

# POLICE AND FIRE RETIREMENT PLAN

## CORRECTED MINUTES

### Minutes of the Board Meeting

**THURSDAY**

**SAN JOSÉ, CALIFORNIA**

**March 4, 2010**

#### **CALL TO ORDER**

The Board of Administration of the Police and Fire Department Retirement Plan met at 8:37 a.m., on Thursday, March 4, 2009, in regular session at Department of Retirement Services, 1737 N. First St, Suite 600 - San Jose, CA, 95112.

#### **ROLL CALL**

##### Present:

**DAVID BACIGALUPI**

**CONRAD TAYLOR**

**ROSE HERRERA**

**KEITH KEESLING**

**SAM LICCARDO**

**SCOTT JOHNSON**

**Chair – departed at 10:30 A.M.**

**Vice Chair**

**Trustee – arrived 8:45 A.M.**

**Trustee**

**Trustee – arrived 8:50 A.M. departed at 11:30 A.M.**

**Trustee**

#### ALSO PRESENT:

<b>Russell Crosby</b>	<b>-SECRETARY</b>	<b>Donna Busse</b>	<b>-Staff</b>
<b>Mollie Dent</b>	<b>-City Attorney Office</b>	<b>Toni Johnson</b>	<b>-Staff</b>
<b>Russell Richeda</b>	<b>-Saltzman &amp; Johnson</b>	<b>David Norling</b>	<b>-SJPD</b>
<b>Debbi Warkentin</b>	<b>-Staff</b>	<b>Jim Jeffers</b>	<b>-Attorney</b>
<b>Lisa VonTress</b>	<b>-Staff</b>	<b>Jay Wendling</b>	<b>-AORSJPO &amp;FF</b>
<b>Gene Kischmischian</b>	<b>-Retiree</b>	<b>Gary W. Moe</b>	<b>-SJFD Retiree</b>
<b>Linda Charfauros</b>	<b>-SJFD</b>	<b>Mike Blatz</b>	<b>-SJFD</b>
<b>Amanda Ramos</b>	<b>-Staff</b>	<b>Susan Perreira</b>	<b>-Staff</b>
<b>Andy Yeung</b>	<b>-Segal</b>	<b>Paul Angelo</b>	<b>-Segal</b>
<b>Sandra Holloway</b>	<b>-SJPD</b>	<b>Mark Bustillos</b>	<b>-SJPD</b>
<b>Scott Savage</b>	<b>-SJPD</b>	<b>Sam Swift</b>	<b>-Attorney</b>
<b>Aracely Rodriguez</b>	<b>-OER</b>	<b>Bruce DeMers</b>	<b>-Retiree</b>
<b>Alex Gurza</b>	<b>-OER</b>	<b>Rhonda Snyder</b>	<b>-Staff</b>
<b>Maria Lorea</b>	<b>-Staff</b>	<b>Thomas J. Boyle</b>	<b>-Attorney</b>
<b>Ron Kumar</b>	<b>-Staff</b>	<b>Antonio Guerra</b>	<b>-Mayor's Office</b>
<b>Ken Heredia</b>	<b>-Retiree</b>	<b>Veronica Niebla</b>	<b>-Staff</b>

## **REGULAR SESSION**

### **ORDERS OF THE DAY**

**Chair Bacigalupi** called the meeting to order at 8:37 a.m. Correction was made to item number 16 on the agenda which was listed as "Audit Committee"; changed to "Due Diligence Committee". The Chair acknowledged Susan Perreira, Accountant II, for 26 years of City service and 8 years with the Retirement Services Department. He announced that Susan will be retiring at the end of this month and thanked her for the work she has done. Chair Bacigalupi also announced Debbi Warkentin's retirement, on March 5, and presented her with a plaque and thanked her for her service to the Police and Fire Retirement Board for 20 years and acknowledged her hard work and dedication.

**Trustee Keesling** stated that he had received a request from Local 230 to defer the acceptance of Segal's Actuarial report (Item 7).

*Mr. Gurza* requested that this item not be delayed. The pension rates are crucial to the City's budget. The delay

would create uncertainty in a fiscal year when the City needs to avoid as much uncertainty as possible.

**Trustee Keesling** stated that he doesn't know if anything would change, as Local 230 hadn't had time to review.

*Mr. Angelo* commented that big decisions were made last month, and this report simply takes decisions the Board made last month to the final result.

*Trustee Herrera* stated that she would not support the motion to delay the report. This is critical to the City's budgeting and the Board needs to move forward.

(M.S.C. Keesling/Bacigalupi) motion to delay acceptance of Item 7, Segal report. Motion failed 2-3-0 (Johnson/Taylor/Herrera – no).

