

**Approved Minutes
Special Meeting of the
AC TRANSIT RETIREMENT BOARD
June 20, 2019**

ROLL CALL

Chair Jeffrey Lewis called the meeting to order at approximately 9:10 a.m.

Members Present: Chair Jeffrey Lewis, Claudia Allen, Davis Riemer
Present by Phone: Vice Chair Yvonne Williams, Joyce Willis
Members Absent: None

Also present: Hugo Wildmann, Retirement System Manager; Curtis Lim, Retirement System Temporary Employee; Bertina Ng, Retirement System Analyst; Jason Herron, Retirement System Temporary Employee; Russell Richeda, Legal Counsel; H.E. Christian Peeples, District Board Liaison; (the following individuals were at part of the meeting): Carolyn Smith, NEPC; Graham Schmidt, Cheiron; Chris Andrichak, Finance; Kyle Spradling, Finance; Michael Hursh, General Manager; Ken Myers, Finance; Bob Griffin, Williams Adley, Dollene Jones

PUBLIC COMMENTS

None

CONSENT CALENDAR

Kenneth Harris was removed from the Consent Calendar. Chair Lewis requested that the Policy on Speaking to Applicant's Doctors be attached to the minutes. Member Riemer asked that spelling of his last name be corrected. There was additional discussion about the checklist and the checkbox completion for retirees. Edward Henry's approval is contingent on signing the declaration of non-married status. Terrell Russell's approval is also contingent on this.

- A. Approval of Minutes for May 15, 2019
- B. Approval of Financials for February and March 2019
- C. Approval of Invoices for \$137,607.37
- D. Approval of Retirements for June/July 2019:
 - 1. Margaret Ann Amouroux (June, Term Vested)
 - 2. Connie Alfante (July)
 - 3. Otis Gilkey (July)

4. Brenda Gordon (July)
5. Edward Henry (July)
6. David Miller (July)
7. Terrell Russell (July)
8. Steven Smith (July)
9. Mariann Rodrigues (Hubert) (July, Term Vested)

The Board congratulated David Miller for 30 years of service.

MOTION: Riemer/Allen to adopt the Consent Calendar with the removal of Kenneth Harris, conditional approval for Edward Henry and Terrell Russell, and the addition of the Policy on Speaking to an Applicant's Doctor to the Minutes. (5-0-0-0)

REGULAR CALENDAR

Hugo briefly discussed the Retirement of Kenneth Harris and needing both Mr. Harris and his spouse to appear to sign the Benefit Option Form.

MOTION: Williams/Allen Conditionally approve retirement contingent on spousal appearance to sign off on what they agree to. (5-0-0-0)

There was a question about the Financials, which had been received right before the meeting began, regarding some large percentage changes in liabilities between 2018 and 2019. Approval of the Financials was put on hold until next meeting pending explanation of the changes.

E. Retirement of Yvonne Williams

Hugo reminded the Board about the "Gardner" settlement and that Yvonne Williams is the first Union officer to retire since the decisions on that case were made. Yvonne stated that her term as ATU President ends in January 2021, and that she intends to continue her duties until at least that time. There was a brief discussion about her Retirement calculation. Hugo summarized the "Gardner" settlement for then current and future Union officers as treating them very similar to ATU members when it came to cash-outs.

MOTION: Riemer/Allen approve the Retirement of Yvonne Williams from AC Transit. (5-0-0-0)

F. Eligibility of Former District Domestic Partners for Retirement Benefits (Dollene Jones)

Counsel Richeda summarized the issue and asked Dollene Jones, who was in attendance to join the discussion if he summarized incorrectly. Ms. Jones retired recently and had amounts withheld from her benefit for two former District domestic partners (DDPs). Ms. Jones thought the holdbacks were made in error, so counsel Richeda was asked to review the Plan's

treatment of former DDPs and the law. Russ prepared a memo concluding that funds should not be held back for former DDPs. Russ briefly described some of the legal history of marriage and domestic partnerships and their history as it pertains to this situation. Russ also briefly discussed the ATU CBA.

Russ reported that the question before the Board is: does a former District domestic partner have a community property interest or a community-like interest in a Retiree's Benefit? Counsel Richeda's conclusion was no, due to the anti-alienation provision which only allows payment of a member or beneficiary with exceptions for Domestic Relations Orders pursuant to applicable state law. There is applicable state law for marriage and state registered domestic partners, but not to District domestic partners.

