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>> Sean Kaldor: We'll start in one minute.

>> Sean Kaldor: All right, good morning. We'll call to order the April 5th, 2012 meeting of the board of administration of the San José Police and Fire retirement plan. We have present Sean Kaldor, the chair, Richard Santos, the vice chair, David Bacigalupi, Sean Bill is not present but says he will be here in a few moments. Damon Krytzer, Drew Lanza, Elizabeth Rounds, Vince Sunzeri, and our last trustee position is vacant. Councilmember Pete Constant is not yet present. And we'll begin. We'll begin with orders of the day. For orders of the day, we've tried to, although our agenda shows it in the proper new business/old business format, we've adjusted the schedule to reflect the different consultants we have in here and try to provide for a good flow and still provide for time-certain components. So anyone who's trying to figure out when to show up, please follow up as with orders of the day. We'll start off with investments, which is item 1.1, 1.2, and then we'll hear 6.1A which is the report from the chair of the investment committee. We'll then deal with the items involving our actuarial consultants Cheiron, which are items 2.1, 2.3, 2.4, and 3.1. That should take us through to our time-certain 10:30 disabilities, which are at 10:30 or thereabouts, wherever the natural break is as close to that as possible. We will then move on to the items involving Cortex, the governance policies, items 2.2 and 3.3. And then we'll move into the miscellaneous staff components, 3.2, 3.4, 3.5, have our closed session, and then come back for the educational session with our attorney, which was item 2.5, and then finish off the rest of the agenda with service retirements, death notifications, committee reports, consent calendar, et cetera. So that being the schedule for the day, I'd ask everyone to please be sure you speak into if microphones. I'm reminded of that every month because there's people who go through and check the transcript for what we say and they try to listen to the recordings so I'd ask that you do that. So let's begin. Item 1, investments, item 1.1, update for investments from the CIO.

>> Carmen Racy-Choy: Thank you and good morning. The first update relates to setting up the hedge fund program. I'd like to bring to your attention that the due diligence relating to the manager selection for the program is starting and you have the travel schedule and the various individuals involved included in section 7.5 of this board agenda. With respect to that, I think on the other pieces, I think I will just give way to the discussion in item 1.2, that will provide an update on the remaining topics.

>> Sean Kaldor: Thank you. Do we want to do the committee report concurrently with the --

>> Absolutely.

>> Sean Kaldor: So we'll hear concurrently item 6.1A, which is the investment committee report from the chair of the investment committee, and item 1.2, discussions and action regarding investment committee recommendations for the roles of staff and NEPC for the performance of investment functions.

>> Vincent Sunzeri: So if I can actually have our consultant come up and provide us with a brief update of the plan, I think that would be appreciated. I think it would help us, the entire board get up to speed with what's happening with the plan, the data that they have, on this, it is I believe from December 31st. But they might have some more current data as well.

>> Good morning. Did we get to hand out the --

>> Vincent Sunzeri: Aye line to waive sunshine so the board could have this data with them.

>> Sean Kaldor: The performance report for the period ending December 31st, 2011, is that correct?

>> That's correct.

>> Sean Kaldor: Motion and second. All those in favor? Any opposed? Motion passes.

>> Vincent Sunzeri: This is just a 15, 20-minute update on this would be fine.

>> Sure. So what you're receiving here was presented to the investment committee at a meeting last week, as well. Since we are at April 4th, and these results here are as of December 31st, I think we can probably turn quickly to page 6 of the report which is the results of the portfolio as of December 31st. For the 12-month period

ending December 31st, the fund experienced a loss of about \$27 million. Which includes a gain of approximately \$94 million during the fourth calendar quarter. Total assets decreased slightly from \$2.65 billion a year ago to \$2.61 billion on December 31st. And that's with about \$7 million in net distributions during the year. For the five-year period the fund returned 1.5% per year which trails its policy benchmark slightly by 10 basis points and ranks in the 71st percentile of its peers. For the three-year number you have a strong absolute number. The fund returned 10.5% per year, again slightly trailing the policy benchmark, ranking in the 64th percentile of its peers. The one-year period the fund was down 90 basis points and trailed the policy benchmark significantly by close to 3% and ranked in the 99th percentile of its peers. We'll say one progression that we have seen kind of for the five-year period coming closer that while the performance hasn't been strong on an absolute basis, the fund has lowered its volatility significantly over that period is a it's producing kind of median sharp ratios, you're not getting the return for the risk you're taking but have certainly lowered the overall volatility for the portfolio. For the quarter it was a strong quarter. Fund returned 3.7%, that continued into the first quarter of this year. I expect a pretty strong first quarter. January and February were up 3.5 and 2.5% respectively for the fund and I expect a good month of March as well. I was going to leave it at that Vince unless you wanted me to address anything specifically in the report.

>> Vincent Sunzeri: If you could take us to page 18 and educate the board as to why the fund may be trailing its benchmarks.

>> Sure. So what you see on page 18 here, the blue bars represent away we refer to as your policy benchmark impact. And so what that's doing is taking the return of your policy benchmark and subtracting out the return of the median public fund greater than \$1 billion for that period. So what you're saying is that for fiscal year to date and for the one and two-year period the strategy or the policy benchmark has actually outperformed the median public fund. And it's important to note that the median public fund also includes any alpha that managers may have added while your policy benchmark is strictly index performance. Now it also may be true that there may be negative performance in that public fund number as well. So it's important to note that the policy you've adopted has actually been quite strong relative to what your peers have done on an actual basis. The allocation impact which is kind of that light green bar is really where you see the effect of the actual implementation of the

portfolio. So that is measuring to the difference between your allocation index which is your actual weight times their passive index, subtract out your policy benchmark so it's showing you the impact of any deviation in your actual weights relative to your policy benchmark. And so you can see, because of the underweights to the absolute return allocation and to real estate, you have had to reallocate approximately 10% of the portfolio across other asset classes which has detracted from performance for the fiscal year and one-year period. Notably you've been overweight equities which really hurt in the third quarter. The fourth quarter was able to get some of that back but the overweight position in the third quarter really hurt.

>> Vincent Sunzeri: And the manager impact.

>> The manager impact, the growth is showing your manager value-add. So you can see that for the one-year period your manager's on a net of fee basis, actually your active management actually detracted 80 basis points of value. You have since terminated all of your active management with the exception of your small cap value manager across your equity portfolio. So all of that, all of those assets approximately 40% of the portfolio now are in pretty much passive vehicles, actually optimized vehicles but we'll say they're passive for purposes of this discussion. So a lot of the portfolio is actually fairly passive at this point. There are very few active strategies in the positive and you can see that in the quarter there. Kind of the impact from managers is quite small and for the fiscal year to date as we've moved away from active management you would expect that number to be kind of fairly tight. You won't see a lot of deviation or value-added from managers because you're pretty much passive across the board. And you can see that's the same effect long term for the five year period active management detracted 90 basis points on a net of fee basis so historically active management has not produced value for the portfolio.

>> Vincent Sunzeri: And then I'll take the board members also to page 17. And if you look at the rolling five-year excess returns, what becomes clear by the graphs here is that the return above the policy benchmark has really been declining. Whether you look at it compared to the policy benchmark, the median public funds or the 60-40 index not to state that every one of these are necessarily relevant to this plan. But the direction is somewhat clear in terms of the trend. So I think it's important that all the trustees are aware of where we are at this point in time

with the results of the plan. We have been over the course of the last 12 to 15 months as the new trustees have come on, some frustration in progress. And there's a lot of reasons that account for it. So I want to show it to you, some thoughts that I have and where I'd like to see the direction go here. And I've written this down rather than just trying to -- I don't want to miss any points. So I apologize for having to read through this with you. But for me, it's clear that after you review this data here, that we really need to make some significant changes. Most of the challenges that we're dealing with, we did talk about at the board retreat in early March. And there were several factors that have contributed to these results that NEPC just reviewed. Some of them are lack of progress in moving the portfolio forward. Lack of the staff. We have several positions that are not filled. It was a fair amount of time it took to get the ALM completed and we couldn't really shift the portfolio to the policy benchmark because of lack of staff, and the fact is, we wanted to see that ALM completed. The investment committee dug into the ALM, requesting the analysis, we did stress testing on the ALM. There was also lack of direction given to NEPC and we haven't had our consultant as engaged as we'd like. I don't hold our consultant accountable, so I want to be clear on that. As a matter of fact myself and chair Kaldor has met with Allen Martin and we've reviewed things. We have a great deal of confidence in our consultant. The challenge you know is really due to the governance structure that we have. We do not have one single administrative body. We've talked about this before. We talked about that at the retreat. There is not one single administrative body over this retirement plan. As a result, we lack the authority to implement some of the changes that I would like to see. So the first step, in my mind, in trying to resolve what I consider to be poor investment results both on a comparative basis to the benchmark and somewhat minimizing but looking at the ranking versus our peer group, most of that was accomplished in or part of that I should say was accomplished in late 2011 when we terminated the majority of our active equity managers. I think now, it's time for the next step. So as chair of the investment committee, I've communicated with legal counsel, our director and CIO and separately with NEPC. And the investment committee has decided to reject the internal ALM that was completed. We are requesting that NEPC prepare a new ALM. They anticipate it will take approximately 60 days to complete that ALM. The investment committee feels it's best to utilize the role of the consultant and to a greater extent to accelerate progress. And so we are basically asking from moving to starting to direct and request. In doing so, our CIO will be responsible for working with our hedge fund consultant which we had recently retained this is Alborne to implement the absolute return asset class investments and she just commented on that. NEPC will lead with staff, with staff's involvement the investment structure, management

search and selection, ongoing monitoring and performance measurement. They will provide the investment committee with priority lists with task force to be completed, the time line and the individuals on staff that will be involved in this project. And they will work both with staff and the investment committee to accelerate the progress of where we really should be. So that we are not far off from our policy results. But I want to make sure that I'm clear about something here. We are not outsourcing the plan to NEPC. We don't have an intent to outsource the plan. We are not delegating responsibility and complete authority to NEPC. We are not giving discretion to NEPC. We're simply implementing an agreement that was adopted back in February of 2009 to serve as a traditional consultant on the plan. That's what we're doing. So as I move now to the roles and responsibilities of staff and the investment consultant which is 1.2, all under this section here, you have a memo from the CIO, recommendation background and then you have at the top sort of my redraft of this. I feel like there's a distinct difference. It might seem subtle but in my mind it's very significant. And so let me just read through the recommendation from staff, and away I'm suggesting. The recommendation is discussion and direction regarding the division of responsibilities between staff and the investment consultant. In my mind, it is regarding the working relationship. I don't perceive this as a division. I really want this to work together more effectively, both staff, the investment committee, and our consultant. The background from the staff memo is that the trustees directed NEPC to perform the ALM investment structure hiring and termination of managers and so forth here, there's several items listed. We are not giving our consultant the authority to hire and terminate managers. So, in my redraft I'm saying that the investment committee at our special meeting on March 20th directed NEPC to perform the ALM. Staff will be responsible for the absolute return asset class. The trustees are holding all parties accountable for the full implementation of the agreement for investment services between the board of administration for Police and Fire retirement plan and NEPC and specifically, again, language which I think might be subtle but is important, is that NEPC will lead with input from staff in developing the investment structure, manager search and performance evaluation. And leading in my mind is that they're going to drive this process forward much quicker. Again, they don't have autonomy, they don't have complete discretion. And that's what I am suggesting we consider for the change in direction for this plan.

>> Sean Kaldor: Discussion? I'll start out with just, a question. I'm just looking at the page 6 of the investment results. And the fourth bullet point about the year-to-date through December 11th. I know the data for the last

several months has been good, it's a good market and I'm glad to see that. It says we're ranking in the 99th percentile of our peers. What does that mean?

>> That means in the universe of public -- in the ICC universe of public funds greater than \$1 billion, your fund, on a relative scale, would have ranked in the 99th percentile. So one of the worst if not the worst-performing fund in that universe.

>> There are 43 funds greater than \$1 billion in the universe. And as I explained to the New Mexico teachers, 99 is not good. You want to be 1.

>> Sean Kaldor: Thank you. When you say we're trailing the policy benchmark by 2.9% that means if our money was simply, by broad category, where we had said it should be, we'd have 2.9% greater returns than we do right now. For our plan, how much would that be worth? \$2.6 billion, so \$70 million? So \$70 million in the last year isn't there because of this issue. Just on the allocation aspect of it. I agree from having seen a newcomer to the investment committee, seeing what's -- needs to be done, I mean these are the key drivers of this plan and its performance. We expect to make a little oversen% a year, 7 or 7.5. And walking away from 3% or not achieving that 3% is going to be -- make that very, very difficult. So it's up to us to execute. So I'd like to make the motion then to accept the recommendation from the care of the investment committee, as outlined on the cover page of page 2, discussing staff and consultant responsibilities. We have a motion and second. Bacigalupi and discussion.

>> Richard Santos: Well I'm assuming everybody on the investment committee do you all agree with the recommendations? Okay, because I've heard always you know certain amount of the care or I, I want to make sure everybody is agreeable. If they are, fine. I appreciate the work.

>> Sean Kaldor: Damon.

>> Damon Krytzer: Sean, I agree with what you said. I just want to point out, too, it's not so simple from a return standpoint, either. One of them is the peer analysis isn't risk-adjusted, right? So it doesn't tell you how much is risk we're taking per unit of return. It's just saying how much return --

>> Sure.

>> Damon Krytzer: I don't want to -- I'm sensitive to the papers now, but -- be overly dramatic, the second is on the broad asset class or the policy return that's assuming just crazy broad benchmarks like absolute return. Whatever that means. So however we wind up executing it, it's not as simple to say you know, if we invested in this noninvestable you know index called absolute return for instance, we would have been you know 3% better off. I just wanted to point those specifics out, too.

>> I didn't want to confuse the clear statement that performance has not been good. But this is exactly true. You have a less volatile fund. You have a less risk asset focused fund and in periods of rising markets you took less risk. It wasn't reward pedestrian in that sense but all the points Damon makes are exactly correct. Having said it if you adjusted for everything it's still not acceptable performance.

>> Sean Kaldor: It's a completely valid point. I think I'm tuning into the equities versus real estate which is a little simpler. We're overweighted in equities when we had a very poor performance period, and now we're going to try and adjust moving money into equities, but the big rise has already been happening there. So it's a little bit chasing ourself but you're absolutely right. Thank you.

>> Richard Santos: Thank you Mr. Chair. Also I'd like to hear from Russell. You have heard all these changes and recommendations. Do you concur with these?

>> Russell Crosby: Oh, absolutely. I think this will move things along faster and the staff will work with NEPC to make the relationship work and to get what we need to get the board moving.

>> Richard Santos: Great.

>> Sean Kaldor: Drew.

>> Drew Lanza: I don't want to take us off the motion, but you also mentioned something we all know, Vince, Bettina and I just came back from Cal APRS conference where everybody says, you're really odd that you don't control your own administration. Do we want to dovetail on to this, finally the formal request to the City Manager and the mayor to change that? I mean, they're all worried about money. And if you're saying part of the reason you don't think we're achieving money is because it's a screwy form of administration. I'm not trying to get us off this motion but I'm just wondering whether once we get this motion if we should move on to that.

>> Sean Kaldor: Dick.

>> Richard Santos: I totally agree, we have been doing that since we all got together about this independency and the authority we need to do the job. I don't care what retirement conference we go to, that's universal. But when we met with the retreat we also looked for our council liaison. We were discussing this and Councilmember Constant said well I'm going to be going to the next step. So maybe through the chair, if we can find out where we're at because I totally agree, apples have and we need to take some action but I also I think we all kind of said we need to go to the next step that we're together.

>> Sean Kaldor: So just to stay on point, could we maybe discuss all of that with item 2.2 which is with Cortex phase 2 which is getting to the governance issues, we will receive an update from the councilmember and have a full airing of that. Is there any more discussion on the motion for item 1.2? Seeing no further discussion, all those in favor of the motion? Aye. All those opposed? Seeing none opposed the motion passes unanimously. Thank you, Vince for your hard work why going through that. And helping us understand what's happening. Coming up with a solution. We'll move next to item 2.1. Discussion and action on actuarial, administrative and legal impacts of the ballot measure. You have with that item A, a Cheiron assessment of the ballot measure, so let's start with item A.

>> Drew Lanza: Let me go ahead before Cheiron kicks off. So at our offsite, in regards to the ballot measure, the board asked me to follow up with three items, and those three items were a set of concrete policy steps, something Russ had put together last October and echoed in March. A concrete timeline, which we also have, and then this notion of okay do we do the analysis or Cheiron constructs a model or do we come up with number or numbers on the ballot measure. And so we went -- we reached out to Cheiron and asked them to start to pull together what would be involved in reading through the ballot measure and constructing a model or a set of numbers or a number from this. So legality me turn it over the Cheiron and then we'll come back to the issue of time line and specific steps.

