Peralta Community College District
Retirement Board Meeting Minutes
May 11, 2011

Members Present: Trustee Bill Riley, Trustee Bill Withrow, and Trustee Cy Gulassa, Vice Chancellor Ron Gerhard, and Vice Chancellor Trudy Largent.

District Staff: Chancellor Wise Allen, Joseph Bielanski, Jennifer Seibert, Jerry Herman (Peralta Retirees' Org.) and Joanna Bowes (KNN Public Finance).

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:05PM	
III. Approval of Agenda	• Motion (Withrow, Largent) to approve the May 11, 2011 agenda. APPROVED.	
IV. Approval of Minutes	• Motion (Withrow, Largent) to approve the April 13, 2011 minutes. APPROVED.	
V. Correspondence	• None	
VI. PCCD Retiree Benefits Jennifer Seibert	• Two handouts: Benefits newsletter and PowerPoint presentation. • Currently our actuarial accrued liability is at $147 million from Bartel's report. This fiscal year, we are expected to spend $13 million for the pay-as-you go benefits. • Pre 2004 employees received lifetime benefits at the District's cost. Post 2004, benefits continues to age 65. The district doesn't pay for surviving spouse's benefit. The surviving spouse is billed if they would like to keep the benefit. Payment arrangements are made directly with our vendors. • The district doesn't pay for dental insurance, unless the retiree/dependent is enrolled in Kaiser's Senior Advantage Plan. • There are two ways to confirm if an employee is alive: 1. Via an interactive database at rootweb.com. 2. Via mailing – the returned envelope would with a note that the addressee is deceased. • Reimbursement of Medicare Premium Documentation: a) Not required prior to 2005 b) Required in early 2005 c) Reimbursed quarterly • Life insurance continues to age 66 regardless of the retirement date. It costs $2000 per month for the group. • Of the 343 people in CoreSource, 72 people are not coordinated with Medicare. • Of the 247 people on Kaiser, 49 are not coordinated with Medicare. • Outreach efforts were unsuccessful. • Contract language dated as far back as 1991 states: **Section E.2a:** "Those retirees who are eligible for	

	Federal Medicare Part A coverage at age 65 shall apply for such coverage, so long as there is no additional cost to the retiree." **Section E.2b:** "Retirees eligible for Medicare Part B are not required to enroll in that program so long as it requires payment." **Section E.2c:** "The District, at its sole option, can request an eligible retiree to enroll in Part B (or Part A, if the Federal Government ever requires the retiree to pay for Part A benefits) if the District pays 100% of the current and future costs of the Medicare Premium." • Per Trustee Gulassa, the word "shall" implies that it is a contractual obligation. • Per Trustee Withrow and Gulassa, if there is a rule, it must be complied with unless they have a valid reason such as hardship. • Per VC Largent, PFT was very vocal and active in getting that language changed to "shall" to assist the district with getting the reimbursements for the Medicare. The district has not strictly enforced it. • Chancellor Allen suggests working out the details and putting people on notice. • The cost of the retirees on Medicare versus not is based on utilization. VC Gerhard gave an example of a retiree not enrolled in Medicare, who created a claim of over $800,000. Since the retiree had no other insurance, the district had to pay $170,000 plus. The stop loss insurance covered above that. Had the person had Medicare, the amount Peralta paid would have been significantly less than $170,000. • Open enrollment ended in March 2011. Before or during October, a letter will be sent in an effort to reach out to the 200 retirees and spouses. HR will work with the Benefits department to coordinate with Mr. Herman to jumpstart the Medicare enrollment campaign. • Trustee Gulassa hopes we it can be done in a nonaggressive manner. We should explain our state of affairs, that the contract that is binding (obligatory), our financial situation and the consequences. The letter should be signed by our legal counsel or attorney. • Trustee Gulassa informed Mr. Herman that when PFT has their meetings, anyone of the Retirement Board members can attend and explain why this has to be. • We received a subsidy from the Federal government for retirees over age 65 and are enrolled in our self funded	

