



**STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION**
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AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – Wesley W. Hall Board Room
Modesto, CA 95354

January 11, 2012
2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order
2. Roll Call
3. Rotation of Officers
4. Announcements
5. Public Comment
6. Consent Items
 - a. Approval of the December 14, 2011 Administrative/Investment Meeting Minutes [View](#)

6. Consent Items (Cont.)
 - b. Approval of the 2012 Calendar Year Educational Opportunities [View](#)
 - c. Receipt of the 2010-2012 Action Plan Quarterly Update For Fourth Quarter 2011 [View](#)
 - d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 1. Sonia Armas, HSA, Effective 01-22-12
 2. Cathy Armenta, DCSS, Effective 01-06-12
 3. Consuelo Carrillo, CSA, Effective 01-28-12
 4. Sharon Dean, BHRS, Effective 01-21-12
 5. Michael French, Oakdale Rural Fire District, Effective 01-04-12
 6. Lenore Maurice, Public Defender, Effective 01-03-12
 7. Joseph Mingham, Stanislaus Fire, Effective 12-27-11
 8. Julie Mueller, Public Guardian, Effective 01-03-12
 - e. Approval of Deferred Retirement(s) – **Section 31700**
 1. Kirsten Alvord, Alliance Worknet, Effective 08-05-11
 2. Margaret Jean Anderson, BHRS, Effective 10-15-11
 3. Sandra Arauza, Sheriff, Effective 11-12-11
 4. Lawrence Boone, HSA, Effective 10-01-11
 5. Karina Castillo, CSA, Effective 09-06-11
 6. Marisa El Gada, Probation, Effective 12-17-11
 7. Stephanie Landgraf, Sheriff, Effective 11-12-11
 8. Sandra Ortega, CSA, Effective 08-22-11
 9. Sara Tumbarello, DCSS, Effective 10-21-11
 - f. Approval of Death Benefit
 1. Jackline Kay King, Deceased, December 24, 2011, Active Member, Option Pursuant to Government Code Sections 31781, 31781.1, or 31781.3
 2. Mary Ann Donahou, Deceased December 30, 2011, Active Member, Option Pursuant to Government Code Sections 31781 or 31787
7. EFI Actuaries Presentation on Preliminary Results of the Actuarial Valuation as of June 30, 2011 [View](#)

8. Executive Director Report

- a. Verbal Update of the Definition of Final Average Salary (FAS) and the 92% Securities Lending Increase in the June 30, 2011 and 2010 Comprehensive Annual Financial Report (CAFR)
- b. Verbal Update on Disability Meeting with Staff of Risk Management, Sheriff, and Chief Executive Offices on December 16, 2011
- c. Verbal Report on Meetings with Plan Sponsors

9. Closed Session

Pursuant to Government Code Section 54956.9 regarding litigation, and under the authority set forth in Government Code Section 54954.5, et seq., regarding the confidentiality of personnel records, the following matter(s) will be heard in closed session.

- a. Real Estate Negotiations Pursuant to Government Code Section 54956.8
- b. Personnel Matter Pursuant to Government Code Section 54957(b)(1)
- c. Public Employment: Discussion and Action on the Executive Director's 2012 Goals
- d. Conference with Legal Counsel – Pending Litigation – One Case:
Dennis Nasrawi et al v. Buck Consultants, LLC, Santa Clara County
Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9 (a)
- e. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated Initiation of Litigation Pursuant to Government Code Section 54956.9 (b):
One Matter

10. Members' Forum (Information and Future Agenda Requests Only)

11. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

December 14, 2011

Members Present: Maria De Anda, Jim DeMartini, Gordon Ford, Darin Gharat, Jeff Grover, Mike Lynch, Michael O'Neal, and Donna Riley

Members Absent: Ron Martin

Alternate Member Present: Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Kelly Cerny, Executive Secretary
Kathy Herman, Operations Manager
Dawn Lea, Retirement Specialist
Luiana Irizarry, Administrative Assistant
Kathy Johnson, Accountant

Others Present: Fred Silva, General Legal Counsel
Paul Harte, & Nathan Pratt, Strategic Investment Solutions (SIS), Inc.
Marilyn Freeman & Elizabeth Knope, Capital Prospects via teleconference
Victor Hymes & Adam Lawlor, Legato Capital Management
Doris Foster & Stan Risen, County Chief Executive Office

1. Meeting called to order at 2:00 p.m. by Mike Lynch, Chair

2. **Roll Call**

3. **Announcements**

Ms. Cerny announced that Item #8b should be Item #8a.

Mr. Santos informed the Board that the DVD for the State Association of County Retirement Systems (SACRS) Fall 2011 Conference is now available for review.

Mr. DeMartini commented on a legal opinion provided by StanCERA's General Legal Counsel.

Mr. Silva replied to Mr. DeMartini's comment.

4. **Public Comment**

None.

5. **Consent Items**

Mr. Ford requested to pull Consent Item #5c. for discussion.

Mr. O'Neal requested to pull Consent Item #5f. for discussion.

