



Alameda County Employees' Retirement Association
BOARD OF RETIREMENT

OPERATIONS COMMITTEE/BOARD MEETING
NOTICE and AGENDA

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Wednesday, October 2, 2019
9:30 a.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 TH STREET, 10 TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	OPHELIA BASGAL, CHAIR	APPOINTED
	DALE AMARAL, VICE CHAIR	ELECTED SAFETY
	TARRELL GAMBLE	APPOINTED
	JAIME GODFREY	APPOINTED
	HENRY LEVY	TREASURER

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee.

The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

OPERATIONS COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 – Wednesday, October 2, 2019

Call to Order: 9:30 a.m.

Public Input

Action Items: Matters for Discussion and Possible Motion by the Committee

Information Items: These items are not presented to Committee for action but consist of status updates, presentations and cyclical reports

1. Operating Expenses as of August 31, 2019

Report on the status of ACERA's budget vs. actual as of August 31, 2019

- Margo Allen

2. Statement of Reserves

Statement of Reserves as of June 30, 2019

- Margo Allen

3. 2019 Board of Retirement Elections

Update on the 2019 Board of Retirement election

- Margo Allen

4. Policy Discussion for Prepayment of Contributions

- Dave Nelsen

Future Discussion Items

Trustee Remarks

Establishment of Next Meeting Date

December 4, 2019, at 9:30 a.m.


Adjournment



MEMORANDUM TO THE OPERATIONS COMMITTEE

DATE: October 2, 2019

TO: Members of the Operations Committee

FROM: Margo Allen, Fiscal Services Officer 

SUBJECT: Operating Expense Budget Summary for the period ended August 31, 2019

ACERA's operating expenses are \$974K under budget for the period ended August 31, 2019. Budget overages and surpluses worth noting are as follows:

Budget Overages

1. *Professional Fees:* Professional Fees are \$34K over budget. This amount comprises overages in legal fees¹ of \$62K, actuarial fees of \$16K primarily due to timing difference, which are offset by surplus in operations consultant fees of (\$41K) due to timing difference, and external audit fees of (\$3K).

Budget Surpluses

2. *Staffing:* Staffing is \$469K under budget. This amount comprises surplus in staff vacancies of (\$469K) and fringe benefits of (\$266K), which are offset by overage in temporary staffing of \$266K due to vacant positions filled by temporary staff.
3. *Staff Development:* Staff Development is \$131K under budget due to savings from unattended staff trainings.
4. *Office Expense:* Office Expense is \$34K under budget. This amount comprises surpluses in building expense² of (\$8K), bank charges and miscellaneous administrative expenses of (\$16K), office maintenance and supplies of (\$16K), communication expense of (\$9K), printing and postage of (\$5K) and minor equipment and furniture of (\$6K), which are offset by overage in equipment lease and maintenance of \$26K due to change in vendor.
5. *Insurance:* Insurance is \$71K under budget. This is primarily due to significant decrease in the 2019/2020 expenses for Alameda County Risk Management Program as compared to 2018/2019.

¹ The overage in legal fees of \$62K is due to an unanticipated payment of \$34K to Shaw Law for professional services and overage in fiduciary counseling of \$89K is primarily due to Alameda Health System vs ACERA and Rivera vs ACERA legal cases. Which are offset by surplus in litigation expense of \$38K, tax and benefits expense of \$11K and investigation services expense of \$12K.

² The surpluses in building expense of \$8K is primarily due to credit of \$11K from CBRE for 2018 escalation reconciliation.

