placed on the Internet Web site.

ON-SITE DUE DILIGENCE

Regular on-site due diligence evaluations shall be scheduled with VCERA's investment managers every three years. More frequent evaluations shall be conducted if there have been material organization changes, significant underperformance of the investment or for any reason deemed appropriate by the Board.

On-site due diligence evaluations may be conducted by one or more Trustees and may include the Administrator or his/her designee. The Administrator shall, in consultation with the Investment Consultant, agendize a proposed schedule for all on-site due diligence trips to be conducted in the upcoming year. The Board Chair shall, with Board consent, designate the Trustee(s) to participate in each on-site evaluation. Every effort shall be made to rotate due diligence responsibilities so no one Trustee, or group of Trustees, is conducting a majority of due diligence visits on VCERA's behalf. The Trustee(s) and Administrator, or designee, shall be responsible for providing a written/oral report to the Board no later than the second subsequent regular Board meeting summarizing their findings and recommendations, if any.

LIMITATION ON MEETING FOR BUSINESS PURPOSES

Travel by multiple Board members shall be conducted in such a manner as to not violate the provisions of the Brown Act (Government Code Section 54950 et. Seq.). Board member attendance at educational meetings, conferences, seminars and related social events is not a violation of the Brown Act.

TRAVEL AUTHORIZATION

Approval for travel by a Board or staff member to an educational meeting, conference or seminar shall be made in an open meeting of the Board, except for attendance at the Spring and Fall State Association of County Retirement Systems (SACRS) conferences for which authorization by the Board will not be required. Additionally, the Retirement Administrator may approve Board or staff travel, including the Board's legal advisor, for one-day meetings held within the State. The Administrator may also approve an overnight stay by a staff member if it is determined to be in the best interest of the Association in terms of economy and efficiency. In the event a Board member wishes to conduct an on-site due diligence visit of a VCERA investment manager or consultant without prior Board approval, the Administrator is authorized to reimburse travel expenses up to \$300.00 upon submission of a verified claim.

Although State law may permit gifts of travel to the System, if a third party offers to pay for some or all of the travel expenses associated with a particular conference, seminar or meeting, the Board shall decline the offer. However, the Board may consider authorizing attendance at the particular conference, seminar or meeting at VCERA's expense if such attendance would be beneficial to VCERA.

ANNUAL TRAVEL BUDGET

The Retirement Administrator shall include in the annual budget to be approved by the Board sufficient funding to allow each member of the Board, and staff, to attend the Spring and Fall SACRS conferences. Additionally, funds will be budgeted, based upon

the information available on scheduled conferences and input from individual Board members during the budget preparation process, to allow each Board member and management staff to attend up to three additional conferences, educational meetings, seminars and site visits each fiscal year. This limitation shall not apply to on-site visits that are made with the consent of the Board, including in connection with the retention of a new manager, nor shall it apply to any conference, educational meeting, seminar or site visit where the cost to the Association can reasonably be expected to be less than \$500.00.

Travel expenses of Board members and staff shall be considered a cost of administration and may not be paid by any third party without the express written authorization of the Board.

RECOMMENDED PUBLIC RETIREMENT SYSTEM MEETINGS

It is the intention of the Board to establish a standard whereby attendance at educational meetings, conferences and seminars will be approved only if the agenda for the event contains an average of five (5) hours of substantive educational content per day. This standard would not apply to meetings with investment managers, consultants, etc., which would not be expected to last for five hours.

The Board establishes the following as recommended educational meeting, conferences and seminars that qualify as trustee education.

1. State Association of County Retirement Systems (SACRS), including meetings of SACRS Committees on which a member of the Board or staff participates. The Board recognizes the importance of having its Trustees actively participate as members of SACRS committees. Therefore, attendance at such meetings shall not count towards the three conferences, educational meetings, seminars or site visits limitation set forth above, even if such cost exceeds \$400.00.
2. Public Pension Investment Management Program (SACRS/Berkeley)
3. California Association of Public Retirement Systems (CALAPRS) Annual Meeting, trustee and staff workshops, and the Pension Fund Investing course held at Stanford University.
4. Programs sponsored by the International Foundation of Employee Benefit Plans (IFEBP).
5. Programs sponsored by the Institute for Fiduciary Education (IFE).
6. NCPERS Annual Conference.
7. Pension Funds and Money Management, and Alternative Investments and Real Estate; The Wharton School, University of Pennsylvania.
8. Programs sponsored by the National Association of Police Officers (NAPO).

9. Client conferences sponsored by investment managers, asset custodians and consultants with whom the Retirement System has a current professional relationship. (Attendance shall not count towards the three conference limit.)
10. National Association of Pension Fund Attorneys Conference.
11. California Retired County Employees Association (CRCEA).
12. Manatt, Phelps & Phillips Fiduciary Symposium. (Attendance shall not count towards the three conference limit.)
13. Council of Institutional Investors (CII)

Board members may request approval to attend the recommended, or any other, educational meetings, seminars and conferences by submitting a written request to the Retirement Administrator for inclusion on the next Board agenda. Requests approved by the Board qualify as Board member education. Educational seminars sponsored by the state or national public pension fund organizations and seminars sponsored by accredited academic institutions shall be deemed to meet Board member education requirements.

