

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

November 9, 2006

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:34 a.m., on Thursday, November 9, 2006, in regular session at the Department of Retirement Services, 1737 N. First St., Suite 600 - San José, California.

ROLL CALL

Present:

DAVID BUSSE
Bill Thomas
Tim Callahan
Mike Yoshimoto
Jeffrey Perkins
Forrest Williams

CHAIR, Civil Service Representative
Vice Chair, Retiree Representative
Employee Representative
Employee Representative
Public Member
City Council Representative

NOT PRESENT:

David Cortese

City Council Representative (Excused)

ALSO PRESENT:

Edward F. Overton -Secretary / Director
Susan Devencenzi -City Attorney
Tamasha Johnson -Staff
Debbi Warkentin -Staff
Aleta Holcomb -Staff
Debra Horton -HR
Donna Busse -Staff
Judy Powell - "
Udaya Rajbhandari - "
Ron Kumar - "
Mike Pribula -Staff

Tom Webster -Staff
Russ Richeda -Outside Attorney
Karin Carmichael -Staff
Maria Loera -Staff
Susan Perreira -Staff
Deborah Powell -CEO
Roger Pickler - "
Amanda Ramos - "
Joe Charfauros -PRNS
Chris Gambelin -ABMEI
David Rodriguez -PW

REGULAR SESSION

The Chair called the meeting to order at 8:34 a.m.

RETIREMENTS

CONSENT CALENDAR (Items 1 thru 7)

Vice-Chair Thomas requested that Items 6c, d, and e be pulled from the consent calendar for discussion.

(M.S.C. Yoshimoto/Perkins) to approve Consent Calendar. Motion carried 6-0-1 (Cortese).

Informational memo on Supplemental Group Voluntary Cancer Insurance.

Vice-Chair Thomas asked if this insurance is extended to include the retirees.

Mr. Webster replied that this does cover retirees; when we requested bids for this it was specifically requested that it include the retirees and any deductions will be administered for those that apply, and that is why we provided it to the Board. A letter communicating this benefit will be sent to the retirees.

Russ Richeda's update on Pension Protection Act

Vice-Chair Thomas asked if there was any additional information pertaining to this item.

Mr. Richeda stated that he has included the high points in his memo, as most of the information applies to the private sector. The few things that applied to the public sector he has summarized and the important items Mrs. Devencenzi and he will continue to monitor the minimum distribution rule provisions.

Russ Richeda's update on Pension Protection Act (Retirement Benefits while Working).

Mr. Richeda stated that this is just a new option that is available, it is not mandatory but it applies to those age 62 or over to be able to continue to work for the City after they receive their retirement allowance. This is a significant change and there are many policy issues to think through.

Member Callahan stated that the City already allows people to retire and return to work part-time for 980 hours before the age of 62. Also, we have employees that are not 62 and work 30, 35 years and continue to work and after 30 years any contributions to the retirement they don't get anything for it, so would there be a way to utilize this Act to benefit those people.

Mr. Richeda stated that there are different levels of law and this is just the IRS Code, so this applies to tax qualification issues, if there are other restrictions those would still apply. All this says is that you don't endanger your tax qualified status by paying retirement benefits to current employees that are age 62 or over, so its permanent employees, although they don't have to return as permanent.

The Secretary said that it is an option and not a requirement that we conform to that. With the later part of that comment about using this for time worked beyond qualified retirement status is another issue and would be an actuarial question.

Member Williams asked if the City currently does allow people to work after retiring, then why was this change necessary. He feels it would be worthwhile to have a workshop to investigate what the impact would be and the overall picture of things.

Mr. Richeda said that he thinks the policy reason is the demographic concern of an aging population and trying to keep people working and encouraging them to stay in the work force past the age of retirement. The IRS had aligned with this but to a lesser degree, they offered a phased retirement where you work less but you get a certain portion of your retirement.

This item is note and file.

DEATH NOTIFICATIONS (Moment of Silence)

The Chair stated there would be a moment of silence for the death notifications.

(M.S.C. Perkins/Williams) to approve benefits. Motion carried 6-0-1.

NEW BUSINESS

Approval of change in the travel policy per diem amount.

The Secretary said that there was a staff memo provided that explained the changes in the per diem amount, there are a number of different per diems paid depending on the City visited. Your current per diem is \$55 per day and there was a question as to whether or not you want to switch from what you have now to the adopted City policy. In some cases you would get less and in some cases you would get more.

Member Callahan stated that he recently filled out an expense form and the website has all the per diem amounts listed and briefly skimmed through the list and the difference is not very much.

(M.S.C. Callahan/Yoshimoto) to defer to Travel Policy Sub-Committee. Motion carried 6-0-1.

Approval to recommend to City Council the reappointment of Jeffrey Perkins as the public member on the Federated Retirement Board.

Member Callahan stated that he looked up the policy regarding this matter and asked if this is the standard process for filling a Board position.

The Secretary explained that past practice has been that the individual on the Board that is willing to continue serving is recommended. If Member Perkins was not willing to continue to serve then we would go out and search the community for a replacement.