Consent Items Pulled for Discussion

J. Clendenin arrived at 2:06 p.m.

- 5c. Receipt of the June 30, 2011, and 2010, Comprehensive Annual Financial Report (CAFR), and the Popular Annual Financial Report (PAFR) for Fiscal Years Ended June 30, 2011 and 2010 (PAFR)

Mr. Ford requested staff to lay out the definition of Final Average Salary (FAS). Mr. Ford further requested staff to verify if there was a 91% increase in the Securities lending portfolio.

Motion was made by Gordon Ford and seconded by Maria De Anda to approve the June 30, 2011, and 2010, CAFR and PAFR for Fiscal Years Ended June 30, 2011, and 2010 with corrections on pages 27 and 33 respectively.

Motion carried.

- 5f. Approval of Service Retirement(s) – Sections 31499.14, 31670, 31662.2 & 31810

1. Rose Ann Alfaro, Superior Courts, Effective 12-17-11
2. Richard Allen, CSA, Effective 12-03-11
3. Darian Bashaw, HSA, Effective 12-31-11
4. Christine Bitonti, BHRS, Effective 12-17-11
5. Cheryl Guinard, HSA, Effective 12-13-11
6. Kenneth Hedrick, Sheriff, Effective 12-29-11
7. Barbara Jackson, SBT, Effective 12-17-11
8. Linda Juarez, CSA, Effective 12-17-11
9. Walter Kruse, Env. Resources, Effective 12-27-11
10. Kipp Loving, District Attorney, Effective 12-28-11
11. Steve Perales, Auditor-Controller, Effective 12-27-11
12. Scott Pettygrove, CSA Effective 12-17-11
13. Richard Robinson, CEO, Effective 12-30-11
14. Linda Tucker, CSA, Effective 12-01-11
15. Laura Wilcoxson, Sheriff, Effective 12-16-11

Motion was made by Darin Gharat and seconded by Michael O'Neal to approve the Service Retirement(s) – Sections 31499.14, 31670, 31662.2 & 31810.

Motion carried.

5. **Consent Items (Cont.)**

Motion was made by Jeff Grover and seconded by Maria DeAnda to approve the following items.

Motion carried.

- a. Approval of the November 22, 2011 Meeting Minutes
- b. Approval of the 2012 Calendar of Board of Retirement Meetings Including Investment Managers' Reporting Schedule
- d. Receipt of StanCERA's Audited Financial Statements and Management Comments by Macias, Gini & O'Connell (MGO) Certified Public Accountants, for Fiscal Year Ended June 30, 2011
- e. Receipt of the Annual Audit Update on the Operational Audit by Vavrinek, Trine, Day & Co. (VTD)
- g. Approval of Deferred Retirement(s) – **Section 31700**
 1. Sokea Kiep, HSA, Effective 10-01-11
 2. Melissa Lee, CSA, Effective 11-19-11
 3. Susana Mascorro, HSA, Effective 10-01-11
 4. Patricia Wirowek, Probation, Effective 09-24-11

6. **Presentation by Capital Prospects LLC of the Small Cap Value Equity Portfolio Semi-Annual Performance Report**

Via teleconference, Marilyn Freeman and Elizabeth Knope, Principals and Managers, presented the semi-annual investment performance report of StanCERA's U.S. small cap value equity portfolio. Capital Prospects is a manager of managers with six managers in the portfolio. Since inception as of January 1, 2009, the portfolio started with \$49.1 million. Investment performance through October 31, 2011, is 14.58% net of fees, and since inception, is 437 basis points higher than the Russell 2000 value index benchmark. As of October 31, 2011, total assets are approximately \$58 million.

7. **Presentation by Legato Capital Management LLC of the Small Cap Growth Equity Portfolio Semi-Annual Performance Report**

Victor Hymes, Chief Executive Officer and Chief Investment Officer, and Adam Lawlor, Senior Vice President, presented the semi-annual investment performance report of StanCERA's U.S. small cap growth equity portfolio. Legato Capital is a manager of managers with five managers in the portfolio. Since inception as of December 22, 2008, and as of September 30, 2011, the portfolio has returned 17.31% gross of fees, above the Russell 2000 growth index benchmark return of 15.62%. As of September 30, 2011, the portfolio assets are \$46 million.

8. Strategic Investment Solutions (SIS), Inc.

a. Verbal Update on BNY Mellon Securities Lending

Mr. Harte explained that the previously quoted percentage of StanCERA securities lent was in relation to the portion of the portfolio that is actually "lendable" (commingled and passive funds aren't available for lending). This led to a percentage greater than 10%. Mr. Harte reported when you compare the amount of securities lent to the total portfolio, the percentage drops to about 9.2%. Trustees are satisfied with this percentage for the time being.

Trustees requested a future agenda item for a Research Affiliates Fundamental Index (RAFI) representative to come for discussion and potential action on their disposition.

9. Executive Director

a. Executive Director's Verbal Report on Meetings with County Chief Executive Staff

Mr. Santos reported the main focus of employer meetings centered around pension risk and contribution levels going forward.

b. Executive Director's Discussion on Harvard Law School's Infrastructure Survey

Mr. Santos informed Board members they had received a survey on infrastructure to complete and return to Harvard Law School if they were interested in doing so.

