Peralta Community College District
Retirement Board Meeting Minutes
March 14, 2013

Present: Trustee Cy Gulassa, Trustee Bill Withrow, Trustee Riley, Vice Chancellor Ron Gerhard, Vice Chancellor Trudy Largent, Ava Lee-Pang, Michael Wirth, Tae-Soon Park, and Bill Wallace (Neuberger Berman (phoned in)), Joanna Bowes (Keygent LLC)
Absent: Jerry Herman, Odell Johnson and Ed Berman (Neuberger Berman)
Guests: Joseph Bielanski, Jennifer Seibert, Geoffrey Kischuk, Trustee Meredith Brown

Agenda Item	Discussion	Follow-up Action
Meeting Called to Order	4:11 P.M.	
III. Approval of Agenda	Motion (Gulassa, Withrow) to approve the March 14, 2013 agenda. APPROVED	
IV. Approval of Minutes	Motion (Gulassa, Withrow) to approve the December 13, 2012 meeting as amended. APPROVED	
V. Correspondence VC Gerhard	None	
VI. Investment Portfolio Review Bill Wallace Neuberger Berman	**Highlights:** Page 4: The portfolio was up 2.3% vs. 1.7%, for the overall policy benchmark for the 4th quarter of last year. Year-to-date, the portfolio was up 14.27% vs. 12.49, as compared to the benchmark. Page 5: The High Income Bond Fund portfolio is up 10.32%, compared to the overall bond portfolio last year. The Large Cap Discipline Growth portfolio is trailing its benchmark and has been for the trailing three years. This team runs about $14-$15 billion and is a very important part of Neuberger's overall line up. They have had a terrific long term track record. While this team had underperformed for three straight years, its philosophy in process and discipline is that they tend to underperform in the more speculative up market and do better in down or sideways markets. Socially Responsible Investing Group portfolio is at 12.95% compared to its benchmark of 10.32%. The	

	Genesis Fund is expected to lag in a stronger up market. It will be a good addition over time. As for Pinnacle Associates Small Cap Growth, it is up 19.82% vs. its benchmark of 7.9%. Overall, 2012 was a good year. Note: There is a bit of a mix and match in terms of inception dates. Page 7: In terms of net contributions, on balance, about \$3.4 million was taken out of the portfolio. Since inception on April 16, 2012, the portfolio is up \$14 million as of December 31, 2012. Page 16: Asset Allocation as of March 11, 2013. It is preferred to be underweight in the fixed income area and overweight in equities. In order to determine the next steps, it makes more sense to hear the discussion, do the analysis, and then come back to the Retirement Board with a more informed discussion. Trustee Meredith Brown was introduced to the Retirement Board. There will be discussion at the next Retirement Board meeting to add Trustee Brown as an alternative Board member. Trustee Brown asked how often long-term benchmark targets reassessed? Per Mr. Wallace, it is updated at least quarterly. Strategic views are to be examined on an annual basis. Changes to the strategic views are usually related to the changes from the actuarial report.	
VII. Actuarial Study Geoffrey Kischuk Total Compensation Systems	Per the minimum standards under the pronouncement of GASB 45, districts need to undergo an actuarial study, at minimum, every two years. The last study was done in 2010. Total Compensation was commissioned to conduct the 2012 study. The actuarial study is being presented to the Retirement Board and later to the Board of Trustees, at their March 26, 2013 Board meeting. In the spring, Neuberger will bring recommendations as to how it would be applied to our investment strategy.	

Mr. Kischuk has conducted actuarial studies for 61 of the 72 districts in the State of California. He has done material evaluations for over 20 years, mainly for school agencies. He also has long and broad experience with retiree benefits.

Note: Peralta does not have an irrevocable trust; therefore Peralta's asset balance is not allowed to be reflected in the report. The report assumes no asset.