	insurance program based on prescription drug usage from Caremark. From Kaiser, we received a discounted premium that is built into our renewal premium. From 2005 to 2006, we received a subsidy for $100,000. The subsidy received was based upon the utilization of the prescription drug benefit. We had to file for that subsidy. • We have many models of a Kaiser contract: a Kaiser traditional plan, a Kaiser senior advantage plan, a Kaiser out of area plan, as well as a Kaiser Atlanta and a Kaiser Washington, (For retirees that go out of state. we honor the spirit of what the employee retired under.) • Trustee Gulassa gave an example of the alternative solution to co-pays that Foothill De Anza Community College District is using. • Trustee Withrow suggested setting Kaiser as a baseline and if people want to stay with CoreSource, they can pick up the differential. • We are anticipating more revenue as part of Healthcare reform. The Federal government has set aside $5 billion in financial assistance for governmental institutions that are paying for retirees age 55 or older and are not yet qualified for Medicare. Application process started in June/July of last year. Peralta applied and was approved but has not received the money. • VC Largent added that a number of districts hired a consultant for the application process. We utilized in-house talent. • VC Gerhard stated that there is no commitment or obligation upon the district for participation. We are not counting on the cash until we receive the check. There is no guarantee that we will receive it this year. We are treating it as an "IOU" but not accounting for it from a budget perspective until we see the check. • Trustee Gulassa thanked Ms. Seibert for the fact that we did not rely on outside help.	
VII. Expansion of Membership Vice Chancellor Gerhard	• If we were to expand the membership, we will need to go from this meeting to the Board of Trustees (BOT). The BOT has the purview to add membership. • Trustee Withrow made a proposal to: 1. Retain the five members but to develop two standing/ formal advisory committees. One made up of three retirees covering various stratification of the retiree community. The other with three representatives, one from each of the three unions that we have.	

	2. Incorporate the membership into the bylaws. 3. Meet as a whole each time. The advisory committees will get all information from the packets and any kind of communication going to the Board members. 4. They can engage in dialogue but cannot vote. 5. Three members of the basic Board are still needed in order to have a quorum. • Trustee Riley shared that he is not against the addition of the advisory committees but was unsure if it the right time to do so. • Per Trustee Gulassa, we are not advocating but were directly asked by the accreditation team, when and not if, we are augmenting the Retirement Board. The only issue is voting on financial issues. • If it is the will of the Retirement Board, VC Gerhard will provide the language as captured from Trustee Withrow, insert it into the bylaws, and bring it back to the next meeting in June. It won't deter us from getting the underwriters or bond counsel on board. • The proposal would be brought back in draft language, if acceptable, then it would be voted in and then ask the constituent to appoint three advisories. They would be invited to a subsequent meeting.	
VIII. Investment performance review Vice Chancellor Gerhard	• Bill from Neuberger Berman could not be here today, but will be at the next meeting. He supplied this information on the preliminary performance estimate through April 30, 2011. • The column on the left gives the asset classes. The first one is the fixed income (bond performance) with a market value as of April 30, 2011 of $53,242,963. • Percentage of the total portfolio is 30.29% • Looking at fixed income as an example, for the last three months, the return on performance is 1.87% and YTD is 2.16%. • Our investment value as of April 30th is $175,770,516. YTD return on portfolio is 8.48%; out pacing our benchmarks. • Another one page document was handed out with comparisons of CALPERS, CALSTRS, and Peralta's investment as of June 30, 2010. • If the return continues to be positive, there is a projection in the future that income will catch up to liabilities. There are a lot of assumptions and variables involved, which will be reflected in our actuarial study.	

