

January 6, 2010

To: Members of the Operations Committee
From: Dale Amaral, Chair
Subject: Summary of the January 6, 2010 Operations Committee Meeting

Operations Committee Chair Dale Amaral called the January 6, 2010 Operations Committee Meeting to order at 9:10 a.m. Committee members present were Ophelia Basgal, Vice Chair, Annette Cain-Darnes, Keith Carson and Liz Koppenhaver. Other Board members present were Elizabeth Rogers, George Wood, George Dewey, and alternate members David Safer and Darryl Walker. Staff present were Chuck Conrad, Chief Executive Officer; Catherine Walker, Assistant Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; J.P. Singh, Chief Financial Officer; Latrena Walker, Project and Information Services Manager; Rose Kwong, Benefits Manager; and Victoria Arruda, Human Resources Officer.

ACTION ITEMS

- 1. Voluntary Elected Member Employer Reimbursement**
 - a. Review, discussion and possible motion to adopt the amendments to the Voluntary Elected Member Reimbursement Policy**
 - b. Discussion and possible motion to recommend the continuation of the voluntary elected member employer reimbursement policy for 2010**

DISCLOSURE/RECUSAL STATEMENTS

ACERA's Chief Counsel recommended that elected active member ACERA Trustee Elizabeth Rogers recite the following disclosure statement and recuse herself from discussions and Board actions related to the voluntary elected member employer reimbursement policy.

DISCLOSE AND RECUSE

I, Elizabeth Rogers, am an elected ACERA Board Trustee. I have determined that I have a potential conflict of interest with respect to the Operations Committee's consideration of the Voluntary Elected Members Reimbursement Policy in that it has a financial impact on the Alameda County Public Defender's Office, which is my

employing department. I have been advised that this interest can be classified as a "remote interest" under Government Code § 1091(b) (13) which allows me to remove myself from the process and enables the Committee to take action. As such I have decided to make this public disclosure and recuse myself from all Committee discussions, negotiations and voting activities related to the Voluntary Elected Member Reimbursement Policy.

Furthermore, ACERA's Chief Counsel recommended that elected active member ACERA Trustees Dale Amaral, George Wood and Darryl Walker recite the following disclosure statement and recuse themselves from discussions and Board actions related to the voluntary elected member employer reimbursement policy.

DISCLOSE AND RECUSE

I, [Dale Amaral], [George Wood], [Darryl Walker], am an elected ACERA Board Trustee. I have determined that I have a potential conflict of interest with respect to the Operations Committee's consideration of the Voluntary Elected Member Reimbursement Policy in that it has a financial impact on the [Alameda County Sheriff's Department], [District Attorney's Office], [Alameda County Probation Department]. For the reasons just stated by Ms. Rogers, I have decided to make this public disclosure and recuse myself from all Committee discussions, negotiations and voting activities related to the Voluntary Elected Member Reimbursement Policy.

After each Trustee read their disclosure statement, each one left the Board Room.

Since 2000 ACERA has annually approved the Voluntary Elected Member Employer Reimbursement Policy which reimburses employer departments of Elected Trustees' for the time that these Trustees spend away from their employment responsibilities. Staff reminded the Committee that in the last two years the Board has engaged in a comprehensive review of this policy. The review has consisted of examining the financial impacts of the policy on ACERA, examining whether the policy presents any conflicts of interest concerns, examining whether the policy is a permissible administrative expense and examining whether the policy presents any fiduciary concerns for the Board. In performing this evaluation, the Board requested a legal opinion and was advised that while the policy represents an acceptable administrative expense, it should employ a method for quantifying the amount of the reimbursement that insures that it is reasonable and based on an objective standard that is reviewed periodically.

Staff believes that the most efficient approach to formulating an objective standard for quantifying the amount of the reimbursement is to determine whether it is reasonable to conclude that an Elected Trustee spends 25% of his/her time away from their employment responsibilities over the course of a year on ACERA business. ACERA's outside Counsel agreed that this was a reasonable approach. Staff presented the Committee with an analysis of the typical annual activities of an

Elected Trustee and the estimated time spent on each activity: meetings, meeting preparation, travel time to and from meetings, attendance at SACRS conferences, constituent representation, annual luncheons, and miscellaneous activities. This list of activities is not intended to be exhaustive, but rather a reasonable account of an Elected Trustees' duties. Staff explained that after tabulating the number of hours spent on these activities, it was reasonable to conclude that an Elected Trustee could spend in excess of 25% of his/her time away from their employment responsibilities over the course of a year on ACERA business. In addition, Staff proposed that at the end of each calendar year when the Board annually evaluates the policy, each Elected Trustee certify in writing that he/she spent at least 25% of his/her time away from their employment responsibilities to conduct ACERA business over the course of the calendar year. Accordingly, the reimbursement to Elected Trustees' employers will be made at the end of the calendar year upon completion of the certification process.

The Committee directed Staff to incorporate the proposed standard and process into the policy and bring back the amended policy next month.

INFORMATION ITEMS

1. 2010 Operations Committee Work Plan

Staff presented the draft 2010 Operations Committee work plan and noted that action items will be added during the year as necessary.

