

BOARD OF RETIREMENT MINUTES 4-14-11

PRESENT

Les Robbins, Chair
Simon S. Russin, Vice Chair
Yves Chery, Secretary
Marvin Adams
Sadonya Antebi
Alan Bernstein
William de la Garza
Shawn R. Kehoe (Alternate Member)
Mark J. Saladino

ABSENT

Ed C. Morris (Alternate Retired)
William R. Pryor

STAFF ADVISORS AND PARTICIPANTS

Gregg Rademacher, Chief Executive Officer
Robert Hill, Assistant Executive Officer
Janice Golden, Assistant Executive Officer
Robb Van Der Volgen, Chief Counsel
Johanna Fontenot, Senior Staff Counsel
Cynthia Lau, Legislative Affairs Officer
Cassandra Smith, Director, Retiree Health Care Division
Clay Levister, Mercer
Bernardo Buenaflor, Manager, Claims Processing
John McClelland, (Interim Chief Investment Officer) Principal Investment Officer, Real Estate
June H. Kim, Senior Investment Officer, Equities
Robert L. Schmidt, FSA, EA, MAAA Fellow, Society of Actuaries, Milliman
Janet Jennings, ASA, MAAA, Milliman
Paul Angelo, FSA, MAAA, FCA, EA Senior Vice President and Actuary, Segal
Helen Wise, Attorney at Law
Joceyln Kersh
Mark Klein, SEIU 721

I. CALL TO ORDER

The meeting was called to order by Chair Robbins at 9:00 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Adams led the Board Members and staff in reciting the Pledge of Allegiance.

III. OTHER COMMUNICATIONS

A. For Information

1. March 2011 All Stars

Mr. Hill announced the eight winners for the month of March; Derwin Brown, Blanca Medina, Flora Zhu, Nicole Howard, Wenona Meyers, Nancy Harper, Andrea Ellison, and Clarence Malone for the Employee Recognition Program. Raymond Boncato was the winner of LACERA's Web Watcher Award. Deanna Hernandez, Justin Lewis, Wilma Kung, and Dmitriy Khaytovich were the winners of LACERA's RideShare Program.

2. Chief Executive Officer's Report (Memo dated April 7, 2011)

Mr. Rademacher introduced John Nogales as LACERA's Human Resources Director.

Mr. Rademacher provided a brief overview of his Chief Executive Officer's Report with emphasis on Governor Brown's pension reform proposal. Additionally, the Los Angeles County Board of Supervisors released a proposed set of retiree health care reforms to be discussed with the unions. As of yet there have been no discussions with the County regarding these reforms. A copy of the proposals was emailed to LACERA Board Members. Staff anticipates meeting with the Los Angeles County Chief Executive Office to discuss the proposals and will keep the Board informed.

Mr. Rademacher reported that he along with Messrs. McClelland, Van Der Volgen and Ms. Kim met with the Los Angeles County Chief Executive Officer to discuss the Retiree Health Care Trust. They discussed a servicing agreement wherein the Board of Investments would invest monies on behalf of L.A. County.

After canvassing all Board Members on availability for scheduling two budget hearing dates the following days were selected: Wednesday, April 27th and Tuesday, May 17th both of which are scheduled to begin at 9:00 a.m.

Labor contracts between LACERA and its employees expire at the end of 2011. SEIU Local 721 has contacted LACERA and expressed an interest in extending its current contract. The Board will be apprised of upcoming meetings to be scheduled.

IV. NON-CONSENT AGENDA

A. Information only as submitted by Gregg Rademacher, Chief Executive Officer: Los Angeles County Other Postemployment Benefits Program — Experience Study and Actuarial Valuation. (Memo dated April 5, 2011.)

