POLICE AND FIRE RETIREMENT PLAN

CORRECTED MINUTES

Minutes of the Board Meeting

THURSDAY **SAN JOSÉ, CALIFORNIA** **February 4, 2010**

CALL TO ORDER

The Board of Administration of the Police and Fire Department Retirement Plan met at 8:32 a.m., on Thursday, February 4, 2009, in regular session at Department of Retirement Services, 1737 N. First St, Suite 600 - San Jose, CA.

ROLL CALL **Present:**

DAVID BACIGALUPI	**Chair – via telephone**
CONRAD TAYLOR	**Vice Chair**
ROSE HERRERA	**Trustee – arrived 9:29 a.m.**
KEITH KEESLING	**Trustee**
SAM LICCARDO	**Trustee – arrived 8:55 a.m.**
SCOTT JOHNSON	**Trustee**

ALSO PRESENT:

Russell Crosby	**-SECRETARY**	Donna Busse	-Staff
Mollie Dent	-City Attorney Office	Toni Johnson	-Staff
Russell Richeda	-Saltzman & Johnson	Bruce DeMers	-SJPOA
Debbi Warkentin	-Staff	James Jeffers	-Attorney
Karol Roy	-Retired SJPD	Linda Charfauros	-SJFD
Jesselle Holcomb	-Staff	Sam Swift	-Attorney
Ron Daly	-Retired SJPD	Maria Loera	-Staff
Rhonda Snyder	-Staff	A.M. Rosingana	-Retired SJPD
Pat Carder	-Retired SJFD	Sandra Holloway	-SJPD
Andy Yeung	-Segal	Paul Angelo	-Segal
Veronica Niebla	-Staff	Aracely Rodriguez	-OER
Mark Bustillos	-SJPD	Amanda Ramos	-Staff
John Tennant	-POA Atty.	Ira Summer	-POA Actuary
Franco Vado	-POA	Jeff Rickett	-POA
Carol Daly	-SJFD	Steve Cunninghma	-SJFD
Aracely Rodriguez	-OER	Alex Gurza	-OER
Ron Kumar	-Staff	Randy Sekany	-Local 230
Linda Dittes	-AFSCME		

REGULAR SESSION

ORDERS OF THE DAY

Vice Chair Taylor called the meeting to order at 8:32 a.m. He reported that Chair Bacigalupi would be participating in the meeting via telephone. He also reported that Item 10 will be heard before Item 9.

RETIREMENTS

1. **Service**

   a. Terrance J. Boyle, Police Officer, Police Department. Request for Service Retirement effective February 13, 2010; 25.94 years of service.

(M.S.C. Johnson/Keesling) to approve. Motion carried 4-0-2-1 (Herrera/Liccardo-Absent/1 vacancy).

b. Peter J. Boyle, Police Captain, Police Department. Request for Service Retirement effective February 6, 2010; 27.97 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

c. Abraham F. Galvan, Police Officer, Police Department. Request for Service Retirement effective January 23, 2010; 27.36 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

d. George J. Lucchesi., Fire Captain, Fire Department. Request for Service Retirement effective January 23, 2010; 33.70 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

e. Louis Ramirez, Firefighter, Fire Department. Request for Service Retirement effective January 24, 2010; 23.40 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

f. Eric C. Sills, Police Captain, Police Department. Request for Service Retirement effective February 6, 2010; 27.63 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

g. William R. Smoke, Police Officer Police Department. Request for Service Retirement effective January 23, 2010; 25.11 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

h. Craig H. Tarr, Police Officer Police Department. Request for Service Retirement effective February 6, 2010; 27.30 years of service.

(M.S.C. Keesling/Johnson) to approve. Motion carried 4-0-2.

2. Disabilities

a. Stephen Cunningham, Firefighter, Fire Department. Request for Service-Connected Disability Retirement effective August 22, 2009; 24.78 years of service.

For the record, Firefighter Cunningham was present and was represented by Mr. Swift. **This matter was held in closed session.**

Resumed regular session at 8:48 a.m.

Report out of Closed Session - (M.S.C. Keesling/Taylor) to approve application. Motion carried 4-0-2.

3. Change in Status

a. Patrick H. Carder, Retired Fire Engineer. Request for change to Service-Connected Disability Retirement effective July 12, 2009; 28.30 years of service.

