VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

April 7, 2014

AGENDA

PLACE: Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME: 9:00 a.m.

ITEM:

I.	**CALL TO ORDER**	Master Page No.
II.	**APPROVAL OF AGENDA**	1 – 4
III.	**APPROVAL OF MINUTES**	
	A. Business Meeting of March 17, 2014.	5 – 13
IV.	**RECEIVE AND FILE PENDING DISABILITY APPLICATION STATUS REPORT**	14 – 61
V.	**APPLICATIONS FOR DISABILITY RETIREMENT**	
	A. Application for Non-Service Connected Disability Retirement; Ruth D. Tabarez; Case No. 13-041.	62 – 101
	1. Application for Non-Service Connected Disability Retirement and Supporting Documentation.	
	2. Hearing Notice served on March 12, 2014.	
	B. Application for Service Connected and Non-Service Connected Disability Retirement; Kathie Schleiderer; Case No. 13-002.	102 – 115

V. <u>APPLICATIONS FOR DISABILITY RETIREMENT</u> (continued)

1. Hearing Officer's Proposed Findings of Fact, Conclusions of Law, and Recommendation, submitted by Hearing Officer Keneth A. Perea, dated February 18, 2014.

2. Hearing Notice served on March 19, 2014.

C. Application for Service Connected Disability Retirement; Patsy Hulsey; Case No. 12-039. 116 – 132

1. Summary of Evidence, Findings of Fact, Conclusion, and Recommendation, submitted by Hearing Officer Louis M. Zigman, dated February 25, 2014.

2. Respondent's Reply to the Hearing Officer's Recommended Decision, submitted by B. Derek Straatsma, Attorney at Law, dated March 4, 2014.

3. Applicant's Objections to the Hearing Officer's Recommended Decision, submitted by Patsy Hulsey, dated March 12, 2014.

4. Hearing Notice served on March 19, 2014.

D. Application for Non-Service Connected Disability Retirement; Tommy W. Henry; Case No. 12-016. 133 – 188

1. Summary of Evidence, Findings of Fact, Conclusions of Law, and Recommendations, submitted by Hearing Officer John L. Rosenthal, dated February 19, 2014.

2. Applicant's Objections to the Hearing Officer's Recommended Decision, submitted by Timothy Ehritt, Attorney at Law, dated March 3, 2014.

3. Legal Memorandum in Support of the Hearing Officer's Recommended Decision, submitted by Stephen D. Roberson, Attorney at Law, dated March 5, 2014.

V. <u>APPLICATIONS FOR DISABILITY RETIREMENT</u> (continued)

4. Hearing Notice served on March 17, 2014.

E. Application for Service-Connected Disability Retirement; Christina A. Valle; Case No. 11-015. 189 – 261

1. Hearing Officer's Proposed Findings of Fact, Conclusions of Law, and Recommendation, submitted by Hearing Officer Kenneth A. Perea, dated January 30, 2014.

2. Applicant's Objections to Hearing Officer' s Recommended Decision, submitted by Edward L. Faunce, Attorney at Law, dated February 14, 2014.

3. Legal Memorandum in Support of the Hearing Officer's Recommended Decision, submitted by Stephen D. Roberson, Attorney at Law, dated February 24, 2014.

4. Applicant's Response to County of Ventura's Legal Memorandum, submitted by Edward L. Faunce, Attorney at Law, dated March 11, 2014.

5. Hearing Notice served on March 18, 2014.

F. Application for Service Connected Disability Retirement; David J. Nadon; Case No. 11-008. 262 – 277

1. Findings of Fact and Conclusions of Law, submitted by Stephen D. Roberson, Attorney at Law, dated February 27, 2014.

2. Objections to the Proposed Findings of Fact and Conclusions of Law, submitted by Anthony R. Strauss, dated March 7, 2014.

3. Response to the Objections to the Proposed Findings of Fact and Conclusions of Law, submitted by Stephen D. Roberson, Attorney at Law, dated March 19, 2014.