>> Gene Kalwarsky: Thank you, good morning. We're going to cover as best we can the ballot measure itself. But as you see the ballot measure leaves million questions open and that will give the board some options and then we end with some possible approaches to this analysis. This is an overview. Current employees have a choice between staying in the current plan or going into the voluntary plan. Both the current voluntary plans are defined. The current plan also covers by the way not just the active that elect to remain but also the retirees disabled and vested terms. The voluntary plan as you'll see soon also has questions of interpretation particularly with respect to prior service. For new employees, the benefits are not defined maximum parameters are set and we'll get into the details of that.

>> Bill Hallmark: So I'm going to quickly run through some of the changes to the plans. The one change that I think has been most talked about is in the current plan employees would pay up to 50% of the UAL cost. Now there's a maximum that goes in, 4% increments until you get up to a maximum of 16% as the employee contribution towards the UAL which would also be added to their normal cost contribution. There are changes to the definition and determination process for disabilities, including an offset for workers comp benefits. And there's the addition of a potential for matching funds for any additional LTD insurance. The SRBR is eliminated with the funds reverted back to the main pension plan. And so taking a look at that, one thing we wanted to remind people of is the volatility of that UAL cost that now would be shared 50-50 up to 16%. This is just taking the projection that we showed at the retreat, of the volatility of the total cost, and just focusing in on what that UAL cost is. So

currently, for fiscal year ending 2013, the UAL charge is about 24% of payroll. But if you look between the fifth and 95th percentile, by 2017 it could range from a negative 11% to a positive 60%. So that piece that would have the sharing is a very volatile piece. Now, current employees have the -- or would have the option to opt-in to a voluntary election plan. In the VEP, the benefit multiplier is 2%, based on three year final earnings the cola is 1.5%. A year of service is defined as 2080 hours and the retirement eligibility is pushed back. Currently it's 55 with 20 years or 50 with 25 years. So that would, over time, be pushed out to age 57. Benefits would still be available at age 50 but they'd be actuarially reduced. There's also a provision providing full benefits after 30 years of service, and that would increase by six months per year, indefinitely. There's also some changes to the survivor and disability benefits that we're not outlining here. The prior service benefits, so if a member elects to go into the voluntary election program, the benefit accrual rate they had earned and accrued for prior service is preserved. It's not completely clear if some of the other changes would apply to that accrued benefit. For example, the changes in the retirement eligibility, you know, if you opt in does your prior service benefit then change from something you could get at age 50 to eventually 57. The 3% cola that you currently have on it, does that immediately change to 1.5%? Is the benefit based on one year or three-year final average comp for that prior service? And is that comp determined at the date you make the change, or at your date of ultimate retirement? And how do the new survivor and disability benefits apply to that prior service benefit. For the tier 2 which is for new hires, the ballot measure does not spell out specific provisions, but it lays out maximums. And it talks about tier 2 can be a combination of Social Security, DB and DC. The limit on cost is that the City's cost cannot exceed half of the DB plan, and the City's DC contribution can't be greater than 9% of pay, less whatever they contribute to the DB plan. So if the DB plan's costs go to say 20% of pay, the city would pay half, 10%, no more than half, 10%. And since 10%'s greater than 9%, they could not contribute anything to a DC plan. If the DB plan costs were 10%, City's cost would be half, 5, and then the city could contribute 4% to a DC plan.

>> Damon Krytzer: I don't completely understand the third bullet.

>> Bill Hallmark: The City's cost for the DB plan can't be greater than half the cost of the DB plan. So if the DB plan cost is 20%, the city can't be charged more than 10.

>> Damon Krytzer: That's it?

>> Bill Hallmark: That's it.

>> Carmen Racy-Choy: And by cost you're referring to unfunded and normal cost?

>> Bill Hallmark: That's right, the total contribution of the plan.

>> Damon Krytzer: So what would happen in a big shortfall? Who assumes that, then, the employee?

>> Bill Hallmark: So if the costs of the plan became --

>> Damon Krytzer: 60%.

>> Bill Hallmark: 60% of pay, the City's maximum would be 30. So then the employees would contribute 30, presumably.

>> Damon Krytzer: Couldn't an individual employee choose to just carry the shortfall and change the benefits or they'd just have to eat it? Right?

>> Bill Hallmark: My understanding they would have to eat it.

>> Damon Krytzer: Like a law firm partner, 25% of my comp is --

>> Sean Kaldor: Just to understand at a you mentioned I could change my plan as an employee but this also relates to the unfunded liability for all the retirees so it's not really up to an employee to say I can't bear this much I'll just switch to something lower cost because there really --

>> Bill Hallmark: Will I think tier 2 as I recall you're just looking at the unfunded liability cost for tier 2. So it's 20, 30, 50 years down the road when you got that volatility.

>> Sean Kaldor: Thank you, Councilmember Constant.

>> Pete Constant: If you think of this now on the normal cost, there's the eight-to-three ratio, and on the unfunded liability, it's 100%. It simply makes it 50-50 in both columns.

>> Damon Krytzer: That's a ton of risk for someone to bear, you know, it's simply I make 150 and 75 has to pay for you know my pension benefits this year.

>> Pete Constant: A lot less than in the 401(k) plan.

>> Damon Krytzer: No.

>> Pete Constant: Well, in the 401(k) the employee is responsible for 100% of the risk.

>> Damon Krytzer: It's not in the cash flow of their comp. It's in the contribution, I'm down 40% that sucks and I'm going to have to adjust my retirement income versus the front end where you're saying, I don't have a choice, it's getting taken, I have to fund it period.

>> Pete Constant: It's exactly like the retiree health plan that we're seeing right now.

>> Bill Hallmark: So the ballot measure also makes it can clear that there are no vested rights extended here.

>> Sean Kaldor: On that point could you explain what -- because you mentioned earlier the benefit and accrual rate earned and accrued is preserved. So that's a --

>> Bill Hallmark: This is under the tier 2 is my understanding.

>> Sean Kaldor: So that point was also under the tier 2.

>> Bill Hallmark: So with the new plan, I guess my understanding --

>> Sean Kaldor: I'm sorry, you're right, thank you. I'm sorry.

>> Bill Hallmark: Under the new plan essentially I think what my actuarial interpretation, not legal interpretation would be, that the intent is that the city could change the benefit formula going forward either up or down. And so people hired into tier 2 would not have that vested right to that benefit formula going forward.

>> Sean Kaldor: Prospectively or retroactively, you could work 20 years and the formula could be changed? There's nothing that has come about --

>> Bill Hallmark: I'd have to defer that to legal.

>> Sean Kaldor: I'm sorry.

>> Bill Hallmark: But my interpretation would be that they could change it going forward.

>> Sean Kaldor: What would your assumption be for costing is the real -- because at some point you'll get to the real --

>> Bill Hallmark: We'll get to that.

>> Sean Kaldor: Thank you.

>> Bill Hallmark: So in tier 2 as I said they spell out some maximums. The specifics are not spelled out. But the unreduced service retirement age can't be greater than -- or can't be less than 60. Actuarially reduced benefits can be provided as early as age 50. The benefit multiplier can't be greater than 2%. Has to be three-year final average comp, from base pay only. And the maximum cola's 1.5%. Then there's some other provisions in the ballot measure. There's an emergency provision allowing suspension of colas, the retiree health care costs are split 50-50. We put the question here of including dental. I think dental's included in retiree health care and that would be a change from the current, where retiree medical is split 50-50 and dental is split 25-75%. They clarify that there's no vested right to retiree health care and that all plans shall be actuarially sound and minimize any risk to the city and its residents and be prudent and reasonable in light of the economic climate. There are also objectives established for the retirement boards in the ballot measure.

>> Gene Kalwarsky: So now we'll get to some of the questions and Bill will present some of the possible approaches. At some time your active employees are going to have a short working lifetime. We're wondering whether you could extend the amortization period beyond that. The ballot's not clear whether the UAL rate is based on total payroll, open and closed, that makes a huge impact. Because if you're dividing a dollar amount by a much smaller payroll that shoots the rate up. On the reverse side, if you have asset surplus, do we now reduce the members normal cost contribution? And we're not looking for answers here, we're just letting you know -- I'll flip to a little model here. Yes. That's a -- this is just a mock-up of conceptually of what's happening here. I don't think you want to focus too much on the numbers. But just look at the bottom line with respect to the top line. The member contribution rate is level and 100% of the risk is in the city's, if we go to the share of the UAL it shows you what happens to member rates. And then Bill if you just do some history returns. And you could see member rates, if you go through some periods of history, because of the max cap in there, that's because we had a great 119% rate of pay. But you can see the wild fluctuation that could happen by sharing of the UAL rate. But again, we don't have the answers to the questions on page 10.

>> Sean Kaldor: That's only for the defined benefit plan, correct?

>> Gene Kalwarsky: Yes. Bill already --

>> Pete Constant: Real quickly I want you to show the unfunded liability that exists in the fund right now.

>> Gene Kalwarsky: Yes.

>> Pete Constant: For the council formulation of this ballot measure it was clearly stated by the council that the opt-in plan people who go into the opt-in plan will not have the cost-sharing on the unfunded liability. And the new tier 2 plan would be -- its unfunded liability would be calculated separate from the current unfunded liability. So it would start off with zero. So it would only be any new unfunded liabilities associated with that plan.

>> Damon Krytzer: Does that start with zero assets too or does it take a chunk of assets to get started?

>> Pete Constant: Zero. You have no new members in the plan when you start funding.

>> Damon Krytzer: So it's a fresh plan?

>> Yes.

>> Sean Kaldor: And is that assured through the life of the opt-in or could that percentage share change?

>> Pete Constant: Can you ask the question again?

>> Sean Kaldor: Sorry I'm not being clear. You mentioned if people opt in they don't have to pay any of the unfunded liability. Currently they don't pay any of the unfunded liability. If they opt in to avoid that unfunded liability is there any assurances they won't be required to pay it ten years down the road?

>> Pete Constant: It would take another ballot measure because it's in the charter and you would be changing the charter to change the provisions.

>> Sean Kaldor: Which -- okay.

>> Damon Krytzer: But it's just new money, new plan, right? There's no liability.

>> Pete Constant: Right.

>> Damon Krytzer: So they'll have to pay on the old plan if that changes, right? But --

>> Pete Constant: So the city would pay -- the city and the folks who stay in the current plan would be dealing with that unfunded liability. The people who move into the new tier, current employees who move into the new tier, the city would deal with that and new employees going into the brand-new tier would be sharing 50-50.

>> Damon Krytzer: Right but even people who are opting for the new plan, they still have the old plan and it's still moving forward in the new plan and they still have the same liabilities that they had before.

>> Pete Constant: The city will carry those liabilities. If people make that election they won't have the liability. If you voluntarily elect into the new plan you avoid the liability that has been accrued in the plan. It's only those who stay in the plan who start contributing to that liability.

>> Damon Krytzer: So your accrued money is going into the new plan or you're still keeping a share in the old plan?

>> Pete Constant: So everything freezes for you today. So if I'm an employee and I have ten years of service and there's X amount of dollars of unfunded liability associated with me, and I decide to stay in that, I start participating in the payments for that unfunded liability and keep accruing. If I make an election to go into that plan, the VEP plan, then my benefit calculation of ten years at X rate of contribution -- or calculation per year, is calculated and frozen. I extent out of that plan into the new plan and then it works much like our reciprocal plans,

where you have what you earned in one and you get what you earned in the new which is combined to be your benefit when you retire. Does that clarify?

>> Damon Krytzer: The only point I was making, you confirmed it, you carry your baggage too, any unfunded liability with the old plan --

>> Pete Constant: The city carries your baggage moving forward for you. You leave your baggage with the city, you move forward. Much like if someone leaves our service and goes and works for Cal PERS, and later, chooses the reciprocal benefit, we are still carrying that baggage. There may or may not be new baggage in the new employment.

>> Damon Krytzer: Got you.

>> Bill Hallmark: But doesn't that baggage get shared? It's not just the city.

>> Pete Constant: Correct.

>> Vincent Sunzeri: Can I get a bit of clarification on the current plan? Roughly how many current active do we have in the plan? Maybe Carmen can -- just a ballpark bigger.

>> Pete Constant: About 2,000 I believe.

>> Vincent Sunzeri: So the 2,000, let's say if a thousand choose to move to the new plan and a thousand stay in the old, the remaining thousand people are responsible for that currently unfunded liability? Or the -- any future accrued?

>> Pete Constant: All unfunded liabilities.

>> Vincent Sunzeri: All unfunded.

>> Pete Constant: But there is a cap --

>> Vincent Sunzeri: It sounds like a sinking ship to some extent if I'm thinking of this correctly.

>> Pete Constant: On the pages that have the percentages, if they're not -- and if we go back to what page was it here? Yeah, page 4. I'm sorry, 3. We have two different percentages but they relate to two different things and they're not spelled out. So you do have 50% of the unfunded actuarial liability. But the 16% is 16% of payroll.

>> Vincent Sunzeri: Correct.

>> Pete Constant: Contribution rate. So the employee's exposure is capped at that 16%. Right now, if it were to be in effect right now the employee's share would be approximately 12.15%.

>> Vincent Sunzeri: Assuming that everybody stayed in the plan or how are you determining what --

>> Pete Constant: I'm just looking at this right now and every year that's going to change. And I think that was the illustration on page 4, is there's going to be a lot of volatility as people move out of the plan and plan performance and -- except the volatility is capped at 16%. Which would probably be hit rather quickly, although employees would step into rather quickly. There's a smoothing effect going in but it's anticipated that the cap would be hit because we've limited it to that exposure on the employees' side.

>> Vincent Sunzeri: You can assume even though there's a ratchet up, the more people that exit, the greater probability that the small universe will quickly hit that cap.

>> Pete Constant: Well, they would hit it at the same point, which would be four years.

>> Vincent Sunzeri: Four years.

>> Pete Constant: But the City's contribution would continue to increase because you're closing the plan effectively.

>> Vincent Sunzeri: Those remaining individuals I'm just thinking from the perspective of if I'm an active and depending what age I am, I got to make a decision, do I stay bass I only know I'm going to be on the payroll for three more years? Do I consider I might be working for another ten, maybe I'm not sure, if I'm going to be doing this for --

>> Pete Constant: Or 29 if you just got hired.

>> Vincent Sunzeri: So it's a real challenge for those individuals that might be in a gray area in that maybe they don't have a long duration. Maybe they don't have a short duration. Is there some sense for how -- some kind of guidance or evaluation tool for them to help make that decision to stay or leave?

>> Pete Constant: I would imagine that's something that retirement services much like you're ready to retire, you get your options and you're going to do your popups and survivors and all that, there would have to be something like that. But I think what you're asking and I'm clearly answer is there's a carrot and a stick and it's all wrapped into one and that is the intent as the way it was crafted.

>> Vincent Sunzeri: So now I'm thinking about this from the investment perspective and I'd be interested to get input on this. If all of a sudden you have a plan with a certain amount of assets, and you have much fewer participants in that plan and a greater percentage that's receiving distributions, it's going to change drastically the outcome for that particular plan, which could have significant impact on how we invest assets. Meaning that the cash flows may be much more significant than we anticipate but we don't know that right now. The inflows could be much smaller than we anticipate. Would I be correct in assuming that Carmen?

>> Pete Constant: If I could jump in, it's not only that but that is seen by a lot of closed plans so that will definitely happen. And as Damon was indicating because of the risk and where the risk is borne which is equally in the new tier there maybe a whole different approach by this board on asset allocation and rate of return and a whole lot of other things.

>> Vincent Sunzeri: So am I coming to the right conclusion Carmen that we need to be aware of the outcome because we could have a significant shift in how we are investing these plan assets?

>> Carmen Racy-Choy: You're absolutely right on the plan money. When a plan becomes a closed plan, especially in this situation where 50% of liability is already retired liabilities, you have to adopt a more conservative asset allocation. And so as you know, a more conservative asset allocation means can you justify a lower discount rate. And so ultimately it's a bit of a downward spiral that you get engaged in. My suggestion to the board is: Just like -- it's great that we're having a discussion on the actuarial implication of the ballot measure. But I believe NEPC should be requested to read the -- all the material relating to the ballot measure, and to come back and discuss what they view as the implications are. Because I think the implications on the investment side are very significant.

>> Vincent Sunzeri: But we won't really know that unless, A, we move forward, and K B, we know what the employees decision has been to either shift to the new plan or stay in the old plan. So that's a lot of assumptions. How do we work through that in the meantime?

>> Carmen Racy-Choy: Well, I think if they just read the material they can come back and say, this is what we see is happening and this is how the investment, the asset allocation could change, without giving you necessarily a new asset allocation on the fly. But they could at least address the direction that it would take.

>> Vincent Sunzeri: I think that's important for all trustees to be aware, that we are heading in a different direction and we need to shift significantly from an investment perspective to the new direction.

>> Damon Krytzer: I don't think we can do anything with that now. We should forget this for the sake of getting what we're doing right now with the investments done.

>> Vincent Sunzeri: I completely agree with that, but I'm all about anticipating. And I just want to be able to anticipate and start thinking through that process of, if in fact we move in that direction, what would be our next step. So we aren't caught short-footed in trying to think through this.