For the record, Retired Fire Engineer Carder was present and was represented by Mr. Swift. The following reports have been received:

MEDICAL REPORTS – DR'S NAME	DATED
PATRICK MCCREESH, M.D.	8/13/2009 (2 REPORTS); 7/29/2009 (2 REPORTS); 7/23/2009 (2 REPORTS);

	11/5/08; 4/9/08; 12/17/2007; 4/30/2007
LAWRENCE CHAN, M.D.	4/17/2008; 2/12/2008
HARJIT SEKHON, M.D.	12/27/2007
DAVID KRAMER, M.D.	11/06/2007
VENKAT AACHI, M.D.	4/03/207; 2/27/2007; 2/13/2007
MARK CULTON, M.D.	1/17/2007; 8/26/2004
RAJAN PERKASH, M.D.	10/7/2004; 8/19/2004 (2 REPORTS); 5/24/2004; 5/04/2004
THOMAS KULA, JR., M.D.	9/27/2004; 8/25/2004
MARK LARSEN, M.D.	4/15/2004
ALLEN KAISLER-MEZA, M.D.	10/10/08

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	1/17/10; 12/8/09

(M.S.C. Keesling/Taylor) to approve application. Motion carried 4-0-2.

(Trustee Liccardo arrives – 8:55 a.m.)

b. Ronald T. Daly, Jr., Retired Police Officer. Request for change to Service-Connected Disability Retirement effective December 26, 2009; 28.62 years of service.

For the record, Retired Officer Daly was present and was represented by Mr. Jeffers. The following reports have been received:

MEDICAL REPORTS – DR'S NAME	DATED
S. YOKOYAMA.	9/21/099 (2 REPORTS)
JUAN LARACH	11/19/06

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	1/13/10

(M.S.C. Taylor/Keesling) to continue this matter for additional medicals. Motion carried 5-0-1

c. Karol B. Roy, Retired Police Officer. Request for change to Service-Connected Disability Retirement effective January 31, 2008; 26.14 years of service.

For the record, Retired Officer Roy was present and was represented by Mr. Jeffers. The following reports have been received:

MEDICAL REPORTS – DR'S NAME	DATED
GORDON BRODY	10/14/09 (2 REPORTS)
OSCAR ABELIUK	10/13/06
MICHAEL DILLINGHAM	5/19/05; 10/22/04; 7/12/04
MARIA MATSUSMOTO	7/1/04
GERAL KEANE	9/22/04

MEDICAL REPORT FROM BOARD'S DIRECTOR	DATED
RAJIV DAS, M.D.	1/14/10

(M.S.C. Bacigalupi/Taylor) to approve application. Motion failed 2-3-1 (Johnson/Keesling/Liccardo – no). Application denied.

4. <u>Deferred Vested</u> – None

DEATH NOTIFICATIONS –Moment of Silence - All items note & File

5. Notification of the death of John Jurado, Retired Fire Captain; retired 2/19/80; died 12/2/09. No survivorship benefits.
6. Notification of the death of Robert K. Meheula, Retired Police Officer; retired 8/12/06; died 12/20/09. Survivorship benefits to Cheryl & Lyn Meheula.
7. Notification of the death of Ronald B. LeBeau, Retired Fire Engineer; retired 12/16/96; died 12/8/09. No survivorship benefits.
8. Notification of the death of Ronald R. Powers, Retired Fire Engineer; retired 3/22/88; died 1/8/10. No survivorship benefits.

NEW BUSINESS

10. Discussion and action regarding Market Value of Assets Corridor. **(Out of Order)**

Ms. Racy-Choy stated various memos on this topic have been distributed. One is a Segal memo dated October 27; the other is staff recommendation dated October 27. To place this issue in context, in other industries when there are gains or losses on financial assets the gain/loss would be recognized in the same year on the financial statements. In the pension industry, actuaries typically use a five-year smoothing. This means that gains or losses take five years to be fully recognized. As a result of this five-year smoothing, something referred to as the actuarial value of assets is created. When there is a significant loss in the system, the actuarial value of assets is going to overstate significantly the level of assets the plan has. This is due to the fact that the loss is not fully recognized until five years later. The corridor is basically a risk control that the actuarial standards suggest be added when five-year smoothing is used. One does not want the actuarial value of assets to deviate very significantly from the real value of assets. Prior Boards had decided that the corridor would be set at 20%; fundamentally meaning that, if the actuarial value of assets is overstating the market value of assets by more than 20%, the asset loss will be recognized immediately. This has an impact on contributions. Segal has provided this letter which shows the impact of the potential decisions the Board is has to make. Fundamentally there are two options. One is to leave the existing policy which is a five-year smoothing, including a corridor at 80%/120%. The other option is to extend the corridor or remove it altogether. If the Board chooses to do that, there would not be a spike in employer contributions next year; however, for every year thereafter for the next 30 years the employer would have to pay an extra 1% in employer contributions. One percentage of payroll is approximately $2.5 million to $3 million. Removing the corridor provides short term relief, but the price of the short term relief will be that the City will have to pay 1% more every year thereafter for almost 30 years. There is a very significant impact on the Plan. If the Plan keeps the corridor as is, the rate in 2027 will be 34.6%; if the corridor is removed in 2027 the rate will be 35.4%. Removing or expanding the corridor shifts current costs to the future.