4. Hearing Notice served on March 14, 2014.

VI. OLD BUSINESS

A. Development of VCERA Investment Return Assumption - GASB 67 & 68.
RECOMMENDED ACTION: Approve.

VII. NEW BUSINESS

VIII. INFORMATIONAL

IX. PUBLIC COMMENT

X. STAFF COMMENT

XI. BOARD MEMBER COMMENT

XII. ADJOURNMENT

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

March 17, 2014

MINUTES

DIRECTORS PRESENT:	William W. Wilson, Vice Chair, Public Member Steven Hintz, Treasurer-Tax Collector Peter C. Foy, Public Member Joseph Henderson, Public Member Mike Sedell, Public Member Tom Johnston, General Employee Member Deanna McCormick, General Employee Member Arthur E. Goulet, Retiree Member Will Hoag, Alternate Retiree Member Chris Johnston, Alternate Employee Member
DIRECTORS ABSENT:	Tracy Towner, Chair, Safety Employee Member
STAFF PRESENT:	Tim Thonis, Interim Retirement Administrator Henry Solis, Chief Financial Officer Lori Nemiroff, Assistant County Counsel Chantell Garcia, Retirement Benefits Specialist Chris Ayala, Office Assistant Stephanie Caiazza, Office Assistant
PLACE:	Ventura County Employees' Retirement Association Second Floor Boardroom 1190 South Victoria Avenue Ventura, CA 93003
TIME:	9:00 a.m.

ITEM:

I. CALL TO ORDER

Vice Chair William W. Wilson, called the Business Meeting of March 17, 2014, to order at 9:01 a.m.

II. APPROVAL OF AGENDA

MOTION: Approve the Agenda.

Moved by Sedell, seconded by Henderson.

Vote: Motion carried.
Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

III. APPROVAL OF MINUTES

A. Disability Meeting of March 3, 2014.

MOTION: Approve the Minutes.

Moved by Hintz, seconded by Henderson.

Vote: Motion carried.
Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner
Abstain: Foy

IV. CONSENT AGENDA

A. Approve Regular and Deferred Retirements and Survivors Continuances for the Month of February 2014.

B. Receive and File Report of Checks Disbursed in February 2014.

C. Receive and File Budget Summary for FY 2013-14 Month Ending February 2014.

<u>MOTION</u>: Approve the Consent Agenda.

Moved by Sedell, seconded by Henderson.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

END OF CONSENT AGENDA

V. STANDING ITEM

A. Receive an Oral Update on Pensionable Compensation and PEPRA.

Lori Nemiroff reported the posted agenda for the next CalPERS Pension and Health Benefits Committee meeting contained an item on pensionable compensation and that the committee aims to present draft regulations to their board in April.

Ms. Nemiroff proceeded to inform the Board that a tentative decision was issued on the AB197 consolidated cases. Due to ambiguity in the law prior to AB197, on-call and stand-by pay issues will be determined by the individual circumstances of each system and each board. Ms. Nemiroff stated that the decision will be a topic of discussion at the upcoming Manatt conference, after which she will provide a more detailed update to the Board.

VI. ANNUAL INVESTMENT PRESENTATIONS

A. Annual Investment Presentation, Harbour Vest – Jeffrey Keay, Managing Director, Aris Hatch, Principal (30 Minutes).

Jeffrey Keay and Aris Hatch were present on behalf of Harbour Vest to discuss their annual investment results.

B. Annual Investment Presentation, Adams Street Partners – Scott Hazen, CFA-Partner and Katherine Wanner, Partner (30 Minutes).

Scott Hazen and Katherine Wanner were present on behalf of Adams Street Partners to discuss their annual investment results.

C. Annual Investment Presentation, Pantheon – Matt Garfunkle, Partner, Sprague Von Stroh, Vice President (30 Minutes).

Matt Garfunkle and Sprague Von Stroh were present on behalf of Harbour Vest to discuss their annual investment results.

VII. INVESTMENT INFORMATION

Tim Thonis entered the meeting at 10:50 a.m.

A. NEPC – Don Stracke, Senior Consultant.

1. Receive and File Preliminary Performance Report, Month Ending February 28, 2014.

MOTION: Receive and File.

Moved by Hintz, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

2. Receive and File Private Equity Overview.

MOTION: Receive and File.

Moved by Hintz, seconded by Henderson.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

3. Receive and File Asset Allocation- II.

After discussion by the Board and Don Stracke, the following motion was made:

MOTION: Receive and File.

Moved by Henderson, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

4. PIMCO Update.

MOTION: Receive and File.

Moved by Goulet, seconded by McCormick.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

B. VCERA – "Watch List" Discussion – PIMCO

After discussion by the Board, Staff, and Don Stracke, the following motion was made:

MOTION: Place PIMCO on "Watch List", with no quiet period, and receive monthly updates in accordance with the Investment Policy Statement.

Moved by C. Johnston, seconded by Goulet.

Vote: Motion carried.
Yes: Foy, Goulet, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: Henderson
Absent: Towner

VIII. OLD BUSINESS

A. Ventura County Employees' Retirement Information System (VCERIS) Recommendation to Increase Data Conversion Hours – Vitech.