APPROPRIATE TOPICS

Appropriate topics for Board member education, may include, but is not limited to, the following:

1. Fiduciary responsibilities.
2. Ethics.
3. Pension fund investments and investment program management.
4. Actuarial matters.
5. Pension funding.
6. Benefits administration.
7. Disability evaluation.
8. Fair hearings.
9. Pension fund governance.
10. New board member orientation.

TRAVEL ARRANGEMENTS

It is the preference of the Board to have travel arrangements made through VCERA staff. This would include processing of registrations, hotel accommodations and transportation. However, a Board member may arrange his/her own transportation if he/she is to be accompanied by a spouse or traveling companion. VCERA staff will not make travel arrangements for, or reimbursement to a Board or staff member for any costs associated with the attendance of a spouse or traveling companion to any function.

TRAVEL COSTS

It is the policy of the Board that travel to educational meetings, conferences and seminars be achieved in the least expensive practical manner possible in order to reduce costs to the retirement system.

Reimbursement or payment for travel related expenses may not be made in certain instances. For travel to meetings within the State of California, lodging and other eligible travel related expenses will be paid for the evening prior to the start of the meeting only if the meeting starts at or prior to 9:30a.m. Lodging for the night of the last day of the conference will not be paid by the Retirement System.

For travel outside the State of California, lodging and other travel related expenses will be paid by VCERA for the evening prior to the day the meeting starts. Lodging will not be paid by VCERA for the evening of the final day of the meeting unless the substantive portion of the meeting ends after 2:00p.m. or it can be demonstrated that a reduction in airfare can be achieved by staying over for an additional day which will more than offset the cost for an additional night's lodging and other travel related costs that would be incurred.

In order to avoid unnecessary costs to the Retirement System, Board members should immediately notify VCERA's Chief Financial Officer of the cancellation or other changes in their travel plans.

Travel related costs which will be paid or reimbursed to a Board or staff member include the following:

Air Transportation

Every attempt should be made to make air travel reservations in advance to take advantage of available discounts. Airfare will be paid for coach passage only.

Hotel Accommodations

Payment for lodging will be at the single occupancy rate, plus applicable room tax. Any lodging costs in excess of the single occupancy room rate will be the responsibility of the Board or staff member.

Meals & Beverages

Reimbursement for the cost of meals and beverages for the Board and staff members while on travel will be made at the rates established by the County of Ventura for reimbursement to employees for such expenses. A copy of the current rates of reimbursement will be provided to each member of the Board.

Rental Car

Every attempt should be made to utilize public transportation, airport and hotel shuttle services which are reimbursable expenses. A rental car may be used if cost effective. The retirement system will not be responsible for any loss or damage resulting from the use of a rental car.

Parking

Reasonable automobile parking expenses are reimbursable.

Mileage

Retirement Board members and staff will be reimbursed for the use of their own automobile at the current mileage rate authorized by the Internal Revenue Service.

Documentation of Expenses and Submission of Reimbursement Claims

All requests for reimbursement of travel costs shall be supported by receipts or other documentation. All travel claims shall be submitted to the Retirement Administrator or VCERA's Chief Financial Officer no later than the 60th calendar day after the expense is incurred by the Board or staff member.

Reporting

Retirement Board members shall, no later than the 2nd subsequent Board meeting, provide a brief report on meetings attended on behalf of VCERA.

POLICY REVIEW

In order to keep the provisions of this policy current, the Board will review this policy on an annual basis in conjunction with the adoption of the administrative budget.

POLICY HISTORY

The Board last reviewed and approved this policy on June 18, 2012. The Board previously approved this policy on June 20, 2011, June 21, 2010, June 15, 2009, September 15, 2008, April 16, 2007, May 1, 2006, October 17, 2005, April 19, 2004, April 21, 2003, May 6, 2002, April 16, 2001, and April 17, 2000. The Board originally adopted this policy on July 6, 1998.

2.) Education and Travel Policy Legislative Markup

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

~~EDUCATIONAL MEETINGS, CONFERENCES AND SEMINARS~~ ATTENDANCE AND BOARD TRAVEL POLICY

INTRODUCTION

Recognizing their ~~its~~ fiduciary responsibility to plan participants, it is the desire of the Board of Retirement (Board) to encourage members of the Board, and their ~~its~~ administrative staff, to enhance their knowledge of the financial and benefit aspects of the retirement system by attending educational meetings, conferences and seminars. Attendance at such functions, as well as due diligence trips relating to the operation of the retirement system, is essential to ensure that Board members and staff are able to carry out their fiduciary responsibilities.

PURPOSE

The purpose of this policy is to set forth the guidelines to be followed to ensure Board members and staff members are allowed to cost effectively attend the educational meetings, conferences and seminars the Board believes to be necessary for the performance of their duties.

COMPLIANCE WITH STATE LAW

Effective January 1, 2013, and in compliance with Section 31522.8 of the California Government Code, all Board members shall receive a minimum of 24 hours of trustee education within the first two years of assuming office, and for every subsequent two-year period the board member continues to hold membership on the board. Further, the Board will maintain a record of Board member compliance with the policy. This policy and an annual report on board member compliance shall be placed on the Internet Web site.

ON-SITE DUE DILIGENCE

Regular on-site due diligence evaluations shall be scheduled with VCERA's investment managers every three years. More frequent evaluations shall be conducted if there have

been material organization changes, significant underperformance of the investment or for any reason deemed appropriate by the Board.