IX. Irrevocable/revocable trust Vice Chancellor Gerhard	• Provide more clarity in terms of program structure: a little different from what it had been in the past and some modeling in the foreseeable future. What assumptions need to ring true so that over time we will have enough assets to offset liabilities and what it means afterwards. • Recent action taken on OPEB: the Board of Trustees approved two recommendations: 1. Terminate the first tranche that we are currently paying money on 2. Restructure the debt service payment from this FY 2010-11 to manage a spike in 2016 • In addition, the BOT approved the Peralta Retirement Policy that is distinct and separate from the Retirement Board Policy. • The BOT received and approved the new actuarial study which pegs the unfunded actuarial liability to $221 million. • The second slide provides a chart with numbers projecting the refinancing and what the debt service would look like. In 2016, there is a balloon payment scheduled. The push behind it is to manage that balloon payment and offset it with the general fund obligation. • Third slide is the program structure. A two way arrow shows periodic update to the BOT from the Retirement Board. • The first three slides were prepared for Dr. Allen and Tom Henry for their discussion with the accreditation team. The next two pages are new and would be sent to ACCJC. • Trustee Withrow asked if we have a Memorandum of Understanding (MOU) with KNN. If so, how detailed is the contract? • Per VC Gerhard and Ms. Bowes, we have a pretty detailed contract with KNN. • Trustee Withrow hopes to 1. Include language in the contract with KNN to analyze what we are doing and put it in lay language so that the Chancellor, CFO, and the Board can understand. It was requested prior and never took place. 2. Regarding SWAPs, the language that came to the Board and Chancellor, went from a variable to a fixed because interest rates was low. The benchmark was a 30 year fixed in a 30 day Libor. What are the ramifications so a reasonable person	Ms. Bowes affirmed that it is her job. She will try to put something in the contract to sound legally like that.

	can look at it and say there is tremendous variance? Hope that Ms. Bowes can provide that information for us. • We are restructuring to smooth out the annual payment and fluctuations. In addition, unique to our program, we have SWAPs – 6 tranches. The first tranche has come due effective August 2010. We are cutting checks every so often to pay the other party of the contract. We must devise a plan in the long run for 30 years to fund this actuarial liability. • Trustee Withrow asked if GASB said 30 years, why are we using 45? Ms. Bowes will try to find out why. Per VC Gerhard there is a disconnect. With GASB 45, we're supposed to amortize the ARC over 30 years but finance over 45. • Assets involved are made up of two components: 1. The investments are held in a trust with our custodian and our investment managers, Neuberger Berman. As of April 1st, the investment value is $175 million. 2. The asset that we have in the OPEB reserve fund is held locally at the county treasury, approximately $12 million. We are using those monies to help pay SWAP payments. Once we have an underwriter and a bond counsel, we will use that money to terminate the first tranche, approximately $3 million. • Expense side there are 4 components: 1. Out of the unrestricted general fund we pay annual medical expenses related to retirement benefits. Last year we paid approximately $20 million in medical expenses only. Last year, $9.7 million of that was attributed to retirees. 2. Debt service on the liabilities of the bonds - we paid $7.2 million from the general fund (principal and interest). 3. Expenditures out of the trust are to pay Neuberger, KNN, and in the future, the underwriter and bond counsel. 4. We are paying $153,000 to Morgan every five weeks to pay for the SWAP payment from the OPEB reserve fund with the county. • Negative cash flow from the trust: currently the amortization part, the difference between the $5.8 million and the $9.7 million, is not being paid from the trust. The difference is being paid for by the general fund	To include this information into the slide.