2010 Experience Study

2010 Actuarial Valuation

Milliman

Robert L. Schmidt, FSA, EA, MAAA Fellow, Society of Actuaries

Janet Jennings, ASA, MAAA

Actuarial Review of 2010 Experience Study

Audit of 2010 Actuarial Valuation

Segal

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

Mr. Rademacher introduced Mr. Schmidt and Ms. Jennings of Milliman. A report and slide presentation was conducted by Mr. Schmidt and Ms. Jennings on the Experience Study

and Actuarial Valuation of the Los Angeles County Other Postemployment Benefits (OPEB) Program through June 30, 2010, covering the retiree medical, dental/vision, and life insurance benefits for retired Los Angeles County workers.

Mr. Rademacher also introduced Mr. Angelo of The Segal Company who reported the results of the actuarial audit of the OPEB Program's Experience Study and Actuarial Valuation through June 30, 2010.

A brief discussion ensued and the report was received and filed.

Mr. Hill thanked Ted Granger from LACERA Internal Audit, for all his hard work in coordinating and managing this project.

- B.** Recommendation as submitted by Cassandra Smith, Director, Retiree Health Care Division: That the Board approve the rate renewal proposals and benefit changes for LACERA's 2011-2012 Retiree Health Care Benefits Program, listed by carrier, and administrative fees. (Memo dated March 30, 2011.)

Ms. Smith reported to the Board that there was an overall renewal increase of 4.2% (approximately \$18.1 million). The amount reflects a \$10.6 million reduction from the original renewal proposals resulting from recent renewal negotiations. The projected annual program cost for the 2011-1012 plan year will be approximately \$449.3 million.

For the 2011-2012 plan year the PacifiCare pre-65 HMO plan will exceed the benchmark plan. Additionally, SCAN Health Plan participants will see an increase of 47.1% in premiums, effective July 1, 2011, due to discontinuance of the Federal Government's funding. Therefore, staff request that the Board allow those participants a temporary waiver of the six-month waiting period policy to transfer plans.

A motion was made by Mr. Chery, seconded by Mr. Kehoe, to 1) Approvethe rate renewal proposals and benefit changes for LACERA's 2011-2012 Retiree Health Care Benefits Program, listed by carrier, and administrative fees; 2) Authorize staff to temporarily waive the standard six-month waiting period policy by allowing members and dependents currently enrolled in the PacifiCare pre-65 HMO plan, CIGNA MA-PD members residing in Arizona, and the SCAN Health Plan to transfer medical plans effective June 15 through August 15, 2011.

The following summarizes the result of the contract negotiations by Mercer and LACERA's staff for rate renewal and benefit change proposals for the 2011-2012 Retiree Health Care Benefits Programs and administrative fees effective July 1, 2011.

Anthem Blue Cross Plans I, II and III

- Accept the 3.0% overall increase with the following separate decreases/increases:
 - Accept the 2.5% decrease on Plans I and II
 - Accept the 13.7% increase on Plan III
- Retain the current In-Patient hospitalization benefit at current levels

Anthem Blue Cross Prudent Buyer Plan

- Accept the 16.5% increase and retain the 5% retrospective premium feature in the event that claims plus expenses exceed the billed premium
- Retain the current In-Patient hospitalization benefit at current levels

Kaiser California

- Accept the 5.7% overall increase with the following separate increases:
 - Accept the 7.7% increase and mandatory plan design changes on the Basic/pre-65
 - Accept the 2.3% increase and mandatory plan design changes on Senior Advantage
 - Accept the Medicare Cost increase of 2.7%

PacifiCare/Secure Horizons

- Accept the 2.2% overall increase with the following separate increases:
 - Accept the rate pass of 0.0% on the Secure Horizons Plan and the mandatory plan design changes
 - Accept the 3.3% increase on the pre-65 HMO and the mandatory plan design changes

CIGNA Medical

- Accept the 4.6% overall increase with the following separate increases:
 - Accept the 4.4% increase for the pre-65 HMO and the mandatory plan design changes
 - Accept the 29.4% increase for the MA-PD HMO and the mandatory plan design changes