10. Closed Session

Motion was made by Darin Gharat and seconded by Michael O'Neal to commence to Closed Session at 3:25 p.m.

Motion was made by Darin Gharat and seconded by Michael O'Neal to return to Open Session at 3:40 p.m.

a. Conference with Legal Counsel – Potential Litigation Pursuant to Government Code Section 54956.9(b)(1)

No Report.

13. Members' Forum (Information and Future Agenda Requests Only)

Mr. Lynch requested a future agenda item from General Legal Counsel to discuss The Brown Act and in particular, its impact on Board member communications and its relation to Board member attendance at conferences and seminars.

Mr. Santos updated Board members on the rental status of the 6th floor vacant space. Raymond James, a prospective tenant, has taken up temporary residence in an office property on Standiford and Carver. They are renting on a month to month basis.

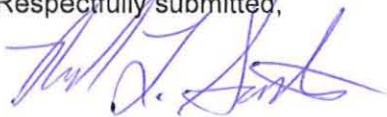
Mr. Santos informed the Board that staff is meeting with County Risk Management on Friday, December 16, 2011, on the "Modified Work Arrangements" process for disabled members.

Mr. Santos informed the Board that he is working with StanCERA system employers to come up with some assumptions on payroll and future salary increases. This information is needed for the 2011 actuarial valuation which will set rates for 2012-2013.

14. Adjournment

Meeting adjourned at 3:44 p.m.

Respectfully submitted,



Rick Santos, Executive Director

APPROVED AS TO FORM:
FRED A. SILVA, GENERAL LEGAL COUNSEL


Fred A. Silva, General Legal Counsel

**2012
MASTER CALENDAR
EDUCATIONAL OPPORTUNITIES**

01/11/12
Item #6b

Page 1 **CALAPRS, NAPPA, NCPERS, SACRS & OTHERS** 01/11/12

Date	Day	Event	Location
January 10-12, 2012	Wed.-Fri.	The Opal Financial Group's Public Funds Summit	Scottsdale, AZ
January 27, 2012	Friday	Administrators Round Table - CALAPRS	Burbank, CA
January 27, 2012	Friday	Attorneys Round Table - CALAPRS	Burbank, CA
February 3, 2012	Friday	Investment Officers Round Table - CALAPRS	San Jose, CA
February 3, 2012	Friday	Trustees Round Table - CALAPRS	San Jose, CA
February 3, 2012	Friday	Benefits Round Table - CALAPRS	San Jose, CA
February 5-7, 2012	Sun.-Tues.	NCPERS Legislative Conference	Washington DC
February 8-10, 2012	Wed.-Fri.	NAPPA Winter Seminar Mtgs	Washington DC
February 22, 2012	Wednesday	22nd Annual Southern California Public Retirement Seminar	Lakewood, CA
March 3-6, 2012	Sat.-Tues.	General Assembly - CALAPRS	Rancho Mirage, CA
March 27-30, 2012	Tues.-Fri.	Principles For Trustees @ Stanford - CALAPRS	Palo Alto, CA
April 13, 2012	Friday	Accountants Round Table - CALAPRS	San Jose, CA
April 13, 2012	Friday	Administrative Assistants Round Table - CALAPRS	San Jose, CA
April 13, 2012	Friday	I.T. Round Table - CALAPRS	San Jose, CA
April 23-24, 2012	Mon.-Tues.	Management Academy Module 1 - CALAPRS	Burbank, CA
May 4, 2012	Friday	Overview Staff Training - CALAPRS	San Jose, CA
May 5-10, 2012	Sat.-Thurs.	NCPERS Annual Conference	New York, NY
May 8-11, 2012	Tues.-Fri.	SACRS 2012 Spring Conference	Squaw Valley, CA
June 4-6, 2012	Mon.-Wed.	Management Academy Module 2 - CALAPRS	Burbank, CA
June 7, 2012	Thursday	Communications Round Table - CALAPRS	San Jose, CA
June 8, 2012	Friday	Trustees Round Table - CALAPRS	San Jose, CA
June 8, 2012	Friday	Attorneys Round Table - CALAPRS	San Jose, CA
June 8, 2012	Friday	Benefits Round Table - CALAPRS	San Jose, CA
June 21, 2012	Thursday	Investment Officers Round Table - CALAPRS	San Jose, CA
June 22, 2012	Friday	Administrators Round Table - CALAPRS	San Jose, CA
June 27-29, 2012	Wed.-Fri.	NAPPA Legal Education Conference	Philadelphia, PA
July 16-18, 2012	Mon.-Wed.	Management Academy Module 3 - CALAPRS	Burbank, CA
July 16-18, 2012	Mon.-Wed.	SACRS Public Pension Investment Mgmt. Program	Berkeley, CA