	unrestricted. That is money otherwise would have gone to the colleges. • Cash Flow Perspective: Arrows cash fund. According to rules from Federal and State Department of Education and accounting guidance, we are allowed to charge OPEB cost to categorical programs. Currently the OPEB charge is 12.5%, approximately \$6.5 million. On July 1, 2011, it will increase to16.9%. • OPEB charge is comprised of two components: 1. Pay as you go (current expense of that employee) 2. ARC – annual required contribution. Estimates what the future cost would be for that employee when they are of retirement age. **Monte Carlo Simulation** • Often used as financial forecasting model – quantify probabilities of certain things taking place. • Slide 1: Overview – Robust computer system: put in certain variables, runs 500 models throughout the simulation, takes the end result and quantifies it. • Slide 2: Summary Results – The forecast ending values are given in the 5th, 50th, and 95th percentile for two scenarios. Scenario A: looking at the 95% percentile (5% of the time) at the end of the 25 year period, the district would have \$1.7 billion nominal. At the 50th percentile, the district would have \$516 million. At the 5th percentile, it is at \$71 million. The average inflation over the next 25 years is set at 2.5%. The difference between scenario A and B is the return on investment (ROI) rate. • Slide 3: Asset Class Inputs – provides the variables inputted in the system, gives hypothetical return and standard deviation (risk) in the current portfolio. • Slide 5: Cash Flow and Taxes – looking from a cash flow perspective, the first column is the projected payroll, followed by ARC, contribution. Projected inflation, withdrawals, and net effect. • The last column is the net effect. There is a pattern of constantly taking more money out of the trust. This chart does not reflect the return on investment. • Slide 6: Scenario A Results: at the end of the 25 years, it shows what the net asset remaining would be based upon percentile. a) 95th percentile, \$1.7 billion b) 50th percentile, \$516 million c) 5th percentile, \$71 million	Trustee Gulassa requested to put on the next meeting agenda the explanation of option rate securities.

	• The numbers below that are adjusted for inflation. Keep in mind, the exercise of GASB 45, is to come up with a strategy/plan to fund the unfunded actuarial liability of $221 million. Everything being held constant, equal, and discounted on based upon inflationary rates so we can see what the nominal dollars are after inflation. The rosiest prediction, the greatest 5% return over 25 years, at the end we still have $943 million left. At the 50th percentile we will have $278 million, and at the 5th percentile we will have $38 million. • Scenario B is more conservative with lower ROI. • Morale of the story: 1. Devising a manageable plan over time to deal with the actuarial study and liability. 2. Devising a plan with Neuberger over time to achieve that goal. • The biggest thing we did was to charge the 12.5% OPEB charge in July of 2010. If not, we would have continually whittled down the trust to a point, regardless of the ROI; we would not have had the appreciation in the trust to build up the asset. • Chancellor Allen will be taking VC Gerhard with him to ACCJC meeting in June. VC Gerhard is currently working on writing a narrative to ACCJC. We are using the middle of the road at 50th percentile to achieve our goals to fund the actuarial liabilities. With the restructuring of the debt service and the cost of retiree health benefit, all work is toward that objective. • The objective in the next 6 months will be the revocable and irrevocable trust. • Why a 25 year timeline? Due to GASB 45, our amortization started in 2006.	
X. RFQ Vice Chancellor Gerhard	• Targeted the same pool targeted by the State of California • A few people had called VC Gerhard and Ms. Bowes. • A final draft of RFQ for bond counsel and securities counsel will be available by next Tuesday/Wednesday of next week.	
XI. Agenda Items For Next Meeting	1. Debt service side of the OPEB structure 2. Expansion – revise bylaws by providing language to include two advisory committees 3. Investment update – ask Neuberger regarding the track record on the Monte Carlo method 4. Payment of interest on OPEB bonds – draft policy needed to close the open ended line of credit.	
XII. Information	• Mr. Herman asked when we can expect the advisory	

Reports	board to be seated. • Per VC Gerhard, assuming everything run smoothly, it will go to the second Board of Trustees meeting in June. Hopefully by July.	
Adjournment:	6:06 PM	
Next meeting:	June 15, 2011 from 4:00 to 6:00PM	

Minutes taken: Sui Song
Attachments: All handouts for this meeting can be found at http://www.peralta.edu/apps/docs.asp?Q=1830