



Executive Staff:

Richard Stensrud
Chief Executive Officer

James G. Line
General Counsel

Kathryn T. Regalia
Chief Operations Officer

John W. Gobel, Sr.
Chief Benefits Officer

Members of the Board of Retirement

James A. Diepenbrock, President
Appointed by the Board of Supervisors

Keith DeVore, First Vice President
Elected by Miscellaneous Members

John B. Kelly, Second Vice President
Appointed by the Board of Supervisors

Julie Valverde, Ex Officio
Director of Finance

Winston H. Hickox
Appointed by the Board of Supervisors

William D. Johnson
Elected by Safety Members

Kathy O'Neil
Elected by Miscellaneous Members

Nancy Wolford-Landers
Elected by Retired Members

Robert L. Woods
Appointed by the Board of Supervisors

John Conneally
Elected by Safety Members

William Cox
Elected by Retired Members

MINUTES

RETIREMENT BOARD MEETING, TUESDAY, OCTOBER 5, 2010

A special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18th Floor, Sacramento, California, on Tuesday, October 5, 2010, and commenced at 9:02 a.m.

OPEN SESSION:

PUBLIC COMMENT:

1. Chief Executive Officer Richard Stensrud reported that an election had recently been held for a new Miscellaneous Member-elected Trustee and for a new Alternate Retiree-elected Trustee. Mr. Stensrud noted that Diana Gin had been elected as the new Miscellaneous Board Member, and Michael DeBord had been elected as the new Alternate Retiree Board Member. Mr. Stensrud noted that the terms of the new Board Members would begin January 1, 2011.

ADMINISTRATIVE MATTERS:

2. Mr. Stensrud explained that it would be necessary for the Board to go into Closed Session in order to discuss contractual negotiations related to options for addressing SCERS' office space needs, including identification of negotiators and persons with whom the negotiators may negotiate for that purpose.

Motion by Mr. Kelly to enter closed session to discuss real property that could be leased for office space, and identify negotiators and persons with whom the negotiators may negotiate for that purpose; Seconded by Mr. Woods. Motion carried (9-0).

CLOSED SESSION:

LEGAL MATTERS:

3. The Board granted authority to Cushman & Wakefield to negotiate terms of a possible lease renewal at 980 9th Street, Sacramento, with CIM Group and/or a possible lease at 500 Capitol Mall, Sacramento, with 500 Capitol Mall Investments, LLC.

OPEN SESSION:

ADMINISTRATIVE MATTERS:

4. Paul Angelo and Andy Yeung of The Segal Company (Segal) presented a report on the actuarial economic assumptions recommended by Segal for the actuarial valuation as of June 30, 2010, along with information on other actuarial matters to be factored into the valuation.

Mr. Angelo noted that Segal reviews SCERS' economic assumptions every year and reviews the demographic assumptions every three years. Mr. Angelo explained that the economic assumptions include: (a) the investment return assumption, which is comprised of the assumed inflation rate and the assumed real rate of return net of inflation; (b) the assumed system expense rate; (c) the risk adjustment; (d) the salary increase assumption, which is comprised of the assumed inflation rate, the assumed rate of real 'across the board' pay increases, and the assumed rate of promotional and merit increases; and (e) the active member payroll growth assumption, which is a combination of the inflation assumption and the 'across the board' salary increase assumption.

Mr. Angelo stated that Segal recommends reducing the long-term investment return assumption from 7.875% to 7.75%. Mr. Angelo described how Segal evaluates and develops recommendations regarding the investment return assumption. Among other things, Mr. Angelo noted that as a consequence of the deterioration of the economy the projected real rate of return for SCERS' investment program had declined and the expected standard deviation had increased. Accordingly, Mr. Angelo noted that when the long-term investment return assumption was set two years ago at 7.875%, analysis indicated a 62% confidence level that this return would be achieved over time. Mr. Angelo reported that current analysis indicated only a 58.50% confidence level that the 7.875% return rate would be achieved over time. As a result, Mr. Angelo stated that Segal recommended that the investment return assumption be lowered to 7.75%, which would yield a 60% confidence level.

Mr. Angelo stated that Segal recommends maintaining the inflation assumption at 3.5%. Mr. Angelo also reported that Segal recommends maintaining the current assumptions for retiree cost-of-living adjustments.