Kaiser — Out-of-State

- Accept the Kaiser Interregional final overall increase of 7.3% with the following separate increases:
 - Accept the Kaiser Colorado final increase of 12.3%
 - Accept the Kaiser Georgia final increase of 2.2%
 - Accept the Kaiser Hawaii final increase of 17.5%
 - Accept the Kaiser Oregon final increase of 6.9%
 - Accept the mandatory plan design changes for all locations

SCAN

- Accept the 47.1% increase and mandatory plan design changes

CIGNA Dental and Vision

- Accept the 1.1% overall increase with the following separate decreases/increases:
 - Accept the 1.7% rate increase on the indemnity dental plan
 - Accept the rate pass of 0.0% on the vision plan
 - Accept the 4.0% rate decrease on the pre-paid dental with the co-pay schedule change

Administrative Fee

Approve the continuation of the flat monthly fee of \$3.00 per plan per retiree to pay for LACERA's administrative expenses (including consulting, vendor fees, and internal administration).

After a brief discussion among staff and the Board the motion was voted on.

The motion passed unanimously.

- C. Information only as submitted by Cassandra Smith, Director, Retiree Health Care Division regarding Anthem Blue Cross I, II, III and Prudent Buyer Plans, and CIGNA Indemnity Dental/Vision Premium Holiday. (Memo dated April 1, 2011.)

The County of Los Angeles Chief Executive Office notified LACERA of their desire to implement five Premium Holiday months for the Anthem Blue Cross I, II, III, Prudent Buyer Plans, and four Premium Holiday months for the CIGNA Indemnity Dental/Vision Plan. A Premium Holiday is a temporary period in which the monthly premium costs for both the Plan Sponsor and affected members are waived.

Notification letters are scheduled to be mailed to members prior to the April 30th pay period.

- D.** Recommendation as submitted by Cynthia Lau, Legislative Affairs Officer: That the Board adopt a "watch" position on Senate Bill 203 relating to the filling of Board vacancies and prohibition on restricting participation of Alternate and Alternate Retired Board Members. (Memo dated April 4, 2011.)

SB 203

The Insurance, Benefits and Legislative Committee adopted a "Watch" recommendation to the Board on Senate Bill 203 at its March 2, 2011 meeting.

The bill was subsequently amended on March 31, 2011 to provide that when filling an elected member position (excluding the seventh member or alternate seventh member) on the Board of Retirement, if the remaining portion of the current term is six months or less on the date of the election, "a single election" may be held to fill the vacancy for the remainder of the current term and to fill the position for the succeeding term.

The term "a single election" replaced the term "concurrent elections" because "concurrent" could be interpreted to mean two elections held at the same time for two different candidates. That was not CRCEA's intent.

Staff noticed that this change was not made to the section of the bill relating to the Board of Investments and sent an email to CRCEA's Legislative Committee Chair to notify him of the discrepancy.

A motion was made by Mr. de la Garza, seconded by Mr. Adams, to take a "watch" position on SB 203.

The motion passed with Ms. Antebi voting no.

- E.** Recommendation as submitted by Les Robbins, Chair, Insurance, Benefits and Legislative Committee: That the Board adopt an "oppose" position on HR 567 and S 347, which create the "Public Employee Pension Transparency Act". (Memo dated March 23, 2011.)

HR 567 & S 347

HR 567, known as the "Public Employee Pension Transparency Act", was introduced on February 9, 2011 by U.S. Representative Devin Nunes [R-CA]. (It is a reintroduction of HR 6484 which was introduced and failed passage at the end of last year's legislative session.)

An identical companion bill, S 347, was subsequently introduced by U.S. Senator Richard Burr [R-NC] on February 15, 2011.

According to the sponsors, public pension plans are getting closer to insolvency and there is a lack of meaningful disclosure regarding the value of state and local pension plan assets and liabilities.

Passage of the bills would amend the Internal Revenue Code to establish federal accounting and disclosure standards related to funding status, unfunded liabilities and actuarial assumptions for state and local public employee pension plans. Perhaps most significant, plans would have to include supplemental reports on plan assets and liabilities based on the U.S. Treasury obligation yield curve rate. State and local governments that failed to comply with the reporting requirements would be denied the ability to issue federal tax-exempt bonds.

