

Pension Trust

1000 Mill Street
San Luis Obispo, CA 93408
(805) 781-5465 Phone
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www.SLOPensionTrust.org



AGENDA

PENSION TRUST BOARD OF TRUSTEES

Monday, April 24, 2017 9:30 AM
Board of Supervisors Chambers
County Government Center
San Luis Obispo, CA 93408

PUBLIC COMMENT

1. Public Comment: Members of the public wishing to address the Board on matters other than scheduled items may do so when recognized by the Chair. Presentations are limited to three minutes per individual.

ORGANIZATIONAL

None

CONSENT

2. Minutes of the Regular Meeting of March 27, 2017 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of March 2017 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of March (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through April 7, 2017 (Receive, Approve and File).

APPLICATIONS FOR DISABILITY RETIREMENT

None

OLD BUSINESS

None

NEW BUSINESS

6. Administrative Budget for Fiscal Year 2017-2018 - Proposed – (Review, Discuss, and Direct Staff as necessary)
7. Employer Contributions Prefunding Discount Rate Setting Process (Recommend Approval)
8. Board Educational Presentation – Fiduciary Responsibilities Refresher Briefing – Chris Waddell, General Counsel
9. Actuarial Funding Policy and Practices Discussion (Discuss, Direct Staff as necessary)

INVESTMENTS

10. Monthly Investment Report for March 2017 (Receive and File).
11. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

OPERATIONS

12. Staff Reports
13. General Counsel Reports
14. Committee Reports:
 - a. Audit Committee Report
 - b. Personnel Committee No Report
 - c. PAS Replacement Committee Report
15. Upcoming Board Topics (subject to change):
 - a. May 22, 2017
 - i. Budget – FY17-18 – approval
 - ii. 1Q17 quarterly investment report
 - iii. Investment Policy Statement amendment - benchmarks
 - iv. Investment Education Presentation – Risk Mitigation / Downside Protection

- b. May 22, 2017 afternoon – Special Meetings (two meetings)
 - i. Disability Hearing continuation from 9/27/17 (2 cases)

- c. June 26, 2017
 - i. Annual Financial Statement Audit – Report from auditors
 - ii. 2017 Actuarial Valuation – Results – Setting of ARC
 - iii. Prefunding of FY17-18 Employer Contributions
 - iv. 2017 Actuarial Audit – RFP results – actuary selection

- d. July 24, 2017
 - i. Financial Auditor engagement

16. Trustee Comments

REFERRED ITEMS

None

ADDED ITEMS

None

CLOSED SESSION

17. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION. The Board will convene in closed session pursuant to paragraph (1) of subdivision (d) of Gov. Code section 54956.9 to discuss existing litigation. One (1) case: San Luis Obispo County Deputy County Counsel Association et al. v. San Luis Obispo County Pension Trust Board et al.

ADJOURNMENT

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Board of Trustees

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MARCH 27, 2017 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

BOARD MEMBERS PRESENT: Matt Janssen, President
Will Clemens, Vice President
Guy Savage
Gere Sibbach
Jim Hamilton
Jim Erb
Jeff Hamm

STAFF: Carl Nelson
Andrea Paley
Amy Burke

COUNSEL: Chris Waddell, Esq.

OTHERS: Larry Batcheldor, SLOCREA
Leslie Thompson, Actuary,
Gabriel Roeder Smith & Company
Caryn Maddalena, Retiree

The meeting was called to order by President Janssen at 9:32 AM, who presided over same.

AGENDA ITEM NO. 1: PUBLIC COMMENT.

None.

ORGANIZATIONAL:

None.

CONSENT:

AGENDA ITEM NO. 2 - 5: CONSENT.

Upon the motion of Mr. Hamm, seconded by Mr. Erb, and unanimously passed, the following action was taken:

- ITEM 2:** The Minutes of the Regular Meeting of February 27, 2017 were approved without correction.
- ITEM 3:** The Report of Deposits and Contributions for the Month of February 2017, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of February 2017, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through March 10, 2017 was received, approved and filed.

APPLICATIONS FOR DISABILITY RETIREMENT:

**AGENDA ITEM NO. 6: APPLICATION FOR ORDINARY DISABILITY
RETIREMENT CASE NO. 2017-04
DANITA RAMINHA.**

Upon the motion of Mr. Erb, seconded by Mr. Janssen, and unanimously passed, the following action was taken:

- 1) Ms. Danita Raminha was found to have become permanently disabled within the meaning of Retirement Plan Section 10.01 on October 13, 2016; and
- 2) Ms. Raminha was found to be entitled to an Ordinary Disability Retirement under Retirement Plan Section 10.02, effective April 6, 2017, the date specified on her application for Disability Retirement.

OLD BUSINESS:

None.

NEW BUSINESS:

**AGENDA ITEM NO. 7: ACTUARIAL VALUATION
– PLANNING AND ASSUMPTIONS.**

Upon the motion by Mr. Hamm, seconded by Mr. Erb, and unanimously passed, the Board directed staff and the Plan Actuary to proceed with the 2017 Actuarial Valuation using the same assumptions as those used for the 2016 Actuarial Valuation. These include the 7.125% Earnings Assumption used as the discount rate in calculating Plan liabilities and the 2.625% Inflation Assumption rate. This is consistent with the practice of the Board of Trustees to make changes to actuarial assumptions, to the extent possible, during years when the biennial Actuarial Experience Studies are completed. The next biennial Experience Study is scheduled for 2018.

AGENDA ITEM NO. 8: EMPLOYER CONTRIBUTIONS PREFUNDING.

Upon the motion of Mr. Sibbach, seconded by Mr. Janssen, and unanimously passed, the following action was taken:

- 1) The Pension Trust agrees to the FY17-18 prefunding of employer contributions from the County of San Luis Obispo and the Air Pollution Control District in the form of employer paid contributions (including employee contributions paid for by the employer) by June 30th for the upcoming fiscal year in a lump sum instead of on a pay-period basis; and
- 2) Such prefunding to be calculation by the Pension Trust's actuary using a discount rate of the Pension Trust's current Earnings Assumption less 1.00% (this is a change from the 2016 prefunding discount rate of the Earnings Assumption less 0.50%); and
- 3) To authorize an amendment to the 2014 Prefunding Agreement between the Pension Trust and the County to effect the change in discount rate.

AGENDA ITEM NO. 9: DISABILITY HEARINGS – INTERIM PROCESS.

Upon the motion of Mr. Savage, seconded by Mr. Erb and unanimously passed, Resolution 2017-03: A RESOLUTION ADOPTING AN INTERIM

HEARING PROCESS FOR DISABILITY APPLICATIONS was approved for adoption.

**AGENDA ITEM NO. 10: DISABILITY HEARINGS
– ESTABLISH PANEL OF REFEREES.**

Upon the motion of Mr. Hamm, seconded by Mr. Sibbach and unanimously passed, the Board of Trustees approved the engagement of Catherine Harris, Esq., Deborah Wissley, Esq., and Barbara Kong-Brown, Esq. to serve on the Pension Trust's newly created panel of referees to conduct disability hearings under both the interim and planned permanent revision to Appendix E of the Plan.

INVESTMENTS:

**AGENDA ITEM NO. 11: MONTHLY INVESTMENT REPORT
FOR FEBRUARY 2017.**

Upon the motion of Mr. Janssen, seconded by Mr. Savage and unanimously passed, the Investment Report for the period ended February 28, 2017 was received and filed.

AGENDA ITEM NO. 12: ASSET ALLOCATION.

Staff reported that no action regarding investment asset allocations were necessary at this time.

OPERATIONS:

AGENDA ITEM NO. 13: STAFF ORAL REPORTS.

- A)** Staff reported that the Audit Committee is scheduled to meet on April 3 and audit field work will be taking place April 3 through April 7, 2017.
- B)** Staff announced that the Pension Gold deliverable 1 has recently been completed and accepted. Deliverable 2 kicked off March 17th.
- C)** Staff discussed Trustee education and listed workshops coming up this spring and summer.
- D)** Staff provided an FPI property update to the Board.

- E)** Staff reported that Pension Trust staff was invited to speak at the March SLOCREA meeting. The presentation covered Trust investment performance, status of the plan and April 1 COLA information.

AGENDA ITEM NO. 14: GENERAL COUNSEL ORAL REPORTS.

Counsel advised the Board and Staff that the Supreme Court opined that personal communication devices (e.g. text messages, telephones, social media and personal e-mail accounts) are subject to the Public Records Act.

** 10:50 AM: Carl Nelson and Amy Burke departed the meeting at this time while the Personnel Committee reported to the full board on the outcome of their meeting on March 20, 2017 pertaining to executive staff compensation. They returned to the meeting at 10:55.

AGENDA ITEM NO. 15: COMMITTEE REPORTS – AS NEEDED.

- A)** AUDIT COMMITTEE: Nothing to report.
- B)** PERSONNEL COMMITTEE: Upon the motion of Mr. Janssen, seconded by Mr. Hamm, and unanimously approved, the Executive Secretary and the Deputy Executive Secretary's compensation was increased by 3% retroactive to July 1, 2016 to conform to similar increases in comparable County positions already implemented.
- C)** PENSION ADMINISTRATION SYSTEM REPLACEMENT (PASR) COMMITTEE: Nothing to report.

AGENDA ITEM NO. 16: UPCOMING BOARD TOPICS.

The planned topics for the next three board meetings were included in the agenda summary. This is an information item, nothing further to report.

AGENDA ITEM NO. 17: TRUSTEE COMMENTS.

Mr. Clemens commented that the sessions he attended at this year's CALAPRS General Assembly were all very good. He felt it was very educational.

REFERRED ITEMS: None.

ADDED ITEMS: None.

CLOSED SESSION:

** Entered into Closed Session at 11:08 AM

** Returned to Open Session at 11:13 AM

**AGENDA ITEM NO. 18: CONFERENCE WITH LEGAL COUNSEL
– EXISTING LITIGATION.**

The meeting was returned to open session and President Janssen reported that no action was taken.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 11:15 AM. The next Regular Meeting was set for April 24, 2017, at 9:30 AM, in the Board of Supervisors Chambers, New County Government Center, San Luis Obispo, California 93408.

Respectfully submitted,

**Carl Nelson
Executive Secretary**

**REPORT OF DEPOSITS AND CONTRIBUTIONS FOR THE MONTH OF
MARCH 2017**

PP 5	3/3/2017	Pensionable	Employer	Employer	Employee	Employee	Combined	Additional	Buy	TOTAL
By Employer and Tier:		Salary	Contributions	Rate	Contributions	Rate	Rate	Contributions	Backs	Contributions
	County Tier 1	4,274,303.27	951,445.14	22.26%	799,151.59	18.70%	40.96%	1,597.50	699.91	1,752,894.14
	County Tier 2	910,420.31	206,866.61	22.72%	111,824.09	12.28%	35.00%	269.29	760.78	319,720.77
	County Tier 3	1,729,190.16	364,873.03	21.10%	182,993.66	10.56%	31.66%	-	402.37	548,269.06
	Superior Court Tier 1	302,738.43	65,284.42	21.56%	38,916.14	12.85%	34.42%	-	-	104,200.56
	Superior Court Tier 3	47,008.42	9,321.50	19.83%	3,506.71	7.46%	27.29%	-	114.54	12,942.75
	APCD Tier 1	73,940.39	15,557.43	21.04%	13,602.11	18.40%	39.44%	-	-	29,159.54
	APCD Tier 3	6,399.20	1,338.73	20.92%	730.25	11.41%	32.33%	-	-	2,068.98
	Pension Trust Staff Tier 1	10,029.32	2,200.43	21.94%	1,964.23	19.58%	41.52%	-	-	4,164.66
	Pension Trust Staff Tier 2	7,069.60	1,551.07	21.94%	770.59	10.90%	32.84%	-	-	2,321.66
	Pension Trust Staff Tier 3	7,640.36	1,638.86	21.45%	899.57	11.77%	33.22%	-	-	2,538.43
	LAFCO Tier 1	11,575.09	3,009.53	26.00%	1,849.40	15.98%	41.98%	-	-	4,858.93
		7,380,314.55	1,623,086.75	21.99%	1,156,208.34	15.67%	37.66%	1,866.79	1,977.60	\$ 2,783,139.48
PP 6	3/17/2017	Pensionable	Employer	Employer	Employee	Employee	Combined	Additional	Buy	TOTAL
By Employer and Tier:		Salary	Contributions	Rate	Contributions	Rate	Rate	Contributions	Backs	Contributions
	County Tier 1	4,114,991.66	913,311.40	22.19%	773,094.37	18.79%	40.98%	1,697.50	699.91	1,688,803.18
	County Tier 2	875,979.02	198,615.53	22.67%	104,287.55	11.91%	34.58%	1,573.70	760.78	305,237.56
	County Tier 3	1,681,512.88	353,490.70	21.02%	177,424.94	10.53%	31.55%	-	450.56	531,366.20
	Superior Court Tier 1	302,307.22	65,199.77	21.57%	38,866.58	12.86%	34.42%	-	-	104,066.35
	Superior Court Tier 3	45,717.76	9,078.34	19.86%	3,438.30	7.52%	27.38%	-	114.54	12,631.18
	APCD Tier 1	73,940.38	15,557.43	21.04%	13,602.11	18.40%	39.44%	-	-	29,159.54
	APCD Tier 3	6,399.20	1,338.73	20.92%	730.25	11.41%	32.33%	-	-	2,068.98
	Pension Trust Staff Tier 1	10,029.32	2,200.43	21.94%	1,964.23	19.58%	41.52%	-	-	4,164.66
	Pension Trust Staff Tier 2	7,069.60	1,551.07	21.94%	770.59	10.90%	32.84%	-	-	2,321.66
	Pension Trust Staff Tier 3	7,640.36	1,638.86	21.45%	899.57	11.77%	33.22%	-	-	2,538.43
	LAFCO Tier 1	11,575.09	3,009.53	26.00%	1,849.40	15.98%	41.98%	-	-	4,858.93
		7,137,162.49	1,564,991.79	21.93%	1,116,927.89	15.65%	37.58%	3,271.20	2,025.79	\$ 2,687,216.67
PP 7	3/31/2017	Pensionable	Employer	Employer	Employee	Employee	Combined	Additional	Buy	TOTAL
By Employer and Tier:		Salary	Contributions	Rate	Contributions	Rate	Rate	Contributions	Backs	Contributions
	County Tier 1	4,105,267.24	910,849.22	22.19%	770,739.58	18.77%	40.96%	1,757.50	106,870.27	1,790,216.57
	County Tier 2	869,806.34	197,388.78	22.69%	106,536.24	12.25%	34.94%	271.74	760.78	304,957.54
	County Tier 3	1,692,727.38	355,471.44	21.00%	178,216.58	10.51%	31.51%	-	450.56	534,138.58
	Superior Court Tier 1	302,270.89	65,191.97	21.57%	38,862.83	12.86%	34.42%	-	-	104,054.80
	Superior Court Tier 3	46,492.24	9,225.34	19.84%	3,425.43	7.37%	27.21%	-	114.54	12,765.31
	APCD Tier 1	74,458.78	15,664.38	21.04%	13,696.04	18.39%	39.43%	-	-	29,360.42
	APCD Tier 3	6,399.20	1,338.73	20.92%	730.25	11.41%	32.33%	-	-	2,068.98
	Pension Trust Staff Tier 1	10,029.32	2,200.43	21.94%	1,964.23	19.58%	41.52%	-	-	4,164.66
	Pension Trust Staff Tier 2	7,069.60	1,551.07	21.94%	770.59	10.90%	32.84%	-	-	2,321.66
	Pension Trust Staff Tier 3	7,640.36	1,638.86	21.45%	899.57	11.77%	33.22%	-	-	2,538.43
	LAFCO Tier 1	11,575.09	3,009.53	26.00%	1,849.40	15.98%	41.98%	-	-	4,858.93
		7,133,736.44	1,563,529.75	21.92%	1,117,690.74	15.67%	37.59%	2,029.24	108,196.15	\$ 2,791,445.88
TOTAL FOR THE MONTH		21,651,213.48	4,751,608.29	21.95%	3,390,826.97	15.66%	37.61%	7,167.23	112,199.54	\$ 8,261,802.03
TOTAL YEAR TO DATE		50,013,990.70	10,796,652.70	21.59%	7,695,013.43	15.39%	36.97%	20,407.12	207,663.91	18,719,737.16

**REPORT OF SERVICE & DISABILITY
RETIREMENTS & DROP PARTICIPANTS FOR THE
MONTH OF:**

MARCH 2017

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
ALLEN, TERRY	SOCIAL SERVICES	03-09-2017	2761.42 1.67
CASTANEDA, EDUARDO (Industrial Disability)	SHERIFF DEPARTMENT	03-11-2017	4291.73
CLARKSON, GEORGE	SHERIFF DEPARTMENT	03-04-2017	6987.30
FOSTER, BARNEY (DROP Participant)	SHERIFF DEPARTMENT	03-01-2017	5812.35
GURROLA, ROBERT	DRUG & ALCOHOL	03-04-2017	2228.93
HEFLIN, LINDA	SHERIFF DEPARTMENT	03-24-2017	2483.96
JOST, RANDALL	MENTAL HEALTH	03-04-2017	5679.48
JUSTUS, JODY	MENTAL HEALTH	03-11-2017	Rescinded application
LICHTENFELS, RICHARD	HEALTH AGENCY	03-04-2017	6147.71 23.29
RADER, KAY	LIBRARY	03-19-2017	791.28
SPARKS, MATTHEW	RESERVE / SHERIFF DEPARTMENT	03-16-2017	Option selection
ADDENDUM:			
GEORGE, MICHELLE	RECIPROCAL / SOCIAL SERVICES	08-05-2016	Option selection
TRINIDADE, DEBBIE JO	RECIPROCAL / PUBLIC HEALTH	10-20-2016	6798.27 4983.27
BOZNER, LORI	RECIPROCAL / PROBATION	12-31-2016	Awaiting calcs
KRASSNER, DAVID	RECIPROCAL / MENTAL HEALTH	12-31-2016	352.07
WARD, NANCY (DROP Participant)	ASSESSOR	01-01-2017	2190.07
FITZPATRICK, JOHN	VETERANS SERVICE	02-04-2017	3809.18
McCAUSLAND, ROY (DROP Participant)	SHERIFF DEPARTMENT	02-01-2017	2612.45
SIMONS, RONNIE (DROP Participant)	ASSESSOR	02-01-2017	3562.72
ZIMMERMAN, ROBERTA (DROP Participant)	DISTRICT ATTORNEY	02-01-2017	2897.10 10.22
TOTALS:			

* Employee Additional Contribution Allowance (per Sections 5.07, 27.12, 28.12, 29.12, 30.12, and 31.12 of the Plan)

** Social Security Coordinated Temporary Annuity (per Section 13.06 of the Plan)

Board of Trustees

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Date: April 24, 2017
To: Board of Trustees
From: Carl Nelson – Executive Secretary

Agenda Item 5: Applications & Elections to Participate in the Deferred Retirement Option Program (DROP)

Recomendation:

It is recommended that you receive and approve the Application & Election to Participate in DROP for the individuals listed below.