1. Recommend Approval for Vice Chairman to sign letter to Vitech (Item #2).

2. Request for Additional Data Conversion Assistance.

   After discussion by the Board and Staff, the following motion was made:

MOTION: Authorize Vice Chairman to sign letter to Vitech approving additional data conversion assistance.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

Mr. Goulet commented that he is awaiting Brian Colker's correction of the payment schedule.

IX. NEW BUSINESS

A. VCERIS Monthly Report – February 2014.

MOTION: Receive and File.

Moved by Henderson, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

B. Review Draft Executive Search Firm Request for Proposal – Personnel Review Committee.

MOTION: Approve the Draft Executive Search Firm Request for Proposal, with Will Hoag listed as the main contact.

Moved by Henderson, seconded by Hintz.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

C. Authorization to Attend PIMCO Institute 2014, June 5^{th} – 6^{th} and June 9^{th} – 13^{th}.

Staff recommended approval of the authorization for Henry Solis to attend.

After discussion by the Board and Staff, the following motion was made:

MOTION: Approve Mr. Solis' attendance at the PIMCO Institute 2014.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

D. IRS Tax Determination Letter Update: Next Steps.

After discussion by the Board and Staff, the following motion was made:

MOTION: Receive and File.

Moved by T. Johnston, seconded by Henderson.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

After further discussion, the following motion was made:

MOTION: Draft a letter of support for AB2473 to the Committee on Public Employees, Retirement, and Social Security.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

E. Recommendation to Approve PEPRA Annual Compensation Limit.

Staff provided background information and recommended approval for Option C.

After discussion by the Board and Staff, the following motion was made:

MOTION: Approve policy Option "A"- Annual Board Adoption of the PEPRA Compensation Limits.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

F. Distribution of Recommended Ballot; SACRS Election – Spring Conference.

After discussion by the Board and Staff, the following motion was made:

MOTION: Approve the Recommended Slate of Directors.

Moved by C. Johnston, seconded by T. Johnston.

Vote: Motion carried.
Yes: Foy, Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson
No: -
Absent: Towner

X. INFORMATIONAL

A. SACRS Spring Conference – Draft Agenda.

XI. PUBLIC COMMENT

None.

XII. STAFF COMMENT

The Interim Retirement Administrator reminded the Board that Form 700's must be submitted by April 1, 2014.

Ms. Nemiroff informed the Board of a small claims action filed against VCERA by Michael Koevenig, stating that she had drafted a notice for dismissal and that the Interim Retirement Administrator and a representative from Risk Management will attend the hearing on March 28, 2014.

XIII. BOARD MEMBER COMMENT

None.

XIV. ADJOURNMENT

The meeting was adjourned at 11:56 p.m.

Respectfully submitted,

TIM THONIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
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April 7, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: VCERA INVESTMENT RETURN ASSUMPTION UNDER GASB 67 and 68

Dear Board Members:

Recommendation:

Adopt "Interim Option B" as described in Segal Consulting's April 1, 2014, letter in order to comply with GASB's new financial reporting standards.

Background & Discussion:

As presented on February 24, 2014, the Governmental Accounting Standards Board's (GASB's) new pronouncements (67 & 68) include a requirement that investment return assumptions for pension plans be developed net of investment expenses, but not net of administrative expenses. Presently, VCERA's investment earnings assumption is developed net of <u>both</u> investment and administrative expenses.

The Board of Retirement reviewed several options in February to comply with the new GASB requirement including explicitly increasing the annual contribution requirements by the forecasted annual administrative expense. An explicit increase to the plan's contribution rates raises certain allocation questions because historically VCERA's administrative expenses have been added implicitly to both employer and employee plan contributions. The historical administrative expense allocation has been approximately 20%-25% to employee contributions and 75% - 80% to employer contributions. An appropriate allocation of administrative expenses is a long-term plan issue that needs to be discussed in detail and decided upon going forward.

"Interim Option B" provides, as described in Segal Consulting's April 1, 2014 letter, a simple short-term approach to comply with the new GASB pronouncements. Briefly, "Interim Option B" permits VCERA to utilize the same 7.75% earnings assumption rate for both funding and financial reporting purposes. In terms of funding, the earnings assumption rate would be net of both investment and administrative expenses, while the financial reporting assumption would be developed net of solely investment expenses in accordance with GASB requirements. The inclusion/exclusion of plan administrative expenses in the development of the earnings assumption rate affects the "confidence level" associated with the use of the 7.75% earnings assumption rate. Both earnings assumption rates (gross and net of administrative expenses) would be compliant with actuarial standards, and therefore GASB's requirements.

