

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

February 14, 2008,

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:36 a.m., on Thursday, February 14, 2008, 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
Jeffrey Perkins
Forrest Williams
Matt Loesch
Pete Constant

CHAIR, Civil Service Representative
Vice Chair, Retiree Representative enter at 8:45 am
Employee Representative
Public Member
City Council Representative exit at 11:10 am
Employee Representative
City Council Representative exit at 10:10 am

ALSO PRESENT:

Russell U. Crosby -Secretary/Director
Susan Devencenzi -City Attorney
Tamasha Johnson -Staff
Debbi Warkentin -Staff
Toni Johnson - "
Roger Pickler - "
Trish Glassey -CEO
Udaya Rajbhandari -Staff
Amanda Ramos -Staff
Paul Gonzales -Retiree
Bob Leininger -SJREA
Jeanne Groen -HR
Lea Carey -HR

Tom Webster -Staff
Russ Richeda -Outside Attorney
Elisa Koff-Ginsborg -WPUSA
Rhonda Snyder -Staff
Tom Reilly -OE3
Linda Dittes -AFSCME
Karin Carmichael -Staff
Ron Kumar -Staff
Mark Denaj -CMO
Allen DeMers -HR
Paul Hackleman -City Consultant
Susan Perreira -Staff

REGULAR SESSION

The Chair called the meeting to order at 8:36 a.m.

RETIREMENTS

CONSENT CALENDAR (Items 1 thru 8)

Chair Busse pulled Item 2e, 2g, and 7i at the request of Members Williams and Busse.

(M.S.C. Thomas/Constant) to approve Consent Calendar. Motion carried 6-0-1. (Absent: Thomas)

Service-connected disability retirements approved:

Paul Gonzales, February 14, 2008

Service retirements approved:

Teri Ann Allen, February 9, 2008

Janice Belanger, February 9, 2008

Judith A. Boes, February 8, 2008

Blake Broadway, February 10, 2008 (with Reciprocity)

Mary Jane Jepson, February 23, 2008

Tina F. Sauao, February 23, 2008

Jaime C. Tanigue, February 23, 2008

Deferred vested retirements approved:

Henry L. Creal, January 27, 2008

Daniel F. Grijalva, February 8, 2008

Richard A. Wilkins, February 19, 2008 (with Reciprocity)

Queen Ann Cannon, Youth Outreach Worker, Parks, Recreation and Neighborhood Services Department; effective February 09, 2008, 6.91 years of service.

Member Williams acknowledged Ms. Cannon as a big supporter of youth and the San Jose community.

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

Judith E. Powell, Analyst I, Retirement Services Department; effective February 23, 2008; 11.05 years of service.

Chair Busse thanked Mrs. Powell for her service and support of the Boards.

Mr. Webster stated she will be greatly missed and wished her well in retirement.

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

GRS report on impact of funding health costs over different horizons, i.e. 10 years, 15 years, 20 years or 30 years. (Ms. Thompson via teleconference)

Ms. Thompson reported that GASB rules only require disclosure of the OPEB (other post-employment benefit) obligation but does not mandate any level of funding of the obligation. It is important to know the amount of the annual required contribution (ARC) and the net OPEB obligation (NOO). GRS can do a projection of the NOO to assist in the evaluation of the City's ability to meet this obligation. In determining how to fund the ARC, we first have to evaluate whether we have the cash to fund the ARC. If we can pre-fund then the plan can use the discount rate of 8.25%. However, there is a question as to whether we want to fully pre-fund because there is an implicit subsidy that arises from the blending of active and retirees healthcare premiums into a composite rate. There is some discussion within the actuarial community to the effect that the issue of the implicit subsidy is self correcting. She stated the next step is determining to what extent pre-funding is desired. 78% of the Plans in California do not pre-fund. If the Federated Plan stays with the current rolling 15 year funding policy, it should be tested by doing a cash flow projection of the Net OPEB Obligation (NOO) to see if the funding requirements are being met under the current funding policy.

Member Thomas arrived

Member Williams asked if the City can show that it can meet its obligation to pay, can that be accepted by GASB.

Mr. Richeda asked Ms. Thompson to discuss how some public employers had come to the conclusion that they did not need to fund their OPEB obligation.

Ms. Thompson stated an entity from Illinois based its decision not to pre-fund on its actuarial report. They did a 30-year projection of cash flow, premiums, and the Net OPEB Obligation (NOO) then put all those pieces together in making their determination. She suggested that when writing a funding plan and providing documents for GASB reporting to include an analysis of the implicit subsidy and note that the implicit subsidy will not be pre-funded because it is self-correcting.

Member Perkins agreed that they should obtain projections with various increments.

Ms. Thompson stated entity responses are unique in three key areas, which are: re-managing the underlying health plans by utilizing a health consultant; OPEB redesign – charge a flat dollar amount for benefits, share in the costs, and using new hire plans; and then finance and funding – prefunding at what rate.