Discussion:

The San Luis Obispo County Pension Trust has received an Application & Election to Participate in DROP from the following members listed below:

MAY 1, 2017 Peter Newel, Public Works

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Date: April 24, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 6: Administrative Budget for Fiscal Year 2017-2018

Recommendation:

It is recommended that the Board of Trustees (“BoT”) review and direct staff as necessary regarding the Proposed Administrative Budget for the Fiscal Year 2017-2018 (“FY17/18”) (Attachment A). A final draft of this budget, based on direction given to staff, will be presented for approval at the regular BoT meeting scheduled for May 22, 2017.

Discussion:

The expense categories presented in the attached Proposed Administrative Budget for the FY17/18 have been updated based upon varied assumptions, prior year experiences and staff’s best estimates of future events. Overall staff believes a 8.3% increase in the total budgeted amount when compared to the Fiscal Year 2016-2017 budget is appropriate. This represents around a \$222,000 increase compared to prior year from \$2.69 million to \$2.91 million.

Of this increase,

- \$25,000 is for the biennial Actuarial Experience Study
- \$60,000 is for the 2017 Actuarial Audit that is performed every 5 years
- \$137,000 is for other ongoing cost increases

Staff’s basis for ongoing components of this change are further detailed in the sections bellow. This proposed amount represents 0.25% of the total unaudited Net Position of SLOOPT as of December 31, 2016.

- **Investment Expense (discretionary)** – Expense includes Investment Consultant (Verus) and Custodian Bank (JP Morgan) fees (does not include Investment Management fees) which are based on contracts and largely determined by quarterly market values of investment assets. Prediction is based on the unaudited market value of investment assets as of 12/31/2016, adding the assumption of a 6.27% investment return that was taken from Verus’ Capital Market Expectations report presented earlier this year.
- **Personnel Services** – (see Attachment B) Includes all expenses related to SLOCPT’s staff. Assumes the following: 1) 3% increase in salaries consistent with the San Luis Obispo’s County’s (“County”) actual adoption of prevailing wage increases for FY17/18, 2) payroll tax rates will stay consistent with 2017 rates currently in place, 3) cafeteria benefit of \$11,700 annually per eligible employee (benchmarked to County positions in Bargain Units 7 & 11), 4) employer pension rate increase of 1.5% effective with the pay period that includes 12/31/2017, and 5) applicable salary increases and promotions for staff members determined to be eligible based on annual review cycles.
- **Professional Services** –
 - Accounting & Auditing: Based on quoted price form 2013 engagement letter with Brown Armstrong (SLOCPT’s annual financial statement audit firm). The 2016 Audit is the last of the current 5 year engagement letter with Brown Armstrong. Staff will be discussing later in the year with the Board about continuing with the current auditor or issuing an RFP.
 - Actuarial: Based on 2017 engagement letter with Gabriel, Roeder, Smith (SLOCPT’s Actuary). Also includes estimate of expected costs relating to additional Actuarial services performed throughout the year as well as an experience study to be performed in 2018. Additionally, estimated costs associated with the planned Actuarial Audit in the amount of \$60,000 have contributed to the increase in expected expenses.
 - Legal: Based on General Counsel Retainer and legal consultation relating to investment contracts. *Note that this proposed budget incorporates a 16.7% increase in the annual retainer rate for General Counsel. General Counsel’s fees have not increased in the over 4 years since Olson Hagel Fishburn was first retained. The Board action in May to approve the budget will include an explicit approval of this fee increase for General Counsel Services.* Legal costs also include a contingency for legal fees associated with litigation. Finally, an assumption of a \$20,000 increase for legal fees related to disability hearings has been included consistent with recent Board approvals of a revised disability hearing process using referees.
 - Medical Evaluations – Disabilities: Assumes costs associated with medical review services to be performed by MMRO.

- Human Resources Consulting: Based on estimated costs associated with services provided by the County's Human Resources Department.
 - Information Technology Services: Includes expenses relating to RAD software system maintenance (per contract) and County IT's services.
 - Banking & Payroll: Includes estimated banking fees for SLOCPT's two banking relationships (Union Bank and Pacific Premier) and fees associated with payroll services provided by Paychex. Increase is due to staff's decision to maintain higher average balances within the County's Treasury account rather than to offset fees by maintain balances with the banks. Interest credited is currently greater than fee offsets.
 - Other Professional Services: Based on estimated expense for professional services not related to categories listed above. Increase is due to larger fee association with SLOCPT's current death audit service.
- **Other Expenses –**
 - Trustee Election Expenses: County Clerk Recorder fees relating to annual Trustee elections. Actual cost will be lower if there is an uncontested candidacy.
 - Insurance: Includes Fiduciary, General and Cyber liability coverages. Estimate is based on current year expense plus 5%.
 - Building & Maintenance: Estimate based on current year expenses.
 - Office Expense: Expense includes general office supplies, printing and mailing services provided by ASAP Reprographics, and document destruction services provided by Docuteam. Reduction due to overestimate of general office supply costs for FY 16/17.
 - Memberships & Publications: Includes industry specific memberships and publications.
 - Postage: Estimate based on FY16/17 experience.
 - Communications: Includes cost associated with telephone services provided by County IT. Estimate is based on County supplied budget document.
 - Training & Travel: (see Attachment C) Based on current year actual costs.
 - Information Technology: Expense includes all purchases relating to tangible IT equipment. Assumes staggered four year replacement cycle for office computers. Decrease is due to purchase of new scanners in FY16/17 that will not need to be duplicated in FY17/18

- Equipment: Includes expenses associated with two copier leases and office furniture purchases. Decrease associated with savings associated with the replacement of an expensive copier lease that was up for renewal in early 2017.
- **Contingencies** – 5% of total budget to be used for unexpected expenses.

Attachments:

Attachment A – Proposed Administrative Budget for Fiscal Year 2017-2018

Attachment B – Proposed Staffing

Attachment C – Proposed Training & Travel

San Luis Obispo County Pension Trust
PROPOSED ADMINISTRATIVE BUDGET:
Fiscal Year 2017-2018

	FY15-16 Actual Expenses	FY16-17 Estimated Expenses	FY16-17 Adopted Budget	FY17-18 Proposed Budget	Increase/ Decrease From PY
INVESTMENT EXPENSE (discretionary):					
Invest. Exp. (Discretionary)	\$ 379,463	\$ 454,000	\$ 455,000	\$ 461,000	\$ 6,000
ADMINISTRATIVE EXPENSE:					
Personnel Services	\$ 1,162,693	\$ 1,230,000	\$ 1,271,200	\$ 1,340,500	\$ 69,300
Professional Service					
Accounting & Auditing	47,812	51,000	50,600	53,000	2,400
Actuarial	108,333	85,000	83,000	170,000	87,000
Legal	202,162	210,000	187,500	231,320	43,820
Medical Evaluations - Disabilities	3,000	22,000	21,500	21,500	-
Human Resources Consulting	441	5,000	5,000	5,000	-
Information Technology Services	334,023	170,000	174,400	175,000	600
Banking and Payroll	12,387	18,000	10,500	22,500	12,000
Other Professional Services	-	2,000	500	2,500	2,000
Total Professional Services	\$ 708,158	\$ 563,000	\$ 533,000	\$ 680,820	\$ 147,820
Other Expenses					
Trustee Election Expenses	-	6,000	6,000	6,000	-
Insurance	112,046	117,000	119,000	123,000	4,000
Building Maintenance	31,626	31,000	33,000	33,500	500
Office Expense	19,585	25,000	30,900	27,000	(3,900)
Memberships & Publications	4,608	5,000	5,400	5,100	(300)
Postage	23,260	27,000	27,000	27,000	-
Communications	3,733	4,000	5,000	5,000	-
Training & Travel	23,003	44,000	55,900	48,985	(6,915)
Information Technology	2,783	6,000	6,500	4,500	(2,000)
Equipment	11,614	8,000	11,600	8,000	(3,600)
Total Other Expenses	\$ 232,258	\$ 273,000	\$ 300,300	\$ 288,085	\$ (12,215)
Contingencies	\$ -	\$ -	\$ 128,000	\$ 139,000	\$ 11,000
TOTAL ADMINISTRATIVE	\$ 2,103,109	\$ 2,066,000	\$ 2,232,500	\$ 2,448,405	\$ 215,905
ADMIN. + INVEST. (discretionary)	\$ 2,482,572	\$ 2,520,000	\$ 2,687,500	\$ 2,909,405	\$ 221,905

Increase from Prior Year Budget

8.3%

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San Luis Obispo County Pension Trust PROPOSED STAFFING:	FY15-16	FY16-17	FY16-17	FY17-18	Increase /	Projected	Projected	Projected	Projected
	Actual	Amended Budget	Actual	Proposed Budget	(Decrease) From PY	FY18-19	FY19-20	FY20-21	FY21-22
Positions (FTEs):									
Executive Secretary	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
Deputy Executive Secretary	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
System Coordinator	1.00	1.00	1.00	1.00	-	1.00	1.00	-	-
Retirement Programs Spec. III	1.00	1.00	1.00	1.00	-	1.00	1.00	3.00	3.00
Retirement Programs Spec. II	1.00	3.00	3.00	3.00	-	3.00	2.00	-	-
Retirement Programs Spec. I	2.00	-	-	-	-	-	-	-	-
Retirement Programs Analyst Aide	-	-	-	-	-	-	1.00	1.00	1.00
Financial Accountant III	0.80	0.80	0.80	0.80	-	0.80	0.80	0.80	0.80
Financial Accountant II	-	-	-	-	-	-	-	-	-
Financial Accountant I	-	-	-	-	-	-	-	-	-
Accounting Technician	0.75	0.75	0.75	0.75	-	0.75	0.75	0.75	0.75
Administrative Asst. III	1.00	1.00	1.00	1.00	-	1.00	1.00	1.00	1.00
Administrative Asst. II	-	-	-	-	-	-	-	-	-
Part-Time Temporary Office Asst.	0.63	1.00	0.60	1.00	-	1.00	0.50	0.50	0.50
TOTAL POSITIONS	10.18	10.55	10.15	10.55	-	10.55	10.05	9.05	9.05

PROPOSED SALARY & BENEFIT BENCHMARKS:

Subject to Personnel Committee and Board review of existing compensation benchmarks.

**Note: SLOCPT compensation benchmarks would be updated in concurrence with any County enacted wage adjustments (i.e. prevailing wage etc.).

FY 16-17	Step 1	Step 2	Step 3	Step 4	Step 5	Benefits: (health, pension, other)
Executive Secretary <i>Subject to change per Contract Approval</i>	65.50	68.76	72.20	75.82	79.60	Benchmarked to County BU 7 + \$450/month auto allowance (not pensionable)
Deputy Executive Secretary <i>80% of Executive Secretary</i>	52.40	55.01	57.76	60.66	63.68	Benchmarked to County BU 7
System Coordinator <i>#2267 Info Tech Supervisor</i>	44.04	46.24	48.55	50.98	53.53	Benchmarked to County BU 7
Retirement Programs Spec. III <i>#9663 Risk Mgmt. Analyst III</i>	39.73	41.72	43.81	46.00	48.30	Benchmarked to County BU 7

PROPOSED SALARY & BENEFIT BENCHMARKS: (continued)

FY 16-17	Step 1	Step 2	Step 3	Step 4	Step 5	Benefits: (health, pension, other)
Retirement Programs Spec. II <i>#9658 Risk Mgmt. Analyst II</i>	33.95	35.65	37.43	39.30	41.27	Benchmarked to County BU 7
Retirement Programs Spec. I <i>#9657 Risk Mgmt. Analyst I</i>	29.29	30.75	32.29	33.90	35.60	Benchmarked to County BU 7
Financial Accountant III <i>#907 Accountant III</i>	33.32	34.99	36.74	38.58	40.51	Benchmarked to County BU 7
Financial Accountant II <i>#906 Accountant II</i>	28.71	30.15	31.66	33.24	34.90	Benchmarked to County BU 7
Financial Accountant I <i>#905 Accountant I</i>	24.53	25.76	27.05	28.40	29.82	Benchmarked to County BU 7
Accounting Technician <i>#913 Accounting Technician - Conf.</i>	20.95	22.00	23.10	24.26	25.47	Benchmarked to County BU 11
Administrative Asst. III <i>#2203 Administrative Asst. III - Conf.</i>	18.19	19.10	20.06	21.06	22.11	Benchmarked to County BU 11
Administrative Asst. II <i>#2222 Administrative Asst. II - Conf.</i>	16.52	17.35	18.22	19.13	20.09	Benchmarked to County BU 11
Administrative Asst. I <i>#2221 Administrative Asst. I - Conf.</i>	15.02	15.77	16.56	17.39	18.26	Benchmarked to County BU 11
Part-Time Temporary Office Assistant <i>#911 Account Clerk</i>	15.95	16.75	17.59	18.47	19.39	N/A

San Luis Obispo County Pension Trust
PROPOSED TRAINING & TRAVEL:

	FY15-16 Actual	Current FY16-17 YTD	FY16-17 Amended Budget	FY17-18 Proposed Budget	Increase / (Decrease) From PY Budget
<i>CALAPRS General Assembly</i>					
Attendees - Board	3	2	3	3	-
Attendees - Staff	2	2	2	2	-
Total Expense	4,936	2,647	5,250	5,500	250
<i>CALAPRS Advanced Trustee Institute (UCLA)</i>					
Attendees - Board	1	2	1	1	-
Attendees - Staff	-	-	-	-	-
Total Expense	3,316	6,200	3,450	3,450	-
<i>CALAPRS Trustees Training- New</i>					
Attendees - Board	1	-	1	-	(1)
Attendees - Staff	-	-	-	-	-
Total Expense	2,500	181	2,800	-	(2,800)
<i>Wharton Portfolio Concepts (new BoT members)</i>					
Attendees - Board	-	-	1	-	(1)
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	6,975	-	(6,975)
<i>Wharton West / IFEBP or similar seminar</i>					
Attendees - Board	-	-	1	1	-
Attendees - Staff	-	-	1	1	-
Total Expense	-	-	9,150	9,150	-
<i>SACRS Trustees Training- Berkeley (new)</i>					
Attendees - Board	-	1	1	1	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	4,038	4,150	4,150	-
<i>SACRS Semi-Annual Conferences</i>					
Attendees - Board	1	-	-	1	1
Attendees - Staff	-	-	-	-	-
Total Expense	1,533	-	-	1,650	1,650
<i>CALAPRS Administrators Institute</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	1	1	1	-
Total Expense	-	1,348	1,325	1,925	600

San Luis Obispo County Pension Trust
PROPOSED TRAINING & TRAVEL:

	FY15-16 Actual	Current FY16-17 YTD	FY16-17 Amended Budget	FY17-18 Proposed Budget	Increase / (Decrease) From PY Budget
<i>CALAPRS Management Academy</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	-	-	-	-
Total Expense	859	-	-	-	-
<i>CALAPRS Trustees Roundtables (2/yr)</i>					
Attendees - Board	-	-	2	2	-
Attendees - Staff	-	-	-	-	-
Total Expense	-	-	1,150	1,200	50
<i>CALAPRS Administrators Roundtables (2/yr)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	1	2	2	-
Total Expense	-	306	1,150	1,200	50
<i>CALAPRS Investment Officers Roundtables (2/yr)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	2	1	(1)
Total Expense	-	-	1,150	600	(550)
<i>CALAPRS Attorneys Roundtables (3/yr)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	1	2	2	-
Total Expense	-	100	200	250	50
<i>CALAPRS Operations Roundtables (4/yr)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	3	5	8	8	-
Total Expense	1,335	1,314	4,600	4,760	160
<i>CALAPRS Disability training</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	-	1	1	-
Total Expense	414	-	575	1,725	1,150
<i>CALAPRS Overview Course (3 class series)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	3	1	5	2	(3)
Total Expense	2,567	941	5,000	2,500	(2,500)

San Luis Obispo County Pension Trust
PROPOSED TRAINING & TRAVEL:

	FY15-16 Actual	Current FY16-17 YTD	FY16-17 Amended Budget	FY17-18 Proposed Budget	Increase / (Decrease) From PY Budget
<i>CALAPRS - Board, Faculty, and related travel</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	1	1	4	4	-
Total Expense	672	214	1,900	1,900	-
<i>Investment Seminars</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	2	-	2	2	-
Total Expense	2,771	-	3,200	3,200	-
<i>Investment Due Diligence On-site visits (combined w/other travel if possible)</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	1	-	(1)
Total Expense	-	-	2,450	-	(2,450)
<i>Software Training</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	-	-	-	2	2
Total Expense	-	-	-	4,400	4,400
<i>PAS Replacement Site Visits / Due Diligence</i>					
Attendees - Board	-	-	-	-	-
Attendees - Staff	4	-	-	-	-
Total Expense	1,100	-	-	-	-
<i>Misc. Board and Staff Training</i>					
Total Expense	1,001	515	1,425	1,425	-
Subtotal Training and Travel					
Training	6,920	11,290	24,700	19,475	(5,225)
Travel (air, hotel, food)	11,565.63	3,793	20,675	19,800	(875)
Mileage Reimb.	3,819	2,364	10,250	9,260	(990)
Misc. Travel	698	359	275	450	175
Total Training and Travel	23,003	17,806	55,900	48,985	(6,915)

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Pension Trust

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www.SLOPensionTrust.org



Date: April 24, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 7: Employer Contributions Prefunding – Discount Rate Setting Process

Recommendation:

Staff recommends a modification to the approval of the Board of Trustees at the March 27, 2017 meeting of the process for setting a discount rate for employer contribution prefunding. The recommendation is to amend or replace the FY14-15 Prefunding Agreement with the County to change the discount rate used by the Pension Trust's actuary in calculating the amount of prepayment *to a specific rate to be determined annually by the Board of Trustees.*

This recommendation deals only with the annual process for determination of the discount rate to be used for employer contribution prefunding. It does not involve any change to the March 27, 2017 approval by the Board of Trustees to set the discount rate for FY17-18 at the actuarial Earnings Assumption less 100 basis points (i.e., 7.125% less 1.000% = 6.125%).