**RETIREMENTS**

1. **Service - NONE**

2. **Disabilities - NONE**

3. **Change in Status**

a. Victor M. Barnett, Sergeant, Police Department. Request for change in status to service-Connected Disability Retirement effective January 23, 2010; 24.05 years of service.

Retired Sergeant Barnett was present and was represented by Mr. Jeffers. The following reports have been received:

MEDICAL REPORTS – DR'S NAME	DATED
1. THOMAS MUSTOE, M.D.	10/15/09 (X2), 6/11/09
2. ALLEN HERSHEY, M.D.	9/4/09 (X4), 1/9/09, 7/16/08,
3. CHARLES BORGIA, M.D.	2/3/09, 1/6/09, 2/8/07, 1/9/07
4. Y.J. CHUNG, M.D.	1/9/07
5. JONATHAN NG, M.D.	7/21/02
6. JOHN O'BRIEN, M.D.	5/29/02

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	2/9/2010

(M.S.C. Herrera/Bacigalupi) to approve application. Motion carried 4-2-0 (Liccardo/Johnson – no).

**(Trustee Liccardo arrives – 8:50 a.m.)**

b. Michael W. Blatz, Retired Fire Captain. Request for change in status to Service-Connected Disability Retirement effective December 27, 2008; 27.66 years of service.

Retired Fire Captain Blatz was present and was represented by Mr. Swift. The following reports have been received:

MEDICAL REPORTS – DR'S NAME	DATED
1. PATRICK MCCREESH, M.D.	9/4/09 (X2), 8/30/09 (X2), 8/18/09 (X2), 7/20/09 (X2), 11/17/08, 4/10/08, 11/13/06, 10/26/06, 11/10/05, 2/21/05
2. MARK CULTON, M.D.	11/3/08, 7/28/08, 12/21/05

3. JESUS SAUCEDO, M.D.	11/20/07
4. ERIC SALDINGER, M.D.	11/20/07, 11/22/06,
5. MURRAY SOLOMON, M.D.	12/19/06,
6. WILLIAM SOULE, M.D.	11/8/06
7. DENNIS ALFARO, M.D.	12/10/00
8. RALPH DUMOUSHEL, M.D.	7/12/00

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	2/9/10

(M.S.C Keesling/Liccardo) Motion carried 5-0-0.

c. Gene Kischmischian Retired Police Officer. Request for change in status to Service-Connected Disability Retirement effective December 1, 2007; 26.85 years of service Retired Officer Kischmischian was present and represented himself. The following medical reports have been received.

MEDICAL REPORTS - DR'S NAME	DATED
1. JOSEPH CASEY, M.D.	11/16/09 (TWO REPORTS), 04/28/08 (TWO REPORTS), 08/15/07*
2. NORMAN PANTING, M.D.	08/28/09
3. RODOLFO MORALES, M.D.	08/24/07, 08/20/07
4. JONATHAN NG, M.D.	06/09/05, 12/10/04, 12/09/04,
5. ALAN ROSENTHAL, M.D.	09/22/04, 08/26/04

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	02/09/10

(M.S.C. Bacigalupi/Taylor) to approve application. Motion failed 2-4-0 (Johnson/Liccardo/Keesling/Herrera - no).

(M.S.C. Liccardo/Herrera) to deny application. Motion carried 4-2-0 (Bacigalupi/Taylor - no).

d. Gary W. Moe, Retired Fire Captain, Request for change in status to Service-Connected Disability Retirement effective July 12, 2008; 30.94 years of service Retired Fire Captain Moe was present and was represented by Mr. Swift. The following reports have been received:

MEDICAL REPORTS - DR'S NAME	DATED
1. PATRICK MCCREESH, M.D.	09/26/09 (TWO REPORTS), 09/03/09 (SIX REPORTS), 03/20/08 (TWO REPORTS), 05/18/07, 04/02/07, 11/13/06, 08/30/06, 11/29/05, 04/04/05
2. MANNIE JOEL, M.D.	05/14/09
3. RAYMOND HSIEH, M.D.	03/11/08, 12/04/07, 01/12/06
4. DAVID KRAMER, M.D.	06/07/07 (THREE REPORTS)
5. LAWRENCE CHAN, M.D.	01/17/07, 05/16/05
6. WILLIAM SOULE, M.D.	12/01/06 (TWO REPORTS)
7. CONOR O'NEILL, M.D.	05/10/06
8. ANDREW DURKIN, M.D.	05/10/06
9. HARRY MORRISON, M.D.	04/05/05

10. MARTIN TRIEB, M.D.	12/06/04, 11/21/02
11. MURRAY SOLOMON, M.D.	11/26/02

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	02/09/10

(M.S.C. Keesling/Liccardo) to approve application. Motion carried 6-0-0.