6. *Member Services:* Member Services are \$109K under budget. This amount comprises surpluses in disability legal arbitration and transcripts of (\$31K), disability medical expense of (\$64K) due to reduction in number of disability cases as compared to budget, Health Reimbursement Account of (\$4K), and members printing and postage³ of (\$17K), which are offset by overage in member training and education of \$7K.
7. *Systems:* Systems are \$90K under budget. This amount comprises surpluses in business continuity expense of (\$25K) due to timing difference, software maintenance and support of (\$57K) due to timing difference and savings from the audit management software, computer maintenance of (\$3K), and minor computer hardware of (\$9K), which are offset by overage in county data processing of \$4K.
8. *Depreciation:* Depreciation is \$5K under budget, which is related to the office equipment.
9. *Board of Retirement:* Board of Retirement is \$99K under budget. This amount comprises surpluses in board election expense⁴ of (\$13K), board miscellaneous expense of (\$9K), board compensation of (\$4K), board software maintenance and support of (\$5K), board conferences and training of (\$79K) due to savings from unattended board conferences and trainings, which are offset by overage in board employer reimbursement³ of \$10K and board strategic planning of \$1K.

Staffing Detail

As of August 31, 2019, ACERA had the following permanent vacant positions:

Department	Position	QTY	Comments
Benefits	Retirement Support Specialist	3	Filled by temporary staff - currently budgeted until 12/2019
Investments	Senior Investment Officer	1	Resigned in May - currently budgeted until 12/2019
Investments	Investment Analyst	1	Vacant - currently budgeted until 12/2019
Investments	Investment Officer	1	Retired in March - currently budgeted until 12/2019
PRISM	Computer and Network System Analyst	1	Resigned in July - currently budgeted until 12/2019
Legal	Associate Counsel	2	Terminated in June - currently budgeted until 12/2019
Total Positions		9	

³ The surplus in members printing and postage of \$17K is due to savings from 2018 newsletters accrual of \$8K and due to timing difference of this year newsletters.

⁴ The surplus in board election expense of (\$13K) is due to savings from 2018 accrual.



**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
TOTAL OPERATING EXPENSE SUMMARY**

YEAR TO DATE - ACTUAL VS. BUDGET					
<i>August 31, 2019</i>					
	Actual	Budget	YTD	2019	% Actual to
	<u>Year-To-Date</u>	<u>Year-To-Date</u>	<u>Variance</u>	<u>Annual</u>	<u>% Actual to</u>
			<u>(Under)/Over</u>	<u>Budget</u>	<u>Annual Budget</u>
Staffing	\$ 9,568,687	\$ 10,037,800	\$ (469,113)	\$ 15,122,000	63.3%
Staff Development	188,973	320,120	(131,147)	510,000	37.1%
Professional Fees (Next Page)	942,906	908,360	34,546	1,187,000	79.4%
Office Expense	344,419	378,700	(34,281)	554,000	62.2%
Insurance	791,615	862,290	(70,675)	1,305,000	60.7%
Member Services	196,602	306,060	(109,458)	527,000	37.3%
Systems	658,714	748,380	(89,666)	1,152,000	57.2%
Depreciation	79,212	84,550	(5,338)	126,000	62.9%
Board of Retirement	337,933	436,600	(98,667)	711,000	47.5%
Uncollectable Benefit Payments	-	-	-	39,000	0.0%
Total Operating Expense	\$ 13,109,061	\$ 14,082,860	\$ (973,799)	\$ 21,233,000	61.7%



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
 PROFESSIONAL FEES
 YEAR TO DATE - ACTUAL VS. BUDGET
 August 31, 2019

	<u>Actual</u> <u>Year-To-Date</u>	<u>Budget</u> <u>Year-To-Date</u>	<u>YTD Variance</u> <u>(Under)/Over</u>	<u>2019</u> <u>Annual</u> <u>Budget</u>	<u>% Actual to</u> <u>Annual Budget</u>
<u>Professional Fees</u>					
Consultant Fees - Operations and Projects ¹	\$ 241,333	\$ 282,080	\$ (40,747)	\$ 388,000	62.2%
Actuarial Fees ²	340,869	325,000	15,869	415,000	82.1%
External Audit ³	146,341	149,000	(2,660)	149,000	98.2%
Legal Fees ⁴	214,363	152,280	62,083	235,000	91.2%
Total Professional Fees	\$ 942,906	\$ 908,360	\$ 34,546	\$ 1,187,000	79.4%

