

# POLICE AND FIRE RETIREMENT PLAN

## Minutes of the Board Meeting

**THURSDAY**

**SAN JOSÉ, CALIFORNIA**

**May 7, 2009**

### CALL TO ORDER

The Board of Administration of the Police and Fire Department Retirement Plan met at 8:31 a.m., on Thursday, May 7, 2009, in regular session at Department of Retirement Services, 1737 N. First St, Suite 600 - San Jose, CA.

### ROLL CALL

#### Present:

**DAVID BACIGALUPI**  
**CONRAD TAYLOR**  
**BILL BRILL**  
**SCOTT JOHNSON**  
**KEITH KEESLING**

**CHAIR – VIA TELEPHONE**  
**VICE-CHAIR**  
**Trustee**  
**Trustee**  
**TRUSTEE**

### NOT PRESENT:

**ROSE HERRERA**  
**SAM LICCARDO**  
**Russell Crosby**

**Trustee (Excused)**  
**Trustee (Excused)**  
**-SECRETARY**

### ALSO PRESENT:

<b>Donna Busse</b>	<b>-Acting Secretary</b>	Carmen Racy-Choy	-Staff
Mollie Dent	-City Attorney Office	Russell Richeda	-Saltzman & Johnson
Debbi Warkentin	-Staff	David Aguilar	-SJPD
Tamasha Johnson	-Staff	Thomas J. Boyle	-Attorney
Ira Summer	-Public Pension Professionals	Jesselle Holcomb	-Staff
Dawud Rauf	-SJFD	Rhonda Snyder	-Staff
Bruce DeMers	-P&F Retirees	Maria Loera	-Staff
Ali Amiry	-Staff	Steve Gracie	-SJPD
Jim Jeffers	-Attorney	Ron Kumar	-Staff
Veronica Niebla	-Staff	Andy Yeung	-Segal Co.
Aracely Rodriguez	-OER	Ceara O’Fallon	-Staff
Jeff Rickets	-POA	Franco Vado	-POA
Mike Rosingana	-P&F Retirees	Karin Carmichael	-Staff
John Tennant	-Attorney	Lt. Mark Bustillos	-SJPD
Sandra Holloway	-SJPD	Alex Gurza	-OER
Antonio Guerra	-Mayor’s Office	John S. Donald	-P&F Retirees
Sam Swift	-Attorney	Linda Charfauros	-SJFD
Ernesto Vellecilla	-SJPD		

## REGULAR SESSION

### ORDERS OF THE DAY

#### RETIREMENTS

##### 1. Service

- a. **Lorrie M. Rogers**, Sergeant, Police Department. Request for Service Retirement effective May 16, 2009; 28.08 years of service.

(M.S.C. Brill/Keesling) to approve. Motion carried 5-0-2. (Absent: Herrera/Liccardo)

**2. Disabilities - None**

**3. Change in Status**

- a. *David J. Aguilar*, Retired Police Officer. Request for change to a Service-Connected Disability Retirement effective January 24, 2009; 25.24 years of service.**

For the record **retired Police Officer Aguilar** was present and was represented by *Mr. Jeffers*. The following reports have been received:

<b>MEDICAL REPORTS - DR' S NAME</b>	<b>DATED</b>
JOHN ROLLINS	1/24/05; 1/11/07; 6/26/08; 9/16/08; 11/17/08 (4 RPTS.)
APPLICANT LETTERS	11/7/08; 10/30/08
KAREN HOLT	6/8/07
KEITH FORD	8/1/06
RAYMOND SCHWINN	8/16/05
LAWRENCE CHAN	2/8/05
RONALD JOSEPH	11/20/04
ANUP SINGH	11/1/04
WALTER SHORES	11/1/04 (2 RPTS.)

<b>MEDICAL REPORT FROM BOARD' S DIRECTOR</b>	<b>DATED</b>
RAJIV DAS, M.D.	04/7/2009

*Mr. Jeffers* stated *Mr. Aguilar's* primary disabilities are from his left shoulder blade, which was broken; and it affects his other side. Retired Officer Aguilar worked in a modified duty capacity on several occasions, the department has indicated they have no permanent modified duty positions available.

(M.S.C. Brill/Keesling) to approve. Motion carried 5-0-2.