MOTION: Williams/Allen Accept Counsel's recommendation to pay the full benefit for Ms. Jones. (5-0-0-0)

There was then discussion about past practice of interest payments and whether a policy exists within the Plan.

MOTION: Riemer/Allen Pay the principal of what Ms. Jones is owed retroactive to her Retirement date and return to the Board next month with an interest recommendation. (5-0-0-0)

G. Agenda Discussion

Hugo discussed the agenda for the rest of the meeting. Kyle and Chris Joined the meeting in anticipation of Actuary Graham Schmidt's arrival. Bob Griffin from Williams Adley would be joining the meeting later to discuss the draft Financials.

The Board took a brief break.

H. Actuarial Valuation

Graham Schmidt from Cheiron and General Manager Hursh joined the meeting. Graham gave a detailed presentation about the preliminary Valuation results and the preliminary Experience Study. He started by discussing changes between values on January 1, 2018 vs. January 1, 2019. He noted that the District contribution amount increased by about \$6 million, mostly driven by increases in the District payroll. He mentioned that he had a conference call with Hugo, Kyle, and Chris, from the District Finance Department, to discuss this increase in payroll.

Projected Fiscal Year payroll is increasing by \$20 million (11.49%) in 2019; that amount is provided by the District. Overall total headcount is the same as 2018, but there will be fewer open positions in 2019. Graham reviewed the Board's amortization policy. There was

discussion about the normal cost and District PEPRA contribution for newly hired unrepresented employees.

Graham continued to discuss the assumptions that Cheiron uses. To create their analysis, assumptions are made about inflation, wage growth, and expected return on assets. Inflation is used as the building block of wage growth and expected return. The current assumption for inflation is 3% and wage growth is expected to occur at the same rate. NEPCs assumptions about inflation are lower at 2.25% for the next five to seven years but up to 2.75% over a longer time horizon. Cheiron also consults an industry survey of inflation expectations, and that survey projects 2.25% over the next five years and 2.5% over a 20-year time horizon. Graham recommended that the Board reduce its assumed inflation rate from 3% to 2.75%

There was discussion about the wage growth assumptions, particularly mean wage increases and median wage increases, and their affects on the District's workforce. Graham recommends a wage growth assumption of 0.25% above inflation. The combination of the lowered inflation and increased real wage growth results in the wage growth assumption remaining at 3%.

Regarding expected rate of return, Graham reported that the current assumptions project a 7% rate of nominal return (4% real rate of return over inflation). Cheiron compared the Plan's expected returns versus a similar Horizon study and found that the projected returns are reasonable. Lowered inflation assumptions lead Graham to recommend an increased real rate of return assumption to 4.25%, which will leave the nominal rate of return assumption at 7%.

Continuing, Graham discussed the assumptions associated with compensation growth as individual employees move through their career. He recommends that the assumptions about compensation growth be increased in the first five years of an employee's career and reduced for later years.

Graham reviewed details of AC Transit mortality, and the changes that morbidity has on the actuarial assumptions. Graham mentioned that District employees, especially ATU, continue to die earlier than most other public employees. The Board discussed Graham's presentation. Cheiron's assumptions on mortality previously assumed a 20% increase over the blue-collar morbidity tables for men. Graham is now recommending that be lowered to 10%. The assumptions for women are also 30% higher than the blue-collar tables, but the Experience Study indicates that assumption should not be changed.

Retirement rate assumptions and Termination rate assumptions will be adjusted only slightly based on the Experience Study. Disability rates will be slightly extended based on an increase in disability claims. Total and Permanent Disability rates will also be slightly increased. Graham will come back with a full valuation report in August unless there are material adjustments to the documents that the Board was in the process of reviewing.

I. GASB 67/68

Hugo mentioned that late in the preparation of Plan Financials a change needed to be made that resulted in a reduction in our assets of \$250,000. This change required Graham to rerun the GASB 67/68 report. The updated reports were distributed at the meeting. Unfunded liability went up, and pension expense went up, both driven by lower than expected investment returns in 2018. Hugo has reviewed the report.

MOTION: Riemer/Allen Accept GASB 67/68 as reported with the amendment made this week. (5-0-0-0)

The Board took a brief break.