	<u>Actual</u> <u>Year-To-Date</u>	<u>Budget</u> <u>Year-To-Date</u>	<u>YTD Variance</u> <u>(Under)/Over</u>	<u>2019 Annual</u> <u>Budget</u>	<u>% Actual to</u> <u>Annual Budget</u>
<u>¹ CONSULTANT FEES - OPERATIONS AND PROJECTS:</u>					
Administration					
Process Excellence	24,000	50,000	(26,000)	50,000	48.0%
Benchmarking	-	20,000	(20,000)	20,000	0.0%
Total Administration	24,000	70,000	(46,000)	70,000	34.3%
Benefits					
Alameda County HRS (Benefit Services)	84,000	84,000	-	126,000	66.7%
Segal (Benefit Consultant/Retiree Open Enrollment)	82,000	76,800	5,200	115,000	71.3%
Total Benefits	166,000	160,800	5,200	241,000	68.9%
Human Resources					
Lakeside Group (County Personnel)	51,333	51,280	53	77,000	66.7%
Total Human Resources	51,333	51,280	53	77,000	66.7%
Total Consultant Fees - Operations	\$ 241,333	\$ 282,080	\$ (40,747)	\$ 388,000	62.2%


<u>² ACTUARIAL FEES</u>					
Actuarial valuation	75,000	75,000	-	75,000	100.0%
GASB 67 & 68 Valuation	46,000	23,000	23,000	46,000	100.0%
GASB 74 & 75 Actuarial	13,500	7,000	6,500	14,000	96.4%
Actuarial Standard of Practice 51 Pension Risk	55,000	60,000	(5,000)	60,000	91.7%
Supplemental Consulting	111,369	120,000	(8,631)	180,000	61.9%
Supplemental Retiree Benefit Reserve valuation	40,000	40,000	-	40,000	100.0%
Total Actuarial Fees	\$ 340,869	\$ 325,000	\$ 15,869	\$ 415,000	82.1%

<u>³ EXTERNAL AUDIT</u>					
External audit	125,580	126,000	(420)	126,000	99.7%
GASB 67 & 68	12,012	12,000	12	12,000	100.1%
GASB 74 & 75-External Audit	8,748	11,000	(2,252)	11,000	79.5%
Total External Audit Fees	\$ 146,341	\$ 149,000	\$ (2,660)	\$ 149,000	98.2%

<u>⁴ LEGAL FEES</u>					
<u>Fiduciary Counseling</u>					
Nossaman, LLP	126,696	55,765	70,931	87,631	144.6%
Baker Hostetler	17,355	7,639	9,716	12,004	144.6%
Shaw Law Group	34,136	-	34,136	-	-
Reed Smith (ACD Sheriff's)	14,986	6,596	8,390	10,365	144.6%
Subtotal	193,173	70,000	123,173	110,000	175.6%
<u>Tax and Benefit Issues</u>					
Hanson, Bridgett, LLP	14,030	25,000	(10,970)	39,000	36.0%
Subtotal	14,030	25,000	(10,970)	39,000	36.0%
<u>Litigation</u>					
The Law offices of Elizabeth F. McDonald	5,500	44,000	(38,500)	66,000	8.3%
Subtotal	5,500	44,000	(38,500)	66,000	8.3%
<u>Investigation Services</u>					
Law offices of Amy Oppenheimer	1,660	13,280	(11,620)	20,000	8.3%
Subtotal	1,660	13,280	(11,620)	20,000	8.3%
Total Legal Fees	\$ 214,363	\$ 152,280	\$ 62,083	\$ 235,000	91.2%



MEMORANDUM TO THE OPERATIONS COMMITTEE

DATE: October 02, 2019
TO: Members of the Operations and Retiree Committee
FROM: Margo Allen, Fiscal Services Officer 
SUBJECT: Statement of Reserves and Supplemental Retirees Benefit Reserve (SRBR)
Status as of June 30, 2019

Statement of Reserves

The Statement of Reserves as of June 30, 2019, is attached for your review. The semi-annual interest crediting as of June 30, 2019, was completed on August 27, 2019.