2012 EDUCATIONAL OPPORTUNITIES

PAGE 2

Date	Day	Event	Location
September 13, 2012	Thursday	Disability Staff Training - CALAPRS	Burbank, CA
September 14, 2012	Friday	Benefits Round Table - CALAPRS	Burbank, CA
September 14, 2012	Friday	I.T. Round Table - CALAPRS	Burbank, CA
Sept. 26-28, 2012	Wed.-Fri.	Administrators Institute - CALAPRS	TBD
October 3-5, 2012	Wed.-Fri.	Intermediate Staff Training - CALAPRS	Burbank, CA
October 19, 2012	Friday	Accountants Round Table - CALAPRS	Burbank, CA
October 19, 2012	Friday	Administrative Assistants Round Table - CALAPRS	Burbank, CA
October 19, 2012	Friday	Trustees Round Table - CALAPRS	Burbank, CA
November 13-16, 2012	Tues.-Fri.	SACRS Fall 2012 Conference	Hollywood, CA

Created 11/22/2011

v:\cernyk\stancera board\2012 Board Education Calendar

BOR Approval: 11/22/11 - The Opal Financial Group's January 2012 Public Funds Summit



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January 11, 2012 Board of Retirement Meeting

01/11/12

Item #6c

TO: The Board of Retirement Board

FROM: Rick Santos, Executive Director

SUBJECT: Receipt of the 2010-2012 Strategic Action Plan Quarterly Review

The attached report lays out the Strategic Action Plan (SAP) update for the final quarter of 2011. Although the SAP has one more year to completion (2012), this will be the final quarterly update in this format. Most of the items in the SAP are simply ongoing in nature and have no specific resolution other than expiration of the Plan itself.

Later in today's meeting, I will be presenting the Executive Director's 2012 Goals. To the extent possible, I have associated my goals for 2012 with the ongoing items necessary for the completion of the SAP. Both documents, the Executive Director's Goals and the SAP are linked to each other through notation

For each subsequent quarter in 2012, my intent is to report back on progress made toward achieving the goals and how they relate to the completion or ongoing nature of the tasks in the SAP.

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Goal 1 - Funding and Excess Earnings

StanCERA will be fully funded according to accepted actuarial standards and will thoroughly review its excess earnings policy

Strategy A – Diversification

Explore options for a more flexible investment policy with greater diversification

Task A1 – Discuss and adopt revised investment policy
Completed May 2010

Task A2 – Periodically review and revise the investment policy as needed
2012: Asset allocation study (ED goal 4)

Strategy B – Achievable Assumptions

Continually refine the expected rate of return and other actuarial assumptions to ensure that they are realistic and achievable

Task B1 – Discuss and adopt assumptions for 2010
Completed August 2010

Task B2 – Periodically review and revise assumptions as needed
2012: Work with EFI on payroll/salary assumption changes for the 2011 and 2012 actuarial valuations

Strategy C – Investment Information

Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy

Task C1 - Conduct regular discussions with StanCERA's investment consultant Strategic Investment Solutions
2012: Ongoing monthly Board meetings (ED goal 10)

Task C2 – Periodically discuss in greater detail key investment decisions with experts present as needed at Board meetings
2012: Ongoing monthly Board meetings (ED goal 4)

Task C3 – Conduct Due Diligence
2012: Conduct visits. Contact BNY Mellon, Legato, Capital Prospects and Pyramis (ED goal 10)

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Goal 2 – Member and External Communications

StanCERA will maintain excellent communication with members, the plan sponsors and other key stakeholders

Strategy A – Partnering

Explore additional ways to partner with the plan sponsors and members

Task A1 - Maintain current information on the website, in printed materials, and in electronically disseminated messages to plan sponsors and members

2012: Ongoing (ED goals 1,10)

Task A2 – Maintain educational sessions for members at VFCU, Member Services, County New Employee Orientation, Districts and Departments as requested and Pre-retirement seminars

2012: Ongoing (ED goal 1)

Valley First Credit Union (TBD)

New Employee Orientation – 1/12/2012

Pre-Retirement Seminar – 5/1/2012

Task A3 – Explore additional media and venues for communication with Plan sponsors and/or members

2012: Ongoing

Task A4 – Meet with RESCO Board of Directors to discuss potential changes in retiree health insurance administration for calendar year 2012

Completed May 2011

Strategy B – Other Systems

Exchange information with other systems to benchmark StanCERA's performance and keep abreast of best practices

Task B1 – Establish a set of data to be benchmarked and confer with other pension systems regarding availability of that data

2012: More research needed here

Task B2 – Gather benchmarking data and report to the Board on a quarterly basis

2012: Attend SACRS and CALAPRS meetings
(ED goals 4, 9)

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Strategy B – Other Systems (Cont.)

