Sacramento County
SCERS
Employees' Retirement System

M I N U T E S

RETIREMENT BOARD MEETING, OCTOBER 5, 2005

The special meeting of the Retirement Board was held in the Sacramento County Employees' Retirement System Administrative Office, U.S. Bank Plaza Building, 980 9th Street, 18th Floor, Sacramento, California, on October 5, 2005 at 10:00 a.m. Board Member John Kelly participated via teleconference from the Hyatt Regency Lake Tahoe, 111 Country Club Drive, Incline Village, Nevada. Board Member Dave Irish participated via teleconference from the Double Tree Hotel, 835 Airport Boulevard, Burlingame, California.

OPEN SESSION:

PUBLIC COMMENT:

1. None heard.

CLOSED SESSION:

EXISTING LITIGATION:

[Government Code Section 54956.9(a)]

2. WorldCom Litigation

OPEN SESSION:

ADMINISTRATIVE MATTERS:

3. Chief Executive Officer Richard Stensrud made introductory remarks regarding the actuarial reports and recommendations being presented for the Board's consideration as part of the Board's determination of the actuarial assumptions to be utilized in the June 30, 2005 actuarial valuation.

Mr. Stensrud noted that the opening presentation by consulting actuary Bartel Associates would provide a review of the three-year economic and demographic experience analysis for the period ended June 30, 2004 that had formed the basis for actuarial assumptions utilized in the June 30, 2004 valuation. Mr. Stensrud noted that Bartel Associates would be suggesting possible alternative actuarial assumptions for use in the June 30, 2005 valuation.

Mr. Stensrud noted that SCERS' lead actuary – The Segal Company – would follow with comments regarding the possible alternative assumptions suggested by Bartel Associates and would be making recommendations of their own regarding actuarial assumptions for use in the June 30, 2005 valuation.

Mr. Stensrud noted that the estimated cost impact of both the Bartel and Segal alternative assumptions would be presented. Mr. Stensrud explained that in order to provide a known, fixed point of comparison, the estimates were based on how the cost would have changed in the June 30, 2004 valuation if the alternative assumptions had been utilized in that calculation. Mr. Stensrud noted that the purpose was not to make a retroactive modification of that previous calculation, but instead, to adopt assumptions to be utilized in the next valuation. Mr. Stensrud further noted that the actual cost impact of any changes in assumptions would vary depending on the investment and demographic experience between July 1, 2004 and June 30, 2005.

Mr. Stensrud suggested that the Board keep certain considerations in mind with respect to the reports and recommendations being presented: (1) While the reports identified a few issues on which Bartel and Segal had different views, the differences were not an indication that a mistake or error had been made in the earlier work or that one actuary was right and the other was wrong. Rather, both viewpoints constituted reasonable and prudent alternative positions within the parameters of sound actuarial practice; (2) Realistic assumptions are critical for maintaining adequate funding for the retirement system. Reasonable and prudent assumptions are also important for establishing a method for setting aside retirement contributions that is equitable for both current and future plan stakeholders; (3) The cost impact of a particular assumption or set of assumptions was an important consideration, but not the sole consideration in determining which assumptions to adopt. As fiduciaries, the Board must make its assessment based on what was in the best interests of the system as a whole; (4) The Board must assess how well an assumption or package of assumptions matched the Board's tolerance for risk; and (5) While economic assumptions are reviewed each year as part of the annual valuation, demographic assumptions are typically reviewed as part of the triennial experience study unless the experience strongly suggested that a pattern of deviation from the assumption was more than temporary.

John Bartel of Bartel Associates ('Bartel') then presented his firm's review of the three-year experience study that formed the basis for the assumptions in the June 30, 2004 valuation, along with Bartel's recommendations for alternative assumptions or methodologies for the June 30, 2005 valuation.

Mr. Bartel reported that overall he had a high opinion of The Segal Company's three-year experience analysis. Mr. Bartel further reported that the actuarial assumptions recommended by Segal in that report were within the reasonable range for the assumptions in question. Mr. Bartel noted, however, that in certain cases he felt the assumptions were at the more conservative end of the range, and that the Board may want to consider less conservative alternatives.