For the six-month period ended June 30, 2019, approximately \$216.1 million of total interest was credited to all the valuation reserve accounts, including the 401(h) account and the SRBR.

- Regular earnings of \$216.1 million were credited to the valuation reserve accounts, the 401(h) account and the SRBR at the rate of return of 2.6474%, short of one half of the assumed crediting rate of return of 3.6250%.
- The earnings were below the expected rate of return and as a result there was no crediting of earnings above the assumed rate of return (excess earnings).

The total interest crediting rate to the valuation reserve accounts and the 401(h) account as well as the SRBR was 2.6474% (see table below).

Earnings Classification	Valuation Reserve & 401(h) Accounts		SRBR	
	Amount	Rate	Amount	Rate
Regular Earnings	\$191,713,133	2.6474%	\$24,342,488	2.6474%
Excess Earnings	0	0.0000%	0	0.0000%
Total Interest Credited	\$191,713,133	2.6474%	\$24,342,488	2.6474%

The process for crediting interest as of June 30, 2019, is presented in the table on the next page. Note that for this semi-annual interest crediting period, the Contingency Reserve Account (CRA) was restored to 1% of total assets as of June 30, 2019, and the entire balance of \$86,767,591 was subsequently withdrawn from the CRA to fund the interest crediting shortfall. Without the use of the CRA funds the interest crediting rate would've been 1.5842%.

Interest Crediting Methodology as of June 30, 2019	
Expected Actuarial Earnings for the period	\$ 274,040,816.14
10 % Amortization of deferred amounts – (Sum of the last 10 periods)	(57,985,194.66)
Actuarial earnings on a smoothed basis	216,055,621.48
CRA adjustment to 1% of total assets as of 06/30/2019	(86,767,591.12)
Actuarial earnings available for interest crediting at the rate 1.5842%	129,288,030.36
CRA usage to cover the interest crediting shortfall	86,767,591.12
Total amount to credit interest at 2.6474%	\$ 216,055,621.48

There was a market *gain* of approximately \$854.8 million for the six-month period ended June 30, 2019, which was higher than the expected actuarial earnings of approximately \$274.0 million. As a result, \$580.8 million in *gains* were added to the market stabilization reserve (the difference of the actual market gain and the expected actuarial earnings). In addition, \$58.0 million of net *losses* from the previous ten (10) interest crediting cycles were recognized in the current interest crediting period. Thus, the market stabilization reserve increased from deferred *losses* of \$569.1 million as of December 31, 2018, to \$69.7 million in deferred *gains* as of June 30, 2019.

Supplemental Retiree Benefit Reserve (SRBR) Status Report

The 10-year history of SRBR activity through December 31, 2018, and the six-month period ended June 30, 2019, is attached for your review. The June 30, 2019, ending balance of the SRBR account is approximately \$914.0 million.

The break-down of the total interest crediting rate is as follows:

- Regular earnings were credited at the assumed rate of return of 2.6474%.
- No earnings above the assumed rate of return (excess earning) were credited.

The total interest credited to the SRBR for the six-month period ended June 30, 2019, was approximately \$24.3 million of regular earning and \$0.0 of excess earnings.

For the six-month period ended June 30, 2019, the net deductions from SRBR were approximately \$29.8 million. These deductions include the net transfer to/from the employer advance reserve for 401(h) contributions of \$29.1 million as wells as payments of supplemental COLA and retired death benefits of \$0.7 million.