J. Department Staffing Update/ Hiring of Retirement System Administrator

Hugo reported that Human Resources has made a contingent offer for the Retirement System Administrator position but has asked him not to name that person in the meeting. References are being checked and a formal offer should be made and accepted soon. Hugo is to update the Board once that is complete.

Vice Chair Williams and Member Willis briefly stepped away from the phone.

K. Amendment to the Agreement between the Retirement Board and District Board

Hugo presented the Amendment to the Agreement that authorizes the Retirement System to contract directly with Robert Half for temporary employment services. He asked the Board to authorize the signing of this document.

MOTION: Riemer/Willis Accept final terms of the amended agreement and authorize signing of the final document by Russ and Jeff. (4-0-0-1)

L. Extension of Robert Half Contract

Hugo reported his intent to move temporary employee Curtis Lim out of day-to-day Retirement operations and have him focus more on completing the existing backlog of projects.

MOTION: Riemer/Allen Approve Hugo signing amended Robert Half Contract after it has been reviewed by Counsel Richeda. (4-0-0-1)

M. Draft 2019 Financials

Ken Myers joined the meeting, along with Bob Griffin from Williams Adley. Hugo recommended that the Board approve the Financials in draft form and that the final version be presented to the Board at the next meeting. He mentioned the change of \$250,000 in assets and wanted everyone to have the chance to review the updated Financials.

Vice Chair Williams and Member Willis returned to the phone.

Ken described discovery of a discrepancy between the GL entries for the District contribution versus what had actually been transferred into the account as part of his normal audit process. Bob then continued his discussion of the Financials and reviewed places where updates were made or needed to be made. Bob reported that he would be available for the next meeting if the Board had additional questions but had already provided a draft of his final report. The Board agreed that unless substantive changes were made to the Financials it was not necessary for Bob to appear at the July meeting.

N. Comments on the Joint Meeting

No additional comments from Board Members.

O. Meeting Schedule

Hugo reported that the next Retirement Board meeting is July 25th, and the August meeting is on August 8th.

P. Retirement System Manager's Report

Hugo reported about the changes to retiree insurance rates. Kaiser Permanente rates increased by 10% for the year, which new retirees are starting to see when they come in to fill out their paperwork. High medical insurance rates are often a factor in Retirement timing discussions.

Hugo then reported about some comments made about Retirement in the most recent District Board meeting. Hugo was instructed to gather the comments in writing from the District Secretary so the Board could decide if a response was necessary.

Hugo finished his report discussing Retirement staff's role in preparing statements as part of the District's re-financing of Certificates of Participation. Since interest rates are lower, there are some savings available from re-financing them at this time.

Q. Investment Performance, Rebalancing and Asset Allocation

Carolyn started her report with discussion of the Flash Report. She reported that May results were slightly down, but strong June results had already offset May losses. Fixed income is up 5.6% year to date, with managers exceeding their benchmarks for the year.

Asset allocation was discussed. Hugo mentioned the issue of the value and growth allocation of the Plan and a need to discuss the allocation to Capital Guardian and Franklin/Templeton. The Board agreed that this issue should be discussed in greater detail next month.

Vice Chair Williams and Member Willis briefly stepped away from the phone.

R. Performance Analysis of Low Leverage Real Estate Managers

Carolyn presented two tables summarizing the performance of real estate managers ranked by whether their leverage levels were high or low. The high exit queue on UBS Realty Investors Turnbull Property Fund was discussed compared with the entry and exit queues of other funds. Carolyn pointed out that both leverage and property type affect real estate fund performance, especially industrial versus retail property types. A question was raised about one of the tables and Carolyn said she would provide an updated table for the July meeting.

Vice Chair Williams and Member Willis rejoined the meeting via telephone at this point.

S. NEPC Workplan

The Board will review the Value/Growth asset allocation and real estate leverage and how it impacts performance next month.

T. Closed Session

Counsel Russ Richeda reported out of Closed Session that the Board took action on two items. Regarding item X1a the Board unanimously approved the Total and Permanent Disability Application of Barjinder Kaur with staff to determine effective date according to its normal process.

Regarding X1b the Occupational Disability Application of Patricia Hughes, the Board unanimously approved her application for Occupational Disability with effective date to be determined by staff with direction to staff to ask Ms. Hughes if she would like to apply for Total and Permanent Disability.

The meeting was adjourned at 1:00 p.m.