Chair Bacigalupi asked what the impact would be of expanding the corridor in a declining manner such as what PERS has done.

Ms. Racy-Choy responded that it would depend upon the level to which the expansion would be allowed. Expanding the corridor to a level of 130%, would almost allow the entire loss to be smoothed so it would have almost the same impact as removing the corridor.

The Chair commented that the PERS model was a 60%/140% for one year, a 70%/130% and then back to 80%/120% for the third year. What would that make the year 2027 number look like?

Mr. Angelo responded that the ratio the corridor is based on is about 133%, if you widen the corridor to 130% the Plan would hit the corridor a little bit; if you widen to 140% it's the same as removing the corridor altogether. Unless there are continued losses going forward, the Plan will get back to 120% just through the natural operation of plan procedures. The whole impact of corridor/no corridor is only for about three years. If this Plan widens it temporarily, you would get substantially the same result since the effect is only temporary. This is different from PERS since they have a longer smoothing period, things last longer. Since this Plan has only a five-year smoothing, whether the corridor is widened either permanently or temporarily the real driver is what is done in the first couple of years.

Trustee Liccardo stated he had concerns over long-term impact on the employer. Would temporarily widening then narrowing leave us in the same situation in terms of long-term costs.

Mr. Angelo responded that it would. He didn't want to minimize that there is an extra cost to this. You really see it more in the middle years, 2012 to 2021, that's where you're amortizing these losses. If you are going to use a general sense of what this costs, it's more in the order of .4%/.5% over the amortization period. The corridor has a relatively small impact. For what looks like a small increase in long-term costs, you can get short-term cost savings. However, there are absolutely additional costs.

Trustee Liccardo asked if there had been any consideration about lengthening the amortization period.

Mr. Angelo responded that they had not had any discussion on that topic.

(Trustee Herrera arrives – 9:29 a.m.)

Mr. Yeung added that 16 years is the length of the current amortization period. There has been no discussion lately with the Board as to whether that is still appropriate.

Trustee Liccardo asked if it was accepted actuarially to have a longer amortization period.

Mr. Angelo answered that some actuaries view smoothing and amortization periods as one conversation. The Plan's asset volatility controlling machine is its smoothing method. The amortization period is really a long-term relationship with the Plan's liabilities. If something is going to get revisited because of an extraordinary asset event, they tend to focus the conversation on the asset smoothing machine. He prefers to save amortization for the Plan's relationship with its unfunded liability as opposed to its relationship with widely swinging assets.

Ms. Racy-Choy stated that Segal had included in their memo information on what other plans have done. Staff sent out an email to CALAPRS pension plans and asked if other plans would provide information on whether they had a corridor and, if so, what have the Boards decided to do. Roughly ten plans responded. Two plans, San Diego City and Merced County, replied that they had a corridor and they left it unchanged. Two other plans, Imperial County and Sacramento County, responded that they had a corridor at 80%/120% and their Boards decided to expand it to 70/%130%. The fifth plan said they had a corridor and the Board decided to remove it altogether.

Mr. Angelo added that what Segal had found was that San Diego and Merced ended up being the exception. They found about eight systems that had a corridor and widened it. The general approach has been that there has been an extraordinary event; the corridor was put in before anyone anticipated such things and now it is appropriate to review. There have been a wide range of actions; four systems widened it to 130%; two widened it to 140%; and two widened it to 150%. This means is that there isn't a stock answer. At this point, the most common response has been to do some widening. In most of these situations, the employers have come in and requested relief. In these cases there were a lot of discussions with the attorneys to see if it was appropriate to take the employer's financial condition into account. Most of these attorneys replied yes it was. The end result is that the Plan is going from a low-level cost to a high-level cost, and, if you want to have a corridor you get there in more or less a straight line; if you don't have a corridor you get there faster. As to the actuarial standard and five-year smoothing, the actuarial standard is very carefully drafted. It talks about whether a plan has a reasonable smoothing period which can be quite long, or a sufficiently short smoothing period. The interpretation by the industry is that five years is sufficiently short. This means that if you're using five year smoothing, you don't have to have a corridor. This extra risk control is not required under the standard if you're at five-year smoothing. Half the systems in California have no corridor; in fact, the San José Federated System has no corridor.