>> Russell Crosby: I see Allen Martin nodding his head back there. I am assuming you have the resources to do both pieces concurrently.

>> (inaudible) (inaudible) You should be aware of that (inaudible) (inaudible)

>> Gene Kalwarsky: Is it necessarily true that the assets can't be commingled? They can be. So in that case, some of these issues might not be as significant. If all the assets are still pooled.

>> Damon Krytzer: I would be definitely more inclined though to look at some left tail hedges investments if that ended up being the case, and just leaving the assets invested as were.

>> Sean Kaldor: So going back to this, there's one quick question to understand, that would mean that employees who don't opt in, stay in the currently plan, they got five years, six years to retire, there was currently a city liability, the unfunded liability, 100%, they're going to have to pay half, up to 16% of their pay, for their own unfunded liability. For the unfunded liability of all retirees, and for the unfunded liability of all employees who opt out.

>> Gene Kalwarsky: Total plan's unfunded liability but capped at 16%.

>> Sean Kaldor: Thank you. Normally we take input at the end, but if it's right on point, please.

>> Yes, it is. I'm sitting here listening to the -- I'm sitting here listening to what the board's trying to do and I think the actuarial side is perfect, that's what we would want to you do. But I'm also hearing an interpretation from a representative of the city and not necessarily any other interpretation as to what the plan can and can't do, opt in, opt out. I'm hoping the board will take the councilman's comments, based on the fact that there is a bias to having the measure pass versus having someone here who could actually talk to the opposing -- not opposing point of view but have input that the tier 2 has a different impact than what he might be presenting to you. No offense. There are two sides to this. I'm hoping that the board would stay more with the actuarial assumption than having the interpretation by the councilmember without having someone from the other side here. And believe me gentlemen, I am in no way quipped to do that. I'm bringing it up as being part of the plan of course opposing the ballot measure. But I think it's a little bit unfair to have too much basis and having you start thinking of a decision based on only one set of information. Thank you.

>> Sean Kaldor: Thank you, Jim.

>> Damon Krytzer: I think we're kind of doing that though aren't we? I'm kind of curious, all I'm hearing is us kind of grumble about the choice, you know.

>> Vincent Sunzeri: For me it's more trying to understand, versus I'm not making a decision about that. This is already moving in a direction that the voters are going to decide about, not this board. I'm just trying to understand the implications. And there's two aspects in my mind from the board that could warrant some involvement. One, on the investment side anticipating what changes might be forthcoming, and from a guidance perspective to the participants in the plan. If in fact something does get adopted it has different implication depending upon your tenure, whether you're three years from retirement, 20 years from retirement. And is this something we might be able to help individuals out with decision-making. In my mind we're not debating the measure at all.

>> And you were right on point about that when you said that there's going to be people in limbo that have different choices. But the fact is that there's quite a bit of conjecture whether the opt-in and the tier are even a viable solution. I know they're on the ballot. But whether they're a viable solution based on IRS rulings and all that

kind of thing. That's what I'm bringing to your attention. I appreciate what you're doing and you're right on point about that. I just hope we're keeping this on the actuarial level on that vein. That's my only input, thank you, gentlemen, I appreciate it.

>> Pete Constant: Mr. Chair, if I slip into advocating, let me know. My goal here is to provide the legislative intent and the council discussion. So I try to consciously not advocate, and if I do, let me know, because that's not my intent.

>> Sean Kaldor: We will both keep each other honest in that vein. I hear what Mr. Spence is saying and I appreciate that your answers have been trying to provide the definitions, and as Mr. Spence indicated we're hear to get this analysis from our consultant as well. So --

>> Bill Hallmark: And I just wanted to add one thing about our analysis. Which is for the purposes of our analysis we have presumed that everything in the ballot measure is ultimately determined to be legal under both state and federal statutes. So we're not opining on whether the VEP for example is a legal plan design.

>> Sean Kaldor: Okay, Dick and then we'll get back to the presentation.

>> Richard Santos: Yes, just a comment. To me this is all assumptions no matter how you look at it. And I could say we're wasting time or whatever. But you know, it's not. It's a mindset. And so it's good to gather information be the best plan you possibly can be when things come about. Even though I don't know what the answer is going to be. I got no problem with having discussions. I understand everybody's poitn of view. We just got to keep an open mind because it may be legal issues we're going to be looking at as well as other things. So again, discussions are always healthy; appreciate it.

>> Sean Kaldor: Vince and then back to the presentation.

>> Vincent Sunzeri: So the only question going back to helping participants. If something like this were to be adopted and implemented I think of this in terms of individuals that are trying to make a decision on whether they want to put money into a regular 401(k) or a Roth 401(k). There's implications to them from a tax perspective. And there's certain general decision points depending on duration, tax rate and so forth that make one more appropriate than the other. So my question for Cheiron is: Do you think you have the ability, when this is adopted, if this is adopted to help create sort of a decision model for participants to make it easier for them to make that decision. Because people will be scrambling to try to figure out what to do.

>> Gene Kalwarsky: I know -- I've gone through this experience once before with a statewide retirement system where they created four options. And what they did was create a template of questions that the member would have to ask and once it's filled in you'd get this output. And that was standard. And if the member had questions they would come in and visit staff. But this one's going to be pretty complicated. Because there isn't like I think Drew was saying there is no single-point answer here. For the guy that's very ill who's been smoking cigarettes for 30, 40 years, you know, we got him in one direction. For the person that's very health there are other factors to consider besides just benefit numbers. This is going to be far more complicated than I think choosing between this 401(k) option and that 401(k) option.

>> (inaudible)

>> Gene Kalwarsky: And that concludes our presentation. [ Laughter ]

>> David Bacigalupi: The only thing I just wanted to mention to this board is, we have staff members who are working hard to counsel, I mean, about-to-be retirees on a variety of issues and there are a lot of difficult decisions being made now. And we see problems that sometimes develop be it service levels or they're just overworked or they don't know the answers or I've gotten phone calls about different answers from different people. This is something this board's going to have to consider. I mean our folks are the front line here, giving recommendations. They're going to need to get some training, they're going to need to get all kind of help, be it a

template or template plus follow-up, whatever. I think you're right on point. This is going to be difficult for our staff to handle.

>> Sean Kaldor: To echo that, I get a call at least every day from a member and now from POA members as well, policemen saying, what should I do, what's going to happen. People who are -- the one I'm going to talk to right now is going to lose his house. What do I do, where should I go? People who are one or two years on are talking about filling out applications and leaving. People who have five years to go are torn, calling our staff here and saying what circulate I do. We can't give them that answer, we don't know.

>> Richard Santos: (inaudible) brought up, that's the things we got to look at.

>> Sean Kaldor: Bettina.

>> Bettina Rounds: I guess I'm a little confused. At what point do these questions get answered? It goes to the ballot in June which seems rather soon.

>> Drew Lanza: Now you're asking if the butler did it. Hang on, we're still on chapter 10, haven't gotten to chapter 20. That's the right question.

>> Sean Kaldor: I'll invoke the privilege of the chair and say let's get back to the presentation.

>> Gene Kalwarsky: Okay, in order -- there will be some things that will be repetitive now that we've talked about, so we're only going to finish the presentation -- talk about the points that haven't been discussed. We've spent some time and talked about what is the preserved benefit. Bill mentioned it earlier when a person ultimately retires, the thing that councilman constant called baggage, someone referred to as baggage. Baggage earned at the point of retirement or when the person made the election, same with the cola. Next slide, there's a definition of one year service as 2080. We're familiar with that type of definition in the private sector. I haven't seen it in the public sector but just give you an example. If somebody had 1040 hours, that is half year of service, half of

2080. But then you get double proration, because presumably that person with 1040 hours has only half the pay. So he's already been hurt, because he has half the pay, but now we have another half a year of service so he gets quarter of the benefit he would have otherwise would have received. We're not sure how that works, or maybe this service is just used to determine eligibility. Disability, there's a new definition only affects new people that become disabled. We presume so. We don't think you would redo the people that are already collecting disability. But the worker compensation offset that could effect, new determinations and current but we don't know. The retiree cola suspension, it could be suspended up to five years by the city council. Does that mean they can do it any time they want, they can declare an emergency, are those colas forfeited forever? Or in good times, do those colas have to be restored? Those are questions unanswered. The last two slides I'll be going over are the most blue sky or have no answer to. The actuarial profession itself, whether it is the society of actuaries, the academy of actuaries, the conference of actuaries, they all tell us there's no such thing as actuarial soundness, and avoid defining that. Yet everybody who is not an actuary loves to use that word. We don't know what actuarial soundness really means. I mean, every actuary has a different definition. That's huge in here, that plans have to maintain actuarial soundness. Finally, Bill mentioned earlier in one of the slides, that there's a requirement that all plans minimize any risk to the city, and its residents. My first question is, are the plan members the residents? Well, this plan certainly doesn't minimize risk to them. So what does this mean? And these last two issues about minimizing risk and actuarial soundness are sort of anybody can interpret them to mean anything. So we have the greatest concern over these two issues that can be distorted on to something else. So now we'll finish up with board options.

>> Bill Hallmark: So the way we see it, the board has a couple of different options on how to address this. First, the board could elect not to address the ballot measure until after the election. Until after it's been validated by a court, until after the ordinances have been written, so we know how to interpret all these questions we've raised. Alternatively, we could do something now? We could develop a single projection. We could develop a model that has some choices and interpretations in it. And we'll talk about a potential approach for that in case that's the direction the board wants to go. We also raised the question that I think came up just a minute ago. Which is does the board want us to illustrate the hypothetical impact for an employee. And the choice, under

the choice, and then for tier 2. We could take some hypothetical employees and just show what, at a high level what the impacts in options would be.

>> Sean Bill: I'd be curious to hear Harvey's opinion, at what point should the ballot measure be addressed, I mean, would it be after the election, or validation in courts, or where would you come in on that?

>> Harvey Leiderman: I think I'd like to see the rest of the presentation first if we can before weighing in on that, if that's all right.

>> Bill Hallmark: So the basic approaches we could look at in terms of the plan's financial impact, we can do that single-point projection. We can do a deterministic model which is like the projections we've shown frequently here, that you can vary scenarios and see what the impact is. But there's no sort of assessment of those scenarios. We could also use something like the stochastic model we showed at the retreat that would give you a range of potential outcomes based on the investment return volatility. And varying some of the other elements. And then the member impact, we can look at illustrations. If we were to proceed with a financial analysis, we would need to make some assumptions. And so here's a suggestion of possible assumptions to make to clarify what we were modeling. We could assume, for tier 2 that the maximum DB plan is adopted. Using the VEP plan provisions where there are no details specified like for disability benefits and survivor benefits. We could also assume the city contributes the maximum amount to a DC plan so if the DB plan costs are low enough that balance of 9% goes into a DC plan. Our typical approach for a new plan structure, that we don't have any data on who is who's going to be hired in the future, would be just to assume that that future population, 30 years from now, looks demographically like the current population. So we just take the current gross and apply this new tier 2 benefit structure around see what we get for a normal cost, recognizing that if, in the future, the -- you hire people at an older aiming for example or a younger aiming, it's going to change that cost. So that's kind of a normal practice. But it's still just providing an estimate of what that future population would look like. For actuarial assumptions, we would suggest potentially defaulting to current assumptions except where it clearly indicates that there's a significant change. For example, the retirement rates we have are based on the current retirement

eligibility and the level of benefits that would be available. We might want to look at just an age 60 retirement, since everything's actuarially --

>> Sean Kaldor: Just real briefly if I could remind you to talk into your mic just for everyone. Aren't there actually going to have to be fundamental changes to what we assume actuarially about the population? I mean, the profile of the people that stay in this, versus the new hires? Suddenly you're going to have a plan with very senior people --

>> Bill Hallmark: This is tier 2, so this is new hires only. So that is different than the choice where some of those issues become much bigger issues.

>> Sean Kaldor: Your tier 2 is all going to be a young generation. I mean, 30 and less, right?

>> Bill Hallmark: They're going to start out young.

>> Sean Kaldor: And then the VEP is going to have a different profile than the current plan, but the unfunded liabilities will only be based on the demographics of people who stay in the current plan.

>> Bill Hallmark: And everybody else.

>> (inaudible)

>> Sean Kaldor: Correct, but there's going to be no future of those, assuming people with five years of service all go to the VEP, if that happens, then it's going to change -- that will affect our unfunded liability, we don't know where we're going to do until we do all that, right?

>> Bill Hallmark: Right. We're not sure whether surpluses are shared with employees or not. So potentially, we could just model this assuming they are not. So that the employees always contribute 3/11 or we can assume that

they are. Then on the VEP prior service benefits, we could just assume that all the new VEP provisions for eligibility cola, final average pay, all applied to the prior service benefits. Or we could assume the other. 2080 hours we can assume everyone is full-time. Part of the reason we would actually suggest this is, we don't currently have data on how many hours people have worked. So we would have to collect some additional data. And I'm not sure -- I haven't checked with Russell to see if that's even available. So making some alternate assumption there might be kind of difficult.

>> Sean Kaldor: Councilmember Constant, perhaps you can help us, I think that was the issue with the Federated plan.

>> Pete Constant: Yes, in the Federated plan, since they get did year's service at least than 2080, that was the intent, the year of service was calculated as Police and Fire does not, as Federated does. Is this slide related to tier 2 or is this in general talking about --

>> Bill Hallmark: This is in general moving beyond tier 2.

>> Pete Constant: Okay.

>> Bill Hallmark: And then for the disability, we could assume no changes for current retirees, we could either develop a workers comp offset assumption, or just leave it as-is, and then we may want to consider some modified disability rates. Just begin the change in definition of disability. So those -- what I've talked about so far are places where I think if we were going to model this we'd like to just make an assumption and set it. Now, these areas that I'm going into now are things that we could offer choices in the model, so that you could choose A, B, C, D, however many choices we decide to set up. So the first one is who actually elects to go into the new alternative plan. I think the first two options are nice to kind of give you a sense of what the impact is, if everyone stays in the current plan, and if everyone chooses to move. They're not realistic, but they give you a sense of the impact of that change. Then we could do some across-the-board percentages. However, when you look at the analysis for individuals, it's not going to be an across-the-board type decision. It's going to be very much based on

their specific situation. And maybe when we look into it further we could come up with some other alternative groupings that might make sense. One possibility is to just automatically have an option where individuals are prescient about their actuarial liabilities, and choose the best option net of their expected contributions. That should give you a sense of what the maximum cost would be. There may be other options when we get into it. For the cola option we could set an option where it's never suspended. The first time the UAL reaches a certain level, and I suggested 32% just because that's two times 16%. But it could be at any specific level. And then it only happens once or we could do it each time the UAL reaches whatever level we specify. For the amortizations we can set things up so there are different options by plan. We could vary the period. We raised the question of whether if the UAL costs are supposed to be split 50-50, can you amortize the UAL beyond the period the current members are expected to be active? We could confine it to limit to that. We could determine the rates based on a level percent of all pay, including tier 2 and the VEP and the current plan or just a level percent of that plan's pay which means it's a declining pay and that will cause the rates to be higher. We could often, for closed plans like this, they switch to a level dollar amortization. All of our amortizations now are based on a level% of pay. We could set it up so it's a level dollar amount. So we can give those options in the model and you can play with it.

>> Gene Kalwarsky: So that concludes our formal presentation but all this comments, all the options Bill took you through, all those permutations, there are so many of them, you will have numbers all over the place.

>> Drew Lanza: Can I ask --

>> Sean Kaldor: Do you want to take questions on the presentation?

>> Drew Lanza: Let me suggest we not take questions on the presentations right now. Let me step us back up to 100,000 feet, because if we're not careful we're going to be digging this ditch for another four hours. Right? So back up at 100,000 feet, again you asked me to work with Cheiron and to do three things at the last offsite. You asked me to start working with the actuary to understand a model of the ballot measure. You asked me to work to understand a time line of the blood measure. And you asked me to work on detail steps. So I think as an outcome of this section of the board meeting there are going to be something like three motions. And the motions will look

something like, okay, let's authorize Cheiron to go build that model that they've been discussing with you here. Let's approve the steps that Russ first suggested and Harvey has since blessed. Let's talk about, and I don't know what the form of this motion, but let's talk about do we build a model for our members now, what's our role with regard to various claims made by various parties. And then I think there will be an authorization for me to continue to work on an understanding of tile line on this. I don't know that we need to talk more about Wass going on with Cheiron right now in detail. I've said before I will be dogmatic. I don't remember if it was Socrates or Plato, saying that repetition is the method of pedagogy. Sometimes it's between 10 and 20 and most likely 12, and sometimes it's an Excel spread sheet, you go and figure it out. Clearly this is a time when this is an Excel spreadsheet, you go figure it out. We're not going to come up with the answer 12, and we're not going to come up with, it's 10 to 20, most likely 12. So I think we should probably have a motion that authorizes Cheiron to build the model. I think we want to encourage the unions and the council and whoever else to work once Cheiron has built that model to use the model and I think we should have a debate on when people make claims about the impact of the ballot measure, and it disagrees with the model we've built, do we have an obligation to say something? So I think that's our first piece of business here, should we authorize Cheiron to complete this model, should we encourage the parties to use this model, do we want Cheiron to build a model so that the participants in our system can see what the impact of the ballot measure is going to be, and then do we want to take on a role of challenging either the city council or the unions when they make a claim that's contrary to the model. What do you think of that?