Background:

Beginning with FY14-15 the Pension Trust and the County agreed to restart a prior practice of allowing the County to prepay employer pension contributions at the start of a fiscal year at a discounted rate. This agreement between the Pension Trust and the County is memorialized in an Agreement for Advance Payment of County and Air Pollution Control District Appropriations and Employee Contributions to the Pension Trust. This agreement from 2014 specified the discount rate to be used for such prefunding as the actuarial Earnings Assumption less 50 basis points.

At its March 27, 2017 meeting the Board of Trustees approved an amendment to the 2014 Agreement to be proposed to the County to change the discount rate for prefunding beginning in FY17-18 to the actuarial Earnings Assumption less 100 basis points. Subsequent to that meeting, the County Auditor Controller, Treasurer & Tax Collector (ACTTC) has requested that for future administrative efficiency the amended Prefunding Agreement should specify the discount rate for prepayment *to a specific rate to be determined annually by the Board of Trustees*. Such a modification to the proposed Prefunding Agreement would limit the need for repeated future amendments of the Prefunding Agreement when the only change may be to the discount rate to be used.

This change would commit the annual determination of the discount rate to be used for employer contribution prefunding to the discretion of the Board of Trustees. Existing provisions providing for the termination of the Agreement or suspension of prefunding for a FY by either the County (through the ACTTC) or the Pension Trust on 60 days' notice would remain in effect.

This change does not involve any change to the approval by the Board of Trustees to set the discount rate for FY17-18 at the actuarial Earnings Assumption less 100 basis points (i.e., 7.125% less 1.000% = 6.125%).

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San Luis Obispo County
Pension Trust
SLOOPT

Date: April 24, 2017

To: Board of Trustees

From: Chris Waddell – General Counsel

Agenda Item 8: Board Educational Presentation – Fiduciary Responsibilities Refresher Briefing

The Pension Trust's General Counsel, Chris Waddell of Olson Hagel & Fishburn, LLP, will be presenting an annual refresher briefing on fiduciary responsibilities.

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Board of Trustees

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Date: April 24, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 9: Actuarial Funding Policy and Practices Discussion

In preparation for the 2017 Actuarial Valuation that will be presented at the Board of Trustees June 26th meeting, the Board has already directed the Plan Actuary on actuarial assumptions to use (unchanged from 2016).

As additional preparation for the Actuarial Valuation, Trustee Savage suggested that a discussion of the attached article – “Actuarial Funding Policies and Practices for Public Pension Plans” – would be useful. Staff and Leslie Thompson – Plan Actuary – from Gabriel Roeder Smith concur and believe such a discussion is good preparation for the Valuation which is one of the most important decisions made by the Board of Trustees.

Ms. Thompson notes that most of the recommended practices incorporated in the attached article are already part of the funding policies and practices followed by the Pension Trust. This is because much of the Pension Trust’s actuarial practices are based on the California Actuarial Advisory Panel (CAAP) model approach.

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**Conference of Consulting Actuaries
Public Plans Community (CCA PPC)**

Actuarial Funding Policies and Practices for Public Pension Plans

October 2014



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Paul Angelo



Tom Lowman

An Open Letter

**From: Paul Angelo, Chair and
Tom Lowman, Vice Chair Conference of
Consulting Actuaries Public Plans Community**

To: Interested Parties in the Public Pension Arena

**Re: Public Plans Community White Paper on
Public Pension Funding Policy**

On behalf of the Conference of Consulting Actuaries' Public Plans Community (CCA PPC), the following "White Paper" is presented to provide guidance to policymakers and other interested parties on the development of actuarially based funding policies for public pension plans. The CCA PPC includes over 50 leading actuaries whose firms are responsible for the actuarial services provided to the majority of public-sector retirement systems in the US. All of the major actuarial firms serving the public sector are represented in the CCA PPC as well as in-house actuaries from several state plans. As a result, the CCA PPC represents a broad cross section of public-sector actuaries with extensive experience providing valuation and consulting services to public plans, and it is that experience that provides the knowledge base for this paper.

The White Paper is based on over two years of extensive and detailed funding policy discussions among the members of the CCA PPC, and reflects the experience of those members in providing actuarial consulting services to state and local public pension plans throughout the US. While there were naturally disagreements and compromises during those discussions, the White Paper reflects the resulting majority opinions of the CCA PPC as developed through those discussions. We believe this White Paper reflects a substantial consensus among the actuaries who provide valuation and consulting services to public pension plans.

This White Paper represents groundbreaking actuarial research in that it develops a principles based, empirically grounded Level Cost Allocation Model (LCAM) for use as a basis for funding policies for public pension plans throughout the US. In particular, we believe that the funding policies developed herein could serve as a rigorously defensible basis for an "actuarially determined contribution" under Statements 67 and 68 of the Governmental Accounting Standards Board.

AN OPEN LETTER

The distinguishing feature of this approach is that it begins with stated policy objectives and then develops specific policy guidance consistent with those objectives. One of the main results is that an effective funding policy often represents a balancing of policy objectives. Another is that adherence to the policy objectives may lead to a narrower range of acceptable practices than is sometimes found in current practice.

The LCAM White Paper is intended to provide guidance not just in the evaluation of particular current policy practices but also in the development of actuarially based funding policies in a consistent and rational manner. For that reason, the reader is strongly encouraged to focus not only on the specific practice guidance but also on the detailed discussions and rationales that lead to that guidance. Also note that while this discussion is comprehensive it is not all-inclusive. There is a list of "items for future discussion" at the end of the paper. In addition, there may be other "level cost allocation models" that are appropriate in some circumstances.

The CCA PPC would like to acknowledge and thank the California Actuarial Advisory Panel for their seminal work in developing the principles-based level cost allocation model on which this White Paper is based. We also thank all the members of the Conference of Consulting Actuaries Public Plans Community who helped in the development of this paper.

Introduction

This “white paper” is based on funding policy discussions among the members of the Conference of Consulting Actuaries Public Plans Community (CCA PPC) and reflects the majority opinions the CCA PPC members¹. Those discussions relied heavily upon and generally concurred with the funding policy white paper prepared by the California Actuarial Advisory Panel (CAAP) and the level cost allocation model developed therein². For that reason, the CCA PPC has chosen to build directly on the CAAP document in developing its own funding policy guidance.

The CCA PPC wishes to express its sincere appreciation to the CAAP for its seminal work in preparing a principles-based funding policy development. However, while much of the text of this CCA PPC white paper comes directly from the CAAP document, this white paper is presented solely as the majority opinions of the CCA PPC.

This CCA PPC white paper is intended for a national audience, as part of a nation-wide review and discussion of funding policies for public pension plans. Our hope is that the principles and policies developed herein may provide an actuarial basis for others developing funding practices and that legislative, regulatory and other industry groups may build these concepts into their guidance.

This white paper develops the principal elements and parameters of an actuarial funding policy³ for US public pension plans. It includes the development of a Level Cost Allocation Model (LCAM) as a basis for setting funding policies. This white paper does not address policy issues related to benefit plans where a member’s benefits are not funded during the member’s

1 These comments were developed through the coordinated efforts of the Conference of Consulting Actuaries’ (CCA) Public Plans Steering Committee. However, these comments do not necessarily reflect the views of the CCA, the CCA’s members, or any employers of CCA members, and should not be construed as being endorsed by any of those parties.

2 See “Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model” at http://www.sco.ca.gov/caap_resources.html

3 As used in this paper, an “actuarial funding policy” has the same meaning as a “Contribution Allocation Procedure” as defined in the Actuarial Standards of Practice (ASOPs). We further note that the actuarial policies that determine the level and timing of contributions must also include policies related to setting the actuarial assumptions. As noted at the end of this section, this paper does not address policies and practices related to setting actuarial assumptions.

working career, e.g., plans receiving “pay-as-you-go” funding or “terminal” funding.

While this white paper develops guidance primarily for pension plans, we believe the general policy objectives presented here are applicable to the funding of OPEB plans as well. However, application of those policy objectives to OPEB plans may result in different specific funding policies based on plan design, legal status and other features distinctive to OPEB plans. We encourage those involved in the valuation and funding of OPEB plans to consider the applicability to those plans of the policy guidance developed here.

Some pension plans have contributions rates that are set on a fixed basis, rather than being regularly reset to a specific, actuarially determined rate. The CCA PPC believes that such plans should develop an actuarially determined contribution rate for comparison to the fixed rate. However, this white paper does not address procedures for evaluating that comparison, or for determining whether the fixed rate is sufficient or when and how the fixed rate should be changed. The CCA PPC intends to prepare a separate white paper on fixed rate plans including these considerations.

As developed here the LCAM is a level cost actuarial methodology⁴, which is consistent with well-established actuarial practice. The LCAM is a principles-based mathematical model of pension cost. The model policy elements are developed in a logical sequence based on stated general policy objectives, and in a manner consistent with primary factors that affect the cost of the pension obligation.

The particular model that we develop is based on a combination of policy objectives and policy elements that has been tested over many years and, we believe, is well understood and broadly applicable. However, there are other models and policy objectives that

⁴ Here a “level cost actuarial methodology” is characterized by economic assumptions based on the long term expected experience of the plan and a cost allocation designed to produce a level cost over an employee’s active service. This is in contrast to a “market-consistent” actuarial methodology where economic assumptions are based on observations of current market interest rates, and costs are allocated based on the (non-level) present value of an employee’s accrued benefit.

practitioners may use that are internally consistent and may be as appropriate in some circumstances as the model that is developed herein, and it is not our intention to discourage consideration of such other policies⁵. Furthermore, there are situations where the policy parameters developed herein may require additional analysis to establish the appropriate parameters for each such situation⁶. It is up to the actuary to apply professional judgment to the particulars of the situation and recommend the most appropriate policies for that situation, including considerations of materiality.

Our approach begins with identifying the policy objectives of such a funding policy, and then evaluating the structure and parameters for each of the particular policy elements in a manner consistent with those objectives, as well as with current and emerging actuarial science and governing actuarial standards of practice.

This white paper is intended as advice to actuaries and retirement boards⁷ in the setting of funding policy. While the analysis is somewhat restrictive in the categorization of practices, this guidance is not intended to supplant or replace the applicable Actuarial Standards of Practice (ASOPs). Like all opinions of the CCA PPC, this guidance is nonbinding and advisory only. Furthermore, it is not intended as a basis for litigation, and should not be referenced in a litigation context.

Given the wide range of such policies currently in practice in the U.S., this development also acknowledges that plan sponsors and retirement boards may require some level of policy flexibility

⁵ In particular, the LCAM developed here incorporates the widely prevalent practice of managing asset volatility directly through the use of an asset smoothing policy element. Some practitioners are developing direct contribution rate smoothing techniques as an alternative to asset smoothing. The CCA PPC is considering development of a separate white paper on direct smoothing as an alternative to asset smoothing.

⁶ For example, plans that are closed to new entrants may require additional analyses and forecasts to determine whether the policy parameters herein provide for adequate funding.

⁷ Here “retirement boards” is meant to refer generally to whatever governing bodies have authority to set funding policy for public sector plans.

to reflect both their specific policy objectives and their individual circumstances. To accommodate that need for reasonable flexibility and yet also provide substantive guidance, this development evaluates various policy element structures and parameters or ranges according to the following categories:

- LCAM Model practices (i.e., practices most consistent with the LCAM developed herein)
- Acceptable practices
- Acceptable practices, with conditions
- Non-recommended practices
- Unacceptable practices.

These categories are best understood in the context of the different elements that comprise an actuarial funding policy and the various policy alternatives for each of those policy elements. They are intended to assist in the evaluation of specific policy elements and parameters relative to the general policy objectives stated herein, and are developed separately for each of the three principal policy elements discussed in this white paper (cost methods, asset smoothing methods and amortization policy). They are not intended as a grading or scoring mechanism for a system's overall actuarial funding policy.

Generally, throughout this discussion, "model practices" means those practices most consistent with general policy objectives and the LCAM as developed here based on those policy objectives⁸. Acceptable practices are generally those that while not fully consistent with the LCAM as developed here, are well established in practice and typically do not require additional analysis to demonstrate their consistency with the general policy objectives. Practices that are acceptable with conditions may be acceptable in some circumstances, on the basis of additional analysis to show consistency with the general policy objectives or to address risks or concerns associated with the practices. Systems that adopt practices that under this

model analysis are not recommended should consider doing so with the understanding that they reflect policy objectives different from those on which this LCAM is based or should consider the policy concerns identified herein.

This evaluation of practice elements and parameters was developed in relation to the LCAM and its general policy objectives, based on experience with the many independent public plans sponsored by states, counties, cities and other local public employers in the US, and is intended to have general applicability to such plans. However, for some plans, special circumstances or situations may apply. The specific applicability of the results developed here should be evaluated by their governing boards based on the advice of their actuaries.

Note that while the selection of actuarial assumptions is an essential part of actuarial policy for a public sector pension plan, the selection of actuarial assumptions is outside the scope of this discussion. For example, a pension plan should perform a comprehensive review of both economic and demographic assumptions on a regular basis as part of its actuarial policies. Another important consideration in determining a plan's funding requirements is the plan's investment policy and related investment portfolio risks. While actuarial assumptions, plan investments and even benefit design are all elements that affect funding requirements, they are beyond the scope of this paper.

This white paper is also not intended to address the measurement of liabilities for purposes other than funding, e.g., settlement obligations or other market-consistent measures⁹.

Finally note that some retirement systems have features that may require funding policy provisions and analyses that are not specifically addressed herein. One example is systems with "gain sharing" provisions whereby favorable investment experience is used as the basis for increasing member benefits and/or reducing employer and/or member contributions. The policies developed here should not be interpreted as being adequate to address these plan features without additional analysis specific to those features.

⁸ Some commentators have interpreted "model practices" as synonymous with "best practices." That is not the intent of this categorization of practices. Given their circumstances retirement boards may find that other practices, particularly those categorized and acceptable or acceptable with conditions, are considered both appropriate and reasonably consistent with the policy objectives stated herein.

⁹ See footnote 4

Transition Policies

In order to avoid undue disruption to a sponsor's budget, it may not be feasible to adopt policies consistent with this white paper without some sort of transition from current policies. For example, a plan using longer than model amortization periods could adopt model periods for future unfunded liabilities while continuing the current (declining) periods for the current unfunded liabilities. Such transition policies should be developed with the advice of the actuary in a manner consistent with the principles developed herein. We have included in our discussion transition policies appropriate to each of the principal policy elements.

General Policy Objectives

The following are policy objectives that apply generally to all elements of the funding policy. Objectives specific to each principal policy element are identified in the discussion of that policy element.

1. The principal goal of a funding policy is that future contributions and current plan assets should be sufficient to provide for all benefits expected to be paid to members and their beneficiaries when due.
2. The funding policy should seek a reasonable allocation of the cost of benefits and the required funding to the years of service (i.e. demographic matching). This includes the goal that annual contributions should, to the extent reasonably possible, maintain a close relationship to the both the expected cost of each year of service and to variations around that expected cost.
3. The funding policy should seek to manage and control future contribution volatility (i.e., have costs emerge as a level percentage of payroll) to the extent reasonably possible, consistent with other policy goals.
4. The funding policy should support the general public policy goals of accountability and transparency. While these terms can be difficult to define in general, here the meaning includes that each element of the funding policy should be clear both as to intent and effect, and that each should allow an assessment of whether, how and when the plan sponsor is expected to meet the funding requirements of the plan.
5. The funding policy should take into consideration the nature of public sector pension plans and their governance. These governance issues include (1) agency risk issues associated with the desire of interested parties (agents) to influence the cost calculations in directions viewed as consistent with their particular interests, and (2) the need for a sustained budgeting commitment from plan sponsors.

Policy objective 1 means that contributions should include the cost of current service plus a series of amortization payments or credits to fully fund or recognize any unfunded or overfunded past service costs (note that the latter is often described as "Surplus").

Policy objectives 2 and 3 reflect two aspects of the general policy objective of interperiod equity (IPE). The "demographic matching" goal of policy objective 2 promotes intergenerational IPE, which seeks to have each generation of taxpayers incur the cost of benefits for the employees who provide services

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to those taxpayers, rather than deferring those costs to future taxpayers. The “volatility management” goal of policy objective 3 promotes period-to-period IPE, which seeks to have the cost incurred by taxpayers in any period compare equitably to the cost for just before and after.