"Interim Option A", the development of a single investment return assumption for both funding and financial reporting, is a longer-term approach and involves decisions on the explicit loading of administrative expenses and an appropriate allocation for administrative expenses. Staff believes the best time for the Board to consider a longer-term solution is during the triennial actuarial investigation period when all economic assumptions, including the investment earnings assumption, are reviewed in their entirety. VCERA's next scheduled investigation is in 2015.

Conclusion:

Earnings assumption rate decisions are arguably the most difficult for all pension funds. Given the Board has been afforded limited opportunity to fully study this issue; staff believes a shorter-term solution to be best at this time. In addition, staff expects the industry to provide further guidance from both the actuarial practice and financial reporting perspectives over the next 12 months.

I will be pleased to respond to any questions you may have on this matter at the April 7, 2014 disability meeting.

Sincerely,

Tim Thonis

SEGAL

THE SEGAL COMPANY
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April 1, 2014

Mr. Tim Thonis
Interim Retirement Administrator
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**Re: Ventura County Employees' Retirement Association
Developing an Investment Return Assumption for use in Accounting and Financial Reporting under GASB Statements 67 and 68**

Dear Tim:

In our enclosed letter dated February 14, 2014, we included information concerning a potential adjustment to exclude administrative expenses in developing the investment return assumption for funding purposes in order to maintain consistency with new Governmental Accounting Standards Board (GASB) financial reporting. We are providing some additional information concerning that issue, along with another possible approach that could be used on an interim basis.

Development of Investment Return Assumption for Funding on a Gross of Administrative Expenses Basis so Same Assumption can also be used for Financial Disclosures ("Interim Option A")

If the Board wishes to develop a single investment return assumption for both funding and financial reporting purposes, then one approach would be to exclude the administrative expense component of 0.12% from the development of the investment return assumption during the next experience analysis in 2015 (for use in the June 30, 2015 valuation). Ultimately, we believe this is the preferred long-term approach. That leaves open how to address this issue on an interim basis in the June 30, 2014 valuation.

We believe that a straightforward interim approach would be to leave the current investment return assumption at 7.75% for the June 30, 2014 actuarial valuation (i.e., not increase it by 0.12%) but to now treat that 7.75% assumption as gross of administrative expenses. In effect, this would result in an increase in the margin for adverse deviation or "confidence level" associated with this assumption from 54% to 56%. Note that under this interim approach, the change in the investment return to be gross of administrative expenses would be accompanied by the addition of an explicit loading for administrative expenses.

The separate, explicit administrative expense load assumption that would be developed under this approach would be approximately $4 million annually (0.6% of payroll), which is equivalent to 0.12% of assets.

Our February 14, 2014 letter included a discussion of how the current implicit assumption for administrative expenses has the effect of allocating those expenses between the employers and employees. If the Board decides that any explicit assumption for administrative expenses should continue to be allocated to both the employers and the employees then a straightforward way to do that in a manner generally consistent with current practice would be to allocate the expenses based on the components of the total contribution rate (before expenses) for the employers and the employees. These components would be employee Normal Cost contributions, employer Normal Cost contributions and employer UAAL contributions. Based on the June 30, 2013 valuation, this would result in about $0.9 million or 0.1% of payroll being allocated to the employees and $3.1 million or 0.5% of payroll being allocated to the employers in the aggregate.

Maintain an Investment Return Assumption for Funding on a Net of Administrative Expenses Basis but use that Same Assumption for Financial Disclosure Development ("Interim Option B")

Another possible interim approach would be to use the same investment return assumption for both funding and financial reporting, but have them represent two different expected returns, one net of administrative expense (for funding) and one gross of such expenses (for financial reporting). In other words, we believe that the Board could use the 7.75% assumption for funding (and continue the current implicit approach to funding the administrative expenses) and then use that same 7.75% for financial disclosure purposes under GASB. In effect, this means that even though the same rate is used, it would be considered net of administrative expenses for funding but gross of administrative expenses for financial disclosures. This would result in an increase in the margin for adverse deviation or "confidence level" associated with the use of the recommended 7.75% assumption from 54% when it is used for funding purposes to 56% when it is used for financial disclosure purposes.

Since we believe that both assumptions would be compliant with Actuarial Standards of Practice (ASOPs), it is our understanding that this approach should be acceptable under the new GASB statements. This is because the new GASB statements do not appear to require that the funding and financial reporting assumptions be the same, but only that the assumptions comply with ASOPs.