>> Sean Kaldor: Dick.

>> Richard Santos: Well, you know we asked Drew to do the job and we should be supportive I hope of this, what he's putting out here. Like I said we could sit here for four hours and go nowhere. We don't know. We got to get some information to get going. Russell, I'm sure you've been through this in other plans where somebody has visited this before. What would be your recommendation what Drew was saying, is this the best approach at this time? Because there's so much unknown. We've been here all day, I don't want to sit here until 5:00 and go through the same repetitive stuff. Because I've been on other boards, we do the same damn things. We sit there

and just go around for hours and hours. In the fire service or police work, we make decisions in three minutes, life and death. So let's get things moving. What's your opinion about this?

>> Russell Crosby: Well, Taft Hartley is a little bit different thing in that there is a union and a set of large employers, and they have negotiated a deal, and they present that deal to the Board of Trustees. Here it is, go implement. And this is a little bit different, where it's still in flux. You don't know what the deal really is going to be. There are pieces that are missing. I don't have any issue with what Drew has laid out. I think you know, as interim steps, that's reasonable.

>> Drew Lanza: I think this is the best thing we can do is hand people a model. Here is your model with Cheiron. You have to answer 20 questions before we run the model. How many people go into this other plan, what do you assume for this, what do you assume for that? I think as a board we should not make those assumptions. We may for our own benefit to understand the impacts on our plan going forward as Vince said, that could really impact us dramatically. But I think we should be very, very careful to start to turn the knobs when the knobs are part of the process.

>> Sean Kaldor: Damon then Vince then Bettina.

>> Damon Krytzer: I don't feel comfortable providing a tool to anyone especially if we're not able to -- I see on this just -- it's kind of that waw-waw, waw-waw, it's a question mark. You know, that's all I see in this. And I really don't necessarily think we should be providing a tool to anybody. It's not guns that kill people, it's those darn bullets, you know? We're providing a gun, and I don't think that that's either in our best interest or quite responsible to do without having some direction on what we think some of those inputs are going to be. And we have none of that. I don't know what we'd even do with the information even if we did this and used our own assumptions. I already feel like I understand what the overall kind of in-principle implications would be for the plan and we're not going to do anything about that anyway right now. So to dick's point we'll just be -- it's just wasted time and a little frightening for us to be doing that in my opinion. Lastly, if we did decide that we wanted to do something with the model, I don't want anybody to have access to it except for the board and the staff. You know I

wouldn't want anybody to be able to interact with it or touch it or see it. Like I would want it to stay under lock and key because if not I sort of feel like we're also taking some kind of a position prior to a vote. And that's absolutely not a position that I personally would like to be in.

>> Sean Kaldor: Vince.

>> Vincent Sunzeri: It's kind of funny because part of my analogy you've used here. First I'd like to say I appreciate the amount of work being put into this, questions of how to come up with a model. And in my mind, the variables are endless and the outcomes can be inconceivable, the numbers are so large. Opt-in people, don't look at the assumptions in the footnote. They just say here's the number. And those footnotes and assumptions are really really important whether they go out in public and claim different things. And the analogy I'm referring to is not to be disrespectful but it's basically to give a child a handgun and bullets and an instruction manual. Saying, here is the instruction manual, if you do this, this is what the outcome will be. They end up shooting themselves. It would be in my mind very hazardous, I'm not in favor of creating the model. If we had a lot more clarity, and we knew exactly where the different parties were going in terms of making decisions, I'd be more comfortable with that. But if I have Cheiron telling me, they can't even develop a decision tree for a participant to decide whether they should stay in the existing plan or go to a new plan, how are we really going to have any kind of confidence in this model? And if I don't have confidence, I don't want to build it.

>> Sean Kaldor: Bettina.

>> Bettina Rounds: I was just going to say exactly the same thing that Damon and Vince said. Because I think once there's a model, there's some belief that it's factual, that it's scientific. Particularly if it comes from actuaries. I know we're all in awe of actuaries. You know, and you just believe that this thing is real. We have no data. I mean, the thing that's alarming is that there are no real parameters yet. And I think it would be really dangerous to have the participants believe that this model was accurate in any way and that they could make any decisions. I think it would alarm people tremendously to try to work with it. And then could be completely wrong.

>> Drew Lanza: So can I jump in?

>> Sean Kaldor: Please.

>> Drew Lanza: So I'm not one way or the other on this. But it seems pretty clear between now and the time of the election politically, the city going to come out and say, well, this is going to save X amount of money. And the union is going to say, this is going to hurt our participants X amount of money or X percent of pay. The point I made earlier is, do we have a role or responsibility to validate or invalidate those statements? Because clearly, those statements will be made. And I imagine, if I were somewhere in the hierarchy I might turn to this board and say, you guys are the experts, you're running this pension fund, what do you think? Is that claim accurate or inaccurate? So that's another role of the model, is to force some notion of reality. Look, I mean I presume the city has a model. Or will build a model. I presume the union has a model or will build a model, even if it's just an Excel spreadsheet. Let's turn the debate to that. Ultimately do we want to -- I hear this notion that we can't figure it out but somebody's going to make a claim and do we have a role and maybe Harvey can answer this question first, do we have a role to validate or invalidate those claims?

>> Sean Kaldor: Harvey then Damon then Councilmember Constant.

>> Harvey Leiderman: This will give me a chance to get back to Sean Bill's question. I appreciate that. Those of you who are of the valley, you're probably familiar an acronym called FUD. Fear uncertainty and doubt. Fear uncertainty and doubt is something that a competitor does when another competitor comes out with a better product at a cheaper price. You throw fear uncertainty and doubt out into the marketplace hoping that will continue to boost your sales. It does not serve this board, and I want to move away from the model for a moment. Get back to that. It does not serve this board or its constituency well to continue to allow fear, uncertainty and doubt to govern our decision making. Whether or not people are going to be able on an individual basis to figure out what's best for them, that's going to be ultimately their job. We have an obligation to explain the plan to them, whatever the plan is. But we have -- we know, put aside any model, we know that there will be impacts, as I was saying to Bettina this morning. You can't put a traffic light in an intersection, without doing a traffic mitigation and

impact report. You can't put a wind farm up somewhere on the Altamont without doing an environmental impact report. There's going to be a significant impact. Whatever the answer to all these variables may be, this system is going to be impacted substantially. By closing, to a large extent, a DB plan and going into a hybrid plan of some kind if it ever gets approved. It's going to have significant impacts on contribution rates. And on the city, if there's a cap at 16% on the members, then it's still going to impact the city substantially to close a large part of this current plan. There are going to be impacts on our cash flow. We're embarking on a hedge fund mandate which would be completely out of touch with the reality of a cash flow for a closed plan. Completely and utterly. The cash flow needs of a closed plan looks more like a 90 day T bill portfolio. And people need to understand that. The 7.5% bogey is not going to be immediate in a closed plan, you can be assured of that. So FUD does not serve this board well in terms of its role in shepherding the assets to pay the benefits of the city promised those who will still of receiving those promised benefits. Whether we construct a model or not, there is a long lead time to be able to make decisions in this process. And it seems to me that it would be prudent for the board to start considering whether it builds an actuarial model or whether it builds some other impact analysis to figuring out, let's just rough-cut, suppose that half the members opt-in to the hybrid plan, the IRS's approved the hybrid plan, it goes forward, we have an ordinance that's been vetted through not validation but the process of testing it in the courts, which will take some months. And then the city has to pass implementing ordinances and regulations to answer all these questions about who it's going to impact. But let's make some rough-cut assumptions. And let's talk about what is the impact on this plan. The assumptions that the actuaries have been making up till now in funding this plan, and the assumptions that we're making both at the staff level and the -- and with NEPC, our investment consultant and with Alborne about how we're going to invest this money. Because the J curve on a lot of these investments is not going to let you, at the bottom of the J, pull your money back out. So if we go forward now with a private equity hedge fund mandate for example, and we lock that money up, in an illiquid basis for five years or seven years, whatever the projected rate of return will be when we top out on that J curve, and we find out two years from now that we have a liquidity need that we didn't anticipate, where's that money going to come from? That's why I do believe that we need to start planning now. It's a lot easier if you're a -- use another analogy -- if you a running back on a football team, it's a lot easier to make if you're moving than try to move forward I would recommend to the board that we do something, that we do something to analyze the impact. And at the same time, become the most knowledgeable, independent source of impact information. For whatever

constituency would like to access to that information. So as far as I'm concerned, the answer to that question, I think we need to start doing something now. We don't have to fully bake it right now. But we ought to get started. Because there's a long lead time. And the impacts will last for a generation. Thank you.

>> Drew Lanza: Harvey, what do you think about this question of people will be making claims over the next month or two, do we have any role to play in vetting those claims?

>> Harvey Leiderman: I don't think so. I think it's very difficult to put ourselves in the middle of a political ballot measure. I don't see where we're going to be able to devote the kind of resources that would be necessary to, what do they call them during the political campaigns, the fact-checkers, doesn't CNN have these fact-checkers? We don't have a team of fact checkers available to us under a constrained budget situation to really do a good job of that and get in the middle of that. I do think that we can educate people about the current plan. You know these slides, for those of us who understand all this, this is great. But this could be boiled down into a couple of slides like, did you know that, if you do this, then this will happen to your pension fund? So I think we can provide information about the impact on the fund. But you know, if we're going to try to chase down everybody's claim, and you can see what happens with that. Right now there are what, three lawsuits going on based on what the ballot -- the title of the ballot measure, what is in the for and against side of the ballot measure. Everything will be going to court anyway. Over all this stuff. I hesitate to step into that mix for this board. I think we need to have a more focused approach to understanding the impact on what we can affect, which is the judgment on how to shepherd this fund.

>> Sean Kaldor: Okay, Damon, Pete, myself and Vince.

>> Damon Krytzer: So I guess two points. One is on sort of in response to the hedge fund piece which is, I really, for a whole bunch of reasons, don't want this to affect how we're implementing on the plan that's already set in place, for two reasons: One is, I mean, you know, the liquidity of a, quote, hedge fund portfolio, we could get quarterly liquidity on a good piece of it as well. And frankly it's going to take us long past the summer to implement on this anyway. So we'll have tons of lead time to be able to adjust if we need some higher liquidity

pieces within the portfolio. I don't want to further hasn't cap the portfolio from implementing on anything that has been set in motion seven, eight months ago and finally getting some traction for the sake of something that might be I don't think has a lot of impact. Secondly, I can't possibly disagree with that, and with being proactive. At the same time, you know, our answer that there is no -- there is no dollar answer, I think is a fine one. I'd be more comfortable having some sort of in-principle response to the ballot measure. If this happens, then eyeball directional, you know, your risk goes up, your risk goes down. Et cetera. But trying to have something off of a model if our response is nothing but everybody that tries to pin this down to a number is full of crap, that's a comfortable response for me, too. But if we could do something in principle that was sort of a flip-chart and went through scenarios without any numbers attached to it I would be way more comfortable with that.

>> Sean Kaldor: Councilmember Constant.

>> Pete Constant: Well, I just wanted to say that as, when and if this gets passed, I think the critical thing for this board to do is to really clearly crystallize the questions that need to be answered. Because the implementation ordinances have to address all of those questions. And if they don't, it will complicate matters further. And I think if both boards take the time between the attorneys, the actuaries and the boards to say, this is what we need to know to implement, if this goes forward, if it's validated by the courts or whatever the case maybe, then as those ordinances are crafted before they come to you for review at least they will contain some answer to the questions. It may not be the answers that certain people want. But at least there will be answers to those questions to help guide the path forward.

>> Sean Kaldor: So taking my turn in the rotation here, I wrote down kind of four things I support. I agree with all the comments being made here. If we come up with a model, anyone can plug any assumptions in there. The retirement board says the impact is X, whoever is doing that then it's us making a statement. That's what I want the board to stay out of. I wrote down kind of the four things we could do or I'd be in support of and the first thing is what you said exactly. Some ordinances will be written in June and done in September for at he's some of them and to the degree those originals answer the questions we have this whole process will go a lot easier. what does that mean then we're just behind the 8-ball. The simple one would be, the disability. Someone who is

receiving a disability and is currently retired, does this include them? Spell it out. If we get it and we don't know what to do, we're going in circles. So I completely agree on all these aspects. A list of questions that need to be answered, that are uncertainties for us. I would support Cheiron starting and this is to Harvey's comment about not sitting here waiting but developing that model that we will ultimately use to plug all those numbers into. It may not be done for four five months but it is something we're starting the process once we get the answers to the questions they can all get plugged in and we can start figuring out implementation. Maybe we don't even need to decide what percent moves over. Maybe we shouldn't come up with the dollar savings, but bigger issue for us to be discussing rather than what is the dollar savings out of this. I would also to the comment that was made earlier, I'm not sure who it was but having NEPC involved in that as well, those discussion points about what are the impacts to the plan and what do we need to be considering that ties into the whole investment discussion. And the fourth thing would be if we wanted to would be a letter, that I think addresses what Harvey was discussing and what Drew was discussing and then I think we're all saying there's a lot of uncertainties, a lot of questions, maybe attaching the questions to the back and saying we don't know the answers to these we can't come up with a savings but maybe something like do you know these statements saying here is how all this stuff works. It's got to be a short one or two page, saying our position is no position, our position is we don't know how much it is going to save and the questions haven't been answered, that would get us out of the middle of it while we're continuing to work out and refine what we do think will happen. Vince.

>> Vincent Sunzeri: I find it kind of interesting your comment open the claims and your response to that. Because actually that is what I had thought would make more sense, is for the board, if we're going to have any kind of involvement at all, rather than throw numbers around, something that we're not really clear on, whether those have any valid notion of what we're looking at, but instead, not to talk about the claims made outside of the ballot measure but instead to take the ballot measure and sort of fact-check. This claim was made, this is what we see as a fact. Or you know, according to Damon's comment, we don't know. There might be five or six maybe seven or eight on both sides statements that have been made. And that, for me, would feel more comfortable. If we took a position of clarifying, rather than siding, clarifying that information to the validity or not. I don't know if that would be challenging to do that as opposed to constantly responding to claims. I'm not for that outside of the ballot measure but I would be comfortable in responding to the various claims, and providing what I

would call that fact-check, if you will. I think it would be very important to know what board members are involved, because that could create some serious conflicts. So we have to be careful if we choose to go into that arena, that various board members are the most neutral board members involved, in that process.

>> Damon Krytzer: We could have Cheiron respond to it.

>> Vincent Sunzeri: These could be questions Cheiron responded to for us or board members. Harvey does this differ from your thoughts?

>> Sean Kaldor: Are there statements that --

>> Harvey Leiderman: Statements that --

>> Sean Kaldor: That need to be validated by this board? It doesn't say --

>> Harvey Leiderman: I don't think there is and honestly, I don't think we could provide the facts. There's so many open questions. And I mean, generally I think that's a good idea, to put out, these are the facts about the ballot measure. For example, I did -- I did something very similar to that statewide for Jerry Brown's 12-point plan when he came out with it around Christmas. And we took through and we itemized, who this would affect, it would affect current members, future members, it would have this impact, it would have this impact. That was possible. That was written as broadly as this ballot measure was written. So there is some guesswork. But there's some education that can be provided certainly on what's in it and what's not in it. Which we could do. We could put that and post it on the Website and provide information. But beyond that, I don't think we're going to be anywhere near in a position of position to confirm or deny any particular claims that are made because there are too many gaps.

>> Vincent Sunzeri: So what if we flipped this then and instead created our list of questions which may provide the opportunity for parties to bring greater clarity to the open questions? The board is unclear about one, two,

three, four, five, and list off those which might actually spur more clarity, and then open forum. And we are not responding, we are not providing information. We're creating an opportunity for those questions, those uncertain questions and a lot of them Cheiron listed here, to be answered.

>> Sean Kaldor: Bettina and then Damon or Drew.

>> Bettina Rounds: Well, I'm modifying what I said earlier because I think probably it is necessary to have some kind of an impact study. I think that what I'm reacting to is the notion that we would be providing any tools for anybody at this stage, other than to show what the real impact might be. And Drew what I was reacting to was that the model would provide a tool that we gave to participants. Because I think the notion that we could give anybody a tool at this point is probably not realistic. But I do think that we need to understand the general impact for a variety of reasons. And I like the idea of providing -- this is what we're unclear about. You know, these are questions that I think that is a responsibility of ours, is to say we've got questions.

>> Vincent Sunzeri: So I'll make a motion.

>> Drew Lanza: Wait a minute. I was going to make a motion.

>> Bettina Rounds: You can all make motions.

>> Drew Lanza: I was ahead of you.