In addition, the bills make a statement that the United States shall not be liable for any obligation related to any current or future shortfall in any state or local government employee pension plan (i.e. no Federal bailout).

Supporters believe that the unfunded liabilities of state and local pension plans have reached crisis proportions with no solution in sight and that one solution governments may turn to as a source of funding is further taxation of private sector employers and workers.

Opponents believe that this legislation challenges the validity of current state and local government accounting rules and practices and would mandate inappropriate federal reporting requirements on state and local governments regarding their pension costs. In addition, the legislation sets a precedent for federal intervention into areas that are the financial responsibility of, and have thus been historically regulated by, the states and/or localities.

LACERA's Board of Investments adopted an "Oppose" position on the bills at their meeting on March 9, 2011.

Mr. Klein addressed the Board and spoke in opposition of HR 567 and S 347.

A motion was made by Mr. Chery, seconded by Mr. de la Garza, to take an "oppose" position on HR 567 and S 347. The motion passed unanimously.

F. Information only as submitted by Cynthia Lau, Legislative Affairs Officer regarding Amended Senate Bill 27 — "Pension Spiking" and "Double Dipping". (Memo dated April 5, 2011.)

Ms. Lau informed the Board that at its February 10th meeting, the Board adopted a "watch" position on this bill. The bill was amended on March 3, 2011 and now only applies to CalSTRS and CalPERS.

V. PUBLIC COMMENT

Ms. Wise spoke on behalf of her client Joceyln Kersh requesting waiver of interest and contributions.

VI. GOOD OF THE ORDER

(For discussion purposes only.)

Mr. Chery thanked Carlos Barrios for all his time and effort in always assisting him in his dealings with LACERA members.

Mr. Van Der Volgen, as well as the Board, commended Ms. Lau on the phenomenal job she has been doing in keeping the Board apprised of all the many changes taking place within the legislature.

VII. EXECUTIVE SESSION

- A. CONFERENCE WITH LEGAL COUNSEL — ANTICIPATED LITIGATION** (Subdivision (b) and (c) of California Government Code Section 54956.9)
1. Significant exposure to litigation pursuant to subdivision (b) of Section 54956.9 and initiation of litigation pursuant to subdivision (c) of California Government Code 54956.9: Claim of Joceyln Kersh
- B. CONFERENCE WITH LEGAL COUNSEL — ANTICIPATED LITIGATION** (Subdivision (c) of California Government Code Section 54956.9)
1. Initiation of litigation pursuant to subdivision (c) of California Government Code Section 54956.9: One Potential Case The Board met in Executive Session to discuss the above claims and/or cases with its legal counsel. The Board reconvened in open session, at which time Mr. Van Der Volgen reported that the Board met in Executive Session. In the case of Joceyln Kersh, the Board unanimously gave direction to Legal Counsel. Counsel will move forward based on the Board's recommendation. Counsel also conferred with the Board in the matter of one potential case . Legal staff briefed the board on that matter.

Green Folder Information

(Information distributed in each Board Member's Green Folder at the beginning of the meeting.)

1. LACERA Legislative Report —Bills Amending CERL. (Dated April 6, 2011.)
2. LACERA Legislative Report — Other.(Dated April 6, 2011.)
3. "Floor Alert" memo from Greg Rademacher, Chief Executive Officer, LACERA, to All Senate Members, regarding: SB 637 (Committee on Public Employment and Retirement) — Support. (Memo dated April 12, 2011.)
4. Slide presentation booklet as presented by Robert Schmidt & Janet Jennings of Milliman, regarding Los Angeles County Other Postemployment Benefit Program July 1, 2010 Actuarial Experience Study and Valuation Results.

VIII. ADJOURNMENT

 An image of a glass partially filled with liquid. Over the image is written, "How We See It," the theme for LACERA's 2011 annual report.