On-site due diligence evaluations may be conducted by one or more Trustees and may include the Administrator or his/her designee. The Administrator shall, in consultation with the Investment Consultant, agendize a proposed schedule for all on-site due diligence trips to be conducted in the upcoming year. The Board Chair shall, with Board consent, designate the Trustee(s) to participate in each on-site evaluation. Every effort shall be made to rotate due diligence responsibilities so no one Trustee, or group of Trustees, is conducting a majority of due diligence visits on VCERA's behalf. The Trustee(s) and Administrator, or designee, shall be responsible for providing a written/oral report to the Board no later than the second subsequent regular Board meeting summarizing their findings and recommendations, if any.

LIMITATION ON MEETING FOR BUSINESS PURPOSES

Travel by multiple Board members shall be conducted in such a manner as to not violate the provisions of the Brown Act (Government Code Section 54950 et. Seq.). Board member attendance at educational meetings, conferences, seminars and related social events is not a violation of the Brown Act.

TRAVEL AUTHORIZATION

Approval for travel by a Board or staff member to an educational meeting, conference or seminar shall be made in an open meeting of the Board, except for attendance at the Spring and Fall State Association of County Retirement Systems (SACRS) conferences for which authorization by the Board will not be required. Additionally, the Retirement Administrator may approve Board or staff travel, including the Board's legal advisor, for one-day meetings held within the State. The Administrator may also approve an overnight stay by a staff member if it is determined to be in the best interest of the Association in terms of economy and efficiency. In the event a Board member wishes to conduct an on-site due diligence visit of a VCERA investment manager or consultant without prior Board approval, the Administrator is authorized to reimburse travel expenses up to ~~\$200~~ 300.00 upon submission of a verified claim.

Although State law may permit gifts of travel to the System, if a third party offers to pay for some or all of the travel expenses associated with a particular conference, seminar or meeting, the Board shall decline the offer. However, the Board may consider authorizing attendance at the particular conference, seminar or meeting at VCERA's expense if such attendance would be beneficial to VCERA.

ANNUAL TRAVEL BUDGET

The Retirement Administrator shall include in the annual budget to be approved by the Board sufficient funding to allow each member of the Board, and staff, to attend the Spring and Fall SACRS conferences. Additionally, funds will be budgeted, based upon the information available on scheduled conferences and input from individual Board members during the budget preparation process, to allow each Board member and management staff to attend up to three additional conferences, educational meetings, seminars and site visits each fiscal year. This limitation shall not apply to on-site visits that are made at the direction with the consent of the Board, ~~(e.g. including~~ in connection with the retention of a new manager), nor shall it apply to any conference, educational meeting, seminar or site visit where the cost to the Association can reasonably be expected to be less than ~~\$400~~500.00.

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- ~~2.3.~~ 3. California Association of Public Retirement Systems (CALAPRS) Annual Meeting, trustee and staff workshops, and the Pension Fund Investing course held at Stanford University.
- ~~3.4.~~ 4. Programs sponsored by the International Foundation of Employee Benefit Plans (IFEBP).
- ~~4.5.~~ 5. Programs sponsored by the Institute for Fiduciary Education (IFE).
- ~~5.6.~~ 6. NCPERS Annual Conference.

~~6-7.~~ Pension Funds and Money Management, and Alternative Investments and Real Estate; The Wharton School, University of Pennsylvania.

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~~8-9.~~ Client conferences sponsored by investment managers, asset custodians and consultants with whom the Retirement System has a current professional relationship. (Attendance shall not count towards the three conference limit.)

~~9-10.~~ National Association of Pension Fund Attorneys Conference.

~~10-11.~~ California Retired County Employees Association (CRCEA).

~~12.~~ ~~11.~~ Manatt, Phelps & Phillips Fiduciary Symposium. (Attendance shall not count towards the three conference limit.)

~~11-13.~~ Council of Institutional Investors (CII)

Board members may request approval to attend the recommended, or any other, educational meetings, seminars and conferences by submitting a written request to the Retirement Administrator for inclusion on the next Board agenda. Requests approved by the Board qualify as Board member education. Educational seminars sponsored by the state or national public pension fund organizations and seminars sponsored by accredited academic institutions shall be deemed to meet Board member education requirements.

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7. Disability evaluation.

8. Fair hearings.

9. Pension fund governance.

10. New board member orientation.

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Reasonable automobile parking expenses are reimbursable.