Task B3 – Analyze data to identify “best performers” and contact them to identify best practices that have supported their accomplishments

2012: Summarize and present to the Board, RV Kuhn data from the SACRS Fall Conference on “Public Fund Universe Analysis” (ED Goal 4)

Task B4 – Communicate with peers in other pension systems on a regular basis regarding new tools and practices, lessons learned, and systematic improvements they have made; Adapt tools and practices to use at StanCERA if appropriate

2012: Meet with other System Administrators/CIO to inquire about changes and implementation of different asset allocations (ED goal 4)

Strategy C – Legal Issues

Continue to diligently pursue resolution of legal issues

Task C1 – Continue to contract with established knowledgeable attorneys

2012: Ongoing as necessary

Goal 3 – Board and Staff Development

StanCERA will maintain excellence in governance through orientation of new members and high-quality educational activities for Board members

Strategy A – Board Leadership

Maintain excellence in governance through orientation of new members and high-quality educational activities for Board members

Task A1 – Revise Board orientation materials and orientation session agenda for new Board members

Completed December 2010

Task A2 – Explore opportunities to offer educational sessions at StanCERA conducted by experts who are not currently providing ongoing services nor are marketing their services to the organization

2012: Ongoing; may use risk management firms on an ad-hoc basis to explore the actual implementation of other investment strategies if needed (ED goal 4)

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Strategy A – Board Leadership (Cont.)

Task A3 – Continually identify high-quality educational opportunities for Board members and inform the Board at regular meetings and electronically

2012: Will complete in conjunction with Board study sessions (ED goal 4)

Task A4 – Conduct 3 Retirement Board member elections

Completed December 2010

Strategy B – Staff Development

Maintain high standards for StanCERA staff and provide ongoing training and development opportunities

Task B1 – Ensure that key StanCERA processes and functions are completed on time and to standards

2012: Complete internal staffing and re-organization; Complete policy/procedures updates (ED goals 2, 3)

Task B2 – StanCERA staff (including Administrator/Director) attend Board approved educational opportunities (SACRS, CALAPRS, NCPERS and others)

2012: Staff and Director to attend various (above mentioned) events. Also planned Staff educational sessions on current events and risk and how it affects the organization (ED goals 4, 5, 9 and 10)

Task B3 – Develop a 3-year strategic plan and a process for annual updating of the strategic plan

Completed July 2010

Strategy C – Systems and Policies

Regularly update policies, procedures and systems to ensure organizational effectiveness and consistency.

Task C1 – Receive an operational audit

Completed July 2010

Task C2 – Adopt fraud prevention policy

Completed February 2010

Task C3 – Adopt a placement agency policy in accordance with AB 1584

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Completed April 2010

Strategy C – Systems and Policies (Cont.)

Task C4 – Revise the excess earnings policy linking retiree ad hoc benefits to StanCERA's funded status

Completed May 2010

Task C5 – Revocable Health Benefits Subsidy Annual Review along with any other review of ad hoc benefits reported to the Retirement Board

Completed June 2010

Task C6 – Review and revise the organization's bylaws, in particular articles 9 and 10 (Disability Retirement) and article 10 (Claims for benefits other than disability retirement)

Completed October 2010

Task C7 – Finalize review and preparations for parallel effort with other 1937 Act Retirement Systems in submitting information for an IRS Tax determination letter

Completed December 2010

Ad Hoc Task – Complete identified action items within Operational Audit 2012: (ED goal 3)

Strategy D – Succession Planning

Plan and prepare for the retirement of key StanCERA staff over the next 3-5 years

Task D1 – Develop a potential timeline of staff retirements

Completed December 2010

Task D2 – Form BOR Ad hoc Committee

Completed July 2010

Task D3 – Develop a succession plan for each position that addresses knowledge documentation and transfer beginning at least 6 months prior to a likely retirement

Completed December 2010

Task D4 – Refine timeline and provide information to the Succession Planning Committee on upcoming senior management retirements

Completed April 2011

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Task D5 – Begin recruitment at least three months prior to the manager's effective date of retirement

Completed May 2011

Strategy D – Succession Planning (Cont.)

Task D6 – Develop a plan to train the Administrator's successor so that a smoother transition can be successfully implemented

Completed November 2011

Goal 4 – Technology

StanCERA will maximize its efficiency and customer service through the implementation of current technology

Strategy A – Website

Expand StanCERA's website to maximize the information available and options for members to conduct business electronically

Task A1 – Continue to search out best practice websites for review and ideas for the future

2012: Ongoing; Staff continues to monitor other 37 Act Systems' websites

Task A2 – Enhance website by optimizing research already completed by other 37 Act Systems

2012: Ongoing

Strategy B – Paperless Systems

Utilize automation to minimize the need for paper copies, including archiving documents and records

Task B1 – Develop project team for needs assessment and initial project plan

Completed December 2010

Task B2 – Archive BOR minutes and agenda

2012: Ongoing (1948-1992 complete)

Task B3 – Explore and make recommendations regarding additional ways to improve storage of archived paper and digital documents

2012: Staff to complete Cost/Benefit analysis on document imaging. Staff to explore and potentially execute "paperless" Board meetings (ED goals 7, 8)

STANISLAUS COUNTY EMPLOYEES RETIREMENT ASSOCIATION

2010-2012 Strategic Action Plan With Updates

Strategy C – Office Technology

Implement current technology to ensure organizational efficiency

Task C1 – Complete implementation of Tyler Technology System,
including System Access Security System