***Dawud Rauf*, Retired Fire Engineer. Request for change to Service-Connected Disability Retirement effective January 13, 2007; 30.69 years of service.**

For the record **retired Fire Engineer Rauf** was present and was represented by *Mr. Swift*. The following reports have been received:

<b>MEDICAL REPORTS - DR' S NAME</b>	<b>DATED</b>
JEFFREY KLIMAN, M.D.	04/15/2008 (2 RPTS); 07/30/2007
DONALD PANG, M.D.	03/18/2008
PATRICK MC CREESH, M.D.	02/27/2008
ROBERT MILLARD, M.D.	02/22/2008; 01/30/2007; 12/15/2004; 11/17/2004
SCOTT WACHHORST, M.D.	08/27/2007; 12/20/2006; 08/04/2006; 07/20/2005; 02/15/2005
MARK CULTON, M.D.	03/13/2006; 12/20/2005
KEITH FORD, M.D.	02/26/2005
BRAD PIATT, M.D.	10/29/2004
MARK EASTLAND D.C.	09/27/2004

<b>MEDICAL REPORT FROM BOARD' S DIRECTOR</b>	<b>DATED</b>
RAJIV DAS, M.D.	04/16/2009

*Dr. Das* stated the applicant's hip condition compromises his blood supply, which significantly impairs his ability to walk, and additionally, there are changes in his lumbar spine.

(M.S.C. Bacigalupi/Brill) to approve. Motion carried 5-0-2.

**Deferred Vested - None**

**DEATH NOTIFICATIONS - None**

**NEW BUSINESS**

4. Request for approval for Trustee Keith Keesling to extend stay in Philadelphia by one day (6/4 as opposed to 6/5/09) while attending Portfolio Concepts & Management Course (Wharton).

**Member Keesling** stated the return flights were either 7 a.m. or 5 p.m. The conference ends in the afternoon, and if he took the 5 p.m. flight he would return home at 1 a.m.

(M.S.C. Brill/Bacigalupi) to approve. Motion carried 4-0-2-1. (Absent: Herrera/Liccardo; Abstain: Keesling).

5. Request for approval for Board Secretary to extend the agreement with The Segal Company, Board's actuary, on a month-to-month basis, authorization to increase compensation by \$170,000 for a total not to exceed amount of \$565,000, and direction to staff to expedite actuarial RFQ process.

*Mrs. Racy-Choy* stated the Board already approved an RFQ but we may not have someone until August, and the Segal contract expires on 6/30/2009. We have elected to continue to use the services provided by Segal on a month-to-month basis, which will likely be for a period of three months. The cost was estimated based on past history, and to cover any additional work that we anticipate related to the CAFR, GASB, and 5-year phase in work.

(M.S.C. Brill/Bacigalupi) to approve. Motion carried 5-0-2.

**OLD BUSINESS/CONTINUED-DEFERRED ITEMS**

6. Request for action on City Manager's memo request Plan's actuary calculate a discounted contribution amount for the City's lump sum contributions for Fiscal Year 2009-2010.

**Chair Bacigalupi** stated the memo suggests the Plan pay for the actuarial costs associated with the prepayment calculation analysis. The prepayment benefits the Plan and the City, so the costs should be shared.

**Member Johnson** stated the ordinance approved last year laid out the process for requesting prepayment calculations be authorized by the Boards. The City Manager's Office would allow a portion of the costs to be paid for by the City.

(M.S.C. Bacigalupi/Brill) to approve with the City to share half of the cost. Motion carried 5-0-2.

7. Discussion and action on Segal's projection of contribution rates under different scenarios (Retirement Plan only) – **To be heard with Item #8**
8. Discussion and action on SJPOA's attorney John Tennant's letter dated April 27, 2009 concerning the contribution rates as projected by Segal.

*Mrs. Racy-Choy* stated that Segal in a letter dated March 25, 2009 provides a baseline, plus four scenarios to offer answers to questions regarding the investment losses. She stated there is no implicit assumption that is why the baseline at 8.0% was provided.

The summary of the key results from the projections are:

1. Under the Baseline scenario, it is anticipated that the AVA (actuarial value of assets) would be limited to 120% of the market value corridor in the June 30, 2009 valuation. This means that any market losses after the AVA exceeds 120% of the MVA (market value of assets) would have to be fully recognized in developing the employer's contribution rate as of the June 30, 2009 valuation.
2. Under the Baseline scenario, the employer contribution rate for the retirement plan is expected to almost double from 22.5% of payroll developed in the June 30, 2007 valuation to 44.6% developed in the June 30, 2009 valuation for an increase of 22.1% of payroll.

Please note that in projecting the contribution rates for the employer, we have not taken into account a provision in the municipal code that would allow the transfer of up to 5% of the accrued principal balance of the SRBR to buydown one-tenth of the increase in the City's contribution rate caused by poor market/investment return of the Fund. Those transfers would have a negligible impact on the results of this study.

3. Under Scenario 1, if the Board of Retirement were to decrease the 8.0% assumed rate of investment return assumption used in the June 30, 2007 valuation to 7.5% effective with the June 30, 2009 valuation, there would be an immediate increase in the employer and the employee contribution rates of 8.2% and 1.1% of payroll, respectively.