These two aspects of IPE will tend to move funding policy in opposite directions. Thus the combined effect of policy objectives 2 and 3 is to seek an appropriate balance between intergenerational and period-to-period IPE, that is, between demographic matching and volatility management.

Policy objective 3 (and the resulting objective of balancing policy objectives 2 and 3) depends on the presumed ongoing status of the public sector plan and its sponsors. The level of volatility management appropriate to a funding policy may be less for plans where this presumption does not apply, e.g., plans that are closed to new entrants.

Policy objective 4 will generally favor policies that allow a clear identification and understanding of the distinct role of each policy component in managing both the expected cost of current service and any unexpected variations in those costs, as measured by any unfunded or overfunded past service costs. Such policies can enhance the credibility and objectivity of the cost calculations, which is also supportive of policy objective 5.

Policy objective 5 seeks to enhance a retirement board’s ability to resist and defend against efforts to influence the determination of plan costs in a manner or direction inconsistent with the other policy objectives. This favors policies based on a cost model where the parameters are set in reference to factors that affect costs rather than the particular cost result. This separation between the selection of model parameters and the resulting costs enhances the objectivity of the cost results. As a result, any attempt to influence those results must address the objective parameters rather than the cost result itself.

A common example of agency risk is that, because plan sponsors may be more aware of and responsive to the interests of current versus future taxpayers, there

may be incentives to defer necessary contributions to future periods. This may be countered by avoiding policy changes that selectively reduce contributions.

For plans with an ongoing service cost for active members, policy objective 5 also reflects a policy objective to avoid encumbering for other uses the budgetary resources necessary to support that ongoing service cost. This introduces an asymmetry between funding policies for unfunded liabilities versus surpluses, which is discussed in the policy development for surplus amortization.

Note that the model funding policies developed here are substantially driven by these policy objectives. In some situations other plan features or policies (e.g., investment policy, reserving requirements, and plan maturity) may also be a consideration in setting funding policy. Such considerations are not addressed in this analysis.

Principal Elements of Actuarial Funding Policy

The type of comprehensive actuarial funding policy developed here is made up of three components:

1. An **actuarial cost method**, which allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability or AAL).
2. An **asset smoothing method**, which reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets.
3. An **amortization policy**, which determines the length of time and the structure of the increase or decrease in contributions required to systematically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any Surplus, i.e., any assets in excess of the AAL.

An actuarial funding policy can also include some form of "direct rate smoothing" in addition to both asset smoothing and UAAL/Surplus amortization. Two types of this form of direct rate smoothing policies were evaluated for this development:

1. Phase-in of certain extraordinary changes in contribution rates, e.g., phasing-in the effect of assumption changes element over a three year period.
2. Contribution "collar" where contribution rate changes are limited to a specified amount or percentage from year to year.

As noted earlier, it is also possible to use direct contribution rate smoothing techniques as an *alternative* to asset smoothing, rather than in addition to asset smoothing. While that approach is outside the scope of this discussion, the CCA PPC is considering development of a separate white paper on direct rate smoothing as an alternative to asset smoothing.

Actuarial Cost Method

The Actuarial Cost Method allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability¹ or AAL).

Specific policy objectives and considerations

1. Each participant's benefit should be funded under a reasonable allocation method by the expected retirement date(s), assuming all assumptions are met.
2. Pay-related benefit costs should reflect anticipated pay at anticipated decrement.
3. The expected cost of each year of service (generally known as the Normal Cost or service cost) for each active member should be reasonably related to the expected cost of that member's benefit.
4. The member's Normal Cost should emerge as a level percentage of member compensation².
5. No gains or losses should occur if all assumptions are met, except for:
 - a. Investment gains and losses deferred under an asset smoothing method consistent with these model practices, or
 - b. Contribution losses or gains due to a routine lag between the actuarial valuation date and the date that any new contributions rates are implemented, or
 - c. Contribution losses or gains due to the phase-in of a contribution increase or decrease.
6. The cost method should allow for a comparison between plan assets and the accumulated value of past Normal Costs for current participants, generally known as the Actuarial Accrued Liability (AAL).

¹ Here "liability" indicates that this is a measure of the accrued (normal) cost while "actuarial" distinguishes this from other possible measures of liability: legal, accounting, etc.

² This objective applies most clearly to benefits (like, for example, most public pension benefits) that are determined and budgeted for as a percentage of individual and aggregate salary, respectively. For benefits that are not pay related it may be appropriate to modify this objective and the resulting policies accordingly.

Discussion

1. Any actuarial cost model for retirement benefits begins with construction of a series or array of Normal Costs that, if funded each year, under certain stability conditions will be sufficient to fund all projected benefits for current active members. The following considerations serve to specify the cost model developed here.
 - a. The usual stability conditions are that the current benefit structures and actuarial assumptions have always been in effect, the benefit structures will remain in effect, and future experience will match the actuarial assumptions. Special considerations apply if in the past the benefit structure has been changed for current active members changing the benefits for members with service after some fixed date.
 - b. Consistent with Cost Method policy objective #3 and with the general policy objective of transparency, the Normal Cost for each member is based on the benefit structure for that member. This means that a separate Normal Cost array is developed for each tier of benefits within a plan. This argues against Ultimate Entry Age, where Normal Cost is based on an open tier of benefits even for members not in that open tier.
 - c. Consistent with Cost Method policy objective #4, the Normal Cost is developed as a level percentage of pay for each member, so that the Normal Cost rate for each member (as a percentage of pay) is designed to be the same for all years of service. This provides for a more stable Normal Cost rate for the benefit tier in case of changing active member demographics. This argues against Projected Unit Credit.
 - d. Also consistent with Cost Method policy objective #4, the Normal Cost for all types of benefits incurred at all ages is developed as a level percentage of the member's career compensation. This argues against funding to decrement. For plans with a DROP (Deferred Retirement Option Program) this also argues for allocating Normal Cost over all years of employment, including those after a member enters a DROP.
 - e. Consistent with Cost Method policy objective #6, the Normal Cost is developed independent of plan assets, and the Actuarial Accrued Liability (and so also the UAAL) is based on the Normal Costs developed for past years. This argues against Aggregate and FIL as model practices.
 - i. These methods should be considered as a fundamentally different approach to the determination and funding of variations from Normal Cost.
 - ii. Plans using these methods should also measure and disclose costs and liabilities under the Entry Age method, similar to the requirements of current accounting standards.
 - f. Historical practice includes the use of a variation of the Entry Age method (an "Aggregated" Entry Age method) where the Normal Cost and AAL are first determined for each member in a tier of benefits under the usual Entry Age method. However, the actual Normal Cost for the tier is then determined as the Normal Cost rate for the tier applied to the compensation for the tier, where the Normal Cost rate for the tier of benefits is determined as the present value of future Normal Costs for all active members in the tier, divided by the present value of compensation for all members in the tier.
 - i. This variation introduces an inconsistency between the Normal Cost that is funded and the Normal Cost on which the AAL is based.
 - ii. This inconsistency can be shown to produce small but systematic gains or losses, generally losses.

ACTUARIAL COST METHOD

2. Consistent with all the above, under the cost model developed here the Normal Cost rate would change only when the projected benefits for the tier change either in amounts or in present value.
 - a. The Normal Cost rate (both in total and by member) will vary from valuation to valuation due to demographic experience and assumption changes.
 - b. The Normal Cost rate will not change when an individual member reaches an age or service where, under the consistent benefit structure for the member's tier, the member's benefit eligibility or accrual rate changes. This is because that event was anticipated in the projected benefits for the tier, so that the projected benefits are substantially unaffected by such predictable changes in eligibility or benefit accrual.
 - c. Similarly the Normal Cost rate for a member should be unaffected by the closing of the member's tier and the creation of a new tier for future hires, as discussed under item 1.b above.
 - d. However, if the benefit structure of a continuing, open tier is changed for members with service after some fixed date, then the Normal Cost rate should change to reflect the unanticipated change in projected benefits for members in the tier³. This calls for an extension or variation of the Entry Age method in order to value this type of benefit change.
 - i. There are two methods in practice to adjust the Normal Cost rate for this type of plan change. While a detailed analysis of these two variations is beyond the scope of this discussion, our summary conclusions are:
 - A. The "replacement life" Entry Age method would base the Normal Cost on the new benefit structure as though it had always been in place, thereby producing a consistent Normal Cost rate for all members in the tier. This has the advantages of a change in Normal Cost (both individual and total) more consistent with what would be expected for a change in future benefit accruals, a stable future Normal Cost rate for the tier and a relatively smaller (compared to the alternative) change in Actuarial Accrued Liability. Its disadvantages are that it may be more complicated to explain and to implement.
 - B. The "averaged" Entry Age method would base each member's Normal Cost on the new projected benefit for that member, thereby producing a different Normal Cost rate for different members in the tier, based generally on their service at the time of the change in benefit structure. The advantages and disadvantages are essentially the reverse of those for the replacement life version of Entry Age. The change in Normal Cost is less than what would be expected for a change in future benefit accruals, the future Normal Cost rate for the tier will be unstable (as it eventually reaches the same rate as under the replacement life variation) and there is a relatively larger (compared to the alternative) change in Actuarial Accrued Liability. Its advantages are that it may be less complicated to explain and to implement (where the latter may depend on the valuation software used).
3. While not recommended for funding, the Normal Cost under the Ultimate Entry Age method discussed above may nonetheless be useful when a new open tier is adopted for future hires. The combined normal cost rate for the open and closed tiers (as determined under the LCAM Entry Age method) will change over time as members of the closed tier are replaced by members in the new tier. This will result in an increasing or decreasing

³ Note that, as of this writing, for public sector pension plans this is relatively uncommon because of legal protections that are understood to apply both to accrued benefits and to future benefit accruals for current members.

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combined normal cost rate (depending on whether the new tier has higher or lower benefits), consistent with the transition of the workforce over time to the new benefit level. However, the Ultimate Entry Age method Normal Cost for the combined tiers will reflect the expected long term Normal Cost for the entire workforce (unlike the LCAM Normal Cost which reflects only the recent hires in the new tier). For that reason, Normal Cost under Ultimate Entry Age may be useful for projecting longer-term costs or for evaluating a fixed contribution rate.

Practices

Based on the above discussion, and consistent with the policy objectives, actuarial cost methods and parameters are categorized as follows:

LCAM Model Practices

- Entry Age cost method with level percentage of pay Normal Cost.
 - Normal Costs are level even if benefit accrual or eligibility changes with age or service.
 - All types and incidences of benefits are funded over a single measure of expected future service⁴.
 - The Normal Cost for a tier of benefits is the sum of the individually determined Normal Costs for all members in that tier.
 - Exception: for plans with benefits unrelated to compensation the Entry Age method with level dollar Normal Cost may be more appropriate.
- For multiple tiers:
 - Normal Cost is based on each member's benefit.
- For benefit formula or structure changes within a tier (generally after a fixed date):

- Normal Cost is based on current benefit structure (replacement life Entry Age⁵).

Acceptable Practices

- Aggregate cost method: Plans using the Aggregate method should disclose costs and liabilities determined under the Entry Age method.
 - Calculate Normal Cost and UAAL under Entry Age method.
 - Determine single amortization period for the Entry Age UAAL that, combined with the Entry Age Normal Cost, is equivalent to Aggregate method Normal Cost.
- Frozen Initial Liability cost method: This method should disclose costs and liabilities under the Entry Age method.
 - Calculate Normal Cost and UAAL under Entry Age method.
 - Deduct the FIL amortization bases from the Entry Age UAAL.
 - Determine single amortization period for the remaining Entry Age UAAL that, combined with the Entry Age Normal Cost, is equivalent to FIL method Normal Cost.
- Funding to Decrement Entry Age method, where each type and incidence of benefit is funded to each age at decrement.
 - This method may be appropriate for some plan designs or for plans closed to new entrants⁶.
- For benefit formula or structure changes within a tier (generally after a fixed date):

⁴ Under the LCAM model practice, Normal Cost is allocated over service that continues until the member is no longer working. For active members in or expected to enter a DROP (Deferred Retirement Option Program) this includes service through the expected end of the DROP period. This is not the method adopted by GASB in Statements 67 and 68, where service cost is allocated only through the beginning of the DROP period. The GASB method for DROPs is categorized as an Acceptable Practice for funding.

⁵ Note that this is not the method used in GASB's Statements 67 and 68. The GASB method is categorized as an Acceptable Practice.

⁶ For example, a Plan that provides very valuable early career-benefits (such as heavily subsidized early retirement or disability benefits) may prefer to have the higher early-career Normal Costs associated with the Funding to Decrement Entry Age method.

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- Normal Cost is based on each member's composite projected benefit (averaged Entry Age⁷).

Acceptable Practices, with Conditions

- Projected Unit Credit cost method.
- Entry Age method variation ("Aggregated" Entry Age method) where the Normal Cost for a tier of benefits is determined as the Normal Cost rate for the tier applied to the compensation for the tier, and where the Normal Cost rate for the tier of benefits is determined as the present value of future Normal Costs for all active members in the tier, divided by the present value of compensation for all members in the tier.
- Aggregate or Frozen Initial Liability methods without the disclosures of costs and liabilities determined under the Entry Age method discussed above.

Non-recommended Practices

- Normal Cost based on open tier of benefits even for members not in that open tier (Ultimate Entry Age).
 - Ultimate Entry Age Normal Cost may be useful to illustrate the longer-term Normal Cost for combined tiers or to evaluate fixed contribution rates.

Unacceptable Practices

- Traditional (non-Projected) Unit Credit cost method for plans with pay-related benefits as the primary benefit.
- Note that while this white paper does not address policy issues related to pay-as-you-go funding or terminal funding, such practices would be unacceptable if the policy intent is to fund the members' benefits during the members' working careers.

Transition Policies

- There are no transition policies that apply to funding methods. For substantial method changes (e.g., changing from Projected Unit Credit to Entry Age) special amortization periods could apply. These are discussed in the section on Amortization Policy.

⁷ Note that this is the version of the Entry Age method required for financial reporting under GASB Statements 67 and 68 for plans with benefit formula or structure changes within a tier.

Asset Smoothing Methods

An asset smoothing method reduces the effect of short term market volatility while still tracking the overall movement of the market value of plan assets.

Specific policy objectives and considerations

1. The funding policy should specify all components of asset smoothing method:
 - a. Amount of return subject to deferred recognition (smoothing).
 - b. The smoothing period or periods.
 - c. The range constraints on smoothed value (market value corridor), if any.
 - d. The method of recognizing deferred amounts: fixed or rolling smoothing periods.
2. The asset smoothing method should be unbiased relative to market.
 - a. The same smoothing period should be used for gains and for losses.
 - b. Any market value corridor should be symmetrical around market value.
3. The asset smoothing method should not be selectively reset at market value only when market value is greater than actuarial value.
 - a. Bases may be combined but solely to reduce future, non-level recognition of relatively small net unrecognized past gains and losses (i.e., when the smoothed and market values are already relatively close together).
4. The asset smoothing method should be unbiased relative to realized vs unrealized gain loss.
 - a. Base deferrals on total return gain/loss relative to assumed earnings rate.
5. The asset smoothing method should incorporate the ASOP 44 concepts of:
 - a. Likely to return to market in a reasonable period and likely to stay within a reasonable range of market, or
 - b. Sufficiently short period to return to market or sufficiently narrow range around market.
6. The policy parameters should reflect empirical experience from historical market volatility.
7. The asset smoothing method should support the policy goal of

ASSET SMOOTHING METHODS

demographic matching (the intergenerational aspect of interperiod equity) described in general policy objective 2. This leads to a preference for smoothing methods that provide for full recognition of deferred gains and losses in the UAAL by some date certain.

- a. Note that this objective is also consistent with the accountability and transparency goals described in general policy objective 4.

Discussion

1. Longer smoothing periods generally reduce contribution volatility. A discussion of smoothing periods could include the following considerations:
 - a. To the extent that smoothing periods are considered as being tied to economic or market cycles, those cycles may be believed to be longer or shorter than in past years.
 - b. If markets are more volatile, then longer smoothing would be needed even if only to maintain former levels of contribution stability.
 - c. Better funded plans, more mature plans and higher benefit plans (i.e., plans with a higher "volatility index") have inherently more volatile contribution rates, so may justify longer smoothing.
 - d. Sponsors may be more sensitive to contribution volatility.
2. However, ASOP 44 implies that longer smoothing periods call for narrower market value corridors.
 - a. In effect, the corridor imposes a demographic matching style constraint on the use of longer smoothing periods which otherwise would obtain greater volatility management.
3. The model interpretation is that five year smoothing is "sufficiently short" under ASOP 44.
 - a. This reflects long and consistent industry practice, as well as GASB Statement 68.
 - b. This implies that five year smoothing with no market value corridor is ASOP compliant.
 - c. It still may be useful to have a market value corridor as part of the asset smoothing policy.
 - i. This avoids having to introduce the corridor structure in reaction to some future discussion of longer smoothing periods.
4. Consider the extensive data available on the impact of smoothing periods and market value corridors after large market downturn (such as occurred in 2008).
 - a. The smoothing method manages the transition from periods of lower cost to periods of higher cost.
 - i. The level of those higher costs is determined primarily by size of the market loss and UAAL amortization period, not the asset smoothing policy.
 - b. The smoothing period determines length of the transition period.
 - c. The market value corridor determines cost pattern during the transition.
 - i. A wide corridor or no corridor produces a straight line transition.
 - ii. "Hitting the corridor" accelerates the cost increases or decreases in early years of transition.
 - A. In effect the corridor inhibits the smoothing method after years of large losses (or gains).
 - iii. There are various possible policy justifications for such an accelerated transition.
 - A. Market timing: get more contributions in while the market is down.
 - B. Cash flow management: low market values may impair plan liquidity.
 - C. Employer solvency: if the employer eventually is going to default on making contributions, then get as much contribution income as possible before that happens.
 - D. Employer preference: employers may prefer to have the higher costs in their rates as soon as possible.

