POLICE AND FIRE RETIREMENT PLAN

Minutes of the Board Meeting

THURSDAY **SAN JOSÉ, CALIFORNIA** **February 2, 2006**

CALL TO ORDER

The Board of Administration of the Police and Fire Department Retirement Plan met at 8:40 a.m., on Thursday, February 2, 2006, in regular session in the Department of Retirement Services' Conference Room, 1737 North First Street, Suite 580, San José, California.

ROLL CALL **Present:**

MARK J. SKEEN, CHAIR	**Fire Employee Representative**
KENNETH HEREDIA, VICE CHAIR	**Retiree Representative**
BILL BRILL	**Civil Service Representative**
MARK BURTON	**City Administration Representative**
BRET MUNCY	**Police Employee Representative**
DAVID CORTESE	**City Council Representative (9:30 am)**
CINDY CHAVEZ	**City Council Representative**

ALSO PRESENT:

Edward F. Overton	**-SECRETARY / DIRECTOR**	Susan Devencenzi	-City Attorney
Russ Richeda	-Saltzman & Johnson	Aracely Rodriquez	-OER
Bill Hallmark	-Mercer	Robert E. Jesinger	-Counsel Local 230
Anne Ortiz	-CMO	Christopher Platten	- Counsel Local 230
Randy Sekany	-Local 230	Jim Spence	-AORPF
Roger Pickler	-Staff	Steve O'Steen	-Fire Dept.
Karin Carmichael	- "	Tamasha Johnson	-Staff
Judy Powell	- "	Udaya Rajbhandari	- "
John Bartel	-Bartel Associates	Ron Kumar	- "
Suzanne Huchins	-CAO	Donna Busse	- "
Kerry Burns	-Fire	Mike Pribula	- "
Jeff Welch	-Local 230	Carol Bermillo	- "
Debbi Warkentin	-Staff		

REGULAR SESSION

ORDERS OF THE DAY

The Chair called the meeting to order at 8:40 a.m.

RETIREMENTS

Service

Louis D. Hill, Police Officer, Police Department. Request for Service Retirement effective February 12, 2006; 25.04 years of service.

(M.S.C. Brill/Muncy) to approve application. Motion carried 6-0-1. (Cortese absent)

Gary L. Raul, Police Officer, Police Department. Request for Service Retirement effective January 28, 2006; 31.96 years of service.

(M.S.C. Brill/Muncy) to approve application. Motion carried 6-0-1.

Disabilities - None

Change in Status
Gregory L. Weesner, Retired Police Officer. Request for change to Service-Connected Disability Retirement effective July 30, 2005; 25.03 years of service. (Item to be continued).

Deferred Vested - None

DEATH NOTIFICATIONS

Notification of the death of Harold Toussaint, Retired Sergeant; retired 8/1/72; died 12/11/05, and survivorship benefits to Alva Toussaint, spouse.

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

Notification of the death of Robert Yelton, Retired Firefighter; retired 5/4/88; died 12/27/05, and survivorship benefits to Pearl Yelton, spouse.

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

NEW BUSINESS

Approval of James Aguirre's request to rescind previously approved application for retirement originally scheduled to be effective January 29, 2006.

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

Approval of Rudolph Arroyo's request to rescind previously approved application for retirement originally scheduled to be effective January 26, 2006.

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

Approval of Diane Harris' request to rescind previously approved application for retirement originally scheduled to be effective January 14, 2006.

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

Approval of Jaime Saldivar's request to rescind previously approved application for retirement originally scheduled to be effective January 28, 2006.

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

Approval of Greg Trapp's request to rescind previously approved application for retirement originally scheduled to be effective January 2006.

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

Approval of Gary Hirata's request to rescind previously approved application for retirement originally scheduled to be effective January 14, 2006.

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

Approval of early lifetime monthly payments to be paid to Virginia Horta, ex-spouse of Wilfredo Montano, Sergeant, effective January 13, 2006 under Part 17, Chapter 3.36.3600 of the San Jose Municipal Code.

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

Approval of lump sum distribution to be paid to Nilda R. Sit, ex-spouse of James K. Sit, Police Officer, effective January 12, 2006 under Part 17, Chapter 3.36.3600 of the San Jose Municipal Code.

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

Change in Status (Out of Order)
Steven R. O'Steen Retired Fire Captain. Request for change to Service-Connected Disability Retirement effective August 27, 2005; 31.54 years of service.

Fire Captain O'Steen was present and was represented by *Sam Swift*.

Mr. O'Steen is making a change in application based on heart problems.