Chair Bacigalupi stated that what he was hearing was many of the funds have either expanded their corridors, either temporarily or permanently, or done away with their corridors even though there is a cost. He asked if he understood correctly that, in layman's terms, considering the budget crisis throughout the country, these funds are deciding to pay that extra cost at the end to make it easier on the employers in the earlier years and smoothing it out over a longer period of time.

Mr. Angelo replied that what Chair Bacigalupi said was true.

There was more in-depth discussion concerning the market value corridor and the use of the 12/31/09 instead of the 6/30/09 numbers between Trustees, staff, Mr. Angelo and Mr. Yeung.

Trustee Herrera asked if there was some way the corridor could be applied now, and then once it's validated that there is a strong recovery then the corridor could be relaxed. In other words, is this an all or nothing discussion? Also it does seem like the corridor is tied with the earnings rate assumptions.

Mr. Angelo answered that in answer to the second point, if you had a more conservative funding calculation based on a lower discount rate, you would be requiring a higher contribution for the employer each year on a systematic basis. The reason other public plans have widened their corridor is they believe that due to the way they've invested, they believe there will be some wiggle around their assumed rate and they think they need more room than 20%.

There was discussion among Board and staff as to whether they wanted to consider the time period for the valuation and more detail of the effect of the corridor on the employer contribution rates in the future.

Mr. Gurza spoke on behalf of the City Manager's Office, not on behalf of the City Council. There had been some previous conversation about the employer coming forward and asking for financial relief. The City now thinks it would be irresponsible for the employer to come to trustees and simply ask for such relief. The Manager is clearly concerned about contribution rates. It had been mentioned that in 2012 elimination of the corridor would only be a .4% cost; however by a calculation based on today's payroll that's $1 million a year for more than 20 to 30 years. Once you get to 2027 it's more than $2.5 million a year. It seems the Board is making a decision as to whether to cost the City $1 million more a year in 2012 and ongoing in exchange for relief in the early years. It should be noted that in Segal's letter of October 27th, it was pointed out that non-public retirement systems are limited by Federal law to a three year smoothing with a 90%/110% MVA corridor and that multiemployer plans are limited to a five year smoothing with a 80%/120%. It seems there are reasons why these things are there.

Mr. Angelo agreed with comments made by Mr. Gurza. He stated that if the Board was to widen the corridor today and lower the cost and then increasing it later, the Board would be forcing the City to borrow that money from the retirement plans at 8% interest. It's not just borrowing, but it's borrowing at a rate higher than the City would borrow from other sources.

Mr. Summer, POA Actuary, stated this discussion would not usually be an employee issue. The employee contribution rates don't change based on the market value of assets. Whether the Board has the corridor in place or not, the employee contribution rates will be exactly the same. The reason why they are speaking on this issue is their employees are members of this pension plan and they would like to see the governance of the plan be done as well as possible. He added that the corridor is in place because in 1976, ERISA enforced them in the private sector. The Board gets to make this decision, but if anyone asked for his recommendation it would be to slide out the corridor to 140% on a temporary basis, then bring it down to 130% and then back to 120%. By doing this the Board would be recognizing that this is an extraordinary event, not normal volatility in the market.

There was additional discussion on the corridor under difference scenarios with the Trustees and actuaries.

Ms. Racy-Choy commented that if the decision is to expand the corridor, the Trustees would be forcing the City to borrow at a rate of 8.9% gross. The question is should the City borrow at 6% to 6.5% from the market or should it borrow from the pension plan at almost 9%. There is no scenario where borrowing from the pension plan would be best.

Trustee Johnson stated that it appears that we're capturing that corridor and we're recognizing it permanently. Then we're assuming a certain rate of return moving forward. He asked what happens if you trigger the corridor but then you have a pretty good recovery.

Ms. Racy-Choy answered that having a good recovery now will not change the June 30, 2009 valuation. It can only show what happened up to and including the valuation date. The bottom line message is that that is not going to change.

Trustee Herrera stated that she is not being persuaded to eliminate the corridor.

