



Executive Staff:

Richard Stensrud  
Chief Executive Officer

Jeffrey W. States  
Chief Investment 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, 1<sup>st</sup> Vice President  
Elected by Miscellaneous Members

John B. Kelly, 2<sup>nd</sup> Vice President  
Appointed by the Board of Supervisors

Dave Irish, Director of Finance  
Ex-Officio

Winston H. Hickox  
Appointed by the Board of Supervisors

Alice Jarboe  
Elected by Miscellaneous Members

William D. Johnson  
Elected by Safety Members

Nancy Wolford-Landers  
Elected by Retired Members

Robert Woods  
Appointed by the Board of Supervisors

John Conneally  
Elected by Safety Members

William Cox  
Elected by Retired Members

## MINUTES

### RETIREMENT BOARD MEETING, THURSDAY, MAY 8, 2009

The special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, 980 9th Street, 18<sup>th</sup> Floor, Sacramento, California, on Friday, May 8, 2009, and commenced at 8:30 a.m.

#### OPEN SESSION:

##### PUBLIC COMMENT:

1. None heard.

#### CLOSED SESSION:

##### LEGAL MATTERS:

2. CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION  
Significant Exposure to Litigation (Government Code Section 54956.9(b)): 1 case.

#### OPEN SESSION:

##### ADMINISTRATIVE MATTERS:

3. Chief Executive Officer Richard Stensrud presented a proposed Resolution for the Board's consideration which would authorize the application of the unpaid furlough provisions

**ADMINISTRATIVE MATTERS (continued):**

recently adopted by the County for unrepresented management personnel and other designated County employees to SCERS' Executive Staff.

Mr. Stensrud explained that the purpose of the furlough program was to reduce the County's personnel costs and thereby help the County address its budgetary issues. Mr. Stensrud noted that SCERS' Executive Staff positions are outside of the County Civil Service structure, and the compensation for those positions is set by the SCERS Board and not by the County. Mr. Stensrud further noted that the funding for SCERS' budget, including SCERS' personnel costs, is drawn from the SCERS trust, and not from the County budget meaning that a reduction in the SCERS' personnel costs would provide no cost saving for the County budget. Finally, Mr. Stensrud noted that unlike the unfortunate situation faced by the County, SCERS is operating comfortably within its budget.

Mr. Stensrud explained that notwithstanding these considerations, the SCERS Executive Staff unanimously felt that application of the furlough provisions to them would reflect their commitment to cost reduction and 'pain sharing,' and would be an important gesture of support to their County management colleagues.

Various Board members expressed their appreciation for the request by the Executive Staff, but concern was also noted about whether the mandated furloughs of key staff members would adversely impact SCERS' execution of its responsibilities. Mr. Stensrud stated that he believed SCERS could continue to effectively meet its responsibilities despite the furloughs, but if that proved not to be the case, the proposed resolution made clear that the Board could choose to stop application of the furlough provisions.

Motion by Mr. DeVore to adopt the proposed Resolution; Seconded by Mr. Kelly. Motion carried (7-1), with Mr. Johnson dissenting.

4. Paul Angelo and Andy Yeung of The Segal Company presented a report outlining the impact of various asset smoothing periods and market value corridor approaches on projected future employer contribution rates and the projected funded status of the retirement system given the extraordinary downturn in the investment markets.

Chief Executive Officer Richard Stensrud introduced the report by The Segal Company.

Mr. Stensrud explained that the information in the report was similar to that being prepared for a number of California public employee retirement systems in an effort to assist retirement boards in assessing the measures available to them to mitigate future employer contribution rate volatility due to the substantial downturn in the investment markets.

Mr. Stensrud noted that the projected contribution rates and funded status levels presented in the analysis were based on investment experience through June 30, 2008 and certain assumptions concerning investment returns going forward. Mr. Stensrud noted that the

**ADMINISTRATIVE MATTERS (continued):**

analysis also assumes that all current actuarial assumptions will remain operative and that existing benefit levels and employer/employee cost-sharing provisions would remain in effect.

Mr. Stensrud noted that it was important to bear in mind that the Segal analysis featured projections only, and the actual employer contribution rates and funded status of the system would vary depending on: (1) The actual future investment returns of the retirement system; (2) Other actuarial experience; (3) Whether there were any changes to the basic actuarial assumptions; and (4) If there were changes in the benefit structure or cost-sharing for the retirement system.

Mr. Stensrud noted that the materials were being presented for information and education purposes only, and that the Board was not being asked to take any action on the alternative smoothing periods or market value corridor approaches discussed in the report. Mr. Stensrud noted, however, that the information would be important for the decisions the Board would make in the late summer regarding the various actuarial parameters to be used in preparing the actuarial valuation as of June 30, 2009. Mr. Stensrud also noted that the information would be important for giving SCERS' stakeholders a sense of the impact of the extraordinary market downturn on future contribution costs and the plan's funded status.