The following table summarizes the components of the investment return assumption as currently used for funding (net of administrative expenses) and as proposed for financial disclosure purposes (gross of administrative expenses) under this interim option:

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2014 Alternative for Funding	June 30, 2014 Alternative for Financial Disclosure
Inflation	3.25%	3.25%
Plus Portfolio Real Rate of Return	5.31%	5.31%
Minus Expense Adjustment	(0.40%)	(0.28%)
Minus Risk Adjustment	(0.41%)	(0.53%)
Total	7.75%	7.75%
Confidence Level	54%	56%

If this approach were to be adopted, we would recommend revisiting this issue as part of the 2015 review of economic actuarial assumptions. This would be along with any other changes that may affect that study, including guidance from the revised ASOP 27 regarding investment expenses and active and passive returns. We believe that, when adopted in conjunction with that complete review of the economic assumptions, the Board may find that the approach described earlier as "Interim Option A" is a preferable approach to adopt for a long-term resolution of this issue.

Unless otherwise noted, all of the above calculations are based on the June 30, 2013 actuarial valuation results including the participant data and actuarial assumptions on which that valuation was based. That valuation and these calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please feel free to call us with any questions and we look forward to discussing this with the Board.

Sincerely,

John Monroe

Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

John Monroe, ASA, MAAA, EA
Vice President & Associate Actuary

/bqb
Enclosure

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Segal Consulting

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February 14, 2014

Mr. Tim Thonis
Interim Retirement Administrator
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

Re: Ventura County Employees' Retirement Association
Adjustment to Exclude Administrative Expenses in Developing Investment Return Assumption to Maintain Consistency with GASB Financial Liability Reporting

Dear Tim:

The Governmental Accounting Standards Board (GASB) has adopted Statements 67 and 68 that replace Statements 25 and 27 for financial reporting purposes. This letter discusses a recommended change in how VCERA develops its investment return assumption that will allow the Association to maintain consistency in its liability measurements for funding and financial reporting purposes.

Background

GASB Statement 67 governs the Association's financial reporting and is effective for plan year 2014, while GASB Statement 68 governs the employers' financial reporting and is effective for employer fiscal year 2014/2015. The new Statements specify requirements for measuring both the pension liability and the annual pension expense incurred by the employers. The new GASB requirements are only for financial reporting and do not affect how the Association determines funding requirements for its employers. Nonetheless, it is important to understand how the new financial reporting results will compare with the funding requirement results. That comparison will differ dramatically depending on whether one is considering the two pension liability measures or the annual pension expense/contribution measures:

- When measuring pension liability GASB will use the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as VCERA uses for funding. This means that the GASB "Total Pension Liability" measure for financial reporting will be determined on the same basis as VCERA's "Actuarial Accrued Liability" measure for funding. This is a generally favorable feature of the new GASB rules that should largely preclude the need to explain why VCERA has two different measures of pension liability. We note that the same is true for the "Normal Cost" component of the annual plan cost for both funding and financial reporting.[1]

- When measuring annual pension expense GASB will require more rapid recognition of investment gains or losses and much shorter amortization of changes in the pension liability (whether due to actuarial gains or losses, actuarial assumption changes or plan amendments). Because of GASB's more rapid recognition of those changes, retirement systems that have generally used the same "annual required contribution" amount for both funding (contributions) and financial reporting (pension expense) will now have to prepare and disclose two different annual cost results, one for contributions and one for financial reporting under the new GASB Statements.

This situation will facilitate the explanation of why the funding and financial reporting results are different: the liabilities and Normal Costs are generally the same, and the differences in annual costs are due to differences in how changes in liability are recognized. However, there is one other feature in the details of how the liabilities are currently measured that will make even the liability and Normal Cost measures different unless action is taken by VCERA.

Treatment of Expected Administrative Expenses when Measuring Liabilities

As noted above, according to GASB, the discount rate used for financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments, just as it is for funding. However, GASB requires that this assumption should be net of <u>investment</u> expenses <u>but not</u> net of <u>administrative</u> expenses (i.e., without reduction for administrative expenses). Currently, VCERA's investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

While VCERA could continue to develop its funding investment return assumption net of both investment and administrative expenses, that would mean that the Association would then have two slightly different investment return assumptions, one for funding and one for financial reporting. To avoid this apparent discrepancy, and to maintain the consistency of liability measures described above, we believe that it would be preferable to use the same investment return assumption for both funding and financial reporting purposes. This means that the assumption for funding purposes would be developed on a basis that is net of only investment expenses. To review, using the same assumption for both purposes would be easier for VCERA's stakeholders to understand and should result in being able to report VCERA's Actuarial Accrued Liability (AAL) for funding purposes as the Total Pension Liability (TPL) for financial reporting purposes with the exception mentioned in the footnote below.