Attachments:

- Statement of Reserves as of June 30, 2019.
- SRBR Status as of June 30, 2019.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF RESERVES
For the Six Months Ended June 30, 2019

	Beginning Balances 1/1/2019	Net Contributions Benefits, Refunds & Transfers 1/1 - 6/30/2019	Interest Crediting Process 1/1 - 6/30/2019 (2.6474%)	Allocation of Excess Earnings 1/1 - 6/30/2019 (0.0000%)	Ending Balances 6/30/2019
Member Reserves:					
Active Member Reserves	\$ 1,532,151,840	\$ (38,536,083)	\$ 37,738,963	-	\$ 1,531,354,720
Employer Advance Reserve	1,045,827,592	2,157,558	25,050,854	-	1,073,036,004
401(h) Account - OPEB	9,830,102	634,937	260,241	-	10,725,280
Total Employer Reserves	1,055,657,694	2,792,495	25,311,095	-	1,083,761,284
Retired Member Reserves	4,654,407,918	(4,961,149)	128,663,075	-	4,778,109,844
Supplemental Retiree Benefit Reserve:	919,488,617	(29,816,381)	24,342,488	-	914,014,724
Contingency Reserve	-	-	-	-	-
Market Stabilization Reserve	(569,119,500)			638,781,021	69,661,521
Total Reserves at Fair Value	\$ 7,592,586,569	\$ (70,521,118)	\$ 216,055,621	\$ 638,781,021	\$ 8,376,902,093

Notes: 1. Interest credited as of 06/30/19 includes \$216,055,621.48 of regular earnings and no excess earning allocation to either the SRBR Reserve or Non-SRBR reserves.

2. Amount includes an increase of the CRA by \$86,767,591.12 to restore the balance at 1% total assets as of 06/30/19; and subsequent withdrawal of the entire \$86,767,591.12 to cover the semi-annual interest crediting shortfall at 06/30/19. As a result, the CRA balance at 06/30/19 was 0.0% of total assets.

**ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SUPPLEMENTAL RETIREES' BENEFIT RESERVE (SRBR)**

For the Ten Years Ended December 31, 2009 - December 31, 2018 and the Six Months Ended June 30, 2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	6/30/2019
Beginning Balance	\$ 677,383,980	\$ 658,702,779	\$ 624,166,664	\$ 602,906,726	\$ 570,878,929	\$ 643,056,500	\$ 789,826,877	\$ 853,842,371	\$ 874,385,246	\$ 893,770,614	\$ 919,488,617
Deductions:											
Transferred to Employers Advance Reserve	27,934,980	29,459,690	31,858,291	33,353,151	32,240,449	34,039,593	36,528,264	33,818,832	38,327,914	43,777,409	22,856,063
Employers Implicit Subsidy	4,149,463	5,287,767	4,402,603	4,411,206	7,370,466	6,982,822	5,320,953	6,021,451	8,787,596	5,800,563	6,899,139
Supplemental Cost of Living	3,534,754	2,984,499	2,586,221	2,345,527	2,067,218	1,849,140	1,555,924	1,350,784	1,231,500	1,134,613	587,012
Death Benefit - Burial - SRBR	747,163	810,675	746,102	791,492	5,525	223,529	213,909	187,081	187,060	196,576	101,167
ADEB (Active Death)	107,544	828,274	936,133	426,640	-	-	-	-	-	-	-
Total Deductions	<u>36,473,903</u>	<u>39,370,904</u>	<u>40,499,351</u>	<u>41,328,016</u>	<u>41,683,658</u>	<u>43,105,084</u>	<u>43,619,050</u>	<u>41,378,148</u>	<u>48,534,070</u>	<u>50,909,161</u>	<u>30,443,381</u>
Additions:											
Interest Credited to SRBR	17,792,703	4,834,790	19,239,412	9,300,219	38,786,516	54,031,947	62,722,797	60,730,023	66,715,938	64,827,682	24,342,488
Excess Earnings Allocation	-	-	-	-	75,074,713 (1)	132,455,002	43,770,247	-	-	10,574,982	-
Transferred from Employers Advance Reserve	17,792,703	4,834,790	19,239,412	9,300,219	113,861,229	189,875,461	107,634,544	61,921,023	67,919,438	76,827,164	24,969,488
Total Additions	<u>35,585,406</u>	<u>9,669,580</u>	<u>38,478,824</u>	<u>18,600,438</u>	<u>251,712,458</u>	<u>376,362,410</u>	<u>358,127,588</u>	<u>122,651,046</u>	<u>134,635,376</u>	<u>152,230,728</u>	<u>49,311,976</u>
Ending Balance	<u>\$ 658,702,779</u>	<u>\$ 624,166,664</u>	<u>\$ 602,906,726</u>	<u>\$ 570,878,929</u>	<u>\$ 643,056,500</u>	<u>\$ 789,826,877</u>	<u>\$ 853,842,371</u>	<u>\$ 874,385,246</u>	<u>\$ 893,770,614</u>	<u>\$ 919,488,617</u>	<u>\$ 914,014,724</u>