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- iv. Following the 2008 market decline, these justifications were generally not found to be compelling.
 - A. The normal lag in implementing new contributions rates defeats iii. A and B.
 - B. Employers are presumed solvent and if not, accelerating contributions would make things worse.
 - C. Many employers clearly preferred more time to absorb the contribution increases.
- v. Absent these considerations, 2008 experience argues for permitting a wide corridor with a five year smoothing period, based on the fact that five year smoothing produced actuarial value to market value ratios that exceeded 140%.
 - A. Projections in early 2009 actually showed these ratios could have been as high as 150% if markets had not recovered some before the June 30, 2009 valuations.
- 5. Other industry indicators for market corridor selection with long smoothing periods
 - a. CalPERS 2005 policy: 15 year rolling smoothing with 20% corridor.
- 6. Structural issue: Fixed, separate smoothing periods vs. a single, rolling smoothing period
 - a. Fixed, separate smoothing periods for each year of market gain or loss insure that all deferred gains and losses are included in the UAAL (and so in the contribution rates) by a known date. This is consistent with accountability and with demographic matching.
 - b. A single rolling smoothing period avoids "tail volatility" where contributions are volatile not only when gains and losses first occur but also when (under a layered approach) each year's gain or loss is fully recognized.
 - i. Rolling smoothing is consistent with volatility management but substantially extends the recognition period for deferred investment gains and losses.
 - A. This will extend the time when the actuarial value of assets is consistently above or below the market value of assets.
 - B. That argues for narrower corridors than are appropriate for fixed (layered) smoothing periods.
 - ii. In effect, rolling smoothing recognized a fixed percentage of deferred investment gains and losses each year.
 - A. For example, 5 year rolling amortization recognizes 20% of the deferred amount.
 - B. Base corridors on this deferral recognition percentage.
 - c. With fixed, separate smoothing periods, tail volatility due to alternating periods of market gains and losses can be controlled by limited active management of the separate deferral amounts.
 - i. One such adjustment involves combining the separate deferral amounts when the net deferral amount is relatively small (i.e., the smoothed and market values are very close together) but the recognition pattern of that net deferral is markedly non-level.
 - A. The net deferral amount is unchanged as of the date of the adjustment.
 - B. The period over which the net deferral amount is fully recognized is unchanged as of the date of the adjustment.
 - ii. Other uses of active management of the deferral amounts may add complexity to the application of the policy and may reduce transparency.
 - iii. Restarts of fixed, separate smoothing periods should not be used:
 - A. Too frequently, as this would produce a de facto rolling smoothing period, or

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- B. To selectively restart smoothing at market value only when market value is greater than smoothed value. This would violate General Policy Objective 5, since it would selectively change the policy only when the effect is to reduce contributions.

Practices

Based on the above discussion, and consistent with the policy objectives, asset smoothing methods and parameters are categorized as follows:

LCAM Model Practices

- Deferrals based on total return gain/loss relative to assumed earnings rate.
- Deferrals recognized in smoothed value over fixed smoothing periods not less than 3 years.
- Maximum market value corridors for various smoothing periods:
 - 5 or fewer years, 50%/150% corridor.
 - 7 years, 60%/140% corridor.
- Combine smoothing periods or restart smoothing only to manage tail volatility.
 - Appropriate when the net deferral amount is relatively small (i.e., the actuarial and market values are very close together).
 - The net deferral amount is unchanged as of the date of the adjustment.
 - The period over which the net deferral amount is fully recognized is unchanged as of the date of the adjustment.
 - Avoid using frequent restart of smoothing to achieve de facto rolling smoothing.
 - Avoid restarting smoothing only accelerate recognition of deferred gains, i.e., only when market value is greater than actuarial value.
- Additional analysis, such as solvency projections, is likely to be appropriate for closed plans.

Acceptable Practices

- Maximum market value corridors for various smoothing periods:

- 10 years, 70%/130% corridor.
- Five year (or shorter) smoothing with no corridor (including use of market value of assets without smoothing).
- Rolling smoothing periods with the following maximum market value corridors for various smoothing periods:
 - Express rolling smoothing period as a percentage recognition of deferred amount and set corridor at that same percentage. For example:
 - 3 year rolling smoothing means 33% recognition, with a 33% corridor.
 - 4 year rolling smoothing means 25% recognition, with a 25% corridor.
 - 5 year rolling smoothing means 20% recognition, with a 20% corridor.
 - 10 year rolling smoothing means 10% recognition, with a 10% corridor.
 - Perform additional analysis including projections of when the actuarial value is expected to return to within some narrow range of market value.

Acceptable Practices, with Conditions

- Maximum market value corridors for various smoothing periods:
 - 15 years, 80%/120% corridor.

Non-recommended Practices

- Longer than 5 year smoothing with no corridor.
- 15 years or shorter smoothing with corridors wider than shown above.

Unacceptable Practices

- Smoothing periods longer than 15 years

Transition Policies

Generally, transition policies for asset smoothing would allow current layered smoothing to continue subject to the appropriate model corridors (as determined by the future smoothing periods, if changed from the past/current layers). Transition from rolling asset smoothing would fix the rolling layer at its current period.

Amortization Policy

An amortization policy determines the length of time and the structure of the increase or decrease in contributions required to systematically (1) fund any Unfunded Actuarial Accrued Liability or UAAL, or (2) recognize any Surplus, i.e., any assets in excess of the AAL.

Specific policy objectives and considerations

1. Variations in contribution requirements from simply funding the Normal Cost will generally arise from gains or losses, method or assumption changes or benefit changes and will emerge as a UAAL or Surplus. As discussed in the general policy objectives, such variations should be funded over periods consistent with an appropriate balance between the policy objectives of demographic matching and volatility management.
2. As with the Normal Cost, the cost for changes in UAAL should emerge as a level percentage of member compensation⁸.
3. The amortization policy should reflect explicit consideration of these different sources of change in UAAL, even if the resulting policy treats different changes in the same way:
 - a. Experience gains and losses.
 - b. Changes in assumptions and methods.
 - c. Benefit or plan changes.
4. The amortization policy should reflect explicit consideration of the level and duration of negative amortization, if any.
 - a. This consideration should not necessarily preclude some negative amortization that may occur under an amortization policy that is otherwise consistent with the policy objectives.
 - b. Amortization periods developed in consideration of negative amortization (along with other policy goals) may be relevant for level dollar amortization (where negative amortization does not occur).
5. The amortization policy should support the general policy objectives of

⁸ As with the Normal Cost, this amortization policy objective applies most clearly to benefits (like, for example, most public pension benefits) that are determined and budgeted for as a percentage of individual and aggregate salary, respectively. For benefits that are not pay related, or when costs are budgeted on a basis other than compensation it may be appropriate to modify this objective and the resulting policies accordingly.

AMORTIZATION POLICY

accountability and transparency. This leads to a preference for:

- a. Amortization policies that reflect a history of the sources and treatment of UAAL.
 - b. Amortization policies that provide for a full amortization date for UAAL.
 - i. Note that this objective is also consistent with the demographic matching aspect of general policy objective 2.
6. The amortization of Surplus requires special consideration, consistent with general policy objective 5 (nature of public plan governance).
- a. Amortization of Surplus should be considered as part of a broader discussion of Surplus management techniques, including:
 - i. Excluding some level of Surplus from amortization.
 - ii. "Derisking" some portion of plan liabilities by changing asset allocation.
 - c. Multiple layer amortization is also more transparent, since it tracks the UAAL by source. However, layered amortization is more complicated and can require additional policy actions to achieve stable contribution rates (including active management of the bases).
 - d. Discussion of periods will assume multiple, fixed amortization and then revisit the use of rolling periods to manage volatility.
3. For gains and losses, balancing demographic matching and volatility control leads to an ideal amortization period range of 15 to 20 years.
- a. Lesson learned from the 1990s is that less than 15 years gives too little "volatility control", especially for gains.
 - i. Short amortization of gains led to partial contribution holidays (contributions less than Normal Cost) and even full contribution holidays (no contribution required).
 - ii. This is inconsistent with general policy objective 5, in that it led to insufficient budgeting for ongoing pension costs and to pressure for benefit increases.
 - b. Longer than 20 years becomes difficult to reconcile with demographic matching, the intergenerational aspect of interperiod equity described in general policy objective 2.
 - i. 20 years is substantially longer than either average future service for actives or average life expectancy for retirees.
 - c. Periods longer than 20 years also entail negative amortization (which starts at around 16 to 18 years for many current combinations of assumptions)⁹.
 - i. Here negative amortization is an indicator for not enough demographic matching but based on economic rather than demographic assumptions.

Discussion

1. The policy objectives lead to a general preference for level percentage of pay amortization.
 - a. Consistent with policy objectives and with the Normal Cost under the Model Actuarial Cost Method.
 - b. This discussion of amortization periods presumes level percentage amortization. Level dollar amortization is discussed separately as an alternative to level percentage amortization.
2. The policy objectives lead to a general preference for multiple, fixed amortization layers.
 - a. Fixed period amortization is clearly better for accountability, since UAAL is funded as of a date certain.
 - b. Single layer, fixed period amortization is not a stable policy, since period would have to be restarted when remaining period gets too short.

⁹ Note that for emerging lower investment return and salary increase assumptions even twenty year amortization may entail no negative amortization.

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- ii. Consider observed consistency between the period of onset of negative amortization and the periods related to member demographics.
- iii. As discussed later in this section, negative amortization is a much greater concern when using open or rolling amortization periods.
- d. Two case studies — CalPERS and GASB:
 - i. CalPERS 2005 analysis focused on volatility management. Resulting funding policy uses exceptionally long periods for gain and loss amortization (as well as for asset smoothing.)
 - ii. GASB Statements 67 and 68 focus on demographic matching. Resulting expensing policy uses very short recognition periods. (This is cited for comparison only, as the GASB statements govern financial reporting and not funding.)
 - iii. Our general policy objectives indicate a balance between these two extremes.
- 4. For assumption changes, while the amortization periods could be the same, a case can be made for longer amortization than for gain/loss, since liabilities are remeasured to anticipate multiple years of future gains or losses.
 - a. A similar or even stronger case for longer periods could be made for changing cost method (such as from Projected Unit Credit to Entry Age), or for the initial liability for a newly funded plan.
 - b. However longer than 25 years entails substantial (arguably too much) negative amortization.
- 5. For plan amendments that increase liabilities, volatility management is not an issue, only demographic matching.
 - a. Use actual remaining active future service or retiree life expectancy.
 - b. Could use up to 15 years as an approximation for actives.
- i. Any period that would entail negative amortization is inconsistent with general policy goals 2 (demographic matching) and 5 (nature of public plan governance).
- c. Could use up to 10 years as an approximation for inactives.
 - i. Particularly for retiree benefit increases, amortization period should control for negative cash flow where additional amortization payments are less than additional benefit payments.
- d. For Early Retirement Incentive Programs use a period corresponding to the period of economic savings to the employer.
 - i. Shorter than other plan amendments, typically no more than five years¹⁰
- e. For benefit improvements with accelerated payments (e.g. one time “13th check” or other lump sum payments) amortization may not be appropriate as any amortization will result in negative cash flows.
- 6. Plan amendments that reduce liabilities require separate considerations so as to avoid taking credit for the reduction over periods shorter than the remaining amortization of the original liabilities.
 - a. Reductions in liability due to such benefit reductions should not be amortized more rapidly than the pre-existing unfunded liabilities, as measured by the average or the longest current amortization period.
 - b. Benefit “restorations¹¹” should similarly be amortized on a basis consistent with the pre-existing unfunded liabilities or with the “credit” amortization base established when the benefits were reduced.
- 7. For Surplus, similar to short amortization of

10 For example, a Government Finance Officers Association (GFOA) 2004 recommended practice states that “the incremental costs of an early retirement incentive program should be amortized over a short-term payback period, such as three to five years. This payback period should match the period in which the savings are realized.”

11 A benefit restoration occurs when a previous benefit reduction has been fully or partially restored for a group of members who were subject to the earlier benefit reduction.

AMORTIZATION POLICY

- gains, the lesson from the 1990s is that short amortization of surplus leads to partial or full contribution holidays (contributions less than Normal Cost, or even zero).
- a. This is inconsistent with general policy objective 5, and led to insufficient budgeting for ongoing pension costs and to pressure for benefit increases.
 - b. General consensus is that this is not good public policy.
 - i. See for example Recommendation 7 by California's 2007 Public Employee Post-Employment Benefits Commission, and also CalPERS 2005 funding policy.
 - c. Because of both the ongoing nature of the Normal Cost and the nature of public plan governance, amortization of UAAL and Surplus should not be symmetrical.
 - i. It may be appropriate to amortize surplus over a period longer than would be acceptable for UAAL.
 - ii. Such an asymmetric policy would reduce the magnitude and/or likelihood of partial or full contribution holidays.
 - iii. One approach would be to disregard the Surplus and always contribute at least the Normal Cost. However if Surplus becomes sufficiently large then some form of Surplus management may be called for.
 - d. Note that long amortization of Surplus does not preclude other approaches to Surplus management that are beyond the scope of this discussion, including:
 - i. Treating some level of Surplus as a non-valuation asset.
 - ii. Changing asset allocation to reflect Surplus condition.
8. Separate Surplus related issue: When plan first goes into Surplus, should existing UAAL amortization layers be maintain or eliminated?
- a. Could maintain amortization layers and have minimum contribution of Normal Cost less 30 year amortization of Surplus.
 - b. However, maintaining layers can result in net amortization charge even though overall plan is in Surplus.
 - c. Alternative is to restart amortization of initial surplus, and any successive Surpluses.
 - i. In effect, this is 30 year rolling amortization of current and future Surpluses.
 - ii. Restart amortization layers when plan next has a UAAL.
9. Level dollar amortization is fundamentally different from level percent of pay amortization.
- a. No level dollar amortization period is exactly equivalent to a level percent period.
 - b. Level dollar is generally faster amortization than level percent of pay, so longer periods may be reasonable.
 - c. Plan and/or sponsor circumstances could determine appropriateness of level dollar method.
 - i. Level dollar would be appropriate for plans where benefits are not pay related and could be appropriate if the plan is closed to new entrants.
 - ii. Level dollar could be appropriate for sponsors and plans that are particularly averse to future cost increases, e.g., utilities setting rates for current rate payers.
 - iii. Level dollar could be appropriate for sponsors and plans that want an extra measure of conservatism or protection against low or no future payroll growth.
 - iv. Level dollar could be useful as a step in developing amortization payments in proportion to some basis other than payroll.
10. Multiple, fixed period layers vs. single, rolling period layer for gains and losses.
- a. Multiple, fixed amortization periods for each year's gain or loss ensures that all gains and losses are funded by a known date. This is consistent with accountability and with demographic matching.

AMORTIZATION POLICY

- b. A single rolling smoothing period avoids tail volatility where contributions are volatile not only when gains and losses occur but also when each year's gain or loss is fully amortized. This is consistent with volatility management.
 - c. With fixed, separate smoothing periods, tail volatility can be controlled by limited active management of the amortization layers, including combining consecutive gain and loss layers as necessary to reduce tail volatility.
 - i. As with asset smoothing, active management should be used to manage the pattern of future UAAL funding and not to accomplish a short-term manipulation of contributions.
 - ii. In particular the net remaining amortization period should be relatively unaffected by any combination of offsetting UAAL amortization layers.
 - iii. The use of active management of the amortization layers may add complexity to the application of the policy and may reduce transparency.
11. Plans with layered amortization of an unfunded liability should consider actions to achieve a minimum net amortization charge that is not less than the payment required under a single 25 year amortization layer. This may be accomplished through active management of the amortization layers or through other means.
12. Rolling amortization periods for a single layer of gains and losses or for the entire UAAL.
- a. Similar to level dollar, acknowledge that rolling amortization is fundamentally different from fixed period amortization.
 - i. Rolling amortization will have a substantial unamortized UAAL at the end of the nominal amortization period.
 - b. Argument can be made for a single, rolling amortization layer for gains and losses if the actuarial valuation assumptions are expected to be unbiased so that there is an equal likelihood of future gains and losses that will offset each other.
 - i. Such rolling amortization also requires that there are no systematic sources of future actuarial losses from plan design features, such as a subsidized service purchase option.
 - ii. Extraordinarily large gains or losses that are not reasonably expected to be offset by future losses or gains should be isolated from the single rolling gain/loss amortization layer and amortized over separate, fixed periods.
 - iii. Plans with a significant single rolling gain/loss amortization layer should affirmatively show that policy objectives will be achieved, without substantial violation of intergenerational equity.
- c. This argument is substantially weaker for rolling amortization for assumption changes (especially if consistently in a single direction, such as mortality assumption adjustments or recent changes in investment earnings assumptions.)
- i. Inconsistent with policy objective of intergenerational equity, as well as accountability and transparency.
 - ii. Similar concerns for rolling amortization of gains and losses in the presence of biased assumptions or other systematic sources of actuarial losses.
- d. It is very difficult to reconcile rolling amortization of plan amendments with intergenerational equity, as well as with accountability and transparency objectives.
- e. Specific exception for rolling, lengthy amortization of Surplus, since as described earlier this helps meet general policy objective 5
13. Rolling amortization and the Aggregate cost method.
- a. The Aggregate cost method produces contribution levels and patterns similar to using the Entry Age method with a single rolling level percent of pay amortization layer for the entire UAAL and a relatively short rolling amortization period.