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[1] This applies to the financial reporting results as of the valuation date used in the determination of those results. Since the actual financial reporting results will be developed on a "roll forward" basis, the actual TPL reported will differ from the AAL. In addition, there are some technical issues related to the Tier 2 future service COLA that will also have to be addressed in the determination of the financial reporting results.

The table below is from our report entitled "Review of Economic Actuarial Assumptions for the June 30, 2012 Actuarial Valuation" that was released in 2012. It contains the information used to develop the expense assumption that was used in our recommendation for the investment return assumption shown in that report.

Administrative and Investment Expenses as a Percentage of Actuarial Value of Assets
(All dollars in 000's)

FYE	Actuarial Value of Assets	Administrative Expenses	Investment Expenses	Administrative %	Investment %	Total %
2007	$2,793,666	$2,589	$7,666	0.09%	0.28%	0.37%
2008	3,107,222	3,370	8,051	0.11	0.26	0.37
2009	3,112,308	3,535	6,451	0.11	0.21	0.32
2010	3,134,978	4,081	6,629	0.13	0.21	0.34
2011	3,236,217	4,387	7,789	0.14	0.24	0.38
Average				0.12%	0.24%	0.36%
		Assumed Administrative and Investment Expenses Assumption:				0.40%

If the Board wishes to develop a single investment return assumption for both funding and financial reporting purposes, then it would be necessary to exclude the administrative expense component of 0.12% from the 7.75% investment return. One way to do this would be to increase the investment return assumption by 0.12% resulting in an irregular assumption of 7.87%.

We believe that a more straightforward approach would be to leave the investment return assumption at 7.75% instead of increasing it by 0.12%. This would result in an increase in the margin for adverse deviation or "confidence level" associated with this assumption from 54% to 56%. Note that under either of these approaches, the reduction in investment return would be replaced by an explicit loading for administrative expenses, as discussed below.

There is a substantive complication associated with eliminating the administrative expense in developing the investment return assumption used for funding that relates to the allocation of administrative expense between the employers and employees:

1. Even though GASB requires the exclusion of the administrative expense from the investment return assumption, such expense would continue to accrue for a retirement system. For private sector retirement plans, where the investment return is developed using an approach similar to that required by GASB (i.e., without deducting administrative expenses), contribution requirements are increased explicitly by the anticipated annual administrative expense.

2. Under VCERA's current approach of subtracting the administrative expense in the development of the investment return assumption, such annual administrative expense is funded implicitly by effectively deducting it from future expected investment returns. Since an investment return assumption net of investment and administrative expenses has been used historically to establish both the employer's and the employee's contribution requirements, these administrative expenses have been funded implicitly by both the employer and the employees.

3. A switch from the method described in (2) to the method described in (1) may require a new discussion on how to allocate administrative expenses between employers and employees, including possibly establishing a new method to allocate the anticipated annual administrative expense between them. Under current practice, part of the implicit funding of administrative expenses is in the Normal Cost and so is shared between the employer and the employees. However, the rest of the implicit expense funding is in the (Unfunded) Actuarial Accrued Liability, which is funded by the employers.

4. It will not be straightforward to quantify the current implicit sharing of administrative expenses between employers and employees. This means that reproducing that allocation on an explicit basis will be difficult to develop and to explain. This in turn means that VCERA would need to develop a new basis for sharing the cost of administrative expenses. Alternatively, VCERA could decide to treat administrative expenses as a loading applied only to the employer contribution rates, which is the practice followed by private plans, both single employer and multi-employer.

5. As the Board is aware, legislative changes under AB 340 imposed major modifications to both the level of benefits and the cost-sharing of the funding of those benefits for county employees' retirement systems. Included in such modifications is the requirement (for future hires) to fund the Normal Cost on a 50:50 basis between the employer and the employee. As noted in (3) above, under current practice, part of the implicit funding of administrative expenses is in the Normal Cost and so would be shared between the employer and the employees. This would not necessarily continue when the administrative expense loading is developed separate from the Normal Cost.

Based on these considerations, it is our recommendation that the Board adopt a change in the funding of administrative expenses from the method described in (2) above to the method described in (1). This would result in a single investment return assumption used for both funding and financial reporting purposes.

As described earlier, we also recommend that the Board leave the investment return assumption at 7.75%, thereby slightly increasing the confidence level associated with achieving that assumption. The following table summarizes the components of the investment return assumption as adopted by the Board for the June 30, 2012 actuarial valuation and those that we recommend be used for the June 30, 2014 actuarial valuation.[2]

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2012 Adopted Values	June 30, 2014 Recommendation
Inflation	3.25%	3.25%
Plus Portfolio Real Rate of Return	5.31%	5.31%
Minus Expense Adjustment	(0.40%)	(0.28%)
Minus Risk Adjustment	(0.41%)	(0.53%)
Total	7.75%	7.75%
Confidence Level	54%	56%

In addition, we recommend that a separate, explicit administrative expense load assumption be developed. There are various ways to set the explicit administrative expense load assumption, but ultimately the method should result in an assumption that is approximately equivalent to 0.12% of assets or $4 million annually.

