

April 7, 2010

To: Members of the Operations Committee

From: Elizabeth Rogers, Chair

Subject: Summary of the April 7, 2010 Operations Committee Meeting

Operations Committee Chair Elizabeth Rogers called the April 7, 2010 Operations Committee Meeting to order at 9:09 a.m. Committee members present were Dale Amaral, Vice-Chair, Keith Carson and Liz Koppenhaver. Other Board members present were Annette Cain-Darnes, George Dewey and alternate member 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; Betty Tse, Chief Investment Officer; Victoria Arruda, Human Resources Officer; J.P. Singh, Chief Financial Officer; and Rose Kwong, Benefits Manager.

ACTION ITEMS

1. Discussion and possible motion regarding amendment to Section III, C) of the Board Travel Policy

At the Committee's request, Staff brought the Travel Policy (Policy) back to allow the Committee to re-evaluate section III.c) of the Policy. This section identifies an annual dollar limit of \$7,500 that each Trustee is allocated for "business related expenses" and lists educational conferences that are excluded from this expenditure limit. At the March Committee meeting, the Committee considered whether to include the Milken Global Conference in the list of conferences excluded from the expense limit. Various Committee members voiced both support and opposition to the proposal.

After deliberation, the Committee decided not to amend the Policy and no motion was made. The Committee Chair reiterated that a Board travel expense report is issued quarterly. The Committee requested Staff to provide them with an annual report of the cost of all conferences included in section III.c) to further assist the Board members in monitoring their travel expenses and making informed choices.

2. Discussion and possible motion regarding the finalization of the CEO's evaluation and compensation for calendar year 2009

Discussion regarding the CEO's evaluation and compensation was held last month in closed session. The Board asked Staff for information regarding what other County appointed department heads receive as compensation. ACERA's Human Resources Director explained that all appointed County department heads receive a maximum of \$16,500 for 2010 towards the County 457 deferred compensation plan.

It was moved by Liz Koppenhaver and seconded by Dale Amaral that the Committee recommend to the full Board that the Board authorize that Charles F. Conrad, ACERA CEO receive the same deferred compensation for 2010 as other appointed Alameda County department heads.

INFORMATION ITEMS

1. Statement of Reserves

For the six month period ended December 31, 2009, an interest crediting rate of 1.9313% or \$104.1 million was credited to the Member Reserves, Employer Reserves, Retired Member Reserves, and Supplemental Retiree Benefit Reserve (SRBR).

During this period, there were \$37.7 million in actuarial earnings. As required by statute, the Contingency Reserve Account (CRA) balance of \$66.4 million as of June 30, 2009 was drawn down to zero to augment this amount. Before interest is posted to the reserve accounts again, the CRA balance will be restored to 1.4% of total asset from future earnings.

After applying the Board's 5-year smoothing policy with a 60%-140% market value corridor, it was determined that there was a market value gain in excess of the actuarial value earnings of approximately \$663.1 million for this period. This amount was used to offset the previous losses in the Market Stabilization Reserve. As of December 31, 2009, the Market Stabilization Reserve balance reflects a negative \$776.9 million of accumulated losses that have yet to be recognized or 16.6% of the market value of assets. This deferred loss was reduced from 40% as of January 1, 2009.

2. Monthly Financial Statements

For the month of February, there were \$38.8 million in investment losses. The total additions are a negative \$3 million. Total deductions are \$51 million year-to-date, including \$44 million for benefit payments. As of February 28, 2010, net assets held in trust for pension benefits total \$4.6 billion.

3. Total Operating Expenses – Budget vs Actual as of February 28, 2010

As of February 28, 2010 actual expenditures were under budget \$164,000 or 6%. Of this variance, 25% is in the general accounts and 45% is in the consultant fee accounts, particularly for the IT strategic plan.

4. Enterprise Document Management System (EDMS)

The EDMS project recently entered phase 4 which includes the backfile conversion, day forward scanning and the interim EDMS application rollout to users. Staff and our consultants LRWL agree that the project has gone well during its first six (6) months. The EDMS project is scheduled to be completed in the spring of 2011.

5. Active and Deferred Member Statements

The Active/Deferred Member Statements will be mailed to active and deferred members in mid-April. The statement allows the members to verify their personal and beneficiary information. It also provides the members with their service totals, contribution totals as of December 31, 2009 and a retirement estimate for various age examples. The look of the statement has been updated to increase its readability. The Committee expressed their appreciation for the improvements made to the member statements. Staff explained that ACERA saved \$8,300 in postage costs by fitting the statement into a smaller envelope.

6. Service Purchase Requests

At the request of the Committee, Staff reported on how many service purchase requests actually result in service purchase contracts or lump sum payments. In 2009, Staff performed calculations on 394 service purchase requests. Actual purchase contracts were prepared or lump sum payments were made for 121 or 33% of these requests. Additionally, Staff performed calculations on 69 redeposit requests. Actual redeposit contracts were prepared or lump sum payments were made for 24 or 35% of these requests.

7. Human Resources Staffing Report

Staff reported that there are thirteen (13) vacancies. All but four (4) of the vacancies are being filled by temporaries. Staff is working on the exam development for a few of the open positions.

8. Participating Employer Exceptions

The Committee requested Staff to report on the Participating Employer exceptions. An exception occurs when the data in the transmittal file does not match what our pension system data base, Pension Gold, expects to receive for each member. From 2003 through 2009, 78,024 exceptions have occurred. Of these, 62,383 exceptions have been addressed and completed. 15,641 exceptions are still pending.

The most frequent type of exception is due to employee contribution errors. This type of error can cause a member's account to be over or under funded, resulting in collection or refund of contributions to the member. Over the last 7 years, 35,252

exceptions affecting member contributions occurred. 12,313 of this type of exception are still pending. Staff reminded the Committee that each member account is examined and reconciled prior to the start of a retirement allowance.

Staff is implementing several process changes to clear backlogged exceptions and to better manage exceptions as they occur. Beginning immediately, all current exceptions will be addressed and processed during the month in which they occur if a contribution calculation is not required. Contribution reconciliation will occur within 60 days including the correction and verification process. In July, Staff will start to address the backlog of transmittal exceptions beginning with the 2009 exceptions and working backwards. Dedicated staff will be designated for this project.

As of April, all Employers will be provided an exceptions report each pay period. Currently, APMC and the Housing Authority regularly receive this report. The Office of Education has only one active member, so they will not receive an exceptions report. Any issues with the exceptions will be reported to the Employer with an explanation as to what is causing the exception and how the issue can be resolved.

Over the past few years, APMC and ACERA have been working together to reduce APMC's high volume of exceptions. This collaborative effort has successfully reduced APMC's exceptions to 42 exceptions on average per pay period, far below the average of 74 per pay period for all employers combined. Staff recommended and the Committee agreed that a monthly APMC exception report to the Board was no longer necessary.

TRUSTEE/PUBLIC INPUT

The Committee Chair announced that Board member Ophelia Basgal was appointed as the Department of Housing and Urban Development Regional Director by the Obama Administration. Ms. Basgal will oversee the western region including the states of Arizona, California, Hawaii and Nevada.

RECOMMENDATION

The Committee recommends, and I move that the Board authorize that Charles F. Conrad, ACERA CEO receive the same deferred compensation for 2010 as other appointed Alameda County department heads.

ESTABLISHMENT OF NEXT MEETING DATE

The next meeting is scheduled for May 5, 2010 at 9:00 a.m.

MEETING ADJOURNED

The meeting adjourned at 10:42 a.m.