Completed May 2010

Task C2 – Track and resolve post implementation issues as they are
identified

2012: Ongoing

Ad Hoc Goals – Strategic Action Plan

Task 1 – Develop a 2010 annual action plan

Completed June 2010

Task 2 – Develop and implement a system of monitoring progress and
reporting to the Board on a regular basis, at least quarterly, the status of
items in the Annual Action Plan

2012: Ongoing

Task 3 – Develop or revise action plan for 2011

Completed 2010

Task 4 – Develop or revise action plan for 2012

2012: Ongoing as needed

Stanislaus County Employees Retirement Association

1

PRELIMINARY RESULTS ACTUARIAL VALUATION AS OF JUNE 30TH, 2011

PRESENTED JANUARY 11, 2012
GRAHAM SCHMIDT



January 11, 2012

Preliminary Valuation Results

3

- Summary of Principal Results
- Gains and Losses



January 11, 2012

Topics for Today

2

- Preliminary Valuation Results
 - i Summary of Principal Results
 - i Gains and Losses
- Actuarial Methods
 - i Aggregate vs. Individual Normal Cost
 - i Entry Age Cost Method
 - i Amortization Period
- Future Costs
- GASB Exposure Draft
- What's Next



January 11, 2012

Summary of Preliminary Valuation Results

4

(\$ millions)	6/30/2010 (Final)	6/30/2011 (Preliminary)
Discount Rate	8.00%	8.00%
Remaining Amortization Period	25	25
Actuarial Accrued Liability (AAL)	\$ 1,737.8	\$ 1,757.7
Valuation Assets (AVA)	1,325.8	1,372.7
Unfunded AAL	412.0	385.0
Funded Ratio (AVA)	76.3%	78.1%
Funded Ratio (MVA)	64.6%	78.1%
Employer Contribution Rate (% of Pay)	18.6%	17.8%



January 11, 2012

Gains / Losses: 2010 - 2011

5

	% of Pay	\$ Millions	AVA Funded Ratio %
6/30/2010	18.60%	\$ 43.1	76.3%
Demographics	- 1.63%	- 3.1	+ 1.5%
New Entrants	+ 0.09%	+ 0.4	- 0.1%
Amortization Payroll	+ 0.59%	0.0	0.0
Investment Experience	+ 1.40%	+ 3.2	- 2.7%
Pay (Including Freeze)	- 0.95%	- 3.5	3.1%
Rolling Amortization	- 0.29%	-0.6	0.0%
6/30/2011	17.81%	\$ 39.5	78.1%



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Amortization Payroll

7

- Amortization of unfunded liability (UAL) calculated as a percentage of payroll
- “Level Percentage of Pay” amortization method assumes pay will increase each year by base payroll growth assumption
- If payroll grows by less than assumed rate (3.75%), amortization payment will be larger as a percentage of payroll
- Impact: + 0.59% of pay, no impact on dollar amount



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Demographics, New Entrants

6

- Overall Impact: - 1.54% of pay, - \$2.7 million
- Sources of Changes:
 - i Population Changes - Retirements, terminations, disabilities, deaths, etc.
 - i New Entrants - New members not included in prior valuation.



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Investment / Asset Experience

8

- Return on *market* value of assets (MVA): 22.3% for FY10-11
- Return on *actuarial* (smoothed) value of assets (AVA): 3.5%
 - i Based on partial deferral of '09 losses and recognition of current and prior gains (5 year smoothing)
 - i Return on valuation assets (excluding Special Reserves and Contingency Reserve): 4.3%
 - i Cost increased by \$3.2M, 1.40% of pay
- AVA very close to MVA (100.0%), therefore no impact in current year from 20% corridor



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Salary Experience

9

- Salary increases were less than expected
- 6% permanent pay reduction for most groups effective 7/1/2012
 - i Replaces 5% temporary reduction in effect for some members
- Assume three years without base pay increases (i.e. replace 3.75% payroll growth assumption with 0% for three years)
 - i Include load to final average compensation (1% for General, 2% for Safety) for retirements occurring in next three years, since Final Average Comp could be based on pay before reduction
 - i Reduces cost as a dollar amount (\$3.5M) and as a percentage of payroll (0.95%)
 - i Amortization payment calculation changed so shouldn't see increase in cost next year just because payroll does not increase by 3.75%

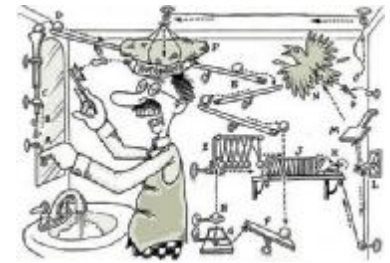


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Actuarial Methods

11

- **Individual vs. Aggregate Normal Cost**
- **Entry Age Normal Cost Method**
- **Amortization Period**



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Rolling Amortization

10

- Current policy is to amortize Unfunded Liability (UAAL) over rolling 25 year period
 - i Since amortization calculation assumes declining amortization, rolling amortization extends period by one year (would have been 24 years without rolling)
 - i Reduces current employer cost by 0.29% of pay (\$0.6M)