The more significant issues mentioned in (3), (4) and (5) above concern whether or not the costs associated with the administrative expenses should continue to be allocated to both the employers and the employees. The most straightforward approach, which would in effect be a change from current practice, would be to allocate these expenses to the employers only. A more complex approach would involve continuing to allocate these expenses to both the employers and the employees on some basis. As noted in (4) above, that approach will need to be developed from scratch as the current implicit allocation will be difficult to reproduce.

We have determined that the member portion of the cost associated with the current implicit administrative expense assumption that is part of the assumed investment return is about 0.2% of payroll (or $1.3 million annually) in the aggregate based on the June 30, 2013 actuarial valuation. The rest of the expected cost associated with the administrative expenses is currently borne by the employer and as noted above, is difficult to determine.

If the Board decided to allocate all of the expected administrative expenses to the employer only, then the increase in cost to the employer of using an explicit expense assumption would

[2] Note that the June 30, 2013 valuation results that will be "rolled forward" to June 30, 2014 for financial reporting purposes will be based on a 7.75% assumption that is gross of (i.e., not reduced for) administrative expenses. This would also apply to any earlier valuation results that might need rolled forward.

be about $4 million annually or 0.6% of payroll. This is the combined effect of not increasing the investment return assumption (opting instead for an increased confidence level) and allocating the entire expected administrative expense to the employer.

If the Board decides that the expenses should continue to be allocated to both the employers and the employees, then due to the potential complexities involved, we would need to come back to the Board at a later time with potential options for accomplishing that.

Unless otherwise noted, all of the above calculations are based on the June 30, 2013 actuarial valuation results including the participant data and actuarial assumptions on which that valuation was based. That valuation and these calculations were completed under the supervision of John Monroe, ASA, MAAA, Enrolled Actuary.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please feel free to call us with any questions and we look forward to discussing this with the Board.

Paul Angelo
Paul Angelo, FSA, MAAA, FCA, EA
Senior Vice President & Actuary

John Monroe
John Monroe, ASA, MAAA, EA
Vice President & Associate Actuary

AW/gxk

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 · Fax: (805) 339-4269
http://www.ventura.org/vcera

April 7, 2014

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: SACRS VOTING DELEGATE

Dear Board Members:

Staff recommends the appointments of a voting delegate and alternate voting delegate for the May 2014 SACRS (State Association of County Retirement Systems) conference. As you are aware, each member retirement system is expected to participate and vote at the SACRS Business Meeting. To date, only the recommended Board of Directors slate has been presented to member systems for consideration. If any further SACRS business meeting items are presented, then staff will ensure that those items are reviewed by your board prior to the May 16, 2014 SACRS Business Meeting.

I will be pleased to respond to any questions you may have on this matter at the April 7, 2014 disability meeting.

Sincerely,

Tim Thonis

Attachment

SACRS MEMORANDUM

April 1, 2014

Attn: SACRS Administrators
From: Raymond McCray, SACRS Nominating Committee Chair
SACRS Nominating Committee
Re: SACRS Board of Directors Elections 2014/2015 – Final Ballot

Per SACRS Bylaws, Article VI ~ Section 2 – Election, Qualification and Term of Office

"The officers of SACRS shall be regular members of SACRS. The officers shall be elected by majority vote of the quorum of delegates and alternate delegates present at the first meeting in each calendar year and shall hold office for one (1) year and until a successor is elected."

Per SACRS Bylaws, Article VI ~ Section 4 - Officer Elections

"…The Board of any regular member County Retirement System may submit write-in candidates to be included in the Nominating Committee's final ballot provided the Nominating Committee receives those write-in candidates prior to March 25th.
The Nominating Committee will report a final ballot to each regular member County Retirement System prior to April 1.
The Administrator of each regular member County Retirement System shall be responsible for communicating the Nominating Committee's recommended ballot and final ballot to each trustee and placing the election of SACRS Officers on his or her Board agenda. The Administrator shall acknowledge the completion of these responsibilities with the Nominating Committee…"

Below is the final ballot/slate – As in the past, a voting delegate may entertain a motion to vote by individual officer positions or by complete ballot/slate. Please be sure to authorize your voting delegate to vote either way.