Mr. Angelo reported that based on the evaluation of the data concerning recent salary increases, Segal recommended raising the 'across the board' salary increase assumption

ADMINISTRATIVE MATTERS (continued):

from 0.25% to 0.50%. Mr. Angelo noted that this would increase the active member payroll increase assumption from 3.75% to 4.00% annually.

Chief Executive Officer Richard Stensrud reported that SCERS Staff agreed with all of Segal's recommendations, with the exception of the change to the 'across the board' salary increase assumption. Mr. Stensrud explained that Staff believes that the data regarding recent salary increases may be skewed due to the downsizing of the county workforce. Mr. Stensrud recommended that the current salary increase assumption be maintained until more data can be collected and analyzed. Mr. Stensrud noted that potential larger-than-expected salary growth would not be ignored for funding purposes. Mr. Stensrud explained that if larger than expected salary growth occurs, it would be reflected in the annual experience cost adjustment that is made as part of each actuarial valuation.

Mr. Angelo stated that while Segal believed that a change in the salary increase assumption was warranted, Segal would be comfortable maintaining the assumption at the current level while future data was being studied.

Motion by Mr. Hickox to: (1) Adopt the 7.75% investment return assumption; (2) Maintain the current across-the-board salary increase assumption; and (3) Adopt the other economic actuarial assumptions recommended by The Segal Company; Seconded by Mr. Kelly. Motion carried (9-0).

Mr. Stensrud reported that Staff was recommending that SCERS re-set the current 23 year declining amortization period for unfunded liability to a 25 year declining amortization period. Mr. Stensrud explained that this would be a reasonable and prudent step to help manage the cost impact of the unprecedented market downturn while maintaining an equitable approach to the funding burden. Mr. Stensrud also noted that this was a measured step as the limit for a declining amortization period is 30 years. Mr. Angelo noted that in the future, he would like to discuss with SCERS a potential change in the policy on unfunded liability to a layered approach. Mr. Angelo stated that, in the meantime however, Segal would support the change in declining amortization period to 25 years.

Motion by Mr. Hickox to reset the current 23 year declining amortization period for unfunded liability to a 25 year declining amortization period; Seconded by Mr. Kelly. Motion carried (9-0).

Mr. Angelo presented a report by Segal analyzing the cost impact of the retirement incentive vacation sell-back plan recently offered by the County to the Law Enforcement Management Association (LEMA). Mr. Angelo outlined the cost determinations in the report and noted that Segal was recommending that the additional cost associated with the retirement incentive be amortized over a five year period rather than the longer declining amortization period used for general unfunded liability. Mr. Angelo explained that the Governmental Accounting Standards Board (GASB) had determined that a shorter amortization period for such costs represented a 'best practice' for addressing the additional cost associated with a one-time event such as a retirement incentive.

ADMINISTRATIVE MATTERS (continued):

Mr. Stensrud reported that Staff agreed with the Segal recommendation regarding the five year amortization period for paying off the cost of the retirement incentive. Mr. Stensrud explained that it is a better funding practice to have special costs like those for a retirement incentive be addressed by the parties who will benefit from the ostensible short-term cost savings attributable to the incentive, rather than have the costs borne by parties far removed in time from any benefit of the incentive. Mr. Angelo agreed and noted that one purpose for amortization was to control volatility, whereas a plan amendment such as the LEMA retirement incentive presented no volatility.

Sacramento County Chief Operations Officer Nav Gill addressed the board stating that the recent labor negotiations which brought about the LEMA retirement incentive were assuming an amortization period for the incentive in line with the period used for general unfunded liability. Mr. Gill then introduced Assistant to the County Executive for Labor Policy and Negotiations Steve Keil. Mr. Keil outlined the positive cost impact from the larger labor agreement, which included the LEMA retirement incentive. Mr. Keil stated that because of the longer term savings impact from the package as a whole, the LEMA retirement incentive should not be considered a one-time benefit, and therefore should not be restricted to a five-year amortization period. Mr. Gill also introduced Undersheriff Mark Iwasa of the Sacramento County Sheriff's Department. Undersheriff Iwasa commented on the beneficial impact the labor agreement had on the staffing within the Sheriff's Department.