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Individual vs. Aggregate Normal Cost

12

- Methodology from Buck was Aggregate Normal Cost calculation
 - i Normal Cost rate =
$$\frac{\text{Total Present Value Future Normal Cost}}{\text{Total Present Value Future Pay}}$$
 - i Simple method, but doesn't always project well on open group basis
 - i Can distort normal costs for individuals
- More common methodology: compute Normal Cost for each individual member



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Entry Age Calculation Method

13

- How does actuarial method allocate cost between past and future service?
 - i Entry Age Normal to Decrement (Current)
 - i Entry Age Normal to Final Decrement



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Entry Age Calculation Method

15

Entry Age Normal to Decrement (Current)

- Generally assigns larger portion of costs to past service (higher accrued liability)
 - i Allows Board more discretion in funding decision
 - i With very long amortization period will have lower cost
- If no demographic gains/losses, assets will equal accrued liability
 - i Under EAN-to-Final, individual participant can have unfunded liability or surplus even if assumptions are met

Entry Age Normal to Final Decrement

- Cost stays level as a percentage of pay throughout entire career
 - i EAN-to-Decrement usually has declining normal cost for individual participants (not necessarily for Plan as a whole)
- More intuitive comparison between benefit Tiers
- More common
 - i Some valuation systems can't compute EAN-to-Decrement
- Level cost or level funded ratio, but not both



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Entry Age Calculation Method

14

Entry Age Normal to Decrement (Current)

- Allocate cost as a level % of payroll for each benefit at each age
 - i Ex: Age 50 retirement benefit allocated from entry age to age 50.
- No normal cost assigned in a year for a benefit that you are no longer expected to receive

Entry Age Normal to Final Decrement

- Allocate cost as a level % of payroll for all benefits from entry age to final exit age
- Normal cost for all benefits assigned throughout career, regardless of whether eligible to receive that benefit.



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Entry Age Calculation Method

16

- GASB will be requiring Entry Age to Final Decrement with Individual Normal Cost for accounting statements
- Segal recommended change as part of actuarial audit for County

	Impact on Employer Cost (% of Pay)	Impact on Funded Ratio
EAN-Dec, Aggregate NC	17.81%	78.1%
Switch to Individual NC	+ 1.58%	0.0%
Switch to EAN-to-Final	+ 0.60%	+ 5.03%
EAN-to-Final, Individual NC	19.99%	83.1%



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Amortization Period

17

- **Continual 25 Year rolling amortization period not recommended**
 - i Large amount of negative amortization (amortization payment less than interest on unfunded liability)
 - i Use of lengthy rolling period will result in lower discount rate for disclosure under new GASB standards
 - i California Actuarial Advisory Panel (CAAP) likely to label rolling amortization longer than 20 years as “Non-Recommended”

	Employer Cost (% of Pay)	Employer Cost (\$ Amount)
25 Year Amortization	17.81%	\$ 39.5 Million
24 Year Amortization	<u>18.10%</u>	<u>\$ 40.1 Million</u>
Difference	0.29%	\$ 0.6 Million



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Future Costs

19

- Actuarial (Smoothed) Value of assets is now very close to Market Value (AVA / MVA = 100.0%)
 - i \$180.0 million in deferred losses remaining from FYE 2008 and 2009
 - i Offset by \$179.2 million in deferred gains from FYE 2010 and 2011
- Projections of cost and funding



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Projections

18

- **Project Future Costs and Funding**



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GASB Exposure Draft

20

- Plan Changes (GASB 25)
- Employer Changes (GASB 27)
- Impact on StanCERA
- Impact on Employers
- Timing



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Plan Changes – Unfunded Liability

21

– Unfunded Actuarial Accrued Liability (UAAL) vs. Net Pension Liability (NPL)

i Current:

- ÷ $UAAL = \text{Actuarial Accrued Liability (AAL)} \text{ minus Actuarial (smoothed) Value of Assets (AVA)}$
- ÷ $\text{Funded Ratio} = \text{Actuarial Value of Assets divided by Actuarial Accrued Liability (AVA / AAL)}$

i Proposed:

- ÷ $NPL = \text{Total Pension Liability (TPL)} \text{ minus Plan Net Position (market value of assets)}$
- ÷ $\text{Funded Ratio} = \text{Plan Net Position divided by Total Pension Liability (MVA / TPL)}$



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Plan Changes – Cost Method

23

– Actuarial Cost Method

- i Current: AAL allows choice of methods (Entry Age variations, Projected Unit Credit, etc.)
- i Proposed: NPL uses specific cost method (Individual Entry Age to Final Decrement)

– New standards require measuring impact of:

- i Some Ad-hoc COLAs (if look like regular COLAs)
- i Gain-sharing policies (excess earnings, 13th check, etc.)