Highlights:

Page 11: Liabilities is at $174,703,920 as of October 31, 2012. According to Total Compensation's calculations, Peralta has more assets than liabilities. That is different from the 2010 report. Two years ago, there was a shortfall of $69 million.

3 Reasons:

1. Since June 30, 2010, asset values have increased from $144 million to $186 million. Liability also increased dramatically from 2008 to 2010 due to a $49 million claim adjustment. Mr. Kischuk worked with Jennifer Seibert to research the item.
2. Two years ago, the trend numbers increased. Now we are seeing it decrease because Peralta has taken steps to reduce the impact of higher healthcare cost on its budget. Peralta has put in place plan changes such as employee contributions.
3. Historically, we have been using a 3% long-term inflation rate but CalPERS recently lowered their rate to 2.75%. We are intending to follow CalPERS to 2.75%. Normally, we are looking at the long-term rate over 30 years. If you look at the last 30 years, it is a little higher because the early 80s had very high inflation rates. The rest of the 80s were lower, but still high at 4.5 to 5%. As those early 80s rates drop off, the average rate is about 2.5%. Historically, a trend rate of 7% was

	used, but was based on a 3% inflation rate. Mr. Kischuk is assuming that if healthcare cost does increase too fast, something will need to be done to mitigate it. Every two years, we will revisit this and get the true up. In the report, it is assumed that over the long run healthcare cost will continue to exceed inflation by 1.25%. Peralta's Annual Required Contributions (ARC), if we were to include the asset balance of $180 million (as of October 21, 2012), would have been $1 million. On top of that, it does not include the reserve account. If we were to include the reserve account, Peralta's ARC would be $0.5 million (does not include debt service). Concern was expressed by Trustee Withrow in referring to the $188 million as net asset. It should be an asset because we still need to address the liability which makes the net asset substantially less. Per VC Gerhard, as of June 30, 2012, the value of all the debt service is approximately $275 million (related to OPEB debt service itself) and is not reflected in the actuarial study of $172 million. Revocable vs. Irrevocable Trust Peralta should look at all options regarding the timing and amount going into the irrevocable trust. Mr. Kischuk expressed concern that the irrevocable trust might grow larger than the liability and nothing could be done to unwind it. Per Mr. Kischuk, the benefits are being earned at a much slower rate now. What he shows is that the liability will grow by $2 million per year even if we were to take all the money out to pay for retiree benefits. The interest on the fund is 6.75%, which would be enough to cover that. If we put more than $1 million per year into the fund, we may never be able to get it back. Per VC Gerhard, we have three different levers/mechanisms in our unique	

	funding model and liability. The $9.7 million was a withdrawal to cover current expenditures for current retirees and to reimburse the general fund. According to the lasts Monte Carlo analysis with a five year extrapolation, taking out $9 million per year and adding $7 million per year to the trust, would net an outflow of $2 million per year. Then, when you add an annual return of 6.75%, we will have an increase because of appreciation. It assumes a positive annual rate of return over the next 25 years which would cover our liability. Mr. Kischuk was asked to provide a probability spectrum. Due to the many unknowns, it is difficult to apply statistics. The term confidence level also does not apply to health benefits, unless Neuberger Berman can guarantee the level of returns. However, Mr. Kischuk can provide a sensitivity analysis. The asset side can go up or down by a 1% difference. On the liability side, determine to what extent Peralta can control the liability contractually through collective bargaining. Concern was expressed by Trustee Withrow regarding protection for retirees. We do not have a management structure that prevents dipping into the fund for shortfalls. Note: On pages 5 and 19, for required service/vesting, SEIU has always been 10 years of service. Mr. Kischuk will check with Ms. Seibert.	
VIII. Information Reports VC Gerhard	none	
Adjournment:	5:33 PM	
Next meeting:	**June 13, 2013 from 4:00 to 6:00 PM**	

Minutes taken: Sui Song
Attachments: All handouts for this meeting can be found at
http://web.peralta.edu/trustees/board-committees/retirement-board/