>> Vincent Sunzeri: Let me make a motion, if you want to amend the motion feel free to. I'd like to make a motion that the board create a list of questions, that have come out of the ballot measure to present to both parties.

>> Damon Krytzer: That is this isn't it?

>> Drew Lanza: And I would amend that motion to say a list of did you know impacts that come out of this. Like for instance if you have a closed plan do you realize that it looks more like 90-day T bills. I think the letter should include both.

>> Vincent Sunzeri: I think we ought to be a little bit care of because we're not sure what those decisions are going to be. So I want to be a little more focused on questions, than did you know. Because I think we have to be careful about letting people jump to conclusions that may not be accurate.

>> Sean Kaldor: So would you -- I don't know if it's amendment or clarification. Would you be willing to clarify that to say having Cheiron and NEPC return at our next board meeting with a list of questions that they feel are not clarified in the ballot measure and would need to be known in order to do their level of analysis? I mean that's the list of questions, right? You say this board come up with a list of questions.

>> Drew Lanza: We got to get by the next meeting, right? Because the ballot --

>> Vincent Sunzeri: I would suggest this board do it and if we need to consult with NEPC and Cheiron to help us pull together those, I would rather have it happen at board levels.

>> Sean Kaldor: I don't want us to have do an actuarial analysis. these people will tell us that.

>> Drew Lanza: But these people are holding that.

>> Sean Kaldor: Harvey.

>> Harvey Leiderman: Wouldn't the questions we are asking be the ones we would need to have answers to, in order to be asking? Here is something we need to know we have a list already that we can distill, we can move this forward very quickly. If we are going to administer this program, assuming it passes muster, these are the things that we're going to have to know to make it work. If that is the nature of the motion.

>> Sean Kaldor: So we have a motion without -- with some input that wasn't accepted. Is there a second to the motion or is there further input on the motion?

>> Damon Krytzer: I'm just still not clear that -- what's going to be different than this document? Are we just going to list it as questions?

>> Sean Kaldor: I'd like to see it as a bullet point list each one of these kind of said, we need to know, will the disability apply to so-and-so, so-and-so, so-and-so, this will give clarity to the council when they need to prepare this ordinances.

>> Carmen Racy-Choy: Also for Cheiron, you want NEPC to they would like answered in order to really understand the impact on investments and asset allocation. So I would say the list is from an actuarial perspective, to the extent the board is going to vote to have the list done, then definitely NEPC should have input open the list as well.

>> Vincent Sunzeri: Can I amend my motion?

>> Sean Kaldor: You can amend your motion.

>> Vincent Sunzeri: So let me amend my motion.

>> There was no second.

>> Sean Kaldor: You can substitute a motion.

>> One recommendation to the event.

>> Sean Bill: Maybe Harvey could work with Cheiron and NEPC and draft a list of questions make more sense.

>> Vincent Sunzeri: I'd like to make a motion that our legal counsel work with staff, Cheiron, and NEPC, to develop a list of questions on things that we need to know as a board to administer this plan. And to please limit it to no more than 20 questions. Because it could be endless.

>> I'll second that motion.

>> No subdivisions.

>> Sean Kaldor: I like everything about it except the 20. I just don't know if there's --

>> Vincent Sunzeri: How many questions do you want to open it up to? There need to be some limit here.

>> Sean Kaldor: I don't want to be crazy. I don't want to cease a thousand questions.

>> Gene Kalwarsky: Suppose we have 40 questions, these are critical, paramount, all these questions are not that important but --

>> Sean Kaldor: Have a minor impact, I just think it's critical to know all nuances they put in the ordinances we're going to be struggling with for years.

>> Vincent Sunzeri: I will remove the number. [ Laughter ]

>> Sean Bill: I'll second it.

>> Sean Kaldor: We have a motion and second. Any further discussion? All in favor? Say eye, opposed? The motion passes unanimously.

>> Drew Lanza: I know we have time sensitivity, that opens up the two questions of shall we authorize Cheiron to begin working on the model? Oftentimes model, and there's a second question the number of people have brought along this notion that it would be nice to have a did you know that list of impacts and have we dropped that desire? But since we have a time-certain we probably should move on. And this agenda item isn't closed yet anyway.

>> Sean Kaldor: No, you can make the motion to have Cheiron continue developing a model that we'll be using internally, ultimately. It's an expenditure of retirement funds to work on this in anticipation of having to do something and it's letting them get a head-start on it. We're not trying to start the super-tanker, we are trying to turn it.

>> Drew Lanza: That sounds like a motion to me.

>> Sean Kaldor: I'll make the motion that we begin model that will implement them to implement the ballot measure plans and give us guidance we need on the implementation.

>> Drew Lanza: I'm second that motion.

>> Sean Kaldor: Any discussion on the motion?

>> Damon Krytzer: I have a question, who gets to see this, what's internal mean?

>> Sean Kaldor: My interpretation is, it's just to let them start spending money, so they can start billing us a few hours to get to work on their own use, it is not to be -- it is not a public model, not to be shared with any bargaining group or the city or anybody else. It's for our own internal work. Vince.

>> Vincent Sunzeri: I'm completely opposed to that. I think that we're spending money that is really wasteful. Because we don't have enough concrete information at this point in time. We don't even have what might be a 20, 30, 40, 50 questions answered and we're going to spend money on having them develop a model. I think we've had that debate earlier and I'm not in support of it.

>> Drew Lanza: I think assuming the ballot measure passes they're going to have to do this. There is no way to ferret out these questions without actually building the model. And I think you could look at the time line, which we'll cover once we get past the time certain thing, we should be working on this model now otherwise if we trigger that as soon as the ballot measure passes we are already behind schedule.

>> Gene Kalwarsky: I think I will add one thing. Drewess you sometimes don't know what questions to ask until you start working on a model. That's where some of these cost out this new plan and we start trying to cost it out then we'll learn what the questions are.

>> Sean Kaldor: Dick and Harvey and Bettina.

>> Richard Santos: I've listened to all of these things, being prepared is better than not. Questions are going to be asked at the same time you're building the plan getting we got to get something done because that's our responsibility as fiduciaries so Damon says keep it in-house, let's don't get it out there where people get all excited and paranoid or whatever. Let's start working on information to be prepared for whatever is the worst scenario or no scenario so I support it.

>> Sean Kaldor: Harvey.

>> Harvey Leiderman: Playerman may I ask as maker of the motion could we clarify for the record what it is supposed to be a model of?

>> Sean Kaldor: So this would be -- well, we've talked with Cheiron I guess here in the board we're looking at something that would help us figure out the cash flows, the contributions, the liabilities and unfunded liabilities.

>> Gene Kalwarsky: Financial impact of -- and that combines NEPC with us, financial impact of the ballot measure.

>> Damon Krytzer: What's the output of financial impact?

>> Gene Kalwarsky: So we start modeling -- I'm not sure we know yet, but I know for one thing the financial impact is, someone's going to be putting out potential cost projections, we start modeling something that does cost projections that could be one input. There's a second type of model which is the impact on the individual. Not to be used by the individual but to be used by us and maybe the board to understand the impact. Anything else?

>> Carmen Racy-Choy: The intent this way may be in June, maybe in July, the board will be ready to start looking at numbers for what does the ballot measure mean. And when that happens, to the extent Cheiron has started to do the work, as soon as you want the numbers they'll be able very quickly to come forward and say this is what it means. I guess the idea here that's being proposed is to allow Cheiron to start putting in the base of the program, which is going to take a fair bit of time to build. So that when the board decides you're comfortable with having the numbers come forward, then they'll -- can immediately respond to your request.

>> Sean Kaldor: Bettina.

>> Bettina Rounds: Well, in I understood you correctly, you're going to be building a model anyway to put forth the questions, shark?

>> Gene Kalwarsky: You saw the beginning of the model today.

>> Bettina Rounds: We've already authorized that expenditure by asking Cheiron and NEPC and Harvey to start working on the questions. They've got to do something other than just sort of you know, come up with questions, in order to find out what relevant questions to ask. Correct?

>> Gene Kalwarsky: Yes. That's correct.

>> Sean Kaldor: Harvey.

>> Harvey Leiderman: I'm sorry, I just want to make sure that people's expectations are not too high or too low. To clarify, what I'm not hearing is they're going to be modeling a decision tree for individual members to be able to decide their behavior patterns.

>> Sean Kaldor: Correct. And as well I'm not expecting anything to come back to this board in May or June or whatever. Once the decision's made we're just letting them get started on it. If they said it takes them a week to do it, I wouldn't be concerned but I think this is a fairly lengthy process and I'm just teasing that up for them.

>> Gene Kalwarsky: We really won't know that until we get into it.

>> Damon Krytzer: So if we're implementing the voters' will until we hear otherwise from the courts, I think we all sort of agreed in principle to, as our response, maybe I'm just fuzzy on what our responsibility is, then, short of reprojecting an asset liability study on the back end of this whole thing. Like you know, we're not going to look at -- we're talking about all these impacts, right? But if we're not going to be able to do anything about them, and we're going to implement the voters' will, right, I mean all our decision's going to be on the back end of this is how we invest the assets, period. So I feel like we're sort of getting bogged down in the weeds in something that really, while seemingly it pertains to us, we're not going to do anything about. And if all we're going to need to do is change our asset liability mix or our asset mix based on a new set of liabilities, we should probably just be asking the questions about the things that would impact the new asset liability study.

>> Drew Lanza: So I -- there's a direct answer to that. So my belief in this is if the ballot measure passes and the court says go then Donna has got 12 months of wrangling computer systems and we've got people calling in every day saying what the hey, and we've got to more than just the asset liability -- so I think it impacts every aspect of our business. And this whole exercise is about getting ahead of that so that we're not underneath that when it comes crushing down on us. But the computer -- if we have a presentation coming up this is time certain I know but computer systems implementation alone is going to drive 12 people insane.

>> Carmen Racy-Choy: I also think that the impact will be significantly greater than the assess liability study. First of all, allowing NEPC to be involved now and start thinking about what the ballot measure have hopefully will not have to redo the asset-liability study. That might happen, that might not happen. This exercise is also about allowing the trustees to understand the impact of potentially different decisions. When Cheiron is posting method of amortization and they are listing the three levels they are suggesting you look at, these are three very different methods of amortizations, they have very different implication of the cost. And it's really important to understand which one is really more appropriate than the others. So going through this exercise, seeing the numbers, understanding the variables, and which variables might be more appropriate than less appropriate I think would be a great educational tool for the trustees. And this is the right time to do it. And it's good to do it ahead of the curve, ahead of the potential change.

>> Damon Krytzer: I still, I don't want to -- I don't mean to bog this down in time. But I don't understand why that's not a want to have instead of a got to have. Like we're not making any decisions based on that anyway. So why do we need that educational tool and why do we need to spend time resources, time resources not money that are strained already for something that there's no decision off of? We're just going to -- it's -- we're not voting. Or we're not going to make a determination if this is a good thing or a bad thing. So what's the difference?

>> Carmen Racy-Choy: You will have to make a determination whether to stay with your current amortization method or whether, given what you know about the ballot, you might actually want to select a different one that's more appropriate. You will have decisions to make along the bullets that Cheiron is presenting to you. And so it is

very much feeding into decisions that you will at least have to consider. And just knowing about it up front as opposed to being forced to make a ton of decisions at the very end might actually be a good way to proceed.

>> Damon Krytzer: Good enough for me.

>> Russell Crosby: Also from a resource standpoint what's being described here is really Harvey taking a leadership role and gathering this stuff together. Drew, there's not a lot of staff input and staff need along the way relying on NEPC. Cheiron, both of those organizations have plenty of resources to carry this forward. So keep the staff out of it. Keep our limited resources off on the side. And you can have Harvey, NEPC and Cheiron move forward on this as needed.

>> Damon Krytzer: I'm sold.

>> Sean Kaldor: Any further discussion on the motion? Seeing no further --

>> Vincent Sunzeri: Can you repeat the motion?

>> Russell Crosby: What I have here is authorize Cheiron to develop a model of financial impacts for internal use, that will reflect the implementation of the ballot measure, Kaldor, Lanza.

>> Bettina Rounds: Not just Cheiron. It's and Harvey.

>> Welcome to the team.

>> Sean Kaldor: List of questions more public aspect, just letting them get started on this behind the scenes. Okay, any further discussion on the motion? All those in favor of the motion? All those opposed? Seeing none opposed the motion passes unanimously. I'm going to ask that we -- I know we had a 10:30 or as close as possible, let's see if we can do the remaining Cheiron pieces here which I think are very --

>> Gene Kalwarsky: I'm going to ask if I can excuse myself, remaining two items Bill can cover and I want to catch my --

>> Sean Kaldor: Please, absolutely, we do appreciate your attention. The remaining Cheiron pieces are item 2.3, contribution rates and amounts for 2012-2013 including item A discussion and action regarding resolution 3761 setting new city and employee contribution rates and amounts for police members to be effective June 24th, 2012. And item 2.3B, discussing action regarding to be effective June 24th, 2012. Are there any questions on these?

>> David Bacigalupi: My question is this is what we have already agreed to, this is just the resolutions to create it. I would make the motions to approve boat A and B as written.

>> Sean Kaldor: We have a motion to accept, second?

>> Richard Santos: Second.

>> Sean Kaldor: Motion and second. Any discussion on the motion? I just have one question, in one of the whereases or in here, we see the plan had poor performance because of still recognizing the 2008 losses. And subtle of that the formula allows that the City's contribution rate is reduced by pulling funds out of the SRBR. So again this goes to the whole environment where things aren't going well and they don't want to pay anything out of the SRBR but they will reduce their contribution by pulling money out of the SRBR. I realize that's the municipal code and that's the rule but to me it strikes me as not being genuine on both sides of the issue. That's my whole comment on the issue. Other than that I support the motion and second.

>> Richard Santos: What's the solution?

>> Sean Kaldor: It's the code, unless the city council -- Harvey could I guess address that. Unless they want to change the municipal code we're just following the code, there's nothing else for us to do. Any other discussion? All those in favor? Any opposed? Seeing none opposed the motion passes unanimously. And I see Dr. Das is in the back as well so that will be good for us. The last piece for Cheiron is, item 2.4 A. Oh I guess it's A, B and C. 2.4, Supplemental Retirement Benefit Reserve, discussion and action on SRBR calculations from Cheiron. We'll start with that. Are there any questions about the calculations? Is there --

>> Bill Hallmark: Niece are the same calculations that were in the valuation report you've seen before. Just pulled out in letter format, in more discussion provided.

>> Sean Kaldor: Okay, seeing no hands for discussion, is there a motion?

>> So moved.

>> Sean Kaldor: So motion to accept item 2.4A, calculations from Cheiron. Is there a second?

>> David Bacigalupi: Second.

>> Sean Kaldor: We have a motion and second. All those in favor? Any opposed? Seeing none it passes. Item 2.4B discussion and action regarding resolution 3763 declaring excess earnings as of June 30th, 2011 for the purpose of transfer to the SRBR. Is there any discussion? Is there a motion? I'm make the motion.

>> Move to approve.

>> Sean Kaldor: Motion to approve by Bacigalupi. Is there a second? Second by Santos. Is there a discussion on the motion?

>> Drew Lanza: Sounds like a baseball game.

>> Sean Kaldor: No discussion. All in favor, opposed, seeing none it passes unanimously. Finally 2.4C. This is discussion and action on city council action regarding SRBR payments. So I just have a question. What is the action to be taken?

>> I included this in the board packet because there's always a question on can we make any distributions out of SRBR. I was just listing this for anyone that wanted to see why there wasn't a distribution. Just to carry forward for city council action.

>> Drew Lanza: It was helpful, I just wanted to note it was helpful.

>> Sean Kaldor: Okay, that finishes all the points for Cheiron. Thank you very much and thanks to the disability applicants for giving us the extra ten minutes to get those in.

>> Russell Crosby: Just one note, 3.1 is not available.

>> Sean Kaldor: Just a note, you wanted to address 3.1, discussion regarding estimated annual required contribution based on certain actuarial assumption on years three to five of the five year projects for the OPEB plan.

>> Bill Hallmark: We don't have that available for this meeting. We have drafting and it will be available very shortly.

>> Sean Kaldor: So it can be peer reviewed for next month?

>> Bill Hallmark: We will definitely have it on time for next month's meeting, should have it next week.

>> Sean Kaldor: Okay, thank you. We'll take a five-minute break we'll allow the disability applicants to get set up and we'll come back in five minutes. [ Recess ]

>> Sean Kaldor: We'll reconvene with the disability portion. So just to clarify on the agenda we're now hearing the disabilities which were 10:30. Or soon thereafter. And after that, we'll continue back with item 2.1 B the impacts on administration and then continue with the Cortex components. So start with retirements, change of status, item 4.2. A, Rudy Gonzalez, fire engineer with the fire department, request from a change of status from a service retirement to a service connected disability retirement effective June 13th, 2009 with 31.85 years of service. Thank you for coming. Counselor swift do you have a presentation you want to run through I'm sorry staff.