Mr. Stensrud noted that the projected employer contribution rate patterns discussed in the report would not start to be experienced until the 2010-2011 fiscal year. Mr. Stensrud explained that this was due to the lag between when the actuarial valuation is conducted and the implementation date for the contribution rates recommended by the valuation. Mr. Stensrud noted that the contribution rates for the 2009-2010 fiscal year had already been set by the actuarial valuation as of June 30, 2008 and that those rates would change very little from the contribution rates in effect for the 2008-2009 fiscal year.

Mr. Stensrud noted that the projected contribution rates in the Segal report were employer contribution rates only. Mr. Stensrud explained that under the law, responsibility for paying off any unfunded liability (such as when investment earnings do not meet the investment earnings assumption) falls on the employer and not the employee. Mr. Stensrud noted that absent some agreement to alter the current cost-sharing agreement between the employer and employee, the contribution rates for employees would not increase as a result of the market downturn.

**ADMINISTRATIVE MATTERS (continued):**

Mr. Angelo and Mr. Yeung discussed a number of topics with the Board, including the following:

- The principles of pension funding, including the relationship between investment earnings and contribution rates.
- The principles of asset smoothing, including the difference and relationship between the market value of assets and the actuarial value of assets, and why contribution rates are based on the 'smoothed' actuarial value of assets.
- Options to the five-year smoothing period currently utilized by SCERS and reasons why a longer smoothing period might be warranted. Those reasons included not only helping to manage the impact of the current market downturn, but also broader systemic reasons such as greater levels of market volatility than in the past and the greater impact of such volatility on plans such as SCERS that are mature, well funded, and have higher benefit levels.
- The ramifications of going to a longer smoothing period, including: (a) That the longer phase-in of losses would increase the total cost due to the time value of money; (b) Possible concerns about inter-generational cost equity; and (c) The fact that gains as well as losses will be smoothed over longer periods, thus delaying cost reductions when the market recovers.
- The principles of market value 'corridors' and how corridors impact the smoothing process.
- The ramifications of and impact of different market value corridors given the magnitude of the investment losses that will have to be smoothed due to the significant market downturn, and how the corridors utilized will be the most important determining factor on contribution rates over the next three to four years.
- Reasons why wider corridors might be reasonable and prudent, including the fact that 'front-loading' cost increases could be unfair to current contributors if the market recovered and 'bought down' the long term cost.
- Actuarial Standards of Practice No. 44, which requires that the actuary utilize an asset valuation method that is designed to produce an actuarial value of assets that bears a reasonable relationship to the corresponding market values. They explained that this means that the actuarial value of assets must fall within a reasonable range around the corresponding market value, and that any differences between the actuarial value of assets and the market value must be recognized within a reasonable period of time.

**ADMINISTRATIVE MATTERS (continued):**

- The impact of Actuarial Standards of Practice No. 44 on the smoothing period and market value corridors that would be reasonable and prudent for SCERS.
- The assumptions about future investment experience utilized in developing the projections regarding future employer contribution rates and SCERS' future funded status. They noted that the assumptions about future investment experience were conservative, and if the future experience proved to be better, the projections would improve.
- The various graphs and charts in the analysis illustrating the projected employer contribution rates and plan funded status under different smoothing periods and market value corridors.
- An example of how projections would improve if the market experienced a more robust recovery than the conservative return assumptions used in the study.

Substantial discussion took place regarding each of these topics, with an emphasis on: (1) The funding challenge that lies ahead; and (2) The factors that the Board can and should take into consideration in determining whether, and to what extent, certain actuarial parameters should be modified.

After the presentation, Mr. Diepenbrock opened the meeting for public comments.

A member of the public, Ms. Marcia Fritz, asked if SCERS would be willing to analyze the feasibility of a retirement service credit and retirement contribution 'holiday' for the 2009-2010 fiscal year. Ms. Fritz had said that the purpose of such action would be to help the County address its budget shortfall. Ms. Fritz acknowledged that such action could only take place if it was agreed to by the bargaining units representing County employees. Ms. Fritz also acknowledged that there might be legal impediments to such action.

Mr. Stensrud noted that he would look into the subject and report back to the Board.

The report by The Segal Company was received and filed on a Motion by Mr. Woods; Seconded by Ms. Wolford-Landers. Motion carried (7-0).

The meeting was adjourned at 10:46 a.m.

**MEMBERS PRESENT:** James A. Diepenbrock, Keith DeVore, John Kelly (left at 9:55 a.m.), Winston H. Hickox, Alice Jarboe, William D. Johnson, Nancy Wolford-Landers, Robert Woods, John Conneally, and William Cox.

**MEMBER ABSENT:** Dave Irish.

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OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey W. States, Chief Investment Officer; James G. Line, General Counsel; Kathryn T. Regalia, Chief Operations Officer; John W. Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Julie Rucker, Senior Personnel Specialist; Paul Angelo and Andy Young, Segal Company; Robert Lewis; The Sacramento Bee; Marcia Fritz, CPA.

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.