For the record, the following additional medical reports have been received:

Doctor's Name	Report Date
Shahid Siddqui	7/27/04; 7/28/04; 9/24/04 & 3/16/05
Jake Benford	7/24/04

Medical Director	Report Date
Dr. Rajiv Das	1/12/06

Dr. Das discussed Mr. O'Steen's heart condition and other medical conditions.

(M.S.C. Burton/Muncy) to approve application. Motion carried 6-0-1.

(Back on Agenda)
OLD BUSINESS / CONTINUED ITEMS

Approval of results of William M. Mercer's biannual experience study for the period ending 30 June 2005 and approval of actuarial assumptions.

Mr. Hallmark reviewed the assumption changes Mercer is recommending. He stated that they recommended an assumption change to the real wage growth reducing the productivity component from 1.5% to 1%, so a 50 basis point decline is based on economic analysis. If a 50 basis point increase was made in the merit increase assumption then the salary increase assumption would be the same and the effect of this would primarily be to increase the amortization payment on the unfunded liability that the City pays. They also recommended a change to the merit and longevity wage growth assumption to reflect the way the pay grades are based, primarily on service, so the overall pay levels and assumption changes are not a significant change but it is structured differently. The combined effect of those two assumptions was a reduction in the normal cost and the unfunded accrued liability. The primary reason is that in restructuring the pay scale it ends up with lower projected increases for the longer service people, which have the largest liabilities, so the net effect is a slight reduction. He continued to say that Mercer is recommending a slight reduction to the turn-over rates based on the experience study showing lower rates of turn-over and this is a fairly minor tweak to reflect what the experience has been. The retirement rates had a change to the structure and level because what was found in the experience study is that people who are not eligible for unreduced retirement were very unlikely to retire with rates around 1% or below, so the recommendation is dropping an assumption for people who were not eligible for unreduced retirement and confining the assumption for people who were eligible for unreduced retirement benefits. The significant change is that the earlier ages as soon as they were eligible were found to have the same rate of retirement as people in their 50's and 60's, so we are increasing the earliest retirement rates up to 17% for people who are eligible for unreduced retirement. This will have an impact on cost because the early retirements are more expensive.

Vice Chair Heredia and Mr. Hallmark discussed the reasoning for grouping people within the plan and how the experience looks, and why tweaks are being made.

The Chair stated that Mercer employee's just signed and passed a CAFR, but those individuals that passed it are no longer with the company. Why are these changes being asked for now, but they were not tweaked by the previous actuaries.

Mr. Hallmark stated that the setting of assumptions is the responsibility of the individual actuary and within that Mercer has standards that they cannot go outside of and each time they set assumptions they have to have another actuary review their recommended changes to ensure it is reasonable, so when you change actuaries there may be some slight differences and some of that is reflected in what you are seeing. He continued with the report recommendations for the disability incidence assumptions they have changes which are minor tweaks and the main effect is on the older ages where they have reduced the incidence of disability assumption based on the experience from the prior assumption, which reduced the cost. On earlier ages Mercer adopted a standard curve to overall average rates, so slightly different approach and the results are a minor tweak and reduces cost. The recommendation for the disabled mortality assumption is a change to reduce the number of expected deaths, so the primary driver for that is from actuarial standards that the likelihood and extent of mortality improvement in the future and we look to set mortality assumptions that anticipate future improvements in mortality, so while the actual deaths match up very well with the expected number of deaths; in the evaluation we are predicting far into the future so we are recommending a change to the mortality table that will anticipate some improvements in mortality, which increases the cost. The last recommendation for the demographic components was a change in the amortization method and the primary concern was about contribution rates stability. The current amortization method was creating significant volatility out in the future. Mr. Hallmark distributed one page from the study done in 2004 to show that if that method was projected out to 2013, they did a stacastic study, so the charts on the page represented the likelihoods of contribution rate and between the 25th and 75th percentile is sort of the middle 50% of experience that ranges in 2013 to a contribution rate of 54.3% down to 4.8% and if you go to the 5th to 95th percentile its zero to

81.4% of payroll, so that is a huge range and it is noted that it is larger due to the decreasing amortization period of the unfunded accrued liability that is driving that volatility and it goes both directions. Mercer's recommendation is to continue the current amortization on that schedule but amortize new gains and losses over a 20 year period, which is the longest period they felt comfortable with as a level percentage of pay and the period that would provide the most stability of the rates.

Vice-Chair Heredia and Mr. Hallmark discussed the current amortization period and the recommending one and how this will keep the contribution rates level under 30%.

Member Burton and Mr. Hallmark discussed the methodology of the amortization and the underlying assumption in terms of the liability and the volatility. They also discussed the difference between the level dollar amount and the level percentage of payroll method.