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Approved June 20, 2011

TRACY TOWNER
Chairman

3.) Travel Expense Reimbursement Claim
(with current reimbursement rates)

VCERA TRAVEL EXPENSE REIMBURSEMENT

Name	Vendor Number
Mailing Address, City, State & Zip Code	
Destination	
Purpose	

MEALS	MAXIMUM REIMBURSEMENT RATES <u>Within California</u> Breakfast: \$13 Lunch: \$18 Dinner: \$35 <u>Outside California</u> Breakfast: \$15 Lunch: \$21 Dinner: \$40 <i>Receipts Required</i>	Date						TOTAL
		Breakfast						
		Lunch						
		Dinner						
								\$

LODGING	Hotel Name	City	Number of Nights	Total	TOTAL
					\$

MILEAGE	From	To	Miles	Rate	Total	TOTAL
						\$

OTHER	COMMENTS/Itemized Miscellaneous Expenses:	TOTAL
		\$

CLAIMANT The undersigned, under penalty of perjury, states: That the above claim and the items set out therein are true and correct; that no part thereof has been heretofore paid; and that the amount is justly due, and that claim is made within one year after the last item has accrued. X _____ Date _____	<table style="width: 100%;"> <tr> <td style="width: 50%;">TOTAL CLAIM AMOUNT</td> <td style="width: 50%; text-align: right;">\$</td> </tr> </table> VCERA APPROVAL I hereby certify, upon my own personal knowledge, that the goods and/or services specified in the above claim were reasonable, necessary and for the benefit of the County; that no part thereof has been heretofore paid; that the amount therein is justly due, and that payment of the above claim complies with the County policies and procedures. X _____ Date _____	TOTAL CLAIM AMOUNT	\$
TOTAL CLAIM AMOUNT	\$		

Account:	
8262 Travel Reimbursement	\$ _____
8264 Mileage Reimbursement	\$ _____
TOTAL	\$ _____

CHECK REQUEST

REQUESTED BY: _____	CHECK NUMBER: _____
CHECK DATE: _____	APPROVED BY: _____
PREPARED BY: _____	

4.) A.B. 1519

http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_1501-1550/ab_1519_bill_20120615_chaptered.pdf

Assembly Bill No. 1519

CHAPTER 15

An act to add Section 31522.8 to the Government Code, relating to county employees' retirement.

[Approved by Governor June 15, 2012. Filed with
Secretary of State June 15, 2012.]

LEGISLATIVE COUNSEL'S DIGEST

AB 1519, Wieckowski. County employee retirement boards.

The County Employees Retirement Law of 1937 prescribes the rights, benefits, and duties of members of the retirement systems established pursuant to its provisions. The act vests the management of these systems in retirement boards, and sets forth the membership and qualifications of the boards. Existing law authorizes the board of supervisors of any county in which the assets of the retirement system exceed \$800,000,000 to, by resolution, establish a board of investments, which would be responsible for all investments of the retirement system.

This bill would require a retirement board and a board of investments to adopt a policy for providing education for members of retirement boards, as specified, and would require all board members to receive a minimum of 24 hours of board member education within the first 2 years of assuming office and for every subsequent 2-year period in which the person serves on the board. The bill would require each board to maintain a record of a board member's compliance with the policy and to post the policy and an annual report on board member compliance on the retirement system's Internet Web site.

The people of the State of California do enact as follows:

SECTION 1. Section 31522.8 is added to the Government Code, to read:

31522.8. A board of retirement and a board of investments subject to this article shall adopt a policy for providing education to board members. The policy, at a minimum, shall do the following:

(a) Identify appropriate topics for board member education, which may include, but is not limited to, the following:

- (1) Fiduciary responsibilities.
- (2) Ethics.
- (3) Pension fund investments and investment program management.
- (4) Actuarial matters.
- (5) Pension funding.
- (6) Benefits administration.

- (7) Disability evaluation.
- (8) Fair hearings.
- (9) Pension fund governance.
- (10) New board member orientation.

(b) Establish a means for determining the programs, training, and educational sessions that qualify as board member education. Educational seminars sponsored by the state or national public pension fund organizations and seminars sponsored by accredited academic institutions shall be deemed to meet board member education requirements.

(c) Require that all board members receive a minimum of 24 hours of board member education within the first two years of assuming office and for every subsequent two-year period the board member continues to hold membership on the board.

(d) Require each board to maintain a record of board member compliance with the policy. The policy and an annual report on board member compliance shall be placed on the Internet Web site of the retirement system.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

Re: **RENEWAL OF DISABILITY REFEREE SERVICES CONTRACTS**

Dear Board Members:

Staff recommends the Board approve and authorize the Retirement Administrator to execute the attached contract for each of the following Disability Referees/Hearing Officers whose current contracts expired on June 30, 2012:

Richard C. Anthony
Irene P. Ayala
Mark Burstein
Paul E. Crost
Shelley Kaufman

Kenneth A. Perea
Michael Prihar
Terri A. Tucker
Deborah Z. Wissley
Louis M. Zigman

Background

On an application for disability retirement, the board is responsible for determining whether the evidence establishes that the member is permanently incapacitated for the performance of his/her duties. (Gov. Code sections 31724, 31725). If the application is for service-connected disability retirement, the board must also determine whether the illness or injury arose out of and in the course of employment. (Govt. Code section 31720.)

When County of Ventura - Risk Management, Courts Personnel or Ventura Regional Sanitation District Personnel (Employer) evaluates an application, and determines that the medical evidence establishes that the member is permanently incapacitated for performance of duty, it does not challenge the application, and instead, presents to the board the medical evidence and analysis to enable the Board to make findings and grant the application. (VCERA Disability Hearing Procedures, section 3.f.) In such a case, no evidentiary hearing is required - unless the Board is not satisfied with the quality of the evidence, in which case the Board may direct that the member submit to a medical exam. Or, more typically, the Board will refer the matter back to Employer and

request that it further develop the evidence. If Employer decides to challenge the application, an evidentiary hearing is required. (Disability Hearing Procedures, section 4.a.)