2. Monthly Financial Statements

For the month of November, there were approximately \$133 million in investment gains. ACERA received approximately \$889 million in net investment income through November 2009. This is a 24.3% return, which outperformed the policy index by 167 basis points.

The total additions are approximately \$1.1 billion. Total deductions are \$278.5 million year-to-date, including \$267.5 million for benefit payments, member refunds and retiree health care payments. As of November 30, 2009, net assets held in trust for pension benefits total \$4.6 billion.

Staff responded to the Committee's inquiry last month regarding the difference between Securities Lending Cash Collateral and Securities Lending Activity. State Street provided an analysis that highlighted the volatility of capital markets during 2008 which was a result of the credit crisis. The effect was credit spreads widening at unprecedented levels due to several Federal rate cuts in 2008 and lower borrower's rebates, thereby enhancing the security lending income for ACERA in 2008. In the year 2009, security lending income has returned to a level in line with 2006 and 2007 trends.

3. Total Operating Expenses – Budget vs Actual as of November 30, 2009

As of November 30, 2009 actual expenditures were approximately \$3.9 million under budget, 37% of which are in the payroll and staff training accounts due to staff vacancies, lower fringe benefit costs, and management staff and some “M” designated staff forgoing a salary increase. The EDMS project has been capitalized and the website redesigns and network assessment projects have been deferred, thus reducing spending in the Consulting Fees accounts year-to-date. Additionally, the Benchmarking Project was completed in house. Staff is continuing to look at ways to eliminate, defer or reduce expenses.

4. Member Surveys

Staff informed the Committee that ACERA is preparing to conduct a member survey on internet access and website function. The survey goals are: (1) to learn approximately what percentage of retired and deferred members have internet access, and of what type; (2) to gauge what functions members would find useful on ACERA’s upcoming website redesign; (3) to collect member email addresses so that communications may be made electronically in the future, saving funds and natural resources; and (4) introduce members to the concept of short, easy-to-complete ACERA surveys.

Another objective is to continue to find ways to survey members in a more cost effective manner. Last year the active members were requested to participate in a survey through the internet. This survey method cost approximately \$150. It included an internet report which tallied the survey, thus saving Staff time and expense. ACERA will continue using the internet survey method this year for the active members. For retired and deferred members, a hard copy survey will be mailed. A survey will be conducted approximately once a quarter. The topics and the results will be presented to the Committee.

5. Participating Employer Transmittal Error Rates

Three reports detailing transmittal error rates were discussed. The first report contained ACMC’s 2009 exception summary by pay period and exception type. This report shows the level of detail that is reviewed by ACMC and ACERA when transmittal files are imported each pay period. The second report consists of ACMC’s exception rates from 2007 through 2009, and illustrates the progression of improvement in exception totals in 2008 and 2009 as a result of the formation of the ACMC and ACERA Work Group. The third report provides a comparison of the average exception rate of ACERA’s three largest Participating Employers – Alameda County, ACMC and Superior Court for 2009. ACERA established a threshold of 3% of resolvable exceptions as reasonable. ACMC has an average rate of resolvable exceptions of 2.8%. The County’s average is .5% and Superior Court has the highest average at 5.1%. This was a one-time event in that Superior Court terminated 80 to 100 members and left the retirement flag on for 6 pay periods. This is standard procedure to allow for vacation pay outs, adjustments and retro payments.

Exceptions are created in Pension Gold because it expects to receive data when the flag is left on but none is received. This situation was resolved and did not create any extra work for Staff.

There has been significant improvement in ACMC's exception rate over the past two years and as a result ACMC's average exception rate for 2009 is under the 3% threshold. After the implementation of ACMC's new payroll system in late 2009, a problem occurred with the way the employee contributions are calculated. This increased ACMC's exception rate above the threshold for the last four pay periods. ACMC fixed the problem in their system; however ACERA still needs to modify Pension Gold so that it will only affect ACMC data. The problem occurs when the integrated formula for employee contributions is calculated if two checks are issued in the same pay period. The Committee pointed out that one substantial issue that occurred in 2009 was not contained in the three reports detailing the transmittal error rates. The issue concerned transmittal records for the nurses who work 36 hours and are considered to be full-time. For nine pay periods, salary and service were incorrectly reported by ACMC. ACERA Staff spent many hours reconciling over 200 member accounts per pay period. These errors did not appear as exceptions due to the manner in which they were coded in ACMC's transmittal file (part time vs full time). The Committee directed Staff to include this information in the reports.

6. Human Resources Staffing Report

Recruitment is going smoothly, in part due to the assistance of Mary Welch, Acting Human Resources Director of Alameda County. Staff reported that she has been very responsive and open to new ideas. The recruitment for the classification of Investment Officer (formerly Investment Analyst) is in the examination phase. The vacancies in the Benefits Department are on hold until current staff who were recently promoted have successfully completed their probation.

TRUSTEE/PUBLIC INPUT

The Committee asked if an average of 400 outstanding member service requests was expected to persist. Staff replied that 400 outstanding requests was the average; however there is still one position vacant and the Unit is always striving to improve the average. The Committee suggested that the number of days it takes to process a request be the benchmark for improvement rather than the number of outstanding requests.

PUBLIC INPUT

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for February 3, 2010 at 9:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 10:16 a.m.