Member Loesch asked whether fully funding the ARC determination would require 9.4% of payroll, which does not look much higher than the percentage required under the Board's current funding policy.

Mr. Danaj asked if the 9.4% represents the full funding over 30 years, or does that reflect the 15-years already provided for, or is it the net liability.

Ms. Thompson stated the 9.4% is the liability as of today, based upon the assets accumulated under the Board's current funding.

The Secretary suggested that the actuary look at the numbers in our plan, assess our current policy, and reconcile those numbers with GASB.

Mr. Leininger addressed the Board about the GASB numbers; they need to be up to date and members need to understand what is being represented by that number.

(M.S.C. Perkins/) to defer this report and have GRS provide a cash flow projection, showing current policy and the reconciliation with GASB requirements and information on what the CalPERS Trust is doing.

Motion carried 7-0-0.

DEATH NOTIFICATIONS (Item 9 - Moment of Silence)

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

OLD BUSINESS - None

NEW BUSINESS (Items 10 – 16.)

Discussion and request for Board direction on Steven Hendrickson, Interim City Auditor, notification of intent to initiate audit of Retirement Services Travel expenses.

Chair Busse informed the Board that Police and Fire Board discussed this item at their meeting and came to a strategic decision, which this Board should follow.

Mr. Richeda stated the bottom line was to authorize the chair to send a letter to the Rules Committee recommending the travel audit is removed from the Auditor's work plan.

Member Callahan stated an audit of travel has been done recently so he sees no need for another at this time and wonders what the intent is by the auditor.

Member Constant said there should be no question about being audited, and it is very much within the City's authority to do so. The City Auditor is more performance based, while an outside auditor is more fiscal based. The City Auditor's intent is to improve efficiency.

Mr. Webster stated the audit performed by Macias & Gini was a compliance audit, so the Department's policies and procedures were reviewed.

Member Williams suggested the item not be removed from the work plan altogether.

The Secretary suggested the Board write a letter to Rules Committee requesting the auditor remove the travel audit from the work plan and have a session to discuss the audit relationship.

Ms. Devencenzi stated the Macias & Gini audit noted some exceptions to the Boards' policy, which led the City Auditor to support adding an audit of travel to the work plan.

Member Constant exited

(M.S.C. Williams/Perkins) to (1) approve the Chair of the Board sending a letter to the Rules Committee requesting the Committee to modify the Auditor's work plan to defer the audit and (2) authorize the Chair and Vice-Chair to participate in a meeting with the City Manager and others to discuss the audit relationship. Motion carried 6-0-1 (Absent: Constant).

Discussion and request for Board direction concerning the notification by the Director of Finance of the audit of outstanding department contracts.

The Secretary stated that Retirement Services has been removed from this list, so no further action is necessary on this item.

Authorization for Secretary to negotiate and execute an agreement with The Segal Company to provide Operation Review & HIPAA Audit Services for a price not to exceed \$120,000. (To be shared 50/50 with P&F Retirement Plan).

The Secretary reported that this was approved in November, however the bids were higher.

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

Authorization for Secretary to negotiate and execute an agreement with The Wilfred Jarvis Institute to aid in team building within the department and in the development of long-range strategic plan for a amount not to exceed \$15,000 (to be shared 50/50 with P&F Retirement Plan).

The Secretary explained this is the same vendor used by the City and staff propose to utilize these services.

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

Authorization for Secretary to negotiate and execute an agreement with Macias, Gini & O'Connell to provide audit of the Trust Funds and the City's Payroll Transmittal Process for an amount not to exceed \$55,000. (To be shared 35/65% with the P&F Retirement Plan).

The Secretary stated this is to ensure that funds being received from the City are correct and processed Correctly by Retirement Services.

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

Russ Richeda's Analysis of Presence of Impermissible Conflict of Interest or Financial Interest re Board Interpretation of the Amount of Retiree Health Care Assistance under the San Jose Municipal Code

Mr. Richeda responded this item should have been heard previously, as it discusses to what degree the Board had conflict with the Code interpretation and the amount of healthcare assistance. The bottom line is he does not see any conflict. He would suggest that Member Thomas recuse himself just as a caution on matters pertaining to retiree healthcare.

This item is note and file.

Request from Javier A. Perez to change Service Retirement effective date from February 23, 2008 to March 8, 2008. (Approved at January 10, 2008 meeting).

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

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS (Items 17 - 21)

Investment (Committee of the Whole) – Next meeting 28 February 2008

Committee for Investments (Perkins/Loesch/Busse – alternate/Williams)

a. Summary of meeting held 23 January 2008

1. Approval of SIS Consulting Proposal and approval to authorize the Secretary to negotiate and execute Second Amendment to their contract at an annual retainer fee of \$400,000 with contract not to exceed \$425,000.