Mr. Angelo stated that it's clear that the employer is saying to leave it as is. As a trustee, one shouldn't have to go a lot further than that. Nothing done with the corridor is going to fundamentally change what occurs due to the June 30th number. If the fund does 20% in 2010, the amount of 8% will be smoothed over five years and that will cause the projected 2011 rate to come down a little bit. The resulting picture will still be ugly. If you hit the corridor one year which raises the rates, and you don't the following year, the rates could actually go down. It seems like the actuaries are arguing against the corridor, but they look at the pattern and if it seems discontinuous they will bring it to the board's attention. All else equal, actuaries like a steady progression cost.

Ms. Racy-Choy stated that the bottom line message is in five years, in 2013, the contribution rate projection based on Segal's Exhibit 2 is upward of 50%. That's where we're going regardless of what the decision is. The decision on the corridor impacts next year's contribution. Ultimately we will be going up to 50% either way. It's a decision of pay now or pay later.

Trustee Liccardo stated that he has never been able to understand the double hump as indicated on Segal's chart in the later years.

Mr. Angelo replied that the plan pays off the unfunded liability in layers. As each year occurs with gains or losses, you pay that off in 16 years. What it is is a reverse picture of all the recent cost layers as they disappear 15 years later.

Trustee Liccardo stated that the City needs to pay this thing up front. That .4% is significant over time.

(M.S.C. Herrera/Liccardo) leave corridor at 80%/120%. Motion failed 2-4-0 (Bacigalupi/Johnson/Keesling/Taylor – no)

(M.S.C. Bacigalupi/Taylor) establish a corridor at 60%/140% for 2009, 70%/130%/ for 2010, and back to 80%/120 in 2011 and thereafter.

Trustee Johnson commented he could not support the motion as stated. The reason he did not support the previous motion was because he believes that the purpose of a corridor is when there is a belief that there is a permanent reduction in the value of the portfolio. His belief is that the Board should be making the decision based on all information that is available at that time. Given that today it is a fact that as of 12/31/09 the value of the portfolio is within the range that would not trigger the corridor. We should not adjust the corridor because it does make good and prudent fiscal sense to maintain it. When the decision is made to trigger the corridor it should be based on the most up-to-date information available.

Trustee Herrera made a substitute motion to keep current corridor but to base decision to trigger corridor on the most recent value of the portfolio available.

Mr. Angelo replied that he would not know how to implement the substitute motion as stated. The Board does not trigger the corridor; the data does. The Board sets the corridor only. If the corridor is set, then for the 2009 valuation the corridor is triggered.

Trustee Herrera suggested that the corridor could be kept in place and then the information that Trustee Johnson requested be forthcoming by staff.

Trustee Johnson stated that staff has given some information on the value of the portfolio. The question is if we looked at the value as of today or December 31st, where would we be within the range of the corridor.

Ms. Racy-Choy responded that there is no change where you would be as of 6/30/09; however, for the next year the projections provided by Segal, Exhibit 1, show that for the year 2010 the ratio of AVA to MVA is 124%. This number assumes the portfolio earns over 8% over the entire year. If you assume that the portfolio might earn, 12%, 14% or 20% this ratio would go down to approximately 120% or so.

Trustee Johnson suggested a suspension of the corridor. The corridor makes sense; one should be kept in place. But based on the information available, the value as of today is within the range that would not trigger the corridor.

Mr. Angelo stated that what Trustee Johnson is requesting is consistent with the Chair's motion. You are temporarily widening the corridor, because you think that it's going to go away.

Trustee Herrera withdrew her substitute motion.

The motion again, was:
(M.S.C. Bacigalupi/Taylor) establish a corridor at 60%/140% for 2009, 70%/130%/ for 2010, and back to 80%/120 in 2011. Motion was 3-3-0 (Herrera/Johnson/Liccardo – no)

Ms. Dent indicated that the way it's currently written in the Municipal Code, there only needs to be three votes in favor to pass a motion.

Chair Bacigalupi stated that he was ready to make a second motion, because in his mind the original motion failed.

Mr. Richeda stated that the Municipal Code section is 3.36.30, the second to last sentence of which indicates that an affirmative vote of not less than three members shall be necessary for the passage of a motion.

Ms. Dent indicated that section is one that was a left over from when the Board consisted of only five members.

Chair Bacigalupi stated that three to three is still a tie in anybody's book.

Mr. Richeda stated that the Board on its own can require four votes for passage of a motion. The Board may also want to submit a recommendation to Council to update this section.