In any case in which a determination requires a hearing, the County Employees Retirement Law of 1937 ("CERL") authorizes the board to appoint a referee to conduct the hearing. (Gov. Code section 31533). When the board appoints a referee for such a hearing, the referee is required to transmit, in writing, to the board his/her proposed findings of fact and recommended decision. (Gov. Code section 31533.)

Pursuant to VCERA's Disability Hearing Procedures, section 9.b., the board's or referee's findings of fact shall specifically include findings with respect to:

- (1) incapacity;
- (2) Service-connected sources of incapacity;
- (3) Term of service to qualify applicant for disability retirement, and
- (4) Effective date of retirement.

The Disability Hearing Procedures also require that such findings by the Board shall specifically describe the evidence which supports such finding of fact.

Current Contract

As authorized by CERL, your Board appoints hearing officers to conduct disability retirement hearings in cases where the Employer has challenged the application. These appointments are governed by the attached contracts. Renewal of the contracts will allow for hearing officers to serve as referees for cases forwarded by your Board. All existing Hearing Officers have confirmed that they would like to continue to serve as referee for fiscal year 2012-2013. In addition, VCERA has received request from three attorneys who have expressed interest in serving as referees. Staff has not completed its review of qualifications and references, and staff will return to your Board with a recommendation at the July 16, 2012 board meeting.

I would be pleased to respond to any questions you may have on this matter at your July 2, 2012.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachment

REFEREE SERVICES AGREEMENT

THIS AGREEMENT, to be effective as of the 2nd day of July, 2012, by and between the BOARD OF RETIREMENT (hereinafter referred to as "Board") of the VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (hereinafter referred to as "Association"), and {Insert Name} (hereinafter referred to as "Contractor").

Recitals

Pursuant to the provisions of section 31533 of the Government Code, the Board is authorized to provide for the conduct of hearings by a referee in connection with the determination of applications of members of the Association for disability benefits under the County Employees Retirement Law of 1937 (ch. 3 of div. 4 of tit. 3 of the Government Code).

Contractor has experience with respect to evidentiary hearings, and is a member of the State Bar of California (active membership no. {insert bar number}).

The Board intends to retain the services of Contractor as a referee to conduct said hearings.

IT IS THEREFORE AGREED:

Services to be Performed

1. Contractor agrees, when available, to act as a referee in connection with the conduct of hearings and the review of cases pursuant to section 31533 of the Government Code.

2. Such services shall be performed in accordance with the applicable provisions of the County Employees Retirement Law of 1937, as amended, and pursuant to any specific requirements imposed by the Board, and such services shall include, but shall not be limited to, the conduct of hearings, the review of evidence, and the rendering of a written report which shall contain proposed findings of fact, conclusions of law, and a recommended decision provided, however, that said written report shall be rendered within ninety (90) days after the case has been submitted to Contractor and include service of said written report to all parties.

3. Contractor may request an extension from the Board of any time limitation established in this contract, on an individual case basis, when done in writing, and upon a showing of "good cause" as to said request.

4. Contractor shall be familiar with the Association's "Disability Hearing Procedures".

5. The Board is under no obligation to submit cases to the Contractor, but may do so at its pleasure.

Compensation

6. Compensation to Contractor for the above services shall be at the following rates:

- (a) If the written report is rendered within ninety (90) days after the case has been submitted, Contractor shall be entitled to One Hundred and Seventy-five Dollars (\$175.00) per hour;
- (b) Contractor shall be compensated for necessary and reasonable travel time to and from Ventura County pursuant to the rate set forth above;
- (c) If the written report is not rendered within ninety (90) days from the date the case has been submitted, the Board may transfer the case to another referee, in which event the original referee shall not receive any fee for services performed in connection with said case;
- (d) If a hearing scheduled before the Contractor is continued or cancelled less than fourteen (14) calendar days before the date agreed upon by all parties, or set by the Board, the Board shall pay to the Contractor the sum of Eight Hundred and Seventy-five Dollars (\$875.00) which includes all costs associated with the hearing including, but not limited to, travel, time, mileage reimbursement and other associated hearing costs.

Term of Contract

7. This agreement shall apply for all services provided by the Contractor, performed on or after July 2, 2012, and shall continue through the date of June 30, 2013, at which time it shall terminate. However, either party may terminate this agreement sooner upon ten (10) days written notice to the other party. Any cases pending before the Contractor at the time of termination shall be immediately transferred to the Board. If this agreement is terminated at the request of the Contractor, the Contractor shall not receive any fees for services performed in connection with any cases that are pending as of the effective date of the termination, except those wherein a written report has been provided to the Board. If this agreement is terminated at the request of the Board, the Contractor shall be entitled to the compensation earned prior to the effective date of termination as provided for in this agreement, computed pro rata up to and including that date. The Contractor shall be entitled to no further compensation as of the date of termination.

This agreement approved by the Board of Retirement on July 2, 2012.

Dated: July 2, 2012

By: _____
Donald C. Kendig, Retirement Administrator

Dated: _____

By: _____
{Insert Name}, Contractor

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: PROPOSED SITE VISIT OF HEXAVEST AND SPRUCEGROVE

Dear Board Members:

In light of the announcement on June 18, 2012 that Eaton Vance Corp. announced that they have entered into a definitive agreement to acquire 49 percent of the stock of Hexavest in a cash transaction, staff recommends that the Retirement Administrator, along with interested trustees, conduct an onsite due diligence visit with Hexavest this August. Hexavest is based in Montreal, Canada.