(M.S.C. Forrest/Thomas) to approve. Motion carried 5-0-1-1 (Cortese absent/Callahan abstain).

Adoption of Resolution No. 5910 declaring excess earnings as of 30 June 2006 for the purpose of transfer to Supplemental Retiree Benefit Reserve.

The Secretary stated that the board has a memo outlining the details of the Plan's earnings as of last fiscal year ended June 30, 2006, and the amount of those earnings that was excess, which was \$1.9+ million. We are recommending that you transfer \$1.9 million to the SRBR fund. Also the distributions will be made around the end of November or first week of December.

Member Callahan asked how much is in the reserve fund and what creates a distribution. What is a distribution; is it a percentage of what they earned in retirement or does everybody get the same check?

The Secretary said that currently in the reserve fund there's about \$15 million dollars and the interest on the fund is distributed every year. Some of the principle gets distributed based on the balance being equal to seven thousand dollars per retired member, when you go over that threshold you start to distribute some of the principle. The distribution is a formula.

Mr. Webster explained the formula is that you get one year for each year of service and then you get the percent of retirement that you are earning that goes against each year in retirement. There's a two fold process to come up with number of points and then those points are divided into the amount we are distributing, then that is multiplied back out. So for example, if someone has 30 years then they'll have 30 points for that and your getting 75% of your salary and your retired 10 years you will get 7.5 points for years in retirement, so you'll get 37.5 points times the total amount were distributing. The amount varies, but it's around \$300 dollars.

Member Perkins asked when the last time was that we were able to put money into the reserve; did we do this last year?

The Secretary stated that last year we did a collapsing of the reserve accounts, before that we were running a negative contingency reserve balance and until that balance was built back up to where it was 3% of the other funds, you had no excess earnings. That has been four or five years that we have not had any excess earnings because of that contingency reserve condition.

(M.S.C. Yoshimoto/Thomas) to approve. Motion carried 6-0-1.

Approval of the 2005-2006 draft of the Comprehensive Annual Financial Report (CAFR) for the Federated City Employees' Retirement System.

Chair Busse wanted to compliment staff. He takes it everywhere with him and answers many questions.

The Secretary stated that the CAFR has been awarded for the last five years the certificate of excellence in financial reporting from the government.

(M.S.C. Yoshimoto/Thomas) to approve. Motion carried 6-0-1.

OLD BUSINESS - None

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

Investment Committee of the Whole – Next meeting 11/30/06.

Real Estate Committee – next meeting 12/6/06.

Committee for Investments – next meeting 11/30/06.

Benefits Review Forum (BRF) oral update. (Thomas)

Member Thomas said that the last meeting, as have been the last several, have pertained to the benefits for 2007 and now we are entering open enrollment this month and everything looks good to him and they have done an excellent job.

Member Callahan wanted to mention that he saw in an article regarding unfunded liability and medical benefits that pointed out that the City's contribution was going to be raised for the retirees by a factor of six. That the unfunded liability is going to cost the City 100 million a year and that the article implied that certain parties may be ignoring this issue. For the record he stated that other unions, including ASBE and MEF, at the last contract negotiations decided to contribute more for the health plans. The employees' of San Jose have done and will continue to do their part.

EDUCATION AND TRAINING

PUBLIC/RETIREE COMMENTS

Member Callahan wanted to ask about the status of the actuarial report on the part-time workers that was requested previously. He understands that it was supposed to be in Employee Relations' Office.

Mr. Webster updated him on the status of this request, that as of this week because there were a lot of clarification issues with the report from Employee Relations he had a conference call with the actuary, Employee Relations, and himself. We now are clear on what the request is and they are going to provide a final report soon.

Chair Busse stated that there was a committee being formed with the P&F Chair and their actuary, Federated Chair and their actuary, the City's actuary, Macia's & Gini, and Scott Johnson to review future actuarial value of health benefits to have it explained and reach an educational agreement.

Member Callahan stated that looking at some of the historical charts in the report it seemed to him that there was a significant amount of money for healthcare that appears to be under funded.

The Secretary said that we do not have the funding for the full 30 year amortization of the benefits. We are funding out 15 years, so we are ahead of the actual expense but not ahead enough to satisfy the Government Accounting Standards Board. The City when it instituted a retiree health program it decided to fund it. No public or private organization at that time was doing any pre-funding; the actuaries didn't even know how to calculate the rate or to tell us what needed to be paid. Now GASB has come in and changed the rules, so we are playing catch up but the City is ahead of most organizations in the country and doing some funding. The City of San Jose has done the right thing and you get the obligation reported and you get it out there the City

is going to pay something for it.

There was further discussion about funding requirements, healthcare costs, and the effect of GASB reporting.

FUTURE AGENDA ITEMS

ADJOURNMENT

There being no further business, at 10:07 a.m., **Chair Busse** adjourned the meeting.

DAVID BUSSE, CHAIRPERSON
BOARD OF ADMINISTRATION

ATTEST:

EDWARD F. OVERTON, DIRECTOR
BOARD OF ADMINISTRATION