(M.S.C. Bacigalupi/Taylor) motion for reconsideration of previous motion. Motion passed 6-0.

(M.S.C. Liccardo/Herrera) motion establish a corridor of 70%/130% for 2009 and 80%/120% for 2010 and thereafter. Motion carried 5-1-0 (Taylor – no)

9. Discussion and action regarding Segal's non-economic assumptions for the valuation period ending 30 June 2009.

Mr. Angelo reported that San José is somewhat of a unique system in that currently we do the valuation every two years and also perform an experience analysis every two years. The usual practice is to do a valuation more frequently and then every so many valuations analyze the Plan's experience. Because of the current biennial valuations and experience studies, Segal tends to also look at the previous two years to try and get somewhere between two and four years of data. They look at all the assumptions and all the things that have happened and compare the two and get something called the gain/loss from all assumptions. Periodically what public systems do, usually every three to five years, is a more detailed analysis of the assumptions where you actually look at each assumption separately. After that you compare the experience to the assumptions and adjust them accordingly. You can't do that every year as you won't have enough data in one year. You will find that the data is a little sparse in this report since there is only a two year period. As an example, the 37 Act Counties do an annual valuation and they do experience analyses every three years. Other systems do annual valuations and do their experience analyses every five years. This is more frequent than usual, but it is due to doing the valuation every two years. The difference between recognizing the gain/loss each year, which is adjusting for past differences between the assumptions and experience, versus changing the assumptions going forward which in effect is trying to take all those future gains and losses and recognizes those today in order to get a more stable cost. Using mortality as an example, if people are living longer than assumed, that's a loss. Every time people live a little too long your liabilities are a little bit bigger than expected and then your costs creep up. If you adjust your mortality table to anticipate those, you basically increase today's cost by a larger amount, but then that allows you to avoid that cost increase going forward.

Trustee Keesling asked with regard to the mortality rate whether they used San Jose's actual experience. Also, do they differentiate between the Police and Fire?

Mr. Angelo replied in regards to mortality, Segal looks very narrowly at San José experience which is difficult since the plan's actual experience is anomalous. Even though Segal is recommending a longer mortality table, since that is what the experience indicates, it is anomalous compared to other systems in California. In regards to differentiating between Fire and Police, for mortality they do not. That is an ongoing discussion, but at this point neither group is big enough to generate separate data. Also this could cause a situation where the two groups are paying different contribution rates not due to different benefit structure but rather due to relatively small differences in demographic data. In prior years there have been detailed discussions concerning what purposes should the rates be different and for what differences should they remain the same. If you really want to track the experience separately, that would necessitate splitting into two plans for valuation purposes, both assets and liabilities. The short answer is they pool police and fire for most purposes.

Mr. Angelo stated that Segal is recommending the following changes for these assumptions:

Retirement Rates – two different assumption rates, higher for police and the status quo for fire.
Mortality Rates – increase of one year for life expectancy of service, disabled and beneficiaries.
Turnover Rates – modification of assumption to reflect recent actual experience.
Disability Rates – two different assumption rates, the status quo for police and higher for fire.
Individual Salary Increases – modification of merit and promotion rates to reflect recent actual experience.

There was detailed discussion on each assumption change and how Segal came to their recommendations between Board, staff and actuaries.

Ms. Racy-Choy stated that staff's opinion differs from Segal regarding the mortality rate. Ideally, for mortality you like to be in the range of 105% to 110%. Typically the mortality assumption is one of the most important assumptions if not the most important one. It's all about the speed at which you move to match the assumption to the experience. Ultimately it's the experience that determines the plan cost. Staff would have liked to see a stronger movement towards experience, one more year of set back than what Segal suggested. They perceived that was too quick, too soon; however, that would put us closer to 98% ratio which is closer to where we should be. The ultimate goal of this exercise is to get closer to what our experience shows.

Trustee Liccardo asked if the Board decided to go to annual valuations would that include the non-economic assumptions also.

Ms. Racy-Choy replied that the standard requires these be reviewed every two years. That's fairly frequent with the norm being every three to four years. Given the significant difference between the actual experience and the current assumptions, staff thinks it is prudent to remain at two years. In a couple of years, they will be able to maintain the data they have now for four years and add two more years on top of that.

There were additional conversations on the recommended changes and the frequency of experience studies being done.