The elections will be held at the upcoming SACRS Spring Conference May 13 – 16, 2014 at the Sheraton Grand Sacramento Hotel, Sacramento, CA. Elections will be held during the Annual Business meeting on Friday, May 16, 2014.

Please distribute the ballot/slate to all standing/eligible board members for approval and authorization for your voting delegate. As stated above, Administrators are required to send acknowledgement of completion to our office at sulema@sacrs.org.

Continued

SACRS Nominating Committee Recommended 2014-2015 Slate:

President	Yves Chery, Los Angeles CERA
Vice President	John Kelly, Sacramento CERS
Treasurer	Dan McAllister, San Diego CERA
Secretary	Zandra Cholmondeley, Santa Barbara CERS

If you have any questions or require assistance, please contact me directly at 209-468-2163 or raym1@sbcglobal.net. Thank you for your prompt attention to this timely matter.

Sincerely,

Raymond McCray

Raymond McCray, San Joaquin County
SACRS Nominating Committee Chair

CC: SACRS Board of Directors
SACRS Nominating Committee Members
Sulema H. Peterson, SACRS Administrator

RMC:shp

Introducing the Public Employee Policy Forum | September 15-16, 2014 | Washington, DC

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International Foundation OF EMPLOYEE BENEFIT PLANS

Public Employee Policy Forum

In depth look at Retirement Plan changes featuring original International Foundation research

September 15-16, 2014 | Washington, D.C.

Join us in September for the first ever Public Employee Policy Forum!

What happens when industry thought leaders come together to discuss and analyze world-renowned retirement research - including original research conducted by the International Foundation? A powerhouse forum that may change the way you view retirement bnefits.

This is the first time information from both sides of the issue, covering defined benefit (DB) and defined contribution (DC) plans will be reviewed and discussed - at one time in one place.

Schedule:

September 15, 2014 - 8:00 am - 3:30 pm
Focus will be on Defined Benefit Plan issues

September 16, 2014 - 8:00 am - Noon
Focus will be on Defined Contribution Plan issues

Space is limited. Register today to secure your spot for this event.

SAVE THE DATE!

Program Dates: September 15-16, 2014

Register Online

Register Fax/Mail

Please use priority code 1426C

Registration Fees Through August 4

Member: $890.00
Nonmember: $1,090.00

Hotel Informtion

Loews Madison Hotel

$309 single/double
Mention the International Foundation and book by August 15, 2014 to receive this special rate.

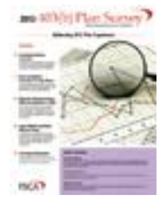
Upcoming Programs

Benefit Communication and Technology Institute
July 14-15, 2014
San Jose, California

Certificate of Achievement in Public Plan Policy
(Held in conjunction with 60th Annual Employee Benefit Conference)
October 11-12, 2014
Boston, Massachusetts

60th Annual Employee Benefits Conference
October 12-15, 2014
Boston, Massachusetts

Related Reading



PSCA's 2014 403(b) Plan Survey

Connect With Us

Dear Tim:

You are cordially invited to the 2014 Adams Street Partners Client Conference. As in the past, we are offering the conference in two locations – London and Chicago. Details for both venues are provided on the agendas and a summary of each follows:

London Venue: Four Seasons Hotel London at Park Lane
Wednesday, 21 May: Conference – full day of topical presentations and discussions

London Agenda

I will attend I will not attend

Chicago Venue: Four Seasons Hotel Chicago
Wednesday, June 4: Addional Sessions

Welcome Reception/Dinner
Ditka's Restaurant
100 East Chestnut St

Thursday, June 5: Conference – full day of topical presentations
and discussions plus post-conference reception

Chicago Agenda
Chicago Additional Sessions

I will attend **I will not attend**

We look forward to this opportunity for our clients to meet and visit with one another, participate in formal and informal discussions with General Partners, as well as spend time with our staff. The conference provides a great atmosphere to make lasting contacts and to develop a better understanding of Adams Street Partners' philosophy, process and strategy.

In order to assist us, please indicate your intentions for attendance by using the links above by Friday, May 16th or at your earliest convenience. Once registered, you will receive more information about hotel reservations.

We encourage you to share this invitation with anyone in your organization. If you have any questions or comments, please let us know. Our Conference Coordinator, Melissa Lefko (phone: 312.553.8491, e-mail: mlefko@adamsstreetpartners.com), would be happy to assist you in any way she can.

Sincerely,

T. Bondurant French

T. Bondurant French, CFA
Chief Executive Officer
312.553.8480

Kevin T. Callahan

Kevin T. Callahan, CFA
Chief Operating Officer
312.553.4473

This invitation was also sent to Henry & Tracy

Update your contact details | Opt Out of all firm communications