Notes

- (1) The Excess Earnings allocation of \$75,074,713.03 is a total of \$72,013,436.53 from investment earning above the assumed rate of return and \$3,061,276.50 from additional excess earnings made available from the dispersal of the Death Benefit-Burial Reserve as of 12/31/13.
- (2) These amounts include reclassification of OPEB Administrative Expense contribution reimbursement activities and interest from January 2012 through June 2014; and normal activities for the six month period of July 2014 through December 2014. The SB 1479 reimbursements from the Employer Advance Reserve were inadvertently booked to the 401(k) account instead of SRBR. A total misclassified balance of \$2,649,500 and regular credited interest of \$182,511.54 were Amounts are rounded to the nearest dollar and include <\$1 rounding differences.

Market Stabilization Reserve Balance June 30, 2019

Smoothing Bucket #	Six Month Period		Total Actual Market Return (net)	Expected Actuarial Return (net)	Actuarial Gain (Loss) - to be Recognized Over 5 yrs.	Deferred Gain(Loss) 10% Amortization
	From	To				
1	07/01/14	12/31/14	(71,755,579.50)	268,735,879.51	(340,491,459.01)	(34,049,145.90)
2	01/01/15	06/30/15	210,088,252.34	263,436,619.99	(53,348,367.65)	(5,334,836.77)
3	07/01/15	12/31/15	(230,048,257.68)	262,185,431.21	(492,233,688.89)	(49,223,368.89)
4	01/01/16	06/30/16	75,639,795.46	251,178,960.86	(175,539,165.40)	(17,553,916.54)
5	07/01/16	12/31/16	379,000,419.28	251,534,720.58	127,465,698.70	12,746,569.87
6	01/01/17	06/30/17	658,890,554.35	263,335,664.78	395,554,889.57	39,555,488.96
7	07/01/17	12/31/17	634,431,651.40	285,557,601.40	348,874,050.00	34,887,405.00
8	01/01/18	06/30/18	86,346,237.77	306,788,549.92	(220,442,312.15)	(22,044,231.22)
9	07/01/18	12/31/18	(457,457,856.47)	293,029,560.86	(750,487,417.33)	(75,048,741.73)
10	01/01/19	06/30/19	854,836,641.70	274,040,816.14	580,795,825.56	58,079,582.56
						(57,985,194.66)

Deferred Factor	Remaining Unamortized Bal of Deferred Gain(Loss)
0.0	0.00
0.1	(5,334,836.77)
0.2	(98,446,737.78)
0.3	(52,661,749.63)
0.4	50,986,279.48
0.5	197,777,444.79
0.6	209,324,430.00
0.7	(154,309,618.51)
0.8	(600,389,933.86)
0.9	522,716,243.00


69,661,520.72 @ 06/30/19

	Beginning Bal of MKT Stabilization Reserve	Deferred Investment Gain (Loss) for 6-mos Jan-19 - Jun-19	Amortization of 10% Deferred (Gain) Loss from the last 10-Periods	Ending Bal of MKT Stabilization Reserve
June 30, 2019 Interest Posting	(569,119,499.50)	580,795,825.56	57,985,194.66	69,661,520.72