AMORTIZATION POLICY

- i. Effective rolling amortization period reflects average future service of active members.
- b. However, the Aggregate cost method is fundamentally different from Entry Age (and from Projected Unit Credit) in that Aggregate does not measure an AAL or a UAAL.
 - i. Aggregate combines a high level of tail volatility management (policy objective #3) with high levels of demographic matching and accountability (policy objectives 2 and 4).
 - ii. Aggregate also provides no policy flexibility in the selection of an amortization period (since no UAAL is calculated) which provides protection from some agency risk issues, consistent with policy objective #5.
- c. Retirement boards desirous of the high level of tail volatility management and computational simplicity associated with rolling amortization of the entire Entry Age UAAL should consider adopting the Aggregate cost method.
 - i. If a UAAL is measured (as under the Entry Age or Projected Unit Credit cost methods) then, as discussed above, the policy objectives indicate layered amortization with the possible exception of a single rolling amortization layer for gains and losses.

Practices

Based on the above discussion, and consistent with the policy objectives, amortization methods and parameters are categorized as follows:

LCAM Model Practices

- Layered fixed period amortization by source of UAAL
- Level percent of pay amortization
- Amortization periods

Source	Period
Active Plan Amendments ¹²	Lesser of active demographics ¹³ , or 15 years
Inactive Plan Amendments	Lesser of inactive demographics ¹³ , or 10 years
Experience Gain/Loss	15 to 20 years
Assumption or Method Changes ¹⁴	15 to 25 years
Early Retirement Incentives	5 years or less

- 30 year amortization of surplus (for plans with ongoing Normal Cost and/or plan expenses)
 - Eliminate all prior UAAL layers upon going into Surplus
- Combine gain/loss (and other) layers or restart amortization only to avoid tail volatility.
 - Combining layers should result in substantially the same current amortization payment.
 - Avoid using restart of amortization to achieve de facto rolling amortization.
 - Restart amortization layers when moving from Surplus to UAAL condition.
- Additional analysis, such as solvency projections, is likely to be appropriate for closed plans.

¹² The effect of assumption changes integral to the measurement of the cost of plan amendments (e.g., change in rates of retirement to anticipate the effect of new benefit levels) should be included in the UAAL change associated with the plan amendment.

¹³ Demographics based periods include remaining active future service or retiree life expectancy. Amortization period should also control for negative cash flow where additional amortization payments are less than additional benefit payments.

¹⁴ Method change includes the initial liability for a newly funded plan.

AMORTIZATION POLICY

Acceptable Practices

- Up to 15 years for inactive plan amendments.
- Level dollar fixed period layered amortization by source of UAAL, using the same model amortization periods as above.
 - Ideally, some rationale should be given if used with pay related benefits.

Acceptable Practices, with Conditions

- Up to 25 year layered fixed period amortization by source, for all sources of UAAL.
 - Ideally with some rationale given for using periods outside the model ranges.
- Rolling amortization of a single combined gain/loss layer with an amortization period that does not entail any negative amortization.
 - With model periods for other sources of UAAL.
 - Use separate, fixed period layers for extraordinary gain or loss events.
 - Plans with a significant single rolling gain/loss amortization layer should demonstrate that policy objectives will be achieved.
- Up to 30 year fixed amortization of change in funding method (e.g. from PUC to Entry Age) or initial liability for a newly funded plan (i.e. an existing plan previously funded on a pay-as-you-go basis but not a new plan creating new past service benefits.)
 - Ideally some rationale should be given for using periods outside the model ranges.

Non-recommended Practices

- Fixed period amortization of the entire UAAL as a single combined layer, with periodic reamortization over a new (longer) starting amortization period.
- Layered fixed period amortization by source of UAAL over longer than 25 years (i.e., 26 to 30 years).
- Rolling amortization of a single combined gain/loss layer with an amortization period that does entail any negative amortization, but no longer than 25 years.
 - Same three conditions that apply to Acceptable with Conditions rolling gain/loss amortization.

- Rolling/open amortization of entire UAAL as a single combined layer (exclusive of plan amendments but inclusive of gain/loss, assumption and method changes) even where the amortization period does not entail negative amortization.

Unacceptable Practices

- Layered fixed period amortization by source of UAAL over longer than 30 years.
- Rolling/open amortization over longer than 25 years of a single combined gain/loss layer.
- Rolling/open amortization of entire UAAL as a single combined layer (exclusive of plan amendments) where the amortization period entails negative amortization.
- Rolling/open amortization of entire UAAL as a single combined layer (including plan amendments) even where the amortization period does not entail negative amortization.

Transition Policies

Transition policies are particularly applicable to amortization policy. Generally, transition policies for amortization would allow current fixed period amortization layers (with periods not to exceed 30 years) to continue, with new amortization layers subject to these guidelines. Transition from rolling amortization would fix any rolling layer at its current period, with future liability changes amortized in accordance with these guidelines. During the transition (i.e., as long as the remaining period for the formerly rolling base is longer than model or acceptable periods) any new credit layers (e.g., due to actuarial gains or less conservative assumptions) should be amortized over no longer than that same remaining period.

Direct Rate Smoothing

An actuarial funding policy may include some form of direct rate smoothing, where the contribution rates that result from applying the three principal elements of funding policy (including asset smoothing) are then directly modified.

As noted in the Introduction, some practitioners are developing direct contribution rate smoothing techniques as an alternative to asset smoothing. At this time, there are no widely accepted practices established for this type of direct rate smoothing. This discussion does not address the use of direct rate smoothing techniques as an alternative to asset smoothing. The CCA PPC is considering development of a separate white paper on direct rate smoothing as an alternative to asset smoothing.

The balance of this discussion pertains only to direct rate smoothing when used in conjunction with asset smoothing. Two types of such direct rate smoothing policies that are known to be in current practice were evaluated for this development:

1. Phase-in of certain changes in contribution rates, specifically, phasing-in the effect of assumption changes element over short period, consistent with the frequency of experience analyses.
2. Contribution collar where contribution rate changes are limited to a specified amount or percentage from year to year.

Discussion

1. Contribution rate phase-in can be an effective and reasonable way to address the contribution rate impact of assumption changes.
 - a. Ideally the phase-in period should be no longer than the time period until the next review of assumptions (experience analysis).
 - i. This approach is most appropriate when experience analyses are performed on a regular schedule.
 - ii. For systems with no regular schedule for experience analyses, the phase-in period would ideally be chosen so as to avoid overlapping phase-in periods.

DIRECT RATE SMOOTHING

- a. The plan and its sponsors should be clearly aware of the additional time value of money cost (or savings) of the phase-in, due to the plan receiving less (or more) than the actuarially determined contributions during the phase-in.
 - b. Any ongoing policy to phase-in the effect of assumption changes should be applied symmetrically to both increases and decreases in contribution rates.
 - c. Ongoing policy may be to phase-in only significant cost increases or decreases.
 - d. Note that the phase-in of the contribution rate impact of an assumption change is clearly preferable to phasing in the assumption change itself. While a detailed discussion is outside the scope of this discussion, phasing in an assumption change may be difficult to reconcile with the governing actuarial standards of practice.
2. Contribution collars have the policy drawback that the collar parameters arbitrarily override the contribution results produced by the other funding policy parameters (including asset smoothing), each of which have a well-developed rationale.
 - a. If contribution collars are used they should be supported by analysis and projections to show the effect on future funded status and future policy based contribution requirements (prior to the application of the contribution collar).
 - b. There may also need to be a mechanism to ensure adequate funding following extraordinary actuarial losses.
 3. Using either form of direct rate smoothing for other than assumption changes (i.e., for actuarial experience or plan amendments) appears inconsistent with the development of parameter ranges for the other elements of the funding policy.

Practices

Based on the above discussion, and consistent with the policy objectives, parameters are categorized as follows:

LCAM Model Practices

- None

Acceptable Practices

- For systems that review actuarial assumptions on a regularly scheduled basis, phase-in of the cost impact of assumption changes over a period no longer than the shorter of the time period until the next scheduled review of assumptions (experience analysis) or five years.
 - Phase-in should be accompanied by discussion and illustration of the impact of the phase-in on future contribution rates.
 - Phase-in may be applied only to cost impacts deemed material, but should be applied consistently to both cost increases and decreases.

Acceptable Practices, with Conditions

- For systems that do not review actuarial assumptions on a regularly scheduled basis, phase-in of the cost impact of assumption changes over a period of up to five years.
 - Phase-in of the cost impact of any prior assumption changes must be completed before commencing another phase-in period.
 - Phase-in should be accompanied by discussion and illustration of the impact of the phase-in on future contribution rates.
 - Phase-in may be applied only to cost impacts deemed material, but should be applied consistently to both cost increases and decreases.

Non-recommended Practices

- Phase-in of the cost impact of assumption changes over a period greater than five years.
- Phase-in of the cost impact of actuarial experience, in conjunction with model or acceptable practices for asset smoothing and UAAL amortization.
- Contribution collars in conjunction with model or acceptable practices for asset smoothing and UAAL amortization.
- Phase-in or contribution collars for the cost impact of plan amendments.

Items for Future Discussion

This white paper is intended to address the principal elements of an actuarial funding policy as applicable in most but not all situations. Other issues related to funding policy that may be of varying significance are listed in this section, including some of a more technical nature. These items may be the subjects of future guidance.

Impact of Risk/Employer ability to pay/Level of benefit protection—These are three considerations that could affect the development of an actuarial funding policy. While this white paper notes that these factors should be considered, it does not develop policies or procedures for doing so. This paper also does not address appropriate disclosure items, including disclosures related to risk. These considerations (and interrelationships) are outside of our current scope but are important items for future discussion.

OPEB Plans – As noted earlier, while we believe the general policy objectives developed here apply to OPEB plans as well, application of those policy objectives to OPEB plans may result in different specific funding policies based on plan design, legal status and other features distinctive to OPEB plans. Many of the actuaries who participated in developing this paper work on both pension and OPEB funding. We may address funding policies specific to OPEB plans in a later document. That process would also draw on experts in the design, underwriting and valuation of OPEB plans.

Self Adjusting System—We expect that an increasing number of plans will have self adjusting provisions (in this context we are referring to benefit adjustments). These provisions could impact the selection of funding methods.

Transfers of Service Credit—New entrants (or even current member) are sometimes eligible to transfer service credit for employment prior to plan membership. This generally creates actuarial losses, which is inconsistent with our policy objectives. Later we may discuss whether and how this should be anticipated in the valuation.

Purchase of Service—This can raise the same type of issues as Transfers of Service Credit since unfunded actuarial liabilities often increase when employees purchase service credit.

Actuarially determined contribution as a dollar amount or percentage of pay—Sometimes the contribution requirement is determined prior to the year it is due and shown as a dollar amount or a percentage of payroll. Either can be

used to determine the contribution amount required.

Role for Open/Stochastic Valuations and risk disclosures—Our guidelines are developed in the context of a closed group, deterministic valuation. This is in part due to the belief that such a valuation best achieves our policy objectives. However, there are also advantages associated with other valuation practices.

Lag time between valuation date and fiscal year –
Because of the time needed to produce the valuation and to budget for rate changes, the contribution made for a given fiscal year is often based on an earlier valuation date. This will generate contribution gains or losses when rates decrease or increase, respectively. Some systems adjust for these gains or losses in setting the rates but many do not.

Board of Trustees

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Date: April 24, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 10: Investment Report for March 2017

	March	Year to Date 2017	2016	2015	2014	2013
Total Trust Investments (\$ 000s)	\$1,232,209		\$1,196,775 year end	\$1,148,315 year end	\$1,190,316 year end	\$1,131,022 year end
Total Fund Return	1.1% Gross	4.6% Gross	6.6 % Gross	-1.1 % Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	0.5%	3.3%	7.7 %	-0.8 %	5.2 %	13.4%

(r) Policy index as of Aug. 2016 revision to Strategic Asset Allocation Policy: 20% domestic equity, 20% international equity, 15% core bonds, 5% bank loans, 5% global bonds, 5% emerging market debt, 15% real estate, 5% commodities, 5% private equity, 5% private credit.

The Economy:

The main factors in the global economy for February and into mid-March have been –

- **Fed Policy** – The Fed increased interest rates to the 0.75%-1.00% Fed Funds target range in mid March. The Fed continued to signal an outlook for two more increases in 2017. In addition, expectations are for the Fed to begin reducing the size of its bond holdings by year end. This would be a slow start on unwinding the unprecedented large size of the Fed balance

sheet that resulted from multiple years of aggressive quantitative easing that included asset purchases.

- **Economic Growth - US:** US domestic GDP growth in 4Q16 showed a revised measure of a 2.1% rate - above expectations. Initial estimates of 1Q17 US GDP growth are around 1.0%. Economists still expect an uptick in US GDP growth in 2017 with high levels of consumer confidence and a positive business outlook supported by ISM data showing increases in manufacturing activity. However, any impacts of potential fiscal stimulus from the Federal government are 2018 and later events. The moderate growth expected in GDP for 2017 supports the expectation that the Fed will continue with announced interest rate increases – possibly three more in 2017.
- **Economic Growth - Global:** The outlook for global growth – in the Eurozone in particular – appear to be increasing in economist’s eyes. Supporting more optimistic expectations on global growth are lessened fears over damaging protectionist trade measures being implemented. The IMF’s latest projections are for global GDP growth of 3.5% in 2017 and 3.6% in 2018. IMF projections have a tendency towards optimism, but even discounting that, a broad based upturn in global economies is expected to hold for the next two years.
- **Consumer Sentiment:** In the US, consumer sentiment is at a cyclical high with the Conference Board’s consumer sentiment index at a 16 year high in March of 125.6. Encouraging the upward read on consumer sentiment are moderate gasoline prices, low unemployment and strength in the stock market. The increased overall consumer sentiment measure suggests that household spending will rebound in 2Q17 further supporting GDP growth.
- **Employment -** The US unemployment rate edged lower in March to a decade-low of 4.5% as the labor force grew more slowly than the increase in employment. The labor force participation rate remained at 63% for March. The broader measure of unemployment that includes under-employment (e.g., forced to work part time but prefer full time) known as U-6 fell to a nine-year low of 8.9% from its previous read of 9.2%. New jobs in March came in at a disappointing 98k growth, but this was impacted by weather related drags on job creation following strong January (+216k) and February (+219k) new job creation. Average hourly earnings also rose by 0.2% in March for a year-over-year growth in earnings of +2.7%. These reports supporting the view of a domestic economy operating at near full employment.

Investment Markets:

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of March. The strong investment performance in the first three months of 2017 reflects resurgent growth in the global economy and predictable interest rate outlooks. However, the relatively high valuation levels in domestic equities in particular, suggest that the present sanguine investment environment is vulnerable to shock from events.

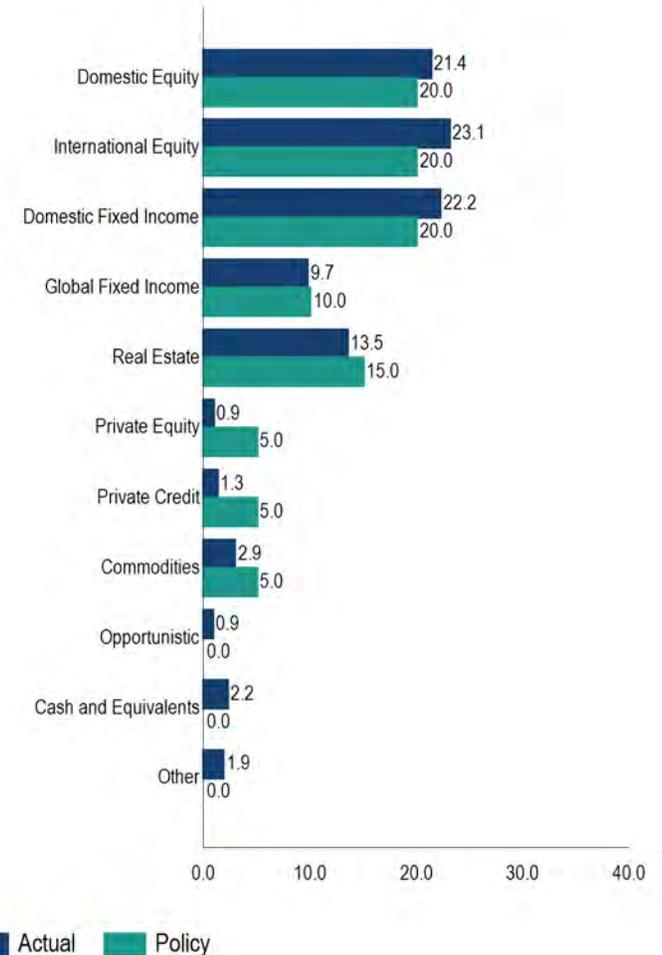
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: March 31, 2017

	Market Value	% of Portfolio	1 Mo	YTD
Total Fund	1,232,208,960	100.0	1.1	4.6
Total Fund ex Clifton	1,209,306,040	98.1	1.1	4.5
Policy Index			0.5	3.3
Total Domestic Equity	263,117,934	21.4	0.3	6.1
Russell 3000			0.1	5.7
SSGA S&P 500 Flag.	10,866,477	0.9	0.1	6.1
S&P 500			0.1	6.1
PIMCO RAE Fundamental PLUS Instl	51,798,649	4.2	-0.5	3.7
S&P 500			0.1	6.1
Loomis Sayles Large Cap Growth	76,234,447	6.2	1.8	8.9
Russell 1000 Growth			1.2	8.9
Boston Partners Large Cap Value	72,241,606	5.9	-0.6	--
Russell 1000 Value			-1.0	--
Atlanta Capital Mgmt	51,976,755	4.2	0.2	5.5
Russell 2500			-0.1	3.8
Total International Equity	284,642,848	23.1	3.7	8.7
MSCI ACWI ex USA Gross			2.6	8.0
Dodge & Cox Intl Stock	151,665,516	12.3	3.6	9.5
MSCI EAFE Gross			2.9	7.4
Vontobel	16,685	0.0		
MSCI EAFE Gross				
WCM International Growth	132,960,647	10.8	3.9	--
MSCI ACWI ex USA Gross			2.6	--
Total Domestic Fixed Income	273,808,826	22.2	0.0	1.4
BBgBarc US Aggregate TR			-0.1	0.8
BlackRock Core Bond	93,836,698	7.6	0.0	--
BBgBarc US Aggregate TR			-0.1	--
Dodge & Cox Income Fund	94,322,682	7.7	0.1	--
BBgBarc US Aggregate TR			-0.1	--
PIMCO Core Plus	55,646	0.0		
BBgBarc US Aggregate TR				
Pacific Asset Corporate Loan	66,627,611	5.4	0.0	1.4
S&P/LSTA Leveraged Loan Index			0.1	1.1

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 12/31/2016 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. Vertas Transition funded 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. All data is preliminary.