Since the transaction was announced, Hewitt ennisknupp (HEK) is conducting its own due diligence on both Eaton Vance Corp. and Hexavest, and HEK has elected to change the ratings of the Hexavest Global, International, and Canadian Equity Funds from their current "Buy" ratings to "InReview." If onsite due diligence is approved, Russ Charvonja and Kevin Vandolder would accompany us on the Hexavest onsite visit.

HEK will communicate their updated view once they have had the opportunity to assess all the details of the arrangement and to speak with both management teams. While HEK may ultimately recommend putting the firm on the Watch List, they do not recommend doing so at this time, as the purchase transaction does not constitute a majority ownership of Hexavest.

Further, it is the Board's objective to conduct onsite due diligence of an investment manager prior to our making an initial investment with a firm and to make periodic visits to each active manager roughly once every three years.

Since it is in line with our objectives, and would be cost effective and resource efficient, to visit Sprucegrove in Toronto on the same trip, staff requests approval to also conduct an onsite due diligence visit with Sprucegrove. Again, Russ Charvonja and Kevin Vandolder would accompany us on the Sprucegrove onsite visit

Hexavest is tentatively scheduled for Monday, August 6, 2012, and Sprucegrove is tentatively scheduled for Tuesday August 7, 2012. Staff recommends approving travel to Canada on Sunday, August 5, 2012, returning Wednesday August 8, 2012. Meeting and travel details will be provided to Trustees conducting the onsite due diligence. Staff would be happy to make the hotel and flight arrangements, or provide Trustees with recommendations.

Please make a motion authorizing the Retirement Administrator, along with interested VCERA Trustees, to conduct an onsite due diligence of Hexavest and Sprucegrove, with direction to staff to report back to the full Board on September 17, 2012, or you may take any other action.

I would be happy to respond to any questions you may have on this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Donald C. Kendig', with a long horizontal flourish extending to the right.

Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: LETTER FROM THE VENTURA COUNTY DEPUTY SHERIFFS'
ASSOCIATION**

Dear Board Members:

On June, 22, 2012, I received the attached letter, dated June 21, 2012, from the Ventura County Deputy Sheriffs' Association (VCDSA) regarding concerns about delays in VCERA responses to retirement benefit estimate requests.

In addition, attached is my response. I provide it for your review and comment.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Attachments

Attachment 1:

June 21, 2012 letter from the Ventura County Deputy Sheriffs' Association (VCDSA)

VCDSA

www.vcdsa.org

Ventura County Deputy Sheriffs' Association

981 S. Victoria Avenue • Ventura, CA 93003

Email: vcdsa@vcdsa.org

Phone: 805 • 639-9218

Fax: 805 • 639-9278

June 21, 2012

Donald Kendig, Retirement Administrator
Ventura County Employees' Retirement Association
1190 S. Victoria Ave., Ste. 200
Ventura, California 93003

RECEIVED

JUN 22 2012

Re: Delays in VCERA Responses to Retirement Benefit Estimate Requests VENTURA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

Dear Mr. Kendig:

It has recently come to our attention that active employees who are members of VCERA, including but not limited to individuals who are VCDSA members, are experiencing delays of 100 days or more in receiving responses to their Retirement Benefit Estimate Requests. We believe this length of delay is unacceptable and that all possible measures should be taken to decrease the waiting period for such responses.

As you are aware, most active employees seek estimates of their retirement benefits prior to making final decisions regarding their retirement. Among that group are many whose need for retirement benefit estimates is driven by the unexpected occurrence of disabilities that may preclude them from continuing their employment, depending upon how their medical prognosis evolves. Retirement is a critical step in life that the majority of prudent employees will take only when they have a level of confidence in their post-retirement financial status. For employees who have suffered disabilities, that need for reliable information regarding estimated retirement benefits is accelerated by the potential for income replacement measures to diminish or expire before the retirement decision can be comfortably taken. In the same vein, delays in obtaining retirement benefit estimates may prolong the need for income replacement measures that would otherwise be obviated by a timely retirement decision.

We understand VCERA is re-staffing and that newly hired VCERA personnel may need prolonged training to develop the unique expertise required for their positions; however, the demand for timely responses to Retirement Benefit Estimate Requests and the particular qualities of those estimates that require manual calculation must have been anticipated by VCERA. In that regard, we would like to know what steps have been and will be taken to ensure that the VCERA service level its members understandably expect and deserve will be restored quickly. We also want to be assured that this particular estimating function is and remains one of VCERA's highest priorities, since these delays appear to be a recent issue for our members.

Very truly yours,



Richard A. Shimmel
Executive Director

cc: Ventura County Board of Retirement
William W. Wilson, Chair, Ventura County Board of Retirement
Mike Powers, CEO



~ Fifty years of representing the front-line protectors keeping Ventura County safe ~

Attachment 2:
Response to the June 21, 2012 letter

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

June 27, 2012

Richard A. Shimmel, Executive Director
Ventura County Deputy Sheriffs' Association
981 S. Victoria Avenue
Ventura, CA 93003

Re: Letter Dated June 21, 2012

Dear Mr. Shimmel:

Thank you for allowing me the opportunity to address your concerns. As you know, I joined Ventura County Employees' Retirement Association (VCERA) in March of this year. The VCERA management team has provided some historical and current statistics that have been utilized in analyzing the issues that have been raised.