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Plan Changes – Discount Rate

22

– Discount Rate

- i Current: use expected return on assets

i Proposed:

- ÷ Use expected return on assets for benefit payments expected to be paid from plan assets
 - ⦿ Projection done on *closed group* basis, and funding policy in practice
- ÷ Use municipal bond index rate to discount other benefit payments
- ÷ If plan not making actuarial contributions, use lower discount rate
 - ⦿ Similar to GASB 45 for Other Post-Employment Benefits



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Employer Changes - Pension Expense

24

Pension expense : Amount to be shown as accrual for pension on income statement

– Current rules

- i Expense known as Annual Required Contribution (ARC)
- i Normal (Service) Cost, plus an amount necessary to amortize Unfunded Liability over a period up to 30 years
- i Assets smoothed, then amortized
 - ÷ No hard limits on smoothing rules
- i For StanCERA, ARC has been the same as Funding Contribution



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Employer Changes - Pension Expense

25

– Proposed rules:

- i New Pension Expense = Normal Cost, plus interest on Total Pension Liability, plus current period recognized changes in Total Pension Liability, plus deferred changes from prior years
 - + Full amount of all benefit changes (for actives or retirees) recognized immediately (includes ad-hoc COLA)
 - + Gains / losses or assumption changes for retirees recognized immediately
 - + Gains / losses or assumption changes for active employees recognized over expected working lifetime (divide by 5-12, depending on weighting)
 - + Five year smoothing of asset gains/losses (no corridor)
 - ⊕ No amortization of asset gains / losses after smoothing – much more volatile than current ARC



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Employer Changes - Pension Expense

27

– Continue to show actual contribution versus Actuarially Calculated Employer Contribution (ACEC) in Required Supplementary Information (RSI)

- i Similar to current schedule showing ARC vs. % contributed

– What does Pension Expense represent???

- i Technical answer: Balancing item for Net Pension Liability
- i An answer in search of a question?



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Employer Changes - Pension Expense

26

Intentional split between Expense vs. Funding by GASB

– New Expense significantly more volatile than ARC

- i Shorter amortization for active gains/losses & assumption changes
- i No amortization for retiree gain/loss, assumptions or asset gain/loss (after smoothing)
- i Could be negative or greater than 100% of payroll with large investment changes or experience study

– Most plans will NOT contribute pension expense (unlike ARC)



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Employer Changes - Balance Sheet

28

What goes on the Balance Sheet of the Employer?

- i Current measure: Net Pension Obligation
 - + Show accumulated contributions greater/less than ARC on balance sheet
- i Proposed measure: Statement of Net Position (GASB 63)
 - + Move “unfunded liability” from notes to balance sheet
 - + Net Pension Liability (NPL), and deferred outflows/inflows
 - ⊕ NPL = UAAL using market value of assets
 - ⊕ Deferred outflows/inflows = Deferred investment gain/losses, plus deferred active liability gain/loss and assumption changes
 - ⊕ Unrecognized changes in assets and liabilities may have the effect of smoothing impact on balance sheet



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Employer Changes - Disclosures

29

- For cost-sharing plans: share of employer's Net Pension Liability, expense, etc.
 - i Based on specific rules to determine share
 - i Based on each individual employer's fiscal year end
- Impact of +/-1% change in discount rate
- Dollar vs. time-weighted single year returns
- Enhanced disclosures on derivation of investment return assumption (real returns by asset class)
- Exposure draft required employer to use Fiscal Year end results
 - i Can roll-forward liabilities, but
 - i Must use end-of-year asset values (timing issues)
 - i Recent comments from GASB indicate might be willing to allow measurement date within 12 months of employer's FYE



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Impact on Employers

31

- Most impact is on employers:
 - i Moves unfunded liability from Notes to Balance Sheet
 - ÷ Not expected rating agencies to downgrade for this, if plans making actuarial contributions
 - i For multi-employer cost-sharing plan, each employer assigned share of Net Pension Liability, pension expense, etc.
 - ÷ Are Ceres and Special Districts separate and distinct entities, needing their own financial statements?



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Impact on StanCERA

30

- Will need to use a lower discount rate, if long amortization period will continue
- Required changes to actuarial cost method (Entry Age to Final Decrement, Individual Normal Cost)
 - i Impact of changes would be lower accrued liability, higher funded ratio and normal cost
- Already showing Funded ratio on Market and Actuarial asset value basis in valuation report (little impact this year)
- No current excess earnings policy that would indicate substantial gain-sharing with members



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Timing

32

Effective Dates:

- i For Multi-employer cost-sharing plans (or single employer < \$1 billion)
 - ÷ For Plan (GASB 25), Fiscal year beginning after June 15, 2013
 - ÷ For Employer (GASB 27), Fiscal year beginning after June 15, 2013
- i Single-employer plans > \$1 billion: Fiscal year beginning after June 15, 2012
- i First actuarial valuation affected will be July 1, 2013 or July 1, 2014, depending on whether roll-forward needed



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What's Next?

33

- Funding Policy
- Finalize Actuarial Valuation



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35

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What's Next

34

- Review elements of funding policy
 - i Cost Method
 - ÷ Individual vs. Aggregate Normal Cost
 - ÷ Entry Age Cost Method
 - i Amortization Policy
 - ÷ Continue 25 year rolling amortization or modify
- Finalize actuarial valuation



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