>> Donna Busse: Read into the record, Rudy Gonzalez is requesting a change in status to a service-connected disability based on his left shoulder, back and right hip. He's 61 years old with 31.85 years of service. He service-retired on 4-29-09, sorry, his application was 4-29-09 and his current status is service retirement, at the time of separation he was on modified duty. At the time of application he was on temporary total disability. His work restrictions are that he should avoid repetitive over-shoulder-level work, he should avoid sustained, repetitive, heavy lifting, he should avoid heavy lifting, he should avoid sustained sitting and there's no permanent modified duty available.

>> Sean Kaldor: Dr. Das do you have anything to add to your written report?

>> Dr. Das: No I don't.

>> Sean Kaldor: Sam.

>> Thank you, is this on, can you hear me?

>> Sean Kaldor: Yes.

>> Mr. Gonzalez has 31.85 years of service as a firefighter for the city. He was in fact on modified duty for medical reasons at the time of his service retirement which was back in June of 2009. He suffered a series of injuries which I can go through them with you, there are 12 of them listed in your packet. Affecting his left shoulder and his low back. They involved injuring his back while pulling hose, lifting a patient from a gurney, overhauling after a structure fire, removing ceilings during overhaul, lifting patients out of vehicles, carrying gurneys all of which eventually caused significant disability with regard to his shoulder and his back. He had surgery on his left shoulder in 2008. The operative report is on page 60 of your packet. Dr. Das says that based on his left shoulder condition, he should avoid repetitive over-shoulder work and he should do no sustained repetitive heavy lifting. With regard to his back he has significant stenosis which is the crimping of the spinal cord and Dr. Das says he should avoid heavy lifting and sustained sitting. The memo from the fire department on page 11 of your packet indicates that there is no madam modified duty for Mr. Gonzalez with these restrictions. The other doctors who have reported agree with the restrictions, Dr. Corvallis on page 16, gives similar work restrictions for the low back. Dr. Lynn who was the panel QME meaning an independent doctor provided by a panel from the state of California on page 35 of your packet indicated at a with regard to his low back he should avoid very heavy work. And with regard to his left shoulder he should not do work at or above shoulder level. And then Dr. McKreesh who was his treating doctor on page 43 and 48 provided restrictions for his left shoulder which are very similar to his restrictions from Dr. Das. Based on the fact that there is no contrary medical evidence that he is capable of being a firefighter and in fact all the medical evidence indicates that he is not capable of being a firefighters and there's no permanent modified duty valuable for him, I would ask that his application be granted.

>> Richard Santos: Mr. Chair.

>> Sean Kaldor: Trustee Santos.

>> Richard Santos: Based on the medical evidence before us, there is no modified duty fire engineer Gonzalez has closing to 32 years of service, I would support granting changing from service retirement to a service-connected disability.

>> David Bacigalupi: Second.

>> Sean Kaldor: Motion and second. Are there discussions on the motion? Seeing no discussion, call for a vote. All those in favor say aye. Aye.

>> Sean Kaldor: All those opposed, seeing none opposed, motion passes unanimously.

>> Thank you.

>> Richard Santos: Mr. Chair, I've known Rudy as a, we call ass-kicking firefighter and he did his job for 32 years and he did it well. I haven't seen him for some years. To see him again we used to be on the Olympic teams together and all those years in the past. It's a real shame that it comes to this but you know Rudy, the best to you and your family.

>> If I could raise a point of personal privilege here, I'd like to raise a question that's more general. I represent another 20 to 25 Public Safety officers who have already retired from the city and whose applications for disability retirement are pending. They are all asking me if this initiative passes will it apply to my case, to my application that was pending at the time that the initiative passed. My reading of the initiative is that it -- its provisions with regard to disability retirements going forward speaks about employees. And it would be my understanding that these folks who already retired are no longer employees, but that's just my opinion. So it would be instructive for my clients if the board would entertain the issue, and give some guidance, as to, if it were to pass, would the substantive provisions in the initiative applying to eligibility for disability retirement apply to those people who already have applications pending. The second issue is, procedural. The initiative provides for a new method of evaluating disability retirements. They believe it speaks of a board of medical exercises, appointed by the city council, appealing to an administrative law judge. The question is as to those people already retired and whose applications are already pending will they come before this board in the way that they have in the past or will this process be replaced not only for people going forward but for people whose applications are pending?

>> Sean Kaldor: I wish I knew.

>> Vincent Sunzeri: I think we have our first two questions. Right?

>> David Bacigalupi: Two of our 20.

>> Sean Kaldor: This board cannot give you any direction or answers to these questions. We're looking at the same information you're looking at with no further specifications. Our intent is to identify these types of questions so the city council when they adopt the ordinance can be very explicitly clear about each one of those. What it means between now and then we're following the current process until another law is passed.

>> I know, I raised it based on my listening to your prior discussion it seemed like that would be an issue that should be looked at.

>> Sean Kaldor: Thank you.

>> Sean Kaldor: And if you have those questions or other questions I'd encourage you to send them to Harvey Leiderman as he's compiling a list of questions. Considering how to continue with item 4.2B, Todd spellman fire captain for the fire department, request for change of status from a service retirement to a service connected disability retirement, effective December 25th, 2010, with 27.54 years of service. Which was deferred from our March 12th board meeting. Donna.

>> Donna Busse: Fire captain Todd spellman is requesting a change in status to a service-connected disability based on his left and right hips. He's currently 51 years old with 27.54 years of service. His current status is he's on a service retirement effective 12-25-10. At the time of separation he was on temporarily disability leave. At the time of application he was on disability leave. His work restrictions are that he should avoid heavy lifting squatting

kneeling crouching and pivoting he's precluded from performing safety appropriate evaluation is done while on the current medication regime. There is no permanent modified duty available.

>> Sean Kaldor: Dr. Das do you have anything to add?

>> Dr. Das: No I don't.

>> Thank you. Mr. Spellman has 27 and a half years of service with San José fire department. He was in fact off the line for medical reasons at the time that he service retired in December of 2010. He had left replacement hip surgery in October of 2008. That's on page 35 and 36 of your packet. He had right hip replacement surgery in July of 2010, which is the operative report is on page 78-79 of your packet. He suffered a series of injuries to his hips throughout his career. They included dragging an adult female victim down a hallway, stepping in a three-foot crevice at a live fire training, falling into a three foot depression during a fire, searching rough terrain for a downed motorcycle rider and lastly a fall which injured both of his hips. The -- Dr. Das has provided work restrictions, which the department cannot honor. The packet on page 12 indicates the department has no permanent modified duty. The -- there are reports from five doctors in your packet, indicating that this is in fact an industrial condition. Dr. Geter on page 20 who did an orthopedic consult for the city said that the condition was industrial. Dr. Dearborn who was the surgeon on page 73, said the condition was 100% work related. Dr. Robinson who did a pain management consult for the city on page 33 said it was work related. Dr. McReish would was his treater at one point on page 74 said the condition was wok related. The panel QME independently appointed by the state said his hip condition was industrial. So based on the significant restrictions that he has as a result of his two hip replacement and based on the department having no permanent modified duty I would ask that his application be granted.

>> Richard Santos: Mr. Chair.

>> Sean Kaldor: Trieste Santos.

>> Richard Santos: Thank you, Mr. Chair. Motion to support captain spellman's change from service to disability service connected.

>> Second.

>> Sean Kaldor: Vince Sunzeri.

>> Vincent Sunzeri: Dr. Das, on page 7, on the discussion, you state that the medical records do not describe that stepping in a hole caused the left hip avascular necrosis but feel this may have caused the systems to become apparent. Could you expand a bit more on that? Because in earlier sections and as you've pointed out as counsel pointed out it's 100% attributed to work related. So it almost sounds like that conflicts to me.

>> Dr. Das: Within the workers compensation if he was asymptomatic prior to that incident or that event, and then he had a specific incident that occurred at work and then became symptomatic, they're considering that an aggravation. Or an exacerbation of the underlying problem is the -- is what I was able to glean from what they were stating. Because apparently he was asymptomatic prior to that event, became symptomatic after that event and the cause of his symptoms appear to be the avascular necrosis. That's why they had that opinion. At least that's what I was able to extract from medical records as to why that is work related.

>> Vincent Sunzeri: I understand that, what I'm trying to determine is you're saying the event may have triggered the ability to understand the underlying problem but you believe there was already an underlying problem?

>> Dr. Das: Yes, I believe the avascular necrosis was present prior to him stepping in the hole.

>> Vincent Sunzeri: So do you concur then that this is really 100% related to the industrial side versus preexisting conditions?

>> Dr. Das: Well, as far as a contributing factor, I mean if you are saying -- if you are looking at exclusively from pathology, the avascular necrosis likely predated that incident. I included some references in the back which kind of said that in animal studies increased weight bearing can predispose to avascular necrosis. So there is a possibility that a lot of weight bearing on the hip can contribute to the avascular necrosis. But in terms of -- what made it clinically present and clinically evident was the incident. So this is one of the difficult issues when we're trying to attribute work relatedness. If it's a clinically silent problem which becomes clinically symptomatic after an incident, there's a -- you know, typically it's treated as work related within the workers compensation system. So it's hard for me to come up and say yes, absolutely it is not work related or yes absolutely it is work related. There are contributing factors to it. But there are a number of contributing factors-d but you have to remember that one of the largest contributing factors is ideopathic which means we don't know why people develop this. And that's --

>> Sean Kaldor: Bettina.

>> Bettina Rounds: But you think the incident aggravated the situation or not? Because isn't that a definition for disability retirement, as opposed to -- I mean we're differentiating with workmen's comp right?

>> Dr. Das: Right. I mean I think it definitely aggravated his symptoms because he didn't have any symptoms before for me to arc that it aggravated the pathology, is it differently .

>> Sean Kaldor: Think other discussion?

>> Richard Santos: I know it's hard for board members who have not worked with a person. But I have. In his early condition when he first came on this guy was in physically great shape. It does bother me a great deal because he was a very, very aggressive firefighter and excellent person, he's in top shape. I haven't seen him in years. It does bother me. When a person comes along and passes the tests and jumps out of towers. And when you say is it job related? I can tell you he was an excellent firefighter. I call for the question.

>> The only comment I would make on weight bearing, aggravating the condition, when a firefighter responds to a fire he's wearing turn generosity and an SCBA and a helmet that weigh approximately 50 pounds. And extinguishing the fire and overhauling while wearing that 50 pounds of equipment which has been done thousands of times throughout Mr. Spellman's career.

>> Sean Kaldor: So the motion's been called, call for a vote. All those in favor say aye. All those opposed say nay. The motion passes unanimous.

>> Richard Santos: Mr. Chair, I haven't seen him in years, You know, Todd I know you as a person and you're an excellent firefighter, took a lot of chances. The best to you and your family, and I hope you have a chance to go back to Mayberry. Thank you.

>> Sean Kaldor: All right, we will continue. With item 2.1B. Bravo, the discussion and action on actuarial administrative and legal impacts of the ballot measure, impacts and administration.

>> Drew Lanza: Mr. Chairman, so this should be quite a bit briefer than the front part of this discussion. Again, one more time, at the off site you asked for three things, one was an actuarial understanding, possibly a model. We've voted on that so we're done with that. The second one was an understanding of a time line and the third one was an understanding of what steps to take ahead of and then after a ballot measure. Fortunately our previous conflict council Russ Richeda pleasant to you in board pack item 2.1 pages 2 and 3. And I'm very happy to report to the board that on page 2, which is what should we do ahead of a ballot measure. There are 11 items that Russ first presented to us last October and Harvey has had a chance to edit this list and make his changes. I'm happy to report we have now performed 10 of the 11 steppings. What I'd like to do is make a motion that the board adopt the steps on 2 and 3 for pre, and postballot measure actions we should take.

>> Sean Kaldor: There's a motion.

>> Richard Santos: Second for discussion.

>> Sean Kaldor: Digging out the reference here. There we go. Would you reiterate your motion for --

>> Drew Lanza: On pages 2 and 3 of item 2.1, you have steps the board -- policy, policy for steps the board should take before and after a ballot measure. I'm moving that we approve these as our official steps, policy, whatever. And I'm pointing out that on page 2 we've actually already completed ten of the 11 steps.

>> Pete Constant: Make sure I have the same document. Is this the one that says ballot measure administration impact?

>> Drew Lanza: No, it's 2.1, first page says recommendation to the board. I'm sorry.

>> Pete Constant: I don't have that one.

>> Sean Kaldor: It was a PowerPoint presentation.

>> Drew Lanza: There you go.

>> Pete Constant: Got it, thank you.

>> Damon Krytzer: So there's two of these that are -- is that right?

>> Sean Kaldor: Yes, please.

>> Damon Krytzer: I guess I'm looking at page 3, number 6 and number 10. Number 6 is, request interested stakeholders to inform the board if they're contemplating litigation. Harvey is that -- do you think we'll get an accurate answer to that?

>> Harvey Leiderman: You know, you don't know until you ask.

>> Damon Krytzer: Fair enough. All right. And direct staff to recommend a strategy for informing system members, retirees and beneficiaries of the events and their impact. I think that's one that we're probably not going to be able to have an answer for until after the measure, right?

>> Drew Lanza: I know, I think you're right, that's why point 3 is postballot measure impacts. Page 2 is before the ballot. Page 3 is after the ballot.

>> Damon Krytzer: That have been enacted.

>> Sean Kaldor: Okay, so at some point we'll have to reach out to members of the plan that say, you need to make a decision or there's this change for you.

>> Drew Lanza: It is a little bit of legalese.

>> Sean Kaldor: So the nuance here with the legal stuff is we're saying hey, let's see what the legal issues that are going to be resolved in the courts. We can decide if we want to bring those issues up for clarification, because we need to know them, but if they're being worked out we need them to be worked out. So I second the motion.

>> Drew Lanza: Thank you, Mr. Chair.

>> Richard Santos: I thought I did.

>> Drew Lanza: He thirded the motion.

>> Richard Santos: This is all related to what we asked Drew to do and what we passed a while ago. We thank you for the work.

>> Sean Kaldor: Watching lots of lips moving.

>> Call for the question.

>> Sean Kaldor: Is there any further discussion on the motion?

>> Vincent Sunzeri: Can you tell us what has not been completed on the list?

>> Drew Lanza: Yes, I was going to do that afterwards. On page 2 the only bullet that we haven't completed, some of these have been completed more than others, to request pension system. And I think once we vote to approve this set of spots then we need a quick question as to whether or not we intend to do that. But all the rest of them are done, most of them this morning.

>> Vincent Sunzeri: That's on page 2 then?

>> Drew Lanza: Page 2 bullet 8.

>> Vincent Sunzeri: The discussions we've had for example on number 6 determine if a public discussion is appropriate.

>> Drew Lanza: I think we decided this morning no.

>> Vincent Sunzeri: Okay on page 3, where do you think we're at with what has not been completed on 3?

>> Drew Lanza: These are the steps we're going to take after the ballot. After the vote.

>> Vincent Sunzeri: Got it.

>> Drew Lanza: To be honest --

>> Vincent Sunzeri: Why not even focus on that there morning you're saying?

>> Drew Lanza: Yeah.

>> Vincent Sunzeri: Shouldn't we agree that those should be the steps?

>> Drew Lanza: That's my motion, both pre, and post.

>> Sean Kaldor: A lot of 3 is determine if, consider if. These are questions we need to consider, not the path we are going to take it will determine whether we should engage in litigation, determine if we should do this.

>> Drew Lanza: And again, we have seen these two or three times. This is not if first time we've seen these.

>> Sean Kaldor: Discussion on the motion.

>> Damon Krytzer: What does this mean that we are going to formally request all of these things or are we doing this by saying --

>> Drew Lanza: I think a template, if the ballot passes this is we should agree, this is how are we going to do this, how are we going to do this.

>> Vincent Sunzeri: This is a governance measure how we should move forward.

>> Drew Lanza: If a ballot measure passes, these are the steps. Third part to knee the key part is the time line piece. The key part is to have steps oh crud, we got to do this four months before the ballot or right after the ballot. Are we ahead of the curve or behind the curve, is the value for having this.

>> Damon Krytzer: Is it a formal adoption of steps or can we just say yeah, we all agree with these steps?

>> Drew Lanza: I think we should formally adopt these steps. I think in terms of governance, we have all these other things we have Cortex doing for formal processes. And I think it's good to have it as a formal board processes. I'm used to seeing things like this as formal board processes.

>> Sean Kaldor: There's nothing we do that we can't undo when it comes to this. So we get to a step and we say, oh, we don't want to do that, we take another vote on that step. But at least we have a vision and a plan and strategy going forward.

>> Sean Kaldor: Harvey then Vince.

>> Harvey Leiderman: Just a question to the maker of the motion. Does the motion also include the numbered steps on page he there and also the bulleted introduction to those steps?

>> Drew Lanza: No it does not. Gotcha. 1 is for preelection -- preballot and one is postballot. I know you want to change the words on that but that's gist of it.

>> Sean Kaldor: Any -- I'm sorry, was there any --

>> Harvey Leiderman: I'm sorry Mr. Chair, I might suggest the wisdom of including the third bullet point, the board's course of action in any particular situation will depend on the specific issues before it.