Mr. Sekany talked about Mr. Hallmark's comments on prior actuaries and a range of 50 to 150 basis points for framework of the plans and the peer review used by Mercer. He asked about the previous actuary that had one of the plan's recommendations right up against the edge and that Mr. Hallmark would have questioned that item at the time, so he asked how do plan members use a check and balance against what they are being directed to do.

Mr. Hallmark clarified that Mercer established that range of standards of 50 to 150 basis points in 2004, after the prior evaluation. The Board relies on the individual actuary and the firm behind that individual actuary as being responsible for bringing the information to the Board and the attorneys are to oversee the legal side.

Mr. Sekany and Mr. Hallmark discussed the disability assumption change with regards to most hires are older in age and working harder in their department.

Mr. Sekany asked if there has ever been a change made to the amortization method or amortization period.

Mr. Hallmark stated that a change has not been made in the past. When the plan started it adopted a 30 year amortization schedule and that schedule is now at 12 years left and the issue becomes more acute as that amortization schedule gets closer to zero.

The Board and Mr. Hallmark discussed the process of the new amortization methodology, the concept of gains and losses and looking at the underlying causes for the gains and losses to make changes.

Mr. Richeda and Mr. Hallmark discussed the plans design.

Vice-Chair Heredia asked what would happen if everything was left as it is.

Mr. Hallmark explained that the net effect is minor, but the big impact is the amortization method, as the amount of money won't be huge in the next two years.

Vice-Chair Heredia stated that he was okay with accepting the results of the study but not changing or adopting any changes to the assumptions.

The Secretary requested for Mr. Hallmark present alternate assumptions.

Mr. Hallmark stated he provide alternate assumption changes, as there is the best estimate range they formulate and then they will present the best estimate point in the individual actuary's opinion, but he emphasized that the retirement rates are of huge concern.

Mr. Lisenbee stated that there needs to be a certainty of rates for the City budget.

Member Burton stated that it is significant concerning the retirement rates that the Board understands the ramifications, dialogue, and outcome of actions if left in flux. The job of the Board is to be concerned about rates and that it is important that they do act. Not to act would not be prudent and Mercer has delivered and used reasonable judgment. He expressed that it is the sum of the parts not the individual components that are to be seen.

(M.S.C. Burton/Muncy) to approve results of the study and actuarial assumptions and to change to the 16 year amortization method as a level percent of payroll for new gains and losses. Motion carried 6-1-0. (Heredia/No)

Authorization to Mercer, Board's actuary, to produce GASB 43/45 calculations for retiree medical for an amount not to exceed $40,000.

The Secretary discussed the new calculations and the liability for full funding of the medical benefits, the cost is not to exceed $40,000, and that this is being done due to the new GASB rules.

(M.S.C. Brill/Chavez) to approve item. Motion carried 7-0-0.

STANDING COMMITTEE REPORTS/RECOMMENDATIONS

Investment Committee (Skeen/Heredia/Muncy – Alt: Burton)
Real Estate Committee (Skeen/Heredia/Muncy – Alt: Burton)
Investment Committee of the Whole (Full Board)

APPROVAL OF MINUTES

Monthly board meeting held 5 January 2006.

(M.S.C. Brill/Burton) to approve item. Motion carried 7-0-0.

Special board meeting held 18 January 2006.

(M.S.C. Brill/Burton) to approve item. Motion carried 7-0-0.

PENDING ACTIONS LIST

Updated list as of 25 January 2006.

One update regarding the surviving child passed by Council

(M.S.C. Brill/Burton) to approve item. Motion carried 7-0-0.

BENEFITS REVIEW

Summary of meeting held 25 January 2006.

(M.S.C. Brill/Burton) to approve item. Motion carried 7-0-0.

CONSENT CALENDAR

(M.S.C. Muncy/Brill) to approve Consent Calendar. Motion carried 7-0-0.

PROPOSED AGENDA ITEMS
PUBLIC COMMENTS

Mr. Spence stated that there was a glitch in the way the new health benefits were implemented for Part B, and retirees were receiving calls from Blue Shield requesting personal information. He thanked Carol Bermillo for taking all of the retiree calls, as a result of that glitch. Carol stated that a complaint would be lodged with BRF.

EDUCATION & TRAINING

ADJOURNMENT

There being no further business, at 10:35 a.m., **The Chair** stated the meeting would be adjourned.

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MARK J. SKEEN, CHAIR
BOARD OF ADMINISTRATION

ATTEST:

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EDWARD F. OVERTON, SECRETARY
BOARD OF ADMINISTRATION