The Scenario 1 contribution rates are expected to be higher in the short-term when compared to the Baseline. However, in the long term, the contribution rates under Scenario 1 are about the same as those under the Baseline, in spite of the assumption under Scenario 1 that the Plan would earn an annual market return of 7.5% effective 09/10 and is 0.5% less than that assumed under the Baseline.

4. Under Scenario 2, we have removed the 80-120% market value corridor that we have applied in determining the maximum amount that the AVA is allowed to deviate from the MVA in Scenario 1. Note that, relative to Scenario 1, the June 30, 2009 contribution rate is smaller by 17.5% of payroll. However, in the long term, the contribution rates under Scenario 2 will end up higher than those of Scenario 1 to recover the market losses as well as to make up for the time value of money due to the delay in contributions.
5. Under Scenario 3, the contribution rates will be higher than those under Scenario 1 because of the more unfavorable market rates of return assumed for plan years 08/09 and 09/10 assumed for Scenario 3.
6. Under Scenario 4, the MVA corridor has been removed. Note that, relative to Scenario 3, the June 30, 2009 contribution rate is smaller by 21.6% of payroll. However, in the long term the contribution rates under Scenario 4 will be higher than those under Scenario 3 for the same reasons stated in item 4.

Note that we include results under Scenarios 2 and 4 with no MVA corridor to illustrate the impact of the MVA corridor, and not because removing the MVA corridor is necessarily a viable policy option.

*Mrs. Racy-Choy* stated the way that staff is approaching the interest rate assumption is to bring it forward and ask the investment consultant to reevaluate the interest rate in the context of the asset liability study. Typically, the rate of return from the asset liability study should link to what the actuary is using to ensure the health of the Plan. Ultimately, the Board will make the decision regarding the rate of return.

*Mr. Sekany* asked if the Board directed the Secretary to have this report produced.

*Mrs. Racy-Choy* stated this report is actuarially best practice to produce in tandem with valuations. We just had a health valuation completed, and at every valuation a similar study will be performed.

(M.S.C. Keesling/Johnson) to direct staff/actuary: 1. For Segal to provide a short-term solvency statement; 2. Segal to provide a baseline chart with related scenarios; 3. To provide actuarial survey data on the largest California plans; and 4. a critical review of CALPERS actuarial practices. Motion carried 5-0-2.

## **9. Discussion and action on Segal's memorandum regarding the Plan's current asset smoothing methodology.**

*Mr. Yeung* stated the Segal letter dated 4/28/2009 covers options available to stabilize the contribution rates for the pension plan. At the last meeting, Segal emphasized that there would be greater contribution rate volatility for the Retirement Plan than the Health Plan because the Retirement Plan was better funded than the Health Plan, so market losses would result in greater losses for the Retirement Plan which would need to be recaptured with higher future contributions. This letter is to provide an overview of the contribution rate setting process so Board members can understand how the MVA corridor fits in the process as well as to identify other procedures that are available to the Board to stabilize the contribution rates.

*Mr. Yeung* stated there are two components of the contribution rates. The Normal Cost rate is the level cost associated with one year of additional future service credit. The Unfunded Actuarial Accrued Liability (UAAL) rate which exists when the assets of the plan are less than the sum of the liabilities for the accrued Normal Costs for past service already rendered by all active employees, plus the value of benefits for inactives and retired members. In particular, if the Plan earns less than the annual assumed 8% return on investment, there will be an increase in the amount of the UAAL.

*Mrs. Racy-Choy* stated there are three ways to smooth: 1. Asset smoothing – recognizes the losses compared to the market value of assets over 5-years. Trustees discussed expanding the smoothing period but maintaining the corridor; this would not decrease the City's contribution because the corridor will force us to recognize still the same amount of losses up front. Asset smoothing deals with short term market fluctuation. 2. Longer-term smoothing – Board policy is to use a 16-year closed amortization smoothing method. 3. Additionally, Segal mentioned a contribution rate phase-in approach, which has negative accounting connotations, so it is rarely used.

*This item is note and file.*

10. Discussion and action on Segal's 20-year projection of contributions (Health Plan only) – **To be heard with Item #11**
11. Discussion and action on SJPOA's attorney John Tennant's letter dated April 21, 2009 concerning the following retiree health care actuarial issues:
  - a. Removing the "implicit subsidy" from contributions to be funded per agreement

- b. Tracking of increased contribution levels to achieve prefunding of active police officers
- c. Approval to allow staff and Board's actuary to speak directly with SJPOA actuary, Ira Summer; City's actuary, John Bartel; and, Local 230's actuary, Tom Lowman.