- e. David E. Norling, Retired Police Officer, Request for change in status to Service-Connected Disability Retirement effective January 25, 2009; 26.93 years of service.

Retired Officer Norling was present and was represented by Mr. Jeffres. The following reports have been received.

MEDICAL REPORTS – DR'S NAME	DATED
1. PRABHJOT KHALSA, M.D.	11/11/09 (X2)
2. FREDERIC NEWTON, M.D.	8/26/09
3. PAUL ANDERS, M.D.	7/28/08
4. THOMAS ALLENS, M.D. MPH	6/17/04
5. NACHMAN BRAUTBAR, M.D.	3/29/04

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	2/9/10

(M.S.C. Liccardo/Taylor) to approve application. Motion carried 6-0-0.

4. **Deferred Vested – None**

**DEATH NOTIFICATIONS –Moment of Silence - All items Note & File**

- 5. Notification of the death of Orville J. Keyser, Retired Fire Captain; retired 9/16/76, died 2/5/10. No survivorship benefits.
- 6. Notification of the death of Louis P. Medrano, Retired Firefighter; retired 11/15/08, died 2/11/10. Survivorship benefits to Belinda and Robert Medrano, spouse and son respectively.

**NEW BUSINESS**

7. **Approval of Segal Company's actuarial studies (pension and healthcare for contribution setting purposes) for the two-year period ending 30 June 2009 and establishment of rates of contributions to be effective 1 July 2010**

*Mr. Angelo* stated that the ratio of the valuation value of assets compared to the actuarial accrued liabilities decreased from 99.7% as determined in the June 30, 2007 valuation to 86.7% as determined in the June 30, 2009 valuation. On a market basis the Plan is 66.47% funded. The Plan's unfunded actuarial accrued liability has increased from \$6.6 million as of June 30, 2007 to \$393.9 million as of June 30, 2009. The change to the UAAL was primarily the result of (a) unfavorable investment return during the

last two years, (b) higher than expected salary increases, (c) earlier than expected retirements, (d) data corrections, and (e) change in the actuarial assumptions. A complete reconciliation of the Plan's unfunded actuarial accrued liability is provided in Section 3, Exhibit G of the actuarial valuation report.

The aggregate employer rate calculated in this valuation has increased from 22.50% to 39.45% of payroll. *Mr. Angelo* stated that the rate could potentially be adjusted downward by 45 basis points to 39.00%, depending on an interpretation of Municipal Code language regarding SRBR by Plan Counsel. The employer rate increased for the same reasons that the UAAL increased. A complete reconciliation of the employer contribution rate is provided in Section 2, Chart 14, of the report.

The individual member rates are changing mainly as a result of the new assumptions that were adopted based on the June 30, 2009 experience study. The average member rate calculated in this valuation has increased from 8.34% of payroll to 9.91% of payroll. A complete reconciliation of the Plan's average member rate is provided in Section 2, Subsection D, Chart 15, of the report.

As indicated in Section 2, Subsection B, Chart 7b of the report, the total unrecognized investment loss as of June 30, 2009 was \$658.2 million before the application of the 130% MVA corridor and \$613.3 million after the application of the MVA corridor (versus an unrecognized gain of \$294.3 million in the June 30, 2007 valuation).

The deferred losses of \$613.3 million represent 30% of the market value of assets as of June 30, 2009. Unless offset by future investment gains or other favorable experience, the recognition of the \$613.3 million market losses is expected to have a significant impact on the Plan's future funded percentage and contribution rate requirements. The potential impact may be as follows:

- If the pension plan component of the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 86.7% to 66.4%;
- If the pension plan component of the deferred losses were recognized immediately in the valuation value of the assets, the aggregate employer rate would increase from 39.45% to 59.17% of payroll.

**Trustee Johnson** stated that the market has improved in the past six months.

**Secretary Crosby** pointed out that the funding level is a moving target. The market has rebounded somewhat on assets since July 1<sup>st</sup>, but at the same time the liabilities are increasing as well.

*Turning to the health benefit study*, *Mr. Angelo* stated that for Health Benefits the 2010/2011 fiscal year rates may not exceed the 2009/2010 year rates by 1.35% for the City and 1.25% for the Member. The 2009/2010 fiscal year rates, as adopted at the May 7, 2009 Board meeting are 5.28% for the City and 4.78% for the Member. Therefore, the 2010/2011 rates are limited to 6.63% and 6.03% for the City and the Member respectively. When Segal compared the initial phase-in rates against the caps, we find that for the 2010/2011 fiscal year, the caps do not apply.