>> Sean Kaldor: Does the maker of the motion accept that amendment? If second?

>> Drew Lanza: Yes.

>> Yes.

>> Sean Kaldor: We have Vince and then Sean and then Pete.

>> Vincent Sunzeri: Can you clarify for me what we've done on page 2 for step 3 and what was the outcome? I am 92nd sure that anything has necessarily happened on bullet point 3.

>> Drew Lanza: Yeah, you're going to hear from Donna in the next section, an evaluation of certainly internally what are required of the I.T. systems to implement all this. To some extent we pushed part of that work offer to Cheiron, Cheiron is subbing in for staff. We're a little bit shortening it.

>> Vincent Sunzeri: Those terms seem to be very, very broad. I would interpret this if I were a new board member coming in not understanding what we're discussing here, that we want them to evaluate the proposal and look at the global impact as opposed to maybe just administrative impact. It's much more comprehensive, it's almost like here's our -- here's staff's thoughts on the measure. And I'm not sure that number 3 is a little bit of a challenge for me.

>> Drew Lanza: Well, it refers back to 1 and 2 which are pretty global in nature. And I've made some editorial discretion here about who to contact with what questions. I think I would imagine any board in the future would do the same thing, would delegate you to a single person on the board or ad hoc committee of the board how to parse out these tasks and who to ask which questions.

>> Vincent Sunzeri: The only question I would want to ask is if you want to make a modest amendment to include the administrative impacts?

>> Russell Crosby: On number 3.

>> Drew Lanza: Just checking to make sure -- yeah, that would be great, that's fine, yeah.

>> Sean Kaldor: So the maker accepts the seconder of the motion. Sean, Sean's good then Councilmember Constant.

>> Pete Constant: Question, this is -- the motion includes page 4, not yet the time line.

>> Drew Lanza: Yeah, it's only pages 2 and 3.

>> Sean Kaldor: Any other questions or discussion on the motion? Seeing none all those in favor say aye. All those opposed, seeing none the motion passes unanimously.

>> Drew Lanza: So then there's one more piece to this. At the off site you in asked for a time line, to some extent although this is the simplest piece it is the most important piece because we're trying to get ahead of a traffic jam that's supposed to happen. On page 4 you have a generic notion of what's going to be on the ballot. internal fees that Donna will talk about in just a minute that says wow, that's a big change, we have to change our I.T. systems so we can accurately pay people bullet point that says legal and the final bullet that says payment. You'll remember that Councilmember Constant has said it's the intent of the city to ask you not to implement this until we thank God because we don't want to burn all that effort and we also want to paying people differently if the ballot measure passes and if the court says go. So you'll get another report at the next board meeting about that. We're working through this. Ideally, I think what I'd like to see is something from you, probably something from the council that says we're in sync with you, here are the steps we'll go through before we ask you to fire up ten guys to modify your I.T. system, and the final piece is if I can turn it over to Donna a little bit, Donna asked the very hard question, wow if you are making these very hard changes, what is accurately and start to disperse money accurately? There will be no motion on this section. This is really just a report. So Donna has got a page

here 2.1B, I don't think you want to go through it in gory detail Donna just so for a feeling, you want to ask these questions, what's involved if the ballot measure passes and the courts say go.

>> Pete Constant: Mr. Chair, if I can jump in, I've got to leave, I'll be back, I've got to go to another meeting. My impact with the city I want to make sure everybody is clear I cannot predict the actions of the council. So as things move forward, council majority may vote in any particular way, and they have not set the exact parameters. If -- I don't want to presuppose that as we go forward on an action for declaratory relief what specifically is going to be in there. So I just want to preface it that my comments were about the intent of the council. But as we know the council can do some crazy stuff sometimes because it only needs six votes that will change our course. I want changed.

>> Sean Kaldor: Exactly that point. Not that we don't know for sure but to we're going to ask about this or ask about that. There are other things that we may be expected to implement very quickly and aren't going to go through that in a longer legal areas. There's probably gray areas, black areas and white. If we can throw those in the bucket that would be helpful.

>> Drew Lanza: That's fair. Donna.

>> Donna Busse: 2.1B, outstanding the administrative, the delivery in our pension administration system. Outlining a detail when I say it's going to take two to three years, people are going to say what the heck are you doing for two to three years? I will outline kind of the stuff that goes on behind the scenes that have to happen. The bottom line if we're going to put in a new tier or an opt-in plan, the basic functions we would probably only need three to six months and the information that we need prior is not extensive. We do make some assumptions on there and I want to qualify all my answers. We do make assumptions that especially for the opt-in plan, it is not just the council approved on the ballot measure, the IRS has to approve that as well. We assume we aren't doing anything until the IRS approves and the new tier is defined and we assumptions that we're making. We're way behind all this stuff that you're speaking to Carmen about and we wanted to kind of give you an idea that we can implement on -- it does take a long time but we can implement on a shorter time frame in

steps in getting the necessary functions in. We can do stuff manually if we have to until we get the automation going, I don't know if minute has any questions.

>> Sean Kaldor: Three page list where each one of these things can be a fair amount of work. So I thank you for itemizing it all out.

>> Drew Lanza: To work with Donna to go through those two or three times. To repeat to council that this is a reasonable time frame to turn this thing on and I guess reasonably that the council respects that we don't want to put our internal staff you know in a sausage grinder just to turn it on two months quicker than is reasonable. So far I think Pete has said that the council will be responsive to that. I would think they would.

>> Donna Busse: And I try to delicately put in if there's lawsuits and stuff, you know we're going to assume that what gets approved by council, we're going to implement. If other things happen then we'll modify.

>> Sean Kaldor: I think one of the biggest concerns in terms of time line at some point there's a newer hire someone the next day and we know how we're going to on-board somebody and all the administrative processes and what they're -- what they're basically going to be told what is their handbook, they need to be told that even if they're thinking of taking the job. That's a big challenge without legal challenges, as far as current employees.

>> Donna Busse: We're hoping that as the ordinances are getting developed we can start that process.

>> Sean Kaldor: Sos this note and file? Vince.

>> Vincent Sunzeri: I just want to thank you for the hard work you've put on this. The leadership you put forward on this. We walked into this some time ago and you've done a great job for steering us so thank you very much.

>> Drew Lanza: Thank you very much.

>> Sean Kaldor: Yeah, what he said.

>> Ditto.

>> Sean Kaldor: Do we have Tom on the line yet? If not let's take a five-minute break yet. We don't have lunch quite yet. But let's take a five-minute break while we get Tom on the phone for our next session --

>> Donna Busse: I think there was one service retirement you didn't do and --

>> David Bacigalupi: And death notifications probably.

>> Sean Kaldor: Retirement, Gregory C. Raymond, police sergeant with the police department effective May 26th, 2012 with 24.88 years of service.

>> David Bacigalupi: Move to approve and for the record, I don't see him in the audience.

>> Richard Santos: Second.

>> Sean Kaldor: Motion and second. All those in favor? Any opposed? None opposed the motion passes unanimously. Let's go ahead and take a five-minute break and get him on the phone before we go to the next. [ Recess ]

>> Sean Kaldor: Tom, are you on the line?

>> Yes, I am.

>> Sean Kaldor: All right. Turn the volume up. Okay. Tom, try again, are you there?

>> Yes, I am, can you hear me okay?

>> Sean Kaldor: Perfectly. We can hear you perfectly right now. Okay. We'll reconvene here and so we'll continue on with the agenda. Starting with item 2.2, discussion and action on Cortex phase 2. The ad hoc committee scope, goals and members. And that was really on me. This is from our off-site. The action item came up to do a Cortex phase 2. I'm just getting out the committee list here as well. We had generally discussed what the goal and objective of this group might be. There was also the question about we had talked about a long term solution to the department's staffing problems and there was an ad hoc committee working on that. It's worth us getting back together, clarifying the effectiveness of the committee. My understanding coming out of it and everybody can correct me if I'm wrong. We reestablishment of the previous governance ad hoc committee. And the objective was, what I wrote down was for an ad hoc committee to evaluate an organizational relationship where retirement services staff reports directly to the retirement boards and working with, in coordination with the Federated board and extensive work from Cortex research, reporting relationship alternatives advantages and disadvantages and delivering a recommendation and proposal to the board. So there's no -- it's short enough as an at hock committee not to get into actual implementation and those types of things or definitely in discussions with the city they can identify issues and things that need to be discussed but not try to actually engage in negotiations with the city on how we would do it. So my motion is to adopt that objective for the Cheiron phase 2 governance at hock committee.

>> Drew Lanza: Cortex.

>> Sean Kaldor: Cortex, thank you.

>> Drew Lanza: Just wanted to let you know I was paying attention.

>> Sean Kaldor: We have a motion and second. Trustee Santos beat you to it. And as a reminder, the members of the governance committee, here we go, governance ad hoc committee myself as the chair, with Drew Lanza,

Dick Santos, and Sean Bill as -- on the committee. I would like to recommend one change to that. ABC I'd like to recommend making Sean and alternate if you're so inclined and pulling Bettina into this committee.

>> Sean Bill: (inaudible).

>> Sean Kaldor: My thought is, she isn't a formal member of a committee and you're on a couple of committees. That sounded like a logical way. I got it.

>> Vincent Sunzeri: (inaudible) is that how that would happen or how would this work?

>> Sean Kaldor: Yes I'm sorry, I was looking at who was on what committees. We have you on the retirement board the chair of the investment committee and on the ad hoc disability determination committee. I thought having you on every committee might be too much work. But we could have you as the alternate chef Sean if that's the issue or --

>> Vincent Sunzeri: It doesn't matter to me. I guess when we look at this though, I'm thinking we haven't done anything on the disability side for a long time. Do we want to keep that or terminate that for now which would really change these allocations quite a bit.

>> Sean Kaldor: In my understanding the disability determination committee is inactivated until there's some kind of vote and implementation of a new policy and that would simply be a transition process. To whatever the new process is going to be.

>> Could you have two alternates on the committee?

>> Sean Kaldor: We can certainly be --

>> That would be more flexibility in terms of people getting the ability to make the meet approximating.

>> Sean Kaldor: We've all got ten committees. And.

>> Sean Bill: If you have so many meetings going on, if somebody can't make it or one alternate can't make it, something to that.

>> Sean Kaldor: Sure. So --

>> Vincent Sunzeri: That's a good suggestion.

>> Sean Kaldor: Let's pull that all play by the rules and discuss it in the right spots.

>> Vincent Sunzeri: Sure.

>> Sean Kaldor: That being the motion and second for the governance committee. Any further discussion on just the governance committee? All those in favor? All those opposed seeing none the motion passes unanimously. Tom we'll be pulling you into that as well. I hope to have you spearhead the process of coming up with the report. And we'll be engaging you in it, we'll try to set up a series of maybe three dates right now or not right this moment but this week we'll set up a series of three dates so we can ask staff to coordinate the members' calendars, to the next month and a half --

>> Terrific.

>> Sean Kaldor: Great with that we will go to item 3.3. And this is discussion and action on governance policies developed by Cortex including item A, role of the board of administration, B, role of the CEO, and C, board communications policy. Harvey, did you want to let Tom start off on this?

>> Harvey Leiderman: I think we need to let tom speak first. We need to speak from the high level governance.

>> Sean Kaldor: Tom, we reviewed those policies in brief at the offsite meeting I realize there was a big pile to go through, I didn't want that meeting to be endless. With that Tom, go ahead.

>> Thank you, Mr. Chairman, good morning board and staff. As you all know, the governance policy project is designed to ultimately develop a relatively comprehensive set of charters and policies which would end up a manual, electronic or hard copy form. And as the chair just mentioned we're focusing on three today. I'll begin with the role of the board of administration. This has been reviewed several times by the ad hoc committee. It was reviewed once by the full board I believe at the last meeting. A number of good suggestions were made and I'll draw your attention to the changes we've made. City attorney's office had a couple of suggestions or changes. We've addressed those changes as well. And I'll draw your attention to those. Just as an overview, the role of the board of administration is really starting point for the whole governance model and just about everything flows out of that. It's very important that everybody be comfortable with the role we've laid out here for the board. And the idea being that we've tried to give a very comprehensive sort of an overview of what the role of the board is that would be very helpful to, a new board member joining as well as existing board members and would provide clarity particularly with respect to the relationship between the board and the staff. So the role of the board of administration is organized if an organizational point of view. A number of categories, what we hope you'll find to be logical categories, your policy and decision making role, how do you deal with vendors, human resources, planning, finance and accounting, et cetera, et cetera. As I mentioned you've been through this before. We've made a number of changes. I'll just draw your attention to the changes that were made at the last meeting. Beginning on page 1 it was suggested that because the various committee documents laid out some detail as to how the committees would operate, it was suggested that the board document should also contain that. So we've added a section on page 1 under the heading of board operations, paragraph 5, you'll see that's red-lined or black-lined. A through E. And they generally come from city charter language. I think that's fairly straightforward. The -- turning to page 2, just above paragraph 10, I just changed the heading from board operations to board governance, just to avoid confusion with the new heading that I introduced on page 1 called board operations. And the one discussion point that I thought the board should address today begins on -- was found on page 3. Under the heading of vendors. And I've flagged the issue 11 E as in Edward. This paragraph

deals with whether the various vendors that the board will appoint. And I think the only issue to be discussed is whether the board wishes to appoint the investment managers, the alternative being that the board could redelegate that responsibility to the investment committee. I know there was some discussion as to the way to go on this issue at the ad hoc committee level. And we wanted to just bring that to the board's attention to see their comfort level as to how they foresee this issue being dealt with going forward. That's one discussion point. And I believe it might be the only discussion point in the document.

>> Sean Kaldor: So just a bit of background on this, when in the committee we had set the investment management be Point appointed by the investment committee. Federated brought up the point that they didn't quite want to make that jump now, for the time being they still wanted to come forward to the board. I said let's bring both options forward to the board and everyone can decide what they like. Dick.

>> Richard Santos: That's why we have an investment committee, you still have a consistent process. The investment committee makes the recommendation to the board and the board makes the final appointments.

>> Sean Kaldor: Vince.

>> Vincent Sunzeri: Ultimately you want the board making the decisions, UAL and the investment structure. To expedite things to make the decision on the individual managers. The only thing I think is police to discuss here is the movement to the absolute investment piece. Now we're getting into the selection of the individual managers and due diligence is much more rigorous. I don't want board members to feel like they're left in the dark about what's going on there. I'm not certain how that should be handled.

>> Sean Kaldor: Baci.

>> David Bacigalupi: The only thing I was going to say is the investment committee does all the legwork. I may be wrong on this there are some investments that need to move quicker. I don't see the delay being that big for most of the investments from the committee making their recommendation, and having it agendized by the board,

you know, it's going to be within a month. You know hopefully, less, you know, two, three weeks and then the board gives the approval. But it just gives that one extra step of controls, you know I mean not -- obviously not talking about any particular person but I mean as a way of doing business, the best way of doing business and it keeps the board involved in the process.

>> I'd add too, the board sign off on the investment management makes a lot of sense. And to have the investment committee do all the legwork, you know, do the heavy lifting, hopefully does 85% of the work and board members have other questions that are relevant to them that are not being addressed. So I'm fully in support of having the board make that decision.

>> Sean Kaldor: So Baci and Vince.

>> David Bacigalupi: One quick comment I didn't think of, the light just went on. Sean just brought this to the forefront for me. You guys picked them, I didn't pick them. Let's face it this could happen on the future and this keeps everyone involved and on the hook.

>> Sean Kaldor: As far as appointing people to the committee, it's still coming back to the board level, not this super-powerful level. Maybe we get to that point somewhere but -- of -- Vince and then Dick.

>> Vincent Sunzeri: We are making significant decisions here and the entire board should be involved. Once the plan is really up and running with the structure that this board wants to see, then we might want to make a change to this.

>> Richard Santos: Besides our fiduciary responsibilities, that's the priority. But the key is also when we're supporting our committees, it brings value to that committee that we're in sync and that consistently continues.

>> Sean Kaldor: Any further discussion on that? Harvey, did you want to run through your changes on this policy? We'll do one policy at a time.

>> Harvey Leiderman: Sure that would be useful for members of the board and staff forgive me since I've only recently come on the scene, I hadn't had the opportunity to participate in this process. I've put up on the screen some suggested changes. I think I can run through them pretty quickly with you. I've done that in red line. Tom and I have spoken about these. Tom is satisfied with them. I'll let him speak for himself if he has any issues with any of them. And they go from the mundane to some more serious issues. So let me just take you through them very quickly. First of all? I think rather than simply saying this is something that describes a role for this board, seems to me it should be considered to be more formal than that. That this is actually a board charter. And I'd like to -- so I first bunch of red lines are simply changing the word "policy" to the word "charter" if that's acceptable to you. Lets me page down here. Minor change in 5E, the board shall keep minutes of its public meetings. Right now we don't keep minutes of private -- of closed session meetings. but I just want to make that clear. That your obligation right now as a body under the Brown Act is only to keep minutes of public meetings. I changed the reference from the pension act of 1992 to the derive our responsibilities from what is now in the state constitution as opposed to an act that was passed. Again not significant, but seems to me, that it's important to this board that it knows that its fundamental responsibilities are in the state constitution. On the vendor list it's an important one that I think was left out. Hello -- is that I think there has been a change in this board's authority, recognized by the city attorney's office, and the city, and recently implemented that you are selecting counsel. And so I respectfully submit that that should be added to the list of outside vendors that you are engaging.