Mr. Angelo reported that the merit and promotion salary increases assumption is by the far the largest cost increase. The other changes are rather small, the mortality change net/net was about 1/10th of a percent, the early retirement ages is about 1.5%, the next most significant. Salary scale change will increase the contribution rate by over 6% of pay. This by far has the largest impact as far as contribution rates are concerned.

Mr. Yeung added that this rate impact is being calculated on the pension plan right now, but they do expect it will have some impact on the health. It will be smaller due to the fact that on the police side they've agreed to a phase in. On the fire side, they only fund for 10 year cash flow. Impact will be there but at a much smaller rate.

Mr. Angelo continued that salary increases are built though components. They start with an inflation assumption, price inflation, and then they add real wage growth. That combination gives you the increase in average wages and then they have what's called merit and promotion increases. The focus of this study is merit and promotion. The Board has already adopted the assumption for inflation of 3.5%. The across the board salary increase went from .5% to .75%. We are already assuming wages will go up 4.25%, which is the 3.5% plus .75%. That is the average which everybody will get and now we have to look at people who outpace the average as they advance in age and service.

There was continued discussion on how Segal calculates the merit and promotion salary increase assumption.

Mr. Angelo concluded that if the Board adopts the entire assumption package for the pension plan, the change is about 9.5% of pay, that breaks down as: 1.65% for mortality; .25% for disability; break even for turnover; about 1.5% for retirement; and 6.25% for salary.

Mr. Yeung added that of the almost 10% increase some of that will be shared with the members according to the formula. Member rate increase will be about 1.3% of pay. That will leave a net of about 8.5% to be paid by the employer. That is not counting the adverse asset experience that we've had; this is purely as a function of adopting these assumptions.

There was additional discussion concerning the total assumption package, and in particular, the merit and promotion assumption, with the Board, staff and actuaries.

(M.S.C. Herrera/Keesling) to adopt all the assumptions as proposed by Segal. Motion carried 6-0.

The Vice Chair announced that there had been a request to hear Item 14 before Items 11, 12 and 13.

14. Discussion and action on definition of Final Compensation for pension calculation purposes. **(Out of Order)**

Vice Chair Taylor stated that he requested this item be added to today's agenda due to the fact that the Board had recently granted a disability retirement to an individual. The facts were that the way it is stated in the Municipal Code it looked like the individual had spiked his salary. Due to fact that he is currently going through chemotherapy, his salary has decreased dramatically to the point where he cannot even support his family. Staff and the attorneys were contacted, and it was decided something must be done to resolve this issue. There was no intent to spike his salary.

The Secretary added that this is almost a reverse spiking case where this Plan looks back over two years and determines whether one year was higher than the other, then goes with the lower year. Unfortunately, this man was in a disability situation where he was working fewer hours in year two. That makes it appear that year one was a spike against year two. When you use year two income, then his pension is substantially lower than it would have been if he worked a full schedule or if he had gotten credit for year one of the two-year cycle.

Ms. Dent added some background on this code section. This section covers the cap on pension at 108% of a second compensation year. This was enacted to prevent pension spiking. However, the way the code is written that isn't what is accomplished. The way the code is written he gets capped at 108% of a specific time period. When the history of this code section was researched what was found that originally in 1970, this section did exactly what you would have thought it should do. It originally was written so that it would prevent spiking. In 1992 when it was an amendment was added to the code, this section was changed. The change that was made was intended to clean up the section. That wasn't what it did; it changed the calculation. She added that it might be possible to recalculate this individual's pension without a code amendment and to report back to the Board in March as to what happened in this particular case.

Additional discussion was had between the Trustees, POA representatives, the attorneys and staff as to how to effect change that would allow this individual to receive the intended pension.

(M.S.C. Herrera/Liccardo) to direct staff to address this individual's issue and if a code amendment is found necessary, staff to come back with an appropriate ordinance making changes. Motion carried 6-0.

11. Discussion and action recommendation for annual Plan valuations.

The Secretary reported that staff and the actuaries were recommending that annual valuations for the Plan be performed. It has become the industry practice to go to annual valuations.

(M.S.C. Herrera/Taylor) to perform annual Plan valuations. Motion carried 6-0.

12. Request for Board discussion and direction to staff concerning Alex Gurza's memo dated 9/21/09 concerning actuarial valuation issues and Segal's response dates 10/29/09.

This matter was covered in conversations of the previous matters.