**Chair Bacigalupi** stated there is additional information from Local 230 coming forward, but it was not available in time for consideration at this meeting.

*Mr. Tennant* stated he is satisfied that the POA and the City were able to reach an agreement regarding retiree healthcare. The Segal letter dated 3/30/2009 with projected contributions seems to use a different methodology, which would alter the agreement terms reached in negotiations. The 5-year phase-in breaks down the cost for the employees and the City, and the numbers exclude the implicit subsidy as it was not part of the agreement reached by the POA. If the implicit subsidy is included in the costs and increased rates, then projections would need to be provided with the chart excluding the implicit subsidy from the rates prior to July 1<sup>st</sup>.

There was further discussion defining implicit subsidy and how it is determined.

*Mrs. Racy-Choy* stated there was a question regarding the implicit subsidy in terms of what was negotiated. She subsequently received the clarification regarding the implicit subsidy, and at the Board's direction, staff can request Segal to revise the calculations excluding the implicit subsidy. She would recommend a true-up of the implicit subsidy to the known number.

**Member Johnson** suggested that in the interest of time for implementation of the agreement the Board should approve the 6/30/2006 projections, and then perform a true-up the next valuation.

*Mr. Yeung* stated Segal can produce another chart with new projections with or without the true-up prior to 6/30/2009.

*Mr. Gurza* stated the exact rate was not negotiated but the agreement is to pre-fund the cash portion, effective 7/1/2009 for the 2008/09 year at 4.78% of payroll for the employees, and 5.28% of payroll for the City. Finance will need to make changes in the rates for payroll. Payroll will need to ensure the negotiated CAPS are followed as well.

- a. (M.S.C. Johnson/Bacigalupi) to approve the employee rate of 4.78% of payroll, and the City rate of 5.28% of payroll for the retiree health. And approval of a true-up after the next valuation for the following fiscal year in accordance with the agreement that excludes the implicit subsidy from the cash contributions made. Motion carried 5-0-2.
- b. *Mrs. Racy-Choy* stated input has been received from the auditors and Administration is working on implementation. There will need to be two distinct actuarial valuations and the assets will need to be split, and tracking done as requested. Staff is working with the auditors to determine if the split for the plan assets will occur this year or by next June 30; however the tracking will begin immediately, and will take into account the contribution levels.
- c. (M.S.C. Johnson/Brill) to allow staff and Board's actuary to speak directly with SJPOA actuary, Ira Summer; City's actuary, John Bartel; and, Local 230's actuary, Tom Lowman. Motion carried 5-0-2.

## **12. Travel Audit compliance update.**

*Mrs. Niebla* stated changes in composition to the Committee have occurred, so a meeting is scheduled for Thursday, May 21, 2009 at 11:15 a.m.

**STANDING COMMITTEES / REPORTS / RECOMMENDATIONS**

Investments Committee (Johnson, Bacigalupi, Liccardo) – Nxt meeting 5/7/09

Real Estate Committee (Johnson, Bacigalupi, Herrera) – Nxt meeting 6/18/09

Audit Committee (Bacigalupi, Brill, Johnson)

**CONSENT CALENDAR (Items 17-24)**

(M.S.C. Bacigalupi/Brill) to approve with the exceptions of Items 13, and 15. Motion carried 5-0-2.

13. **Approval of Minutes**

Monthly meeting held 2 April 2009

**Chair Bacigalupi** stated there was a correction to the minutes to reflect that Officer Backman was not present.

(M.S.C. Brill/Bacigalupi) to approve with correction. Motion carried 5-0-2.

15. **Approval of Monthly Expenses**

Report of P&F Retirement Plan administrative expenses for March 2009

**Member Keesling** had a question about the display of the travel details on page 2, and asked about the due diligence process.

*Dr. Amiry* stated he met with a manager to determine their knowledge of investing and product technology competency. He was accompanied by the NEPC consultant.

**Chair Bacigalupi** stated due to the transition of Board members, staff has handled due diligence, but he informed the Secretary that trustees should be involved in due diligence.

(M.S.C. Brill/Johnson) to approve. Motion carried 5-0-2.

**PROPOSED AGENDA ITEMS**

**PUBLIC COMMENTS**

**EDUCATION AND TRAINING**

**ADJOURNMENT**

There being no further business, **Chair Bacigalupi** adjourned the meeting at 11:58 a.m.

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**DAVID BACIGALUPI, CHAIR**  
**BOARD OF ADMINISTRATION**

**ATTEST:**

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**RUSSELL U. CROSBY, SECRETARY**  
**BOARD OF ADMINISTRATION**