March 17, 2011

To: Members of the Board of Retirement

From: George Dewey, Actuarial Committee Chair

Subject: Summary of Actuarial Committee Meeting, March 17, 2011

The Actuarial Committee was called to order at 1:09 p.m. on March 17, 2011. Committee Members present were George Dewey, Chair, Ophelia Basgal, and Liz Koppenhaver. Other Board members present were Annette Cain-Darnes and George Wood, and Alternate Members David Safer and Darryl Walker.

Staff Members present were Catherine Walker, Acting Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Michael Fara, Communications Manager; Harsh Jahdav, Internal Auditor; Rose Kwong, Benefits Manager; J. P. Singh, Chief Financial Officer; and Latrena Walker, Projects and Information Systems Manager.

Representatives from several ACERA participating employers were present, including: County Administrative Officer Susan Muranishi, and County Auditor Pat O'Connell; Jodi DeLucca and Dennis Manzo of Alameda County Medical Center; Janet Basta of First 5; Don Humphrey from LARPD; and Harry Ma from Superior Court.

ACTION ITEMS

None.

INFORMATION ITEMS

1. Updated Projection of Contribution Rate

Catherine Walker referred the Committee to the March 10, 2011 letter from the Segal Company providing updated projections of contribution rates under alternative economic scenarios, based on the December 31, 2009 valuation, an investment return of 13.7% for 2010, and an assumed investment return rate of 7.9% for subsequent years. Copies of the Segal letter dated August 30, 2010 were distributed for reference, which presented projected contribution rates based on the December 31, 2009 valuation, but with various hypothetical returns for 2010 ranging from minus 4% up to 7.9%. These projections also assumed 7.9% for years subsequent to 2010.

Paul Angelo of Segal discussed the two letters and emphasized a number of points to be kept in mind when reading the charts. First, ACERA's recent valuations and these projections use a 7.9% assumed rate of return. So, 7.9% is the "break even" number. If ACERA's investments were to return 5%, for example, for actuarial purposes there would be a 2.9% loss. Another factor Mr. Angelo discussed is the effect of ACERA's 5-year smoothing policy. This effect can be seen in exhibit 1 to the March 10, 2011 letter. Despite the higher than assumed rate of return in 2010, contribution rates continue to rise. This is because the roughly 38% loss sustained in 2008-09 is still being phased in under the smoothing policy, while the 13.7% gain from 2010 will also be spread over 5 years. Comparing the August 2010 chart with the March 2011 chart, however, shows the longer term effect of the good year, where it can be seen that by 2014 the projected contribution rate is lower in the new chart.

Mr. Angelo said that these projections are only illustrations of the effects of various assumed and actual rates of return. They are not forecasts, and it should not be assumed that the charts reflect what the actual contribution rates will be at any time in the future. He also said that the 5-year smoothing is accomplished in ten 6-month segments rather than five 1-year segments. In 2010, for example, rather than a single 13.7% gain, the gain is smoothed in based on a 3.7% loss in the first 6 months, and an 18.2% gain in the last 6 months. This is because of ACERA's policy of doing its reserving every 6 months, not annually. Mr. Angelo also clarified that the projected contribution rates in these two letters are actually averages of the projected rates for all participating employers, and for all classes of members and tiers. These figures do not reflect the actual projected rate for any single employer, tier, or class of members. The purpose of these charts is to illustrate trends, not to show particular rates.

The Committee asked about discussions in pension fund circles about rate of return assumptions. Mr. Angelo said that actuaries generally are recommending lowering assumptions, but boards have been, so far, mostly declining to do so. For example, both Los Angeles County and CalPERS have recently been advised by their actuaries to move from long-held rates of 7.75% to either 7.5% or even 7.25%. Both boards opted to stay at 7.75% this year.

Segal believes that discussions about the size of the assumed rate raise valid questions. On the other hand, there are some discussions in the pension industry about moving to different models based on factors other than earnings assumptions. Segal does not agree with or recommend such models.

<u>TRUSTEE & PUBLIC INPUT</u>

None.

FUTURE DISCUSSION ITEMS

The Actuarial Valuation as of December 31, 2010 and suggested contribution rates will be presented at the April 21, 2011 Committee meeting.

ESTABLISH NEXT MEETING DATE

The next meeting is scheduled for April 21, 2011 at 12:30 p.m.

ADJOURNMENT

The meeting adjourned at 1:48 p.m.