Chair Busse stated that SIS will be assuming the function that Northern Trust has been performing.

Ms. Devencenzi added that SIS' contract is due to expire at the end of June, so the Board will be seeing that coming forward but she wanted to point that out so it is not confused with this request.

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

2. Approval of revisions of the proxy voting guidelines.

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

Real Estate Committee (Williams/Callahan/Thomas– alternate/Busse)

a. Summary of meeting held 10 December 2007

1. Approval of MIG Realty Advisors, Inc's 2008 Business Plan and Budget for the Milpitas Warehouse (Continued from January 10, 2008 meeting)

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

2. Report out of CLOSED SESSION from January 10, 2008:
At the closed session, the Board approved marketing the property: Milpitas Warehouse, 746-876 South Milpitas Blvd., Milpitas, CA

Solutions to Retiree Health Care Security Committee (Constant/Callahan/Thomas)

- a. Synopsis of meeting held 15 January 2008
- b. Summary of meeting held 15 January 2008

(M.S.C. Thomas/Perkins) to approve the synopsis and summary. Motion carried 6-0-1.

Policy Committee (Busse/Perkins/Callahan) – ad hoc

EDUCATION AND TRAINING - None

21. Notification of the CalAPRS' General Assembly to be held in Palm Springs, March 2 through 4, 2008.

23. Notification of the Wharton School Investment Courses: 1. Portfolio Concepts and Management, May 19 thru 22, 2008, PA; 2. Hedge Funds, Real Estate and Other Alternative Investments, June 23 thru 25, 2008, San Francisco; and 3. International Investing and Emerging Markets, August 25 thru 27, 2008, San Francisco.

(Out of Order)

16.1 Presentation by City's Consultants on Stakeholder Group Outreach for Retiree Healthcare. (To be heard at the end of the meeting)

Mr. Danaj stated that a report will be presented to the City Council with options to fund the retiree healthcare liability. The City is currently providing opportunities for education of and feedback from stakeholders. There is a website on the City's homepage at www.sanjoseca.gov/retireehealthcare. He introduced Paul Hackleman as the City's lead consultant, who currently is the Benefits Manager for San Mateo County, active in the International Foundation of Employee Benefit Plans, and was named as benefits manager of the year in 2006 by the Business Insurance Publishing.

Mr. Hackleman reported that healthcare costs are increasing at 3 times the rate of wages or CPI. GASB was rolled out to larger entities first and then to smaller entities. San Jose is among the first; so strategies are still very new and there will be more. He has held educational and feedback sessions with several groups. He has some key takeaways from these sessions: 1. It is critical that GASB is not financed on the backs of current retirees. 2. This is a growing issue and something needs to be done and it is important to understand the liabilities and address them. 3. It is important that costs are controlled; so innovative solutions should be sought versus shifting costs through benefit reductions or elevated contributions. 4. Any process selected going forward should be a collaborative one, with input from all stakeholders. 5. All groups are in agreement that finding a way to get to fully funded status is important. 6. To be pro-active in identifying high risk health members – which can assist in controlling costs via wellness/disease management programs. 7. To continue to solicit stakeholders ideas/input at each milestone. 8. To have more flexibility in the available plans. 9. To seek investment return growth. 10. To continue to proceed cautiously and to plan thoroughly.

Member Loesch stated he has read all the notes from the prior stakeholder meetings and he wished more outreach had been done and that the educational sessions would have been spread to more locations. The City has been contributing since the inception of our health plans and he would like to know the 401(h) account status, what the money is doing, and why did he find out about this presentation through a third party.

Mr. Danaj reported that they have had nine facilitations already and there may be additional ones. There is one meeting that is available as a web stream so members can watch via the internet; also ideas can be still be provided to the City Manager's Office. He clarified that letters went to both Boards and they plan to make a similar presentation to the Police & Fire Board next month.

Chair Busse stated those groups that are the most vulnerable are the least represented, and the retirees are the most impacted by these decisions.

Mr. Hackleman responded he believes regardless of formal representation or not, if a group will be impacted recommendations should not be made without considering them.

Mr. Richeda asked if information on the various funding vehicles was located on the website.

Mr. Hackleman replied they identified some key models which are defined in the glossary of terms; however the website is limited in details pertaining to funding vehicles. In terms of health savings accounts that option is only available with high deductible plans. Health reimbursement accounts are a viable alternative. Section 115 Trust accounts appear to be the most popular and commonly used. He stated that they are trying to wrap things up to send a final report to City Council by March.

Member Williams exited

PUBLIC/RETIREE COMMENTS

FUTURE AGENDA ITEMS

ADJOURNMENT

There being no further business, at 11:23 a.m., **Chair Busse** adjourned the meeting.

DAVID BUSSE, CHAIRPERSON
BOARD OF ADMINISTRATION

ATTEST:

RUSSELL U. CROSBY, DIRECTOR
BOARD OF ADMINISTRATION