Expected Actuarial Earnings for this Period	274,040,816.14
10% Amortization - from last 10-periods GAIN (LOSS)	(57,985,194.66)
Actuarial Earnings on Smoothed Basis	216,055,621.48
Adjustment to Reduce (Restore) the CRA to 1% of Total Assets @ 06/30/2019	(86,767,591.12)
Actuarial Earnings Available for Interest Crediting @ the Rate of 1.5842%	129,288,030.36
ADDITIONAL FUNDS - Taken from the Contingency RSRV to fund the interest crediting shortfall at the assumed rate of return	86,767,591.12
TOTAL AMOUNT TO CREDIT INTEREST at the rate of 2.6474%	216,055,621.48



MEMORANDUM TO THE OPERATIONS COMMITTEE

DATE: October 2, 2019
TO: Members of the Operations Committee
FROM: Margo Allen, Fiscal Services Officer 
SUBJECT: **2019 Board of Retirement Election Update**

The nomination period for the 2019 Board of Retirement election closed on September 9, 2019. There were four requests for an election information packet for the Third Member to represent the general membership on the Board of Retirement. Three certifications were issued. There were two requests for the Seventh Member to represent the safety membership on the Board of Retirement. Two certifications were issued. For the Eighth Member and Alternate Eighth Member representing the Retired Membership on the Board of Retirement, there was one request for each seat. For each seat, there was one certification.

The drawing to determine the order of the names, as they will appear on the ballot, was held on September 11, 2019. Below is the order of the names and designations as they will appear on the ballots:

Third Member to represent the General Members

1. Rhian Pierce-Jones, Advanced Certified Appraiser
2. George Wood, Incumbent
3. Vishal Thacker, Chief Investment Officer, TTC

Seventh Member to represent the Safety Members

1. Dale Amaral, Incumbent
2. Darryl Walker, Incumbent Alternate

The **Eighth Member** incumbent and **Alternate Eighth Member** incumbent are both unopposed. Pursuant to Government Code Section 31523 and ACERA's Board Election Policy, if only one candidate is certified for any designated seat, the Board of Supervisors shall order that no election be held and shall direct the Clerk of the Board of Supervisors to cast a unanimous ballot in favor of the nominated member.

A public review period of the candidate statements was held for ten calendar days ending on September 20, 2019.

The ballots for the 2019 Board election will be mailed on November 14, 2019 to all active and deferred General and Safety Members who are eligible to vote. In accordance with the Board Elections Policy, all ballots must be received by the Registrar of Voters no later than 5:00 p.m. on December 18, 2019. The ballots will be counted by the Registrar of Voters on December 19, 2019, and the results of the election will be announced at 2:00 p.m. during the Board Meeting.



MEMORANDUM TO THE OPERATIONS COMMITTEE

DATE: October 2, 2019

TO: Members of the Operations Committee

FROM: Dave Nelsen, Chief Executive Officer *DN*

SUBJECT: Prefunding of Employer Contributions

Introduction

The Prefunding of Employer Contributions is a proposed new policy. The new attached Policy addresses the situation of an employer wishing to pre-pay contributions for up to a year in advance.

Background

The Board Governance and Policy Development Process provides that a policy may be developed if:

1. The issue in question poses a substantial risk to ACERA (organizational, legal, public perception, etc.);
2. The issue is expected to recur regularly (i.e., it is generic in nature); and
3. The issue is within the Board's area of responsibility to effectively administer the pension plan.

In this case, while statute permits employers to pre-pay retirement contributions, no existing Board policy addresses the circumstances. The above criteria for policy development are present. Given the current and expected continuation of a low interest rate environment, it is possible employers may want to pre-pay contributions, if the discount rate provided creates a cost effective short term benefit to the employer. This is also clearly within the Board's area of responsibility.