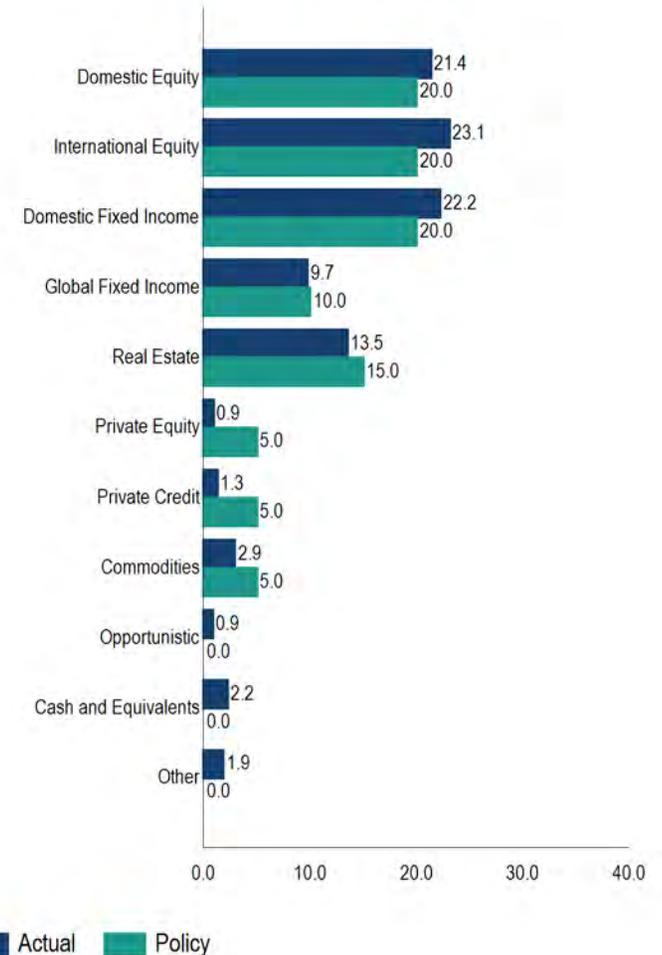
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: March 31, 2017

	Market Value	% of Portfolio	1 Mo	YTD
SSGA TIPS	18,966,185	1.5	-0.1	1.3
BBgBarc US TIPS TR			-0.1	1.3
Veritas Transition Account	4	0.0		
Total Global Fixed	120,120,242	9.7	2.1	6.5
Citi World Govt Bond Index			0.1	1.6
Brandywine Global Fixed Income	60,539,192	4.9	1.4	5.0
JPM GBI Global TR USD			0.1	1.4
Stone Harbor Local Markets Ins	59,581,050	4.8	2.8	8.1
JPM GBI-EM Global Diversified TR USD			2.3	6.5
Total Real Estate	166,586,601	13.5	0.7	2.0
NCREIF Property Index				
ARA American Strategic Value Realty	10,851,862	0.9	0.0	0.0
NCREIF-ODCE				
NCREIF Property Index				
Direct Real Estate	11,499,343	0.9	0.0	5.5
NCREIF-ODCE				
NCREIF Property Index				
JP Morgan Core Real Estate	143,655,432	11.7	0.9	1.7
NCREIF-ODCE				
NCREIF Property Index				
Fidelity Real Estate Growth III	579,963	0.0	-1.8	-0.7
NCREIF-ODCE				
NCREIF Property Index				
Total Commodities	36,148,030	2.9	-2.4	-0.8
Bloomberg Commodity Index TR USD			-2.7	-2.3
Gresham MTAP Commodity Builder	36,148,030	2.9	-2.4	-0.8
Bloomberg Commodity Index TR USD			-2.7	-2.3

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

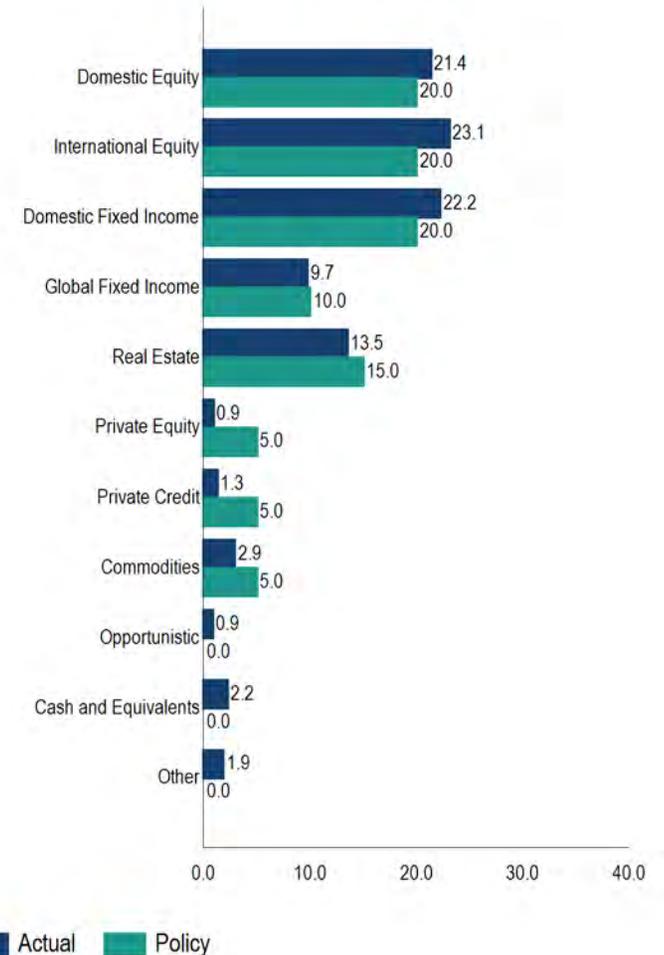
Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 12/31/2016 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. Veritas Transition funded 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. All data is preliminary.

San Luis Obispo County Pension Trust
 Executive Summary - Preliminary (Gross of Fees)

Period Ending: March 31, 2017

	Market Value	% of Portfolio	1 Mo	YTD
Total Private Equity	11,151,427	0.9		
Harbourvest Partners IX Buyout Fund L.P.	11,151,427	0.9		
Russell 3000 + 3%				
Total Private Credit	15,682,095	1.3		
TPG Diversified Credit Program	15,682,095	1.3		
BBgBarc High Yield +2% (Lagged)				
Total Cash	27,488,573	2.2	0.0	0.2
91 Day T-Bills			0.1	0.1
Cash Account	27,488,573	2.2	0.0	0.2
91 Day T-Bills			0.1	0.1
Total Opportunistic	10,559,464	0.9		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	8,318,972	0.7		
PIMCO Distressed Credit Fund	2,240,492	0.2		
CPI + 5%				

Actual vs Target Allocation (%)



*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 12/31/2016 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. Vertas Transition funded 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. All data is preliminary.



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

MARCH 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- Real GDP in the fourth quarter was revised up from 1.9% to an annualized rate of 2.1% (2.0% year-over-year). Higher than estimated consumer spending contributed to the upward revision.
- On March 15th, the Federal Reserve announced a 25 bp increase in the fed funds rate to a target of 0.75% - 1.00%. FOMC members discussed the possibility of additional rate hikes and a reduction of the Fed balance sheet beginning as soon as this year.
- Nonfarm payrolls added 98,000 jobs in March, below the consensus estimate of 178,000. The labor force participation rate remained at 63.0% while the unemployment rate fell from 4.7% to 4.5%, the lowest since 2007.
- The Conference Board's Consumer Confidence Index, a survey of business and employment perceptions, rose in March from 114.8 to 125.6, the highest level since December of 2000.
- Headline CPI increased 25 bps to 2.7% year-over-year in February, driven by higher energy prices. Core CPI increased 2.2% over the previous year, steady from the prior month.

DOMESTIC EQUITIES

- Domestic equities were flat in March, as the S&P 500 returned 0.1%. Realized volatility remained low as the annualized standard deviation in March was 8.1%, below the 10-year average of 15.3%.
- According to FactSet, the estimated Q1 2017 earnings growth rate of the S&P 500 was 8.9% year-over-year. The estimate was revised downward from 12.5% on December 31st due to negative EPS guidance in the Materials and Consumer Discretionary sectors.

DOMESTIC FIXED INCOME

- Domestic fixed income returns were flat in March, as the Bloomberg Barclays U.S. Aggregate returned -0.1%.
- The U.S. Treasury curve flattened as short-term interest rates increased and long-term rates remained unchanged. The 1-month Treasury yield increased from 0.40% to 0.74% during the month.
- Coincident with the FOMC decision to raise interest rates, the 10-year Treasury yield jumped to a 2-year high of 2.62%. However, the 10-year yield ended March at 2.40%, up only 4 bps from the prior month.

INTERNATIONAL MARKETS

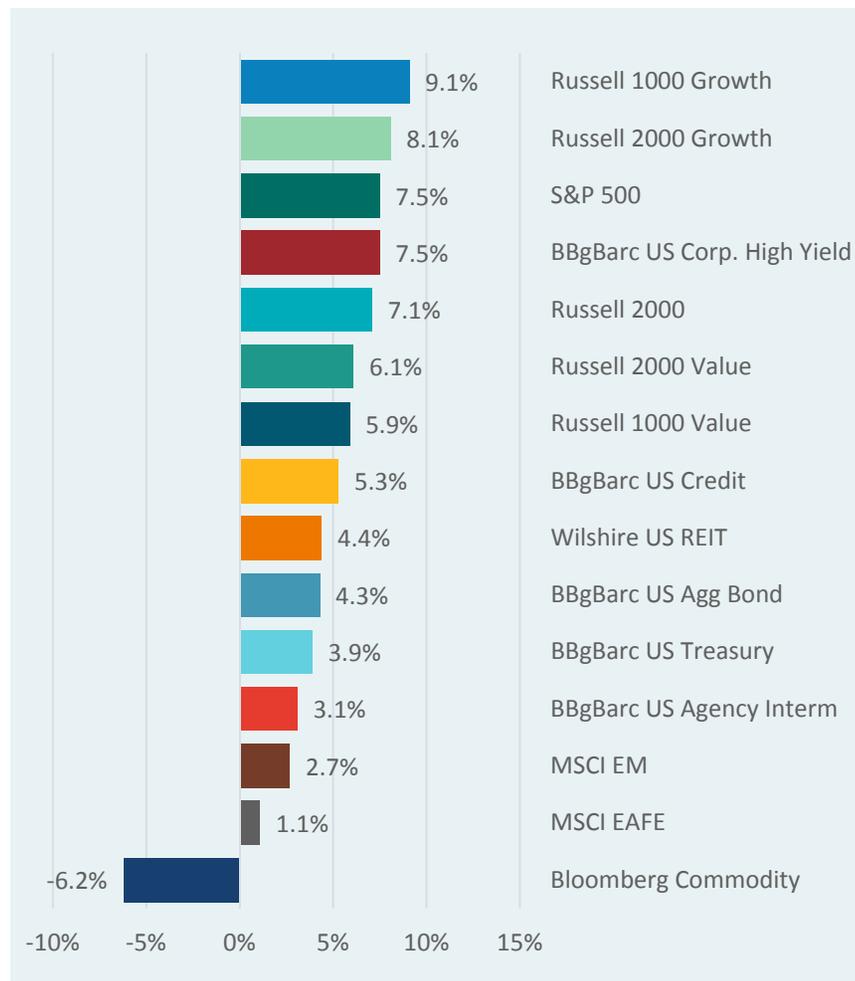
- International equities outperformed domestic equities (S&P 500 0.1%) as the unhedged MSCI ACWI ex U.S. Index returned 2.5% (2.3% hedged).
- On March 29th, the British Prime Minister, Theresa May, filed the official papers to withdraw the U.K. from the European Union. Article 50 of the Treaty of Lisbon outlines a 2-year timeframe for negotiations to take place.
- The Eurozone Purchasing Managers' Composite Index (PMI) rose to a six-year high of 56.7 in March. Readings above 50 indicate expansionary expectations in the Eurozone economy.
- The Eurozone unemployment rate fell to 9.5% in February, down from 9.6% in January and 10.3% one year prior. Compared to the previous year, 26 of the 28 member states reported a lower rate of unemployment.

Major asset class returns

ONE YEAR ENDING MARCH



TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/17

Source: Morningstar, as of 3/31/17

U.S. large cap equities

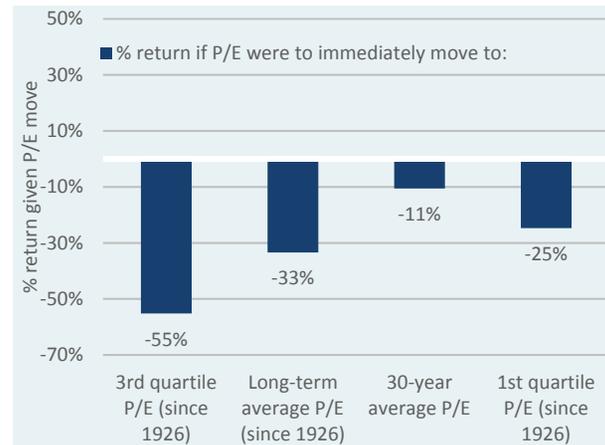
- The S&P 500 returned 0.1% in March. According to FactSet, eight sectors were estimated to have positive year-over-year earnings growth rates, led by Energy and Financials.
- Information Technology outperformed the S&P 500 index (+0.1%) in March, as the sub-index returned 2.6%. The two worst performing sectors were Telecom Services and Financials, returning -1.1% and -2.8%, respectively.
- The Shiller P/E ratio of the S&P 500 increased from 28.7 to 29.1 in March, well above the 30-year average of 24.4.
- The S&P 500 Auto Manufacturers sub-index returned -5.6% in March as U.S. automobile sales fell from 17.5 million (annualized seasonally adjusted) in February to 16.5 million in March. The rate is down from a 10-year high of 18.3 million in December.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



Source: Yale/Shiller, as of 3/31/17

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 3/31/17

S&P 500 VALUATION SNAPSHOT



Source: Bloomberg, as of 3/31/17

Fixed income

— In March, the Federal Reserve announced an increase to the federal funds target rate from 0.50% - 0.75% to 0.75% - 1.00%. The move resulted in the U.S. Treasury curve flattening moderately as short-term interest rates increased and long-term rates remained materially unchanged. The 1-month and 3-month Treasury yields increased by 34 bps and 23 bps, respectively.

— U.S. high yield option-adjusted spreads halted their downward trend and increased 18 bps in March, ending the month at 3.9%. The Bloomberg Barclays U.S. Corporate High Yield Index fell -0.2% during the month.

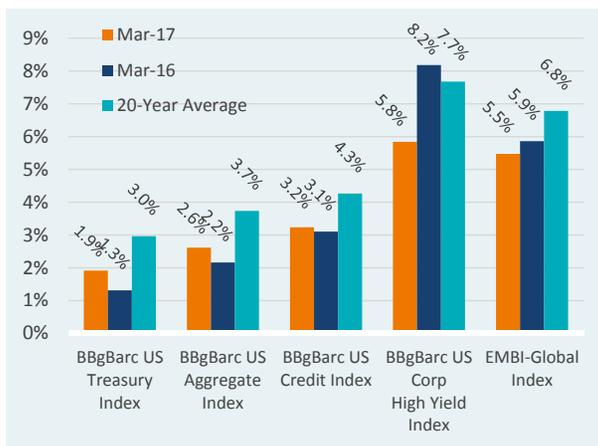
— The yield of the J.P. Morgan Emerging Markets Bond Index (hard currency) ended March down 33 bps year-to-date at 5.5%, below 5.9% from 1-year prior, and well below the 20-year average of 6.8%.