VCERA Operations is allocated ten (10) Retirement Specialists and one (1) Office Assistant. Of the ten (10) Retirement Specialist positions, four (4) are allocated to serve the active membership. Currently, VCERA has one (1) fully trained Retirement Specialist assigned to serve the active membership. The increased time necessary to deliver estimates to members is attributable to a loss of experienced Retirement Specialists available to process those requests.

In regards to your concerns related to members "seeking information driven by the unexpected occurrence of disabilities that may preclude them from continuing their employment". Members seeking information regarding estimated disability benefits and the disability retirement process are assigned to a Disability Retirement Specialist. Individuals seeking information related to possible disabilities are currently receiving assistance and answers within one (1) to two (2) weeks after the initial contact.

The VCERA Mission Statement is, "The Ventura County Employees' Retirement Association (VCERA) is committed to providing retirement, death and disability benefits to our members and their beneficiaries in an accurate and timely manner. VCERA shall strive to project a positive image by the delivery of services to our members, their beneficiaries and all other stakeholders, in a courteous and professional manner." In keeping with our mission, Operations has continued to fully staff the positions necessary for the delivery of retirement, death and disability benefits to our members and their beneficiaries in an accurate and timely manner.

Unfortunately, from 2009 forward, Operations has experienced reductions in personnel resulting from multiple leaves of absence for extended periods of time, ranging from one (1) to four (4) people at the same time.

In 2011, Operations leveraged staff to assist Administration due to the vacancies of the Retirement Administrator and Program Assistant positions. In addition, the Operations Manager unexpectedly retired in December 2011, resulting in an internal temporary promotion of a Retirement Specialist. VCERA was unable to fill this position until the promotion became permanent. This, in addition to the dismissal of another Retirement Specialist, resulted in a net loss of four (4) Retirement Specialists.

VCERA has since filled all of the Non-operations positions, although Operations continues to supply support to Fiscal and Administration on an as needed basis. Operations has recently hired two (2) Retirement Specialists and will hire another two (2) in the near future. The nature of these positions requires a training period of nine (9) months to one (1) year, on average, to become competent in an area of specialization. This is due to the fact that, unlike the other 1937 Act systems, VCERA does not have a fully integrated computerized pension system. The learning curve is lengthy because Operations staff must independently and manually analyze payroll data from multiple employers, multiple Memorandums of Understanding and multiple Tier/Plan benefit factors.

The collective bargaining process has significantly increased the number of members who have multiple Tier/Plan benefits, like in the cases of Probation members becoming Safety and Tier 2 Cola. In 2010, there was a negotiated change to retirement contributions that resulted in the reduction of members' retirement earnings. This change necessitated the analysis of compensation to determine the "highest" continuous measurement period for retirement earnings final, as required by statute. This is currently a manual and time intensive process for staff. Whereas, in the past, an average estimate might be completed in thirty (30) minutes to one (1) hour, the average estimate now requires three (3) to four (4) hours to process. Every estimate that is prepared is verified by another Retirement Specialist to assure that members are provided with correct information.

VCERA has previously experienced similar delays in delivering retirement benefit estimates to active members for periods of three to six months at a time. These periods were usually due to resignations or retirements where the vacancy was filled within 3 to 6 months. Additionally, VCERA has never encountered a loss of so much knowledge and experience in such a short period of time.

Operations has taken the following steps to address the time necessary to satisfy members' requests for Retirement Estimates. Since December 2011, staff has added features to Excel Worksheets that are used to process retirement estimates, which will allow for more automation of calculations. This has improved efficiency during processing and verification. At the last Board of Retirement meeting, the Board approved a new allocation for an additional Office Assistant position that will be trained

to assume those Retirement Specialist duties that are more clerical in nature. This will allow the Retirement Specialists to have additional time available to dedicate to processing retirement estimates.

For the past few months, Operations staff is giving priority to members with imminent dates of retirement, and to members who may be affected by reductions in force. For members whose dates of retirement are beyond 1 year, staff continues to process them in on the order received.

The Operations Management team believes that the changes that have been implemented, along with ongoing training of the newly hired staff members should result in a return to normal response times of four to eight weeks within the coming six months. In the interim, we are encouraging those members who do not intend to retire within the coming twelve (12) months to take advantage of the Pension Calculator that is available on the VCERA website. The calculator is easy to use and will allow for calculations based on each of the three Tier/Plan choices. Additionally, the Pension Calculator is accurate according to the data that is entered. When staff prepares requested benefit estimates they do not project retirement earnings final or include redemptions of annual leave that have not already been processed. Therefore, Tier 1, or Safety members, are able to review any consecutive twenty-six (26) pay periods of Retirement Earnings Final, as reported on their pay stubs, add the current amount from each stub and divide the total by twelve (12) to arrive at an average monthly figure.

Thank you for your dedication to our mutual members and their concerns. I appreciate being given the opportunity to report that VCERA is addressing the matter and taking action to reverse this condition. Please contact me, should you have any additional questions, comments, or concerns. I may be reached at (805) 339-4262 or would be happy to have a meeting with you at my office or yours.