Specifically, Mr. Bartel recommended that the Board consider the following: (1) With respect to the economic assumptions, Bartel recommended that SCERS retain the 7.75% investment return assumption, but reduce the inflation assumption component from 4% to 3.5%. Mr. Bartel noted that this change would not impact projected asset growth but would lower the salary increase assumption, the payroll growth assumption and the cost-of-living assumption for retiree benefits, and as such, would result in a decrease in the system's projected liabilities; and (2) With respect to the demographic assumptions, Mr. Bartel recommended that SCERS adopt the Safety member retirement rate utilized by CalPERS. Mr. Bartel noted that he was making this suggestion because SCERS' actual experience was lagging the expected experience based on the current assumption. Mr. Bartel further reported that he believed a similar change would eventually be warranted in the Miscellaneous member retirement rate but that the data did not currently support it. Mr. Bartel noted that the change in the retirement rate assumption would also lower projected liabilities.

Various questions were asked and substantial discussion took place regarding the Bartel Associates report and recommendations. A decision regarding the recommendations was deferred until the other reports were received. Motion by Mr. Hickox to receive and file the Bartel Associates report; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

4. Paul Angelo and Andy Yeung of The Segal Company ('Segal') presented their firm's recommendations regarding the actuarial assumptions to be utilized in the June 30, 2005 valuation. Mr. Angelo and Mr. Yeung also commented on the alternative assumptions recommended by Bartel Associates, and presented an analysis of the comparative cost impact of the Bartel recommendations and the Segal recommendations.

   Similar to the comments by Mr. Bartel, Mr. Angelo expressed his high regard for the work of Bartel Associates and commended Bartel for their review of the experience analysis. Mr. Angelo reported that while he believed the recommendations made by Bartel were within the reasonable range for the actuarial assumptions in question, Segal was also recommending changes to the actuarial assumptions that they believed were better tailored to SCERS.

Specifically, Mr. Angelo recommended the following: (1) Like Bartel, Segal recommended that the 7.75% investment return assumption be retained and that the inflation assumption be reduced, however, Mr. Angelo reported that Segal believed the inflation assumption should only be reduced from 4% to 3.75%. Mr. Angelo suggested that in light of the general agreement among investment experts about the uncertainty of the investment markets, Segal's proposed reduction produced a more measured change on the other elements of the return assumption. Mr. Angelo noted that the Segal recommendation would also reduce the salary increase assumption and the salary growth assumption, and thus would reduce projected liabilities, albeit to a lesser degree than the Bartel recommendation. Mr. Angelo further reported that Segal recommended that the retiree benefit cost-of-living assumption remain unchanged at 3.5% rather than be reduced to 3.25% as suggested by Bartel; and (2) Segal was not convinced that the data regarding actual versus expected retirements warranted a change in the Safety retirement rate. Mr. Angelo also expressed reservations about whether the CalPERS Safety retirement rate was appropriate for SCERS. Mr. Angelo suggested that this was an issue on which additional data would be helpful, and therefore recommended that consideration of a possible change be deferred to the next experience study.

Mr. Yeung reported on the estimated cost impact of the proposed Bartel and Segal changes to the actuarial assumptions. Mr. Yeung reported that Bartel's suggestions regarding the economic assumptions would produce a reduction in the average employer contribution rate of approximately 1.27% and a reduction in the average employee contribution rate of approximately 0.35%. Mr. Yeung reported that the Segal economic assumption recommendations would produce a reduction in the average employer contribution rate of approximately 0.44% and a reduction in the average employee contribution rate of approximately 0.14%. Mr. Yeung reported that if the Bartel demographic assumption change was adopted, it would produce an additional cost reduction, lowering the average employer contribution rate by another 0.26% and the average employee contribution rate by another 0.13%. Mr. Yeung noted that these estimated reductions in cost did not take into account investment and actuarial experience factors that could increase costs.