13. Approval of Segal recommended assumptions for 6/30/09 Retiree Health Actuarial Study.

Mr. Yeung reported for the year 2009 Segal has assumed the medical premium increase will be 8.5%, and that the rate will reduce by 0.5% every year to the ultimate assumption of 5.0%. The 5.0% is already higher than the general price inflation that the Board has adopted of 3.5%. They have implicitly assumed that medical costs are still going to be higher for the foreseeable future.

The Secretary added that primary driver of the increase is the long-term 5.0% inflation rate. There is no change being recommended for this assumption. 5% is the median rate that actuaries nationally are using.

Mr. Angelo stated that they are recommending an ultimate 5.0%, but you get there by starting at 8.25% and going down 0.5% for the next 7 years. For 2010 it will be 8.25%, in 2011 it will be 7.75% and so forth.

(M.S.C. Herrera/Johnson) to approve healthcare assumptions as recommended by Segal. Motion carried 6-0.

OLD BUSINESS/CONTINUED-DEFERRED ITEMS

15. Discussion and action on Board policy for developing monthly Board meeting agendas.

Trustee Liccardo stated that he thought this item was agendized so that the Board would vote under the Orders of the Day as to what items would be deferred and what items wouldn't be deferred. This is the Council procedure and one they would recommend for this Board.

Trustee Herrera added that what would happen when people call the Chair to request a deferral due to their absence, then it would be by vote of the rest of the Board for deferral.

(M.S.C. Herrera/Liccardo) to make this deferral procedure part of Board policy and to memorialize this action in the Board policy manual. Motion carried 6-0.

16. Oral update on Travel Audit compliance.

Ms. Niebla reported that there are three remaining items from the travel audit compliance report and those are being reviewed by the Due Diligence Committee which has a meeting scheduled for Monday, February 8th.

17. Oral update on the FLSA/Payroll issue.

Ms. Niebla reported that MGO is currently looking at the same information that the City Auditor had reviewed. There will be a more formal update at the March meeting.

18. Discussion and action on Board's agreement to move monthly meetings to City Hall.

The Secretary reported that the letter sent to Council by the Chair will be on the Rules Committee agenda for February 10th.

Vice Chair Taylor inquired that if the move occurs will there be charges attached.

The Secretary responded that during meetings at City Hall he has told them that any charges associated with this action would require Board approval and he would estimate that that would be an unlikely event.

Vice Chair Taylor stated that this item would be updated at the March meeting.

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

Ms. Dent stated that they had released an RFQ for a Plan tax counsel this week with a response due date of a couple weeks out. Once the responses are received, there will be a fairly quick review process of the qualifications by the Secretary, Russ Richeda, herself and possible someone else from the Attorney's Office. They anticipate coming back to the Board in March with a selection recommendation.

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS

Investments Committee

20. Summary of meeting held 29 October 2009.
21. Summary of meeting held 17 December 2009.

(M.S.C. Liccardo/Herrera) to approve summaries. Motion passed 6-0

Real Estate Committee (Bacigalupi, Keesling, Taylor)

22. Summary of meeting held 15 September 2009
23. Summary of Board of Directors' meetings held 15 September 2009.

(M.S.C. Liccardo/Herrera) to approve summaries. Motion passed 6-0

Investment Committee of the Whole

24. Summary of quarterly COW held 17 December 2009

(M.S.C. Herrera/Johnson) to approve summary with modification. Motion passed 6-0

Audit Committee - None

CONSENT CALENDAR – Items 25 through 32

(M.S.C. Liccardo/Herrera) to approve Consent Calendar with the exception of Item 27. Motion carried 6-0.

27. Approval of Monthly Expenses

Chair Bacigalupi inquired as to an item on the expenses report, City Hall Parking and travel mileage. He asked if this was an item that will be seen in the future. He added that he hoped the City would not charge Trustees, members or the staff to park during monthly meetings.

Ms. Niebla responded that normally the City does validate; however, there are occasional meetings that run long so they end up paying for parking upon exit. It is not the norm, it happens only staff does not have access to validation.

(M.S.C. Bacigalupi/Herrera) to approve monthly expenses. Motion carried 6-0.

PUBLIC COMMENTS

PROPOSED AGENDA ITEMS

1) Training classes schedule
2) Agendize updating Municipal Code to show correct number of Board members.

EDUCATION AND TRAINING – Item is note & file

ADJOURNMENT

Vice Chair Taylor adjourned the meeting at 12:45 p.m.

DAVID BACIGALUPI, CHAIR
BOARD OF ADMINISTRATION

ATTEST:

RUSSELL U. CROSBY, SECRETARY
BOARD OF ADMINISTRATION