Sincerely,

A handwritten signature in blue ink, appearing to read "Donald C. Kendig", with a stylized flourish at the end.

Donald C. Kendig, CPA
Retirement Administrator

My vision is for VCERA to be a model of excellence for public pension plans around the World.

Cc: Ventura County Board of Retirement
Mike Powers, CEO

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July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: RFP FOR INVESTMENT CONSULTANT FOR BOTH NON- DISCRETIONARY AND DISCRETIONARY SERVICES

Dear Board Members:

The Board of the Ventura County Employees' Retirement Association (VCERA) oversees investment assets of approximately \$3.2 Billion. While the Board has historically utilized a traditional, non-discretionary consulting model, the recent budget proposal submitted by VCERA's Retirement Administrator (RA) requested exploration of the possibility of securing "at least one investment resource officer" position, due to VCERA's "size and present complexity, and future investment plans."

Non-discretionary is defined as the consultant providing only professional advice regarding VCERA's investments. The request by the RA identified a potential gap in the Board's fiduciary responsibility; that is, ongoing oversight of VCERA's investment program and function. Specifically, the Board was told staff is limited by time constraints and/or capabilities.

Accordingly, the governance processes for overseeing VCERA's investment program may be in need of review. I am, therefore, requesting the Board approve issuance of an RFP that is constructed to allow consideration of providers of both discretionary and non-discretionary service models. Discretionary is primarily being defined as "outsourcing" certain investment decisions and duties, in addition to handling non-discretionary duties.

If the Board does approve the request to engage in an RFP, I would request the Board to provide a platform to evaluate individual service providers, as well as to conduct an assessment of the differences between discretionary vs. non-discretionary service models.

Furthermore, because of the limited staff resources expressed by the RA at the budget meeting, I suggest the Board consider the creation of a 3 member Board committee to develop the RFP, while concurrently retaining and working with Cortex. The purpose of the committee would be to relieve the time burden placed upon staff, and to create, finalize and approve an RFP for both a discretionary and non-discretionary investment manager function.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Tracy Towner', with a stylized, sweeping flourish extending to the right.

Tracy Towner, Vice-Chair

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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July 2, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: PARTICIPATION IN SACRS' IRS TAX DETERMINATION EFFORTS

Dear Board Members:

Trustee Art Goulet reported at the June 18, 2012 Board meeting that LACERA had pulled out of the pooling of tax counsel resources for the IRS Determination letter and requested that an agenda item be included on the next agenda to discuss whether VCERA should take a similar action.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

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June 22, 2012

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

Re: Conference Report

Dear Board Members:

On June 8, I attended the CALAPRS Trustees' Roundtable in San Jose. The turnout was poorer than at any of the other roundtables I have attended. There were only four 1937 Act systems represented (Contra Costa, San Diego, San Mateo, and Ventura). The majority of those in attendance were from the local area. It's my understanding the attendance was affected by a labor demonstration at the hotel the night before, and several labor-oriented trustees were unwilling to cross the demonstration line, so they left and did not return the next morning.

The roundtable began with a lengthy presentation by Arun Muralidhar of AlphaEngine Global Solutions. Mr. Muralidhar's presentation on "smart" rebalancing was somewhat similar to one he made to our Board sometime ago, and a subject we will be re-visiting at our October Retreat. What was different was his emphasis on the fact that the "smart" rebalancing process could be carried out in-house, if a system had sufficient qualified investment staff. My recollection of his earlier presentation to VCERA was that his firm would be retained to perform the process.

The second presentation was by John Earl of Keystone National Group. His presentation was on opportunities for excellent returns available in providing private credit capital to the "middle market". His thesis was that cheap and easy financing was available only to larger companies, leaving thousands of credit worthy companies dependent on "alternative" sources of capital. Also, that larger companies could issue bonds for financing, whereas bond issuance was not a possible option for "middle market" companies (those with revenue less than \$100M), thereby creating an investment niche for private credit.

The next presenter was Jeffery Ennis of Ocean Avenue Capital Partners. His focus was on private equity investments. He was not terribly complimentary of the current industry. He felt that private equity investment strategies must adapt to the new macroeconomic environment resulting from rapid change in the current global economic and geopolitical structure. This change is forcing the financial industry, in general, and private equity, in particular, to transform business models and investment strategies. They must focus on alpha, reduce leverage, and provide needed innovation in private equity structures. He believes fees and costs (both direct and indirect) are too high, and that costs and risks are undermanaged (particularly manager agency costs). He also pointed out that institutional investor processes limit new entrants and slowly adapt to new ideas, while existing firms are limited in their ability to change.

Board of Retirement

P.2

Michael Robbins of ECR Capital Management gave a very interesting presentation on integrating asset allocation and risk management. It seems to me there has been a much increased emphasis on risk management over the recent past, probably related to the fact that plans are searching for increased returns in a market that isn't expected to provide satisfactory returns from traditional asset allocations.

As always there was time for networking with trustees from other systems, which I find to be very valuable.

I would be happy to answer any questions you might have.

Respectfully,

A handwritten signature in dark ink, appearing to read "Arthur E. Goulet". The signature is fluid and cursive, with a large initial "A" and "G".

Arthur E. Goulet
Board Member