Various questions were asked and substantial discussion was held regarding the Segal report and recommendations. Mr. Hickox moved that the Segal report be received and filed; Seconded by Ms. Wolford-Landers. Motion carried (9-0).

5. Extensive discussion took place regarding the respective actuarial recommendations, including: (1) the real rate of return, inflation and risk adjustment components of the investment return assumption and the interaction between these elements; (2) recent studies noting that the average inflation assumption among public retirement systems is 3.5%; (3) the salary and payroll growth assumptions and how they compared to recent and future County salary growth experience; (4) the Board's risk tolerance; (5) the comparative cost impact of the proposed assumptions; (6) the appropriateness of applying CalPERS

Safety retirement rates to SCERS; (7) whether it would be helpful to defer action on the proposed change in retirement rates to the next experience study in order to obtain additional data; and (8) whether reducing the inflation assumption to 3.5% should be accompanied by a reduction in the retiree benefit cost-of-living assumption to something less than 3.5%. In addition, Geoff Davey, Chief Financial Officer for Sacramento County, expressed the County's appreciation for the Board's review and consideration of actuarial assumptions that would lessen the retirement cost impact on the County.

Mr. Suter spoke in favor of implementing the assumptions that provided the greatest cost reduction and moved to adopt the recommendations made by Bartel Associates. The Motion died for lack of a Second.

Ms. Wolford-Landers moved to adopt the recommendations made by The Segal Company; Seconded by Mr. Woods. Discussion followed. Motion failed to carry (6-2).

Discussion followed with Mr. Angelo, Mr. Yeung and Mr. Bartel regarding the inflation assumption and the appropriate retiree benefit cost-of-living assumption if the Board should choose to adopt a 3.5% inflation assumption. Mr. Angelo stated that notwithstanding Segal's recommendation that the inflation assumption be reduced to only 3.75%, he believed that a 3.5% inflation assumption was reasonable and well within actuarial parameters. Mr. Angelo further noted that Segal concurred with Bartel that it would be reasonable to utilize a cost-of-living assumption lower than the inflation assumption, and stated that Segal would be willing to revise its cost-of-living recommendation to 3.4%.

Mr. Hickox moved to adopt the recommendations of The Segal Company, as revised to reflect a 3.4% retiree benefit cost-of-living assumption, but modified to incorporate a 3.5% inflation assumption; Seconded by Mr. Kelly. Discussion followed. Motion carried (7-1), with Mr. Suter in opposition.

The meeting was adjourned at 12:00 p.m.

MEMBERS PRESENT: James A. Diepenbrock, President; William Cox; Keith DeVore; Winston Hickox; Dave Irish (connected at 10:04 a.m. and disconnected at 11:15 a.m.); William Johnson; John Kelly (connected at 9:50 a.m.); Steven Soto; Ronald Suter; Robert Woods and Nancy Wolford-Landers.

MEMBERS ABSENT: None

OTHERS PRESENT: Richard Stensrud, Chief Executive Officer; Jeffrey States, Chief Investment Officer; Kathryn Regalia, Chief Operations Officer; John Gobel, Sr., Chief Benefits Officer; Suzanne Likarich, Retirement Services Manager; Michele Bach, Supervising Deputy County Counsel; John Bartel and Doug Pryor, Bartel and Associates, LLC; Paul Angelo and Andy Yeung, The Segal Company; Geoffrey Davey, Chief Financial Officer; T. Ziyalan, Personnel Specialist II; and Florence Craig, Executive Assistant.

Respectfully submitted,

SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM

Richard Stensrud,
Chief Executive Officer

APPROVED: ________________________________
James A. Diepenbrock, President

DATE: ________________________

cc: Retirement Board (11); Clerk, Board of Supervisors (6); County Counsel (2); County Executive (2); County Employment Records & Training (2); County Employee Benefits & Risk Management; County Labor Relations; Employee Organizations (21); Sacramento County Retired Employees' Association; SCERS Member Districts (11); Amervest Company, Inc. (2); Dickstein & Merin; and The Sacramento Bee