Proposed Policy

The following is a summary of the key provisions in the proposed new Policy:

Background:

Currently, participating employers transfer required contributions to ACERA after each pay period. Government Code section 31582 also allows employers to pay annual employer contributions at the beginning of the employer's fiscal year. The primary question to be addressed in this scenario, is what, if any, discount rate should be applied to the employer pre-payment? The Actuary has stated that there is no advantage to ACERA or the membership of discounting the contributions at a different rate than the assumed rate of return, since the employers pay for any funding gains or losses through the current smoothing and amortization processes.

Purpose:

The objective of this new Policy is to clarify the provisions of pre-payment of employer contributions by ACERA participating employers.

Application:

Applies to participating employers who wish to pay annual employer contributions in advance.

Guidelines:

Provides that:

1. Pre-payment of employer contributions must be made within 30 days of the end of the employer fiscal year.
2. The contributions will be discounted at the actuarial rate assumed in the ACERA actuarial valuation that is effective for the year the contributions are due, reduced by an additional rate to minimize the anticipated loss associated with the potential trading costs, not to exceed 0.50% without ACERA Retirement Board approval.
3. If the advance is only a partial payment of the participating employer's estimated annual contribution, remaining transfers to the retirement fund shall be made at the end of each month or at the end of each pay period until the total amount required for the year is contributed.
4. Transfers shall be adjusted at the end of the fiscal year to reflect the actual contribution required for that year.

Attachments:

Exh. A: Proposed Pre-Funding Retirement Contributions Policy



Prefunding of Retirement Contributions

I. Purpose

To provide a policy and mechanism by which participating employers of ACERA may pre-fund employer contributions.

II. Background

The County Employees Retirement Law of 1937 requires a county auditor to certify to the retirement board, at the end of each month or pay period, the compensation earnable paid to members of the retirement association and to transfer the applicable percentage of the county's annual contribution to the retirement fund, as specified. Government Code section 31582 authorizes the Board of Supervisors or Governing Body of a district to make advance payments for the estimated annual county or district contributions for an additional year or partial year if certain requirements are satisfied.

Since the advance payments are received by ACERA earlier than the otherwise periodic payment due dates at the end of each pay period, a prepayment discount factor, calculated by discounting each of the payments back to the date that the prepayment is made, may be considered by the Board.

ACERA's actuary has advised that any discount rate that is not greater than the actuarial rate assumed in the ACERA actuarial valuation is acceptable. Since ACERA is a pass-through agency there is no advantage for ACERA to negotiate a lower discount rate, thereby charging additional monies for the pre-funding, since gains and losses are recognized through the smoothing and amortization process. However, ACERA incurs trading costs associated with the pre-funding based on the one-month large cash inflow and then eleven months of negative cash flow. This may result in an overall loss to ACERA if any potential trading costs are not included in any discount rate used at the time of the pre-funding.

III. Policy

The Board of Supervisors or the Governing Board of a district may authorize advance payment for the estimated annual county or district contributions for an additional year or partial year if the advance payment is made no later than 30 days after the commencement of the entity's fiscal year for which the advance payment is made. If the advance is only a partial payment of the participating employer's estimated annual contribution, remaining transfers to the retirement fund shall be made at the end of each month or at the end of each pay period until the total amount required for the year is contributed. Transfers shall be adjusted at the end of the fiscal year to reflect the actual contribution required for that year.

When a participating employer elects to pre-fund its employer contributions to ACERA, pursuant to Government Code section 31582, ACERA will provide the participating employer a discount rate used to determine the prepayment amount equal to the actuarial rate assumed in the ACERA actuarial valuation that is effective for the year contributions are due, reduced by an additional rate to minimize the anticipated loss associated with potential trading costs, not to exceed 0.50% without ACERA Retirement Board approval.

IV. Policy Modification

The Operations Committee, or other committee designated by the Board, shall review this policy at least every three years. The Committee shall make recommendations to the Board concerning any improvements or modifications it deems necessary.

V. Policy History

A. The Board adopted this policy on _____