Discussion followed.

Motion by Mr. Hickox to set the amortization period for the cost of the LEMA retirement incentive at 23 years, with the understanding that this period would be reviewed next year as part of the anticipated study on SCERS' policy regarding unfunded liability; Seconded by Mr. Johnson. Motion failed (3-4); Ayes: Mr. Hickox, Mr. Johnson, and Ms. Valverde; Nays: Mr. Diepenbrock, Mr. DeVore, Mr. Woods, and Mr. Cox; Abstain: Mr. Conneally.

Motion by Mr. Woods to adopt the Segal and Staff recommendation to set the amortization period for the cost of the LEMA retirement incentive at five years; Seconded by Mr. DeVore. Motion failed (4-3); Ayes: Mr. Diepenbrock, Mr. DeVore, Mr. Woods, and Mr. Cox; Nays: Mr. Hickox, Mr. Johnson, and Ms. Valverde; Abstain: Mr. Conneally.

Discussion followed regarding possible options for a period for amortizing the cost of the retirement incentive that would be reasonable and appropriate under the circumstances. After consultation with Segal and Staff, it was agreed that a ten year amortization period would satisfy that criteria.

Motion by Mr. Woods to set the amortization period for the cost of the LEMA retirement incentive at 10 years; Seconded by Mr. DeVore. Motion carried (8-0)

ADMINISTRATIVE MATTERS (continued):

5. General Counsel James Line presented a proposed resolution authorizing the use of the funds remaining in SCERS' Internal Revenue Code Section 401(H) plan to assist in addressing retiree health care costs.

Mr. Line explained that SCERS had previously used the 401(h) plan to provide medical and dental health care subsidies to retired members of SCERS. Mr. Line further noted that in 2003, the 401(h) plan was suspended leading to the County adopting its own retiree health insurance subsidy program. Mr. Line stated that all outstanding benefits payable from the 401(h) plan had been paid, but that a balance of \$1,567,000 remained in the plan. Mr. Line explained that outside tax counsel had advised SCERS that so long as there was a retiree health care program, the remaining balance in the 401(h) plan could only be paid to eligible retirees to assist with such costs.

Mr. Line presented Resolution 2010-13 describing the benefits that will be provided under the 401(h) plan. Mr. Line stated that the benefits shall be provided only to the extent of the assets in the plan. Mr. Line noted that retirees eligible for this benefit had been determined pursuant to an agreement between the County and the Sacramento County Retired Employees Association (SCREA), and that the proposed benefit plan was supported by both County staff and SCREA. Mr. Line further noted that a similar resolution would need to be approved by the County Board of Supervisors in order to implement the proposed 401(h) benefit plan.

Motion by Mr. DeVore to adopt Resolution 2010-13 to describing the benefits that will be provided under the 401(h) plan; Seconded by Mr. Cox. Motion carried (8-0)

The meeting was adjourned at 11:50 a.m.

MEMBERS PRESENT: James A. Diepenbrock, Keith DeVore John B. Kelly (departed at 10:57 a.m.), Julie Valverde, Winston H. Hickox, William D. Johnson, Robert L. Woods, John Conneally, and William Cox.

MEMBERS ABSENT: Kathy O'Neil and Nancy Wolford-Landers

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Thuyet Ziyalan, Accounting Manager, Scott Chan, Investment Officer; Steve Davis, Investment Officer; John Lindley, IT Analyst; Paul Angelo and Andy Yeung, The Segal Company; Nav Gill, Steve Keil, and Tom Burkart, Sacramento County; Mark Iwasa, Sacramento County Sheriff's Department; and Chris Strain and Scott Kingston, Cushman & Wakefield.

Respectfully submitted,

Richard Stensrud
Chief Executive Officer and
Secretary of the Retirement Board

APPROVED: _____
James A. Diepenbrock, President

DATE: _____

cc: Retirement Board (11); Board of Supervisors (6); County Counsel; County Executive (2); Internal Services Agency (2); County Labor Relations; Employee Organizations (20); Sacramento County Retired Employees' Association; SCERS Member Districts (10); Elected Officials (3); Superior Court of California, County of Sacramento; Amervest Company, Inc.; Mark Merin; John R. Descamp; and The Sacramento Bee.