(M.S.C. Herrera/Johnson) Approved the report with the exception of the SRBR adjustment for a total rate of 39.45%, further discussion of SRBR to be held in April. Motion passed 5-0-0.

**(Chair Bacigalupi departed at 10:30 A.M.)**

**8. Approval of Department of Retirement Service's Budget Proposal for the Fiscal Year 2010-2011**

*Ms. Niebla* presented the 2010-2011 Annual Budget to the Board. Discussions were held around pension administration software Pension Gold, and external Auditor RFP.

(M.S.C. Johnson/Liccardo) motion to approve Budget Proposal for fiscal year 2010-2011 with **the** caveat that the Board not make a decision on a separate external Auditor until after a report from the City Auditor and on a replacement pension administration system until after a separate report from the City's Chief Technology Officer on the benefits of integration of the Retirement System with the City's payroll system. Motion carried 5-0-1. Chair Bacigalupi absent.

**9. Authorization to reimburse Investment Retirement Officers candidates for travel costs, for an amount not to exceed \$600 each for a total of \$3,000. (To be split 50/50 with Federated Retirement System).**

(M.S.C. Keesling/Conrad) Motion carried 5-0-1. Chair Bacigalupi absent.

**OLD BUSINESS/CONTINUED-DEFERRED ITEMS**

**10. Oral update on Travel Audit compliance.**

Staff and Due Diligence Committee are working together on remaining items. Committee to review draft of Supplemental Travel Policy from staff at the next meeting.

**11. Oral update on the FLSA/Payroll issue.**

Staff met with City Auditors Office and Macias Gini O'Connell LLP (MGO). MGO to provide Department of Retirement Services with scope of the audit and timeline for FLSA.

**12. Oral update on definition of Final Compensation for pension calculation purposes. (Code 3.36 – 1.08% of 12 months immediately preceding retirement)**

*Ms. Dent* stated that the change to the final compensation language in 1992 was never presented as a substantive change. It was presented as clean-up language to make it more readable, yet it had it had a substantive effect. She stated that she would contact the City and bargaining units for additional information.

**13. Update on the potential action of moving monthly Board meetings to City Hall.**

*The Secretary* stated that the Communications Department was going to Rules Committee for spending authorization and timeline – no action at this time.

**14. Discussion and possible action on update of selection of outside counsel for tax qualification review of the Plan.**

*Ms. Dent* stated that the City Attorney's Office is issuing another RFP.

**STANDING COMMITTEE REPORTS/RECOMMENDATIONS**

**Investment Committee (Bacigalupi/Johnson/Keesling/Alternate: Liccardo)**

15. Summary of meeting held January 21, 2010. Deferred to April Board meeting.

**Real Estate Committee (Bacigalupi/Keesling/Taylor/Alt.: Herrera)**

**Investment Committee of the Whole (Full Board) – last meeting February 18, 2010**

**Due Diligence Committee (Bacigalupi/Taylor/Keesling)**

16. Summary of meeting held February 8, 2010. Deferred to April Board meeting.

**CONSENT CALENDAR**

**17. Approval of Minutes**

Monthly meeting held February 4, 2010

**18. Approval of Travel/Conference Attendance**

**19. Approval of Monthly Expenses**

Report of P&F Retirement Plan administrative expenses for January 2010

**20. Pending Action**

Updated List as of February 23, 2010

**21. Benefits Review**

Summary of meeting held January 2010

**22. Return of Contributions**

- a. Voluntary
- b. Involuntary - None

**23. Investments**

- a. Adoption of Resolution No. 3662 for the period November 1 through 30, 2009
- b. Adoption of Resolution No. 3663 for the period December 1 through 31, 2009

(M.S.C. Johnson/Herrera) Motion to adopt Consent Calendar, Motion passed 4-0-0.

**24. Communication/Information**

- a. Report of P&F Retirement Plan Investments as of November 30, 2009
- b. Report of P&F Retirement Plan Investments as of December 31, 2009
- c. Legal Case Update – Lexin Case
- d. Notification of Request for Proposals for Custodian Bank and External Auditor

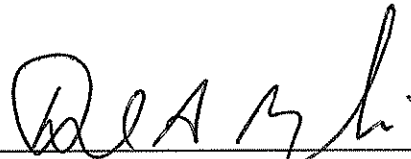
**Proposed Agenda Items**

**Public Comments**

**Education and Training**

**25. Notification of Wharton Investment Programs** to be held in Philadelphia, May 24 through 27, 2010 and San Francisco, July 19 through 21, 2010.


ADJOURNMENT at 11:43 A.M.



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DAVID BACIGALUPI, CHAIR  
BOARD OF ADMINISTRATION

ATTEST:



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RUSSELL U. CROSBY, SECRETARY  
BOARD OF ADMINISTRATION