U.S. TREASURY YIELD CURVE



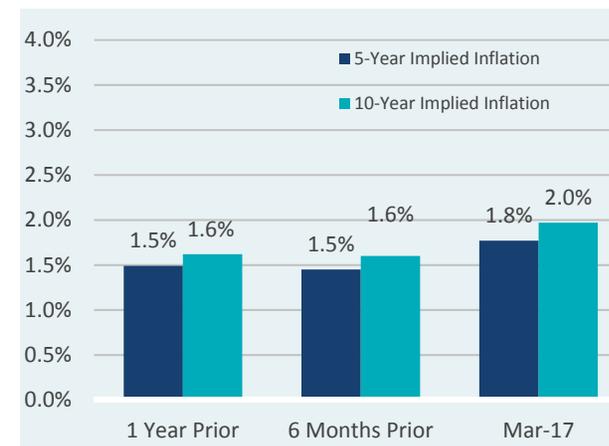
Source: Federal Reserve, as of 3/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 3/31/17

IMPLIED INFLATION (TIPS BREAKEVEN)

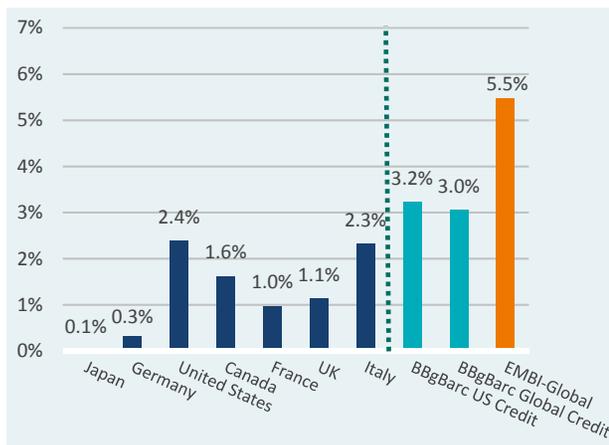


Source: Federal Reserve, as of 3/31/17

Global markets

- Global sovereign bond yields were generally higher in March. Italian and German 10-year yields experienced the largest change, increasing by 23 and 12 bps, respectively.
- The U.S. major currency index increased 0.8% to 108.4 in March against a trade weighted basket of currencies. The index remained above its long-term average of 93.8.
- U.S. equity valuations are elevated relative to international and emerging markets based on the MSCI index valuation metrics P/E and P/FCF, listed below.
- Following the removal of South Africa's finance minister, S&P Global Ratings downgraded the nation's debt to junk status. Three of the five major emerging countries (South Africa, Russia and Brazil) now have below investment grade credit ratings.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



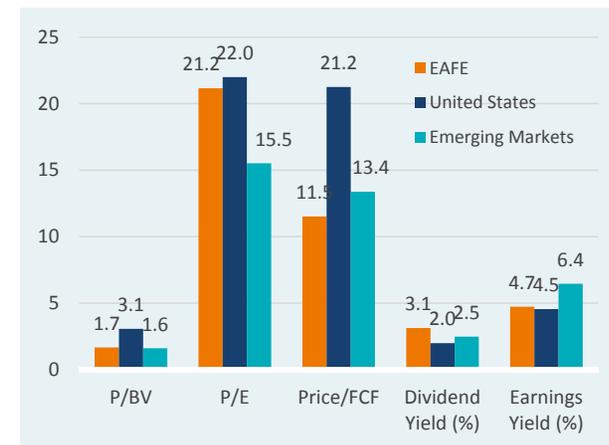
Source: Morningstar, as of 3/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

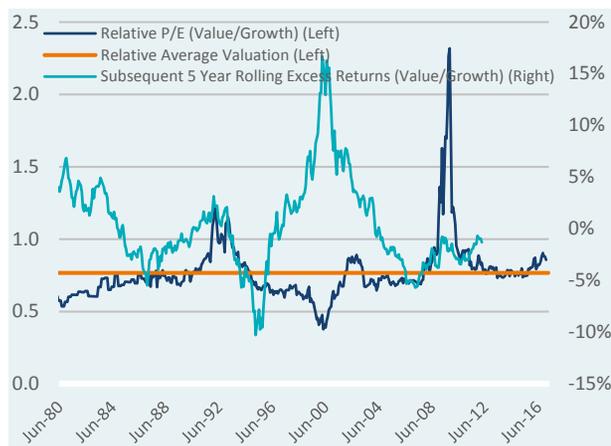


Source: Bloomberg, as of 3/31/17

Style tilts: U.S. large value vs. growth

- For a third consecutive month, growth equities outperformed value equities. In March, the Russell 1000 Growth Index and Russell 1000 Value Index returned 1.2% and -1.0%, respectively.
- The performance of value equities was negatively affected by a relatively larger weight in Financial Services companies. The Russell 1000 Financial Services sub-index returned -2.1% during the month.
- The outperformance of growth equities in March was attributable to a higher concentration of Technology companies in the Russell 1000 Growth relative to the Russell 1000 Value. The Russell 1000 Technology sub-index returned 2.7% in March.
- The relative trailing P/E ratio of value to growth equities remained unchanged in March at 0.86, slightly above the long-term average of 0.77.

RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



Source: Russell, Bloomberg, as of 3/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	3.3	8.9
YTD	3.3	8.9
1 YEAR	19.2	15.8
3 YEARS	8.7	11.3
5 YEARS	13.1	13.3
10 YEARS	5.9	9.1
20 YEARS	8.4	7.3
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.82	1.01
5 YEARS	1.22	1.22
10 YEARS	0.40	0.60
20 YEARS	0.47	0.37

Source: Morningstar, as of 3/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE



Source: Morningstar, as of 3/31/17

Style tilts: U.S. large vs. small

- U.S. small cap equities narrowly outperformed large cap equities in March, as the Russell 2000 index and Russell 1000 index returned 0.13% and 0.06%, respectively.
- The relative trailing P/E ratio of small to large equities remained elevated at 2.14, well above the long-term average of 1.39.

- As measured by the Sharpe ratio, large cap equities have provided superior risk-adjusted returns relative to small cap equities over all time periods examined below. The largest difference was seen over the trailing 3-year period when the Russell 1000 outperformed the Russell 2000 by 2.8% annualized.

RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE



Source: Russell, Bloomberg, as of 3/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX ANNUALIZED RETURN TO DATE %	RUSSELL 2000 INDEX ANNUALIZED RETURN TO DATE %
QTD	6.0	2.5
YTD	6.0	2.5
1 YEAR	17.4	26.2
3 YEARS	10.0	7.2
5 YEARS	13.3	12.4
10 YEARS	7.6	7.1
20 YEARS	8.1	8.7
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.94	0.51
5 YEARS	1.25	0.88
10 YEARS	0.51	0.41
20 YEARS	0.44	0.41

Source: Morningstar, as of 3/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 3/31/17

Commodities

- The Bloomberg Commodity index returned -2.7% in March. The Livestock sub-index outperformed the broad index as it returned 0.2% in the month.
- Seven of the eight commodity sub-indices provided negative returns in March, of which the worst performer was the Bloomberg Softs (-6.2%). The index was negatively affected by sugar futures, which fell by -12.8%.
- WTI Crude Oil ended the month down -6.3% at \$50.60 per barrel. U.S. Crude Oil inventory rose in March (7 million barrels) but at a decreased rate relative to the prior month (34 million barrels). Reports of a short-term production outage in the North Atlantic Sea and speculation of an OPEC production cut extension helped raise oil futures from an intra-month low of \$47.34 on March 21st.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(2.7)	(2.3)	(2.3)	8.7	(13.9)	(9.5)	(6.2)
Bloomberg Agriculture	(5.8)	(3.0)	(3.0)	(1.6)	(13.3)	(8.1)	(1.1)
Bloomberg Energy	(1.5)	(11.4)	(11.4)	13.6	(28.4)	(17.3)	(17.4)
Bloomberg Grains	(5.2)	(1.4)	(1.4)	(7.3)	(16.4)	(8.8)	(2.4)
Bloomberg Industrial Metals	(2.0)	7.6	7.6	26.2	(2.7)	(6.3)	(6.2)
Bloomberg Livestock	0.2	0.1	0.1	(6.6)	(9.7)	(3.4)	(7.8)
Bloomberg Petroleum	(5.4)	(9.3)	(9.3)	12.8	(28.6)	(18.8)	(10.8)
Bloomberg Precious Metals	(0.6)	9.8	9.8	4.3	(2.0)	(7.6)	5.0
Bloomberg Softs	(6.2)	(4.8)	(4.8)	8.7	(10.4)	(10.5)	(1.4)

Source: Morningstar, as of 3/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 3/31/17

Appendix

Periodic table of returns

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	11.4	13.3	9.1
Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	8.9	13.3	8.1
International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	7.2	13.1	7.6
Large Cap Equity	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	6.0	12.5	7.1
Small Cap Growth	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	5.3	12.4	6.9
60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	4.8	12.1	6.1
Large Cap Value	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	3.3	10.9	5.9
Small Cap Equity	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	2.5	5.8	4.3
Hedge Funds of Funds	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	2.0	5.2	4.0
US Bonds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	0.8	3.1	2.7
Cash	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	0.1	2.3	1.2
Small Cap Value	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	-0.1	0.8	1.1
Commodities	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	-2.3	0.1	0.5
Real Estate	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	N/A	-9.5	-6.2

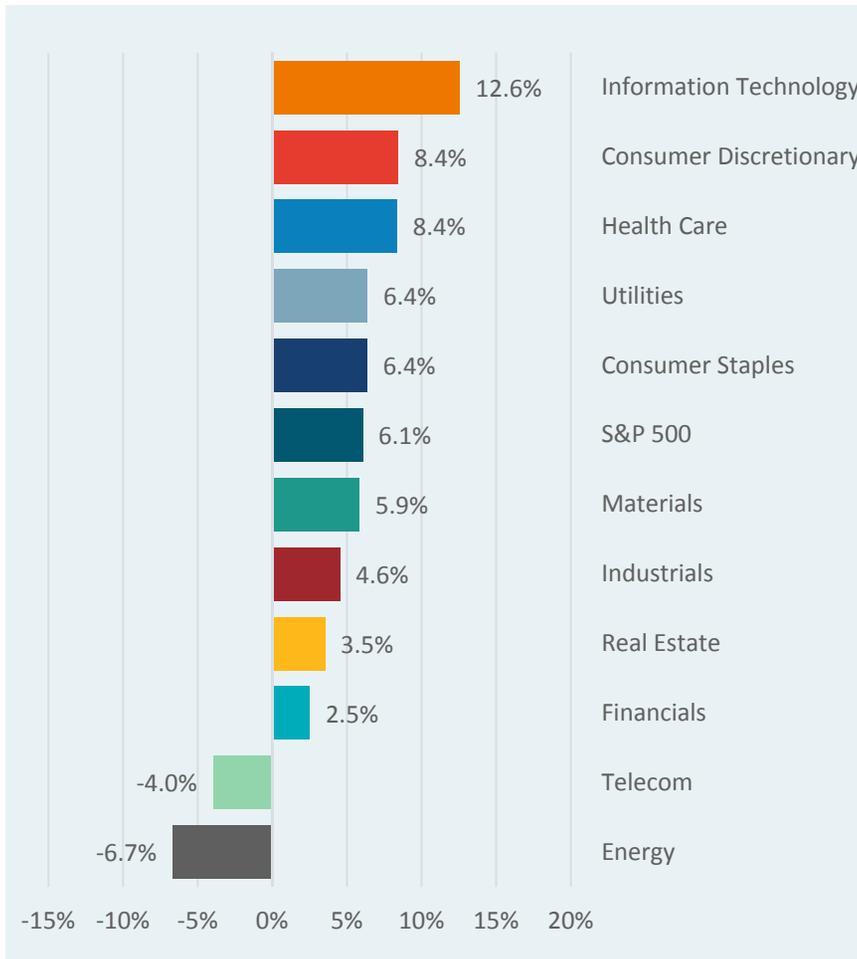
WORST



Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/16.

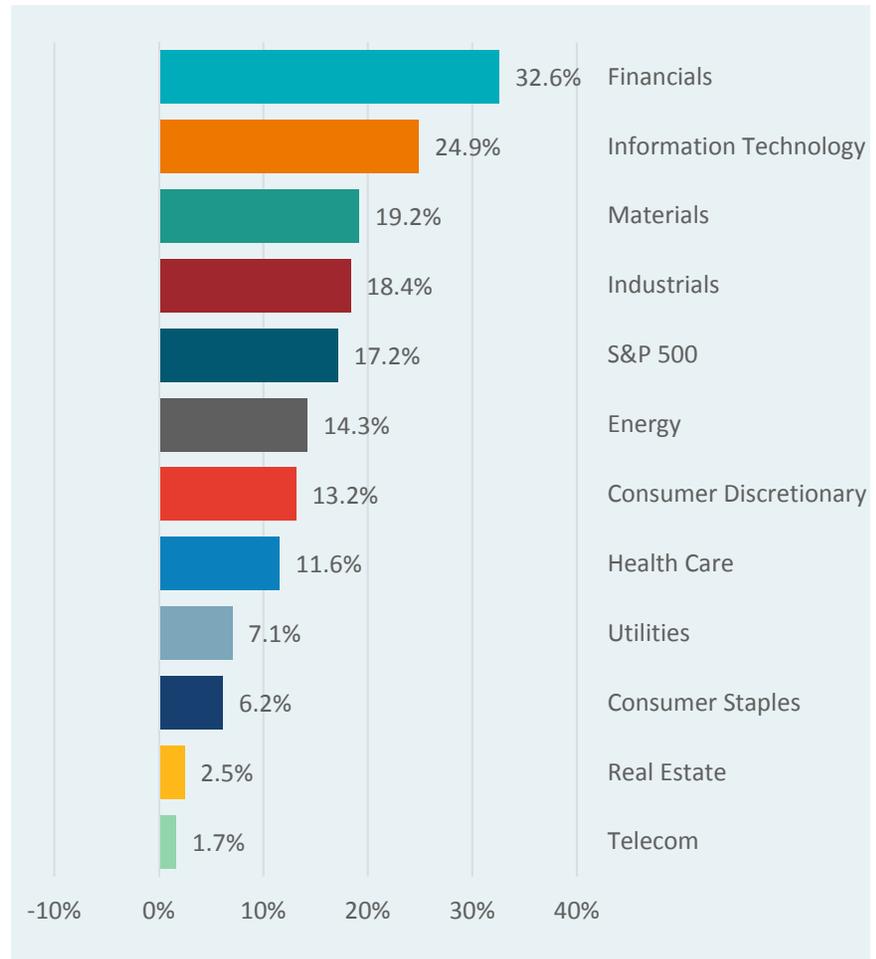
S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 3/31/17

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.1	6.1	6.1	17.2	10.4	13.3	7.5
S&P 500 Equal Weighted	0.0	5.4	5.4	17.4	9.6	14.0	8.7
DJ Industrial Average	(0.6)	5.2	5.2	19.9	10.6	12.2	8.1
Russell Top 200	0.2	6.4	6.4	17.6	10.6	13.3	7.5
Russell 1000	0.1	6.0	6.0	17.4	10.0	13.3	7.6
Russell 2000	0.1	2.5	2.5	26.2	7.2	12.4	7.1
Russell 3000	0.1	5.7	5.7	18.1	9.8	13.2	7.5
Russell Mid Cap	(0.2)	5.1	5.1	17.0	8.5	13.1	7.9
Style Index							
Russell 1000 Growth	1.2	8.9	8.9	15.8	11.3	13.3	9.1
Russell 1000 Value	(1.0)	3.3	3.3	19.2	8.7	13.1	5.9
Russell 2000 Growth	1.2	5.3	5.3	23.0	6.7	12.1	8.1
Russell 2000 Value	(0.8)	(0.1)	(0.1)	29.4	7.6	12.5	6.1

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	1.2	6.9	6.9	15.0	5.1	8.4	4.0
MSCI ACWI ex US	2.5	7.9	7.9	13.1	0.6	4.4	1.4
MSCI EAFE	2.8	7.2	7.2	11.7	0.5	5.8	1.1
MSCI EM	2.5	11.4	11.4	17.2	1.2	0.8	2.7
MSCI EAFE Small Cap	2.0	8.0	8.0	11.0	3.6	9.2	3.0
Style Index							
MSCI EAFE Growth	2.7	8.5	8.5	7.4	1.5	6.0	2.0
MSCI EAFE Value	2.8	6.0	6.0	16.0	(0.6)	5.6	0.0
Regional Index							
MSCI UK	1.7	5.0	5.0	7.4	(2.6)	3.5	0.5
MSCI Japan	(0.4)	4.5	4.5	14.4	6.0	6.8	0.6
MSCI Euro	6.2	8.5	8.5	12.8	(1.3)	6.4	(0.2)
MSCI EM Asia	3.3	13.4	13.4	18.0	4.5	4.4	4.7
MSCI EM Latin American	0.6	12.1	12.1	23.3	(4.0)	(6.1)	0.8

Source: Morningstar, as of 3/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury USTIPS	(0.1)	1.3	1.3	1.5	2.0	1.0	4.2
BBgBarc US Treasury Bills	0.0	0.1	0.1	0.4	0.2	0.2	0.8
BBgBarc US Agg Bond	(0.1)	0.8	0.8	0.4	2.7	2.3	4.3
Duration							
BBgBarc US Treasury 1-3 Yr	0.0	0.3	0.3	0.2	0.7	0.6	2.0
BBgBarc US Treasury Long	(0.6)	1.4	1.4	(5.0)	5.8	4.0	6.7
BBgBarc US Treasury	(0.0)	0.7	0.7	(1.4)	2.1	1.6	3.9
Issuer							
BBgBarc US MBS	0.0	0.5	0.5	0.2	2.7	2.0	4.2
BBgBarc US Corp. High Yield	(0.2)	2.7	2.7	16.4	4.6	6.8	7.5
BBgBarc US Agency Interim	0.0	0.5	0.5	0.1	1.4	1.2	3.1
BBgBarc US Credit	(0.2)	1.3	1.3	3.0	3.5	3.7	5.3

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	(2.7)	(2.3)	(2.3)	8.7	(13.9)	(9.5)	(6.2)
Wilshire US REIT	(2.7)	0.0	0.0	2.0	10.2	9.8	4.4
CS Leveraged Loans	0.1	1.2	1.2	9.7	3.7	4.9	4.2
Regional Index							
JPM EMBI Global Div	0.4	3.9	3.9	8.9	6.2	5.8	7.0
JPM GBI-EM Global Div	2.3	6.5	6.5	5.5	(2.7)	(1.6)	4.1
Hedge Funds							
HFRI Composite	0.2	2.3	2.3	8.6	2.8	4.0	3.3
HFRI FOF Composite	0.1	2.0	2.0	5.9	1.7	3.1	1.2
Currency (Spot)							
Euro	0.7	1.4	1.4	(6.1)	(8.1)	(4.3)	(2.2)
Pound	0.5	1.2	1.2	(13.0)	(9.1)	(4.8)	(4.4)
Yen	0.4	4.7	4.7	0.9	(2.6)	(5.9)	0.6

Definitions

***Conference Board Consumer Confidence Index** – a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. (www.conference-board.org)*

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Date: April 24, 2017

To: Board of Trustees

From: Carl Nelson – Executive Secretary
Amy Burke – Deputy Executive Secretary

Agenda Item 11: Asset Allocation April 2017

This item on the agenda provides a properly noticed opportunity for the Board of Trustees to discuss and take action if necessary regarding asset allocation and related investment matters.

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