>> Vincent Sunzeri: Now, I thought we were not actually making that selection. I thought that city council is the final say or the City Manager. I'm not sure who. But I thought the -- the City Attorney. So I'm in favor of that but I didn't think that that was the process.

>> Harvey Leiderman: I don't know. I sat here at a meeting I think it was March 1st or something like that and watched you vote on something that involved hiring council.

>> Sean Kaldor: The nuance I think, and there's a more detailed policy on vendors that says what our role is, in selecting implementing and authorizing and all that. We can fire our attorney at the present time. We have to approve the selection of our attorney. We may not be able to get an attorney the city doesn't want, and that might be a nuance in there. But ultimately we appoint who the attorney will be.

>> Vincent Sunzeri: Okay.

>> Harvey Leiderman: There is a statement under paragraph 12 that was in there where it basically recites the fact of the matter under the city laws right now, the hiring of the personnel does not reside with the board. But there's also a municipal code provision that says that the board districts the actions of the director of retirement services, and staff, to carry out the duties of the board. And that's in 3.32040 in the municipal code. I thought it was at least important to reference that there is authority on this board to some extent to deal with this. Furthermore this was stated in a way that would have imposed a fiduciary obligation to advise the City Manager of staffing needs of the system. And I respectfully do not think that a fiduciary responsibility to the City Manager exists for anybody who sits open this board. You may have contractual obligations or other obligations, but you do not have a fiduciary obligation to anyone other than the members of the system. Unit 13, a change in a revenue from CEO to director. This I think maybe we'll discuss this in more detail with the CEO charter, director charter. My comment there is, as I say, we'll talk about it. Many people in many systems do have chiefs and the chief structure which is a corporate structure that we're all familiar with. Generally CEOs report to boards of directors. Until the city council adopts the changes recommended by Cortex, on the hiring and firing of the director of retirement services, it seems to me it's not appropriate to refer to that person as the CEO, since that person does not report, and is not hired by, answer answerable too, this board alone. That was the only reason why it was not meant to mean anything other than a reporting-line change. I'm not familiar yet with the process by which you develop budgets. So in 14 B and in 15, you'll have to correct me as to what the proper relationship is between this board, in setting the capital budget of the system, and the role of the City Auditor, and the city finance department. I'm simply not aware of that. So forgive me. So to the extent that this board is responsible for setting the administrative budget of the pension fund, then that should be done by you, and by you alone,

independently. To the extent the city requires coordination with the finance department or the City Auditor I'm simply not aware of that. Then perhaps the language that was already in there was appropriate.

>> If I can just add some information about the city budget process. So the retirement board adopts the budget for the plan. And any expenditure that comes from the plan. However, the staffing portion for the budget comes from the City's budget system. And since the staff reports in to the city, as city employees, the board has no ability to make, really, the staffing changes. So those have to be requests that go back to the city, to make these budget changes for staffing, that then, the expenses can flow back in to the plan. So an example of that would be, last year there was a budget proposal to add additional accounting staffing. And that piece went back to the city, wasn't approved, even though it was adopted by the board. Then this year it's again placed into the city's budget system which runs a little bit -- their cutoff lines are a little bit earlier than the board's budget. But it will be subject to approval by the city before it can flow back to the plan .

>> Harvey Leiderman: May I ask for example if we have a certain budget level for investment manager fees, does -- is the City Auditor or the city setting a budget on those fees or is this board?

>> No. On all the other administrative cost including investment manager fees and any nonpersonal or any professional fees, all of that runs through the board, and the board has authorization for those expenditures. The only ones that are not allowed or are I guess --

>> Harvey Leiderman: Staffing and personnel?

>> Requiring coordination with the city would be the staffing section.

>> Harvey Leiderman: Perhaps Mr. Chair we could make that clear so it's clear to the board what they're responsible for and what they have to look to the city to be responsible for, for the budget of this probation.

>> Sean Kaldor: So we in that sense the board will be responsible for --

>> Harvey Leiderman: So it would be in 14 B it would essentially be B and C, and we would split personnel cost to read what it read before I red lined it, and C, the board is responsible for all costs without consultation with the city.

>> Sean Kaldor: Make sense?

>> Harvey Leiderman: Again in 15, the same kind of question. Setting the integrity of the financial information of this system, there's a question in my mind as to who bears the responsibility for that, for hiring outside auditors, to come in for doing internal audits if necessary. So I just wanted to raise that issue as to whether we are obligated to coordinate with the City Auditor and finance department or is that a responsibility that should be identified in the charter? I'll take my answer over the air.

>> Currently what's happening is the plan is combined in the City's RFP process to obtain an outside auditor. And my understanding has been that this has been the process, because as a department within the city, the financial statements for the plan are also combined and rolled up for the city. There has been some discussion about who actually, in the charter, I believe, has the authority to conduct an audit. I believe there's something in the municipal code that references that the board must have a financial audit. But there is also other language that auditors are hired by the City Auditor's office. In the past though, it has been the understanding of this board that there has been cooperation between the two, to come together and do an RFP. But in the last RFP that was done, if the board had chosen a different auditor than the city had, then there was the possibility that there would be two audits conducted by the board. If the board choose to have separate auditor they could, they would pay for that auditor, and then the city would also have the City Auditor come through and do the plan. And there was some discussion about who would be liable for those expenses. That was never resolved.

>> Sean Kaldor: Exactly. I recall the discussion, they said if you want to get your own auditor, go ahead. But there will be an auditor choosing by the city. they're still going to do the audit for the city and at that point they said you are expected to pay for it.

>> Harvey Leiderman: Who is paying for the City's auditor?

>> Sean Kaldor: At that point they said creates an issue if we are going to use their auditor it didn't create the issue and here's where we are.

>> Harvey Leiderman: Well maybe for now if Justice Holmes once said as a concession for the shortness of life we could deal with it as it is and deal with it later.

>> Can I add this is the third year of the Macias, Gini & O'Connell contract and next year, there will be the option of this board to select a separate auditor and this issue will come back up at that time. I mean for this financial audit period.

>> Harvey Leiderman: Okay. Moving quickly, a couple of changes in the next -- in 18 and 19. There's a word that's used in there, to ensure. I always worry about for my clients when they're signing on to something where they said that they're ensuring regardless of how you spell it, that something will happen. You're not a guarantor of performance. You know, this board will exercise its best judgment but you're not really ensuring anything. And so I think a more direct statement that you have control of the administration and investment and shall invest the assets in accordance with fiduciary standards, is more appropriate language. The same thing in 19. You're not responsible for ensuring anything. But you are responsible for identifying, monitoring and managing risk. I do not - I would not like to impose upon you from some other parties' viewpoint that somehow you have ensured that there are no material risks to this system. Same thing in number 20. The ensuring language. I made a change in 21 about notifying the city council. I think you have the right to notify the city council. It's appropriate to notify the city council in certain manners relating to pending legislation. But I did not want -- did not think it appropriate to impose an obligation on you to do that in your charter. That's it, Mr. Chairman.

>> Sean Kaldor: All right. Are there any other inputs or changes into this policy?

>> Vincent Sunzeri: I had some question and clarification. Under 5A I think we had some concern about this in the past regarding what really is a quorum when we end up with vacancies.

>> Sean Kaldor: So Harvey the way this was explained to us, and I guess has been Bacigalupi probably remembers this well, gone through a few times what they are very clear is that you must have a majority of the 9 positions voting in favor of something regardless of how many show up at a meeting. So if you have 5, you have a quorum for the the meeting that means you need a unanimous vote for something to pass.

>> Harvey Leiderman: That's my understanding. Versus so if you have a vacant position you are still counting all nine?

>> Harvey Leiderman: You still need five to pass a measure. In other words, it's a majority of the voting seats on the board, whether or not they're occupied.

>> Vincent Sunzeri: Maybe it was when we didn't have Drew and Bettina on, that we had seven that we thought four might be the majority. We had a conflict.

>> Sean Kaldor: And it was five. We had run into something else a year earlier, the City Attorney got tired of fighting the issue and hand heed us copies.

>> David Bacigalupi: The problem was it had been different legal advice, many years ago, when dick and I were on the board before, we had gotten just the opposite.

>> Vincent Sunzeri: So this says in 5A filled or vacant. Should it be filled and vacant so you're including that member?

>> Harvey Leiderman: You could put the word, "whether" in front of vacant, or you could take that phrase out because it's redundant. The statement is made the presence of the majority number of seats. I always like to take language out more than I like to put language in.

>> Vincent Sunzeri: Sure.

>> Sean Kaldor: Baci.

>> David Bacigalupi: Yes. It may be redundant because on item 11, G it says other vendors as the board may determine in consultation with the CEO. But I think one of the main vendors that we hire is our medical director. I know that was a hard fought battle for many years. I think that seems to me that circulate be included. That's a very importantly position. We rely on him to a very great deal.

>> Sean Kaldor: Okay. Any other changes? So I'll make the motion to accept the -- I guess we've even changed it, the draft of the role of the board of administration, as provided to us by Cortex, with the changes made to us by Reed Smith, with the following changes, item 14 C being used to differentiate personnel budget versus operating expenses. Adding an item 11, which I guess will be I being the medical director. And changing 5A to remove the filled or vacant comment.

>> David Bacigalupi: I'll second but could we get an update, I don't have an update of Harvey's changes or additions.

>> Drew Lanza: Are you moving these be time?

>> Sean Kaldor: Yes. Tom, you can bring it back next month, we can change these things, these are not cast in stone. We have a motion and second. Any discussion on the motion? All in favor? All those opposed, trustee Santos absent. Tom, did you get all that? Are you there, Tom?

>> Drew Lanza: Tom?

>> Oh, hello. Hello.

>> David Bacigalupi: He had us on mute.

>> I had you on mute, I apologize. I was trying to watch the video. They're not quite in sync.

>> Sean Kaldor: Sorry, there's a delay with the Granicus system. It is well documented what the motion was. If you can bring back these policies kind of an FYI, we won't have to go through them just so the members can see them. We'll move on to the role of the chief executive officer.

>> Again, the board has looked at this once before, provided some input. The city attorney's office had some suggestions. Again this document is designed to provide an overview of the executive director's role. And recognizing that he's an employee of the city, the two areas where the city attorney's office had or I believe one area where the City Attorney had some concerns, was in paragraph 18, bottom of page 2. And we've made some -- and it's essentially, the original language said the CEO would hire and if necessary terminate, and we've made that language a little more general, it now reads the CEO will consult with the board with respect to the hiring of the chief investment officer and the personnel within the Department of Retirement services. And then in B, rather than evaluating the performance of staff given city rules, et cetera, we've come up with language that says the CEO would manage the processes for attract retaining evaluating, compensating et cetera personnel, the accordance of the city office of employee relations in conjunction with civil service rules et cetera. And the City Attorney was comfortable with that language. And I believe that's only change although I do understand Mr. Liederman has some suggested edits to this document as well which he and I have discussed. Invite him to share his comments as well.

>> Sean Kaldor: Harvey, do you want to run through your changes?

>> Harvey Leiderman: Thank you, Mr. Chairman. Most of them are the same, except a question. It is really your pleasure as to whether you want to continue referring to this as the director of retirement services or the CEO. The position is stated in the municipal code as the director of retirement services. So I'm not sure we have any authority to change it. But if you would prefer to think of that person as the CEO, I just went through here, and did a global replace of, from the director to CEO. As I said in the past, I think when a CEO reports to the board of directors and is answerable solely to the board of directors, that is an appropriate title of CEO. We don't have that situation here. So I think maybe that's something that we could hold out hope for in the future, perhaps. The other let's take a look at number 4 there. Again, I'm sorry, I don't -- you know what, no, I don't have copies. So this is number 4 under -- not sure where it is. Under duties and responsibilities. First page.

>> Sean Kaldor: In establishing this policy, is that the one?

>> Harvey Leiderman: In establishing this policy, yeah. Now, there are a couple of pages through this document, and you know, we just have to identify the elephant in the room. This is a policy being set by this board for how this board ask going to relates to the director of retirement services, that this board does not hire. On the other hand, the municipal code tells you that you have two things that you're in charge of. One is that you may direct the director of retirement services and staff to carry out responsibilities that you want them to do in administering the system. And second of all it says that you are in charge of the assets of this system. So from my perspective, given the hybrid nature of -- and the Janus nature of the position this poor director finds himself in, it seems the best we can do is to say what you want for this position to do, to carry out your responsibilities. Because you are delegating your constitutional responsibilities to this have it. And we have to put aside for the moment whether you get to hire and fire the individual who occupies this position. You are delegating the responsibilities and monitoring and the buck stops with you, quite frankly. So you have to address in this charter, if you will, what it is that your expectation, the director of retirement services will do, that otherwise is your responsibility. And so that's why you'll see some of these changes I made in here that from your perspective and number 4 is a good example, you are asking the director to manage the day-to-day activities of this commission in policies that you establish not that the City Manager establishes. The City Manager may impose her own requirements on this director of retirement services. But that doesn't mean they're your requirements and it doesn't mean they're

carrying on your responsibilities. Forgive me for going on too long about that but that's the underlying concept for which I have made changes here and made deletions of your endorsement of the duly leadership over the responsibilities that you want the director to carry out. It's a very difficult, a very unique role that I'm not aware exists in any other pension fund in the state of California, public employees pension fund. That's why we're struggling with it. And then number 10 is very important in my view. And I hope in yours. The expenditure of funds, you have an obligation only to expend funds of this system, trust assets for the beneficiaries of the system and to incur administrative expenses in that regard. You are asking if you adopt this amendment that I've proposed, that the director carry out your responsibilities of the exclusive benefit rule in the constitution that says that funds of this system may not be expended for anybody else's purposes. We already know there's litigation over this very issue right now. And if you're going to be writing a charter in the teeth of this pending litigation, it seems to me appropriate for you to state how you would like this responsibility to be carried out.

>> Damon Krytzer: I have a question about that. So that starts to speak, maybe, and maybe I'm just reading this wrong, to something we talked about in the past, which was not allowing groups like retirees, for instance, to use money from the plan for actuaries to look at things like the ballot measure for instance, does that suggest that at all?

>> No, two things, one is the use of system actuary for example to study something that perhaps was not the board's direction to study. The other is, who pays for it? I don't know if you've made decisions in that regard in the past. But I think we can separate those two. The board may identify that for purposes of administering the system it would be good to go along with an investigation of some kind of projection, actuarial projections or something like that. If it's done solely for example for the benefit of parties at the negotiating table, and the board otherwise doesn't need it then the question is well is it okay if they use our actuary but they pay for it?

>> Damon Krytzer: Uh-huh.

>> Harvey Leiderman: This item 10 goes solely to the cost issue and that the cost is not identified by the board as being unto the benefit of the system and its members. Then this is a direction to the director, not to expend the money for somebody else's purple.

>> Damon Krytzer: I mean that I think is where I am questioning it, right? Because what we basically said was, okay, you know, whether it's the city or it's any parties, on either side, you know, sure they could use the actuary but they have to pay for it if it is not something this board is requesting in the first place. The way I can actually interpret this is well, that actually only applies to the city because the retirees just as an example are a part of the plan.

>> Sean Kaldor: We have a policy we adopted, about that that says any unilateral, doesn't matter if it's retirees or current employees or the city, we only consider sort of a bilateral or multi --

>> Damon Krytzer: You can see where this is different, right?

>> Sean Kaldor: But this is a layer that goes on top of all other policies and directions. Like we authorize the director to say take care of my miscellaneous expenses up to \$2,000, that's our policy. This goes on top of that saying yes, we said that but they always must be used for the benefit plan. We have a category we have to approve it.

>> Damon Krytzer: So this doesn't conflict with that, is what you're --

>> Sean Kaldor: This is supposed to be policies, yellowed? Budget, but this goes on top of all that. This is how I read this, tell me if I'm wrong, Harvey.

>> Harvey Leiderman: That's correct.

>> Damon Krytzer: Woo won't pay for any of those requests this doesn't negate that?

>> Harvey Leiderman: No, not at all. What this says is we won't pay for anything in our judgment, the board's judgment, benefit the system. Item B, under 18, the top of this page was fairly restrictive, I thought. It seemed to me that rather than restricting the director to engage in personnel decisions, only in coordination of the office of employee relations and in coordinates with civil service rules, why pick those two items out? that is a minor nonsubstantive change. Number 26, is something that I think we'll talk about in the next policy, the communications policy. But I wanted to point it here, there may be times you may decide, when we talk about the communication policy, who speaks for the board. There may be times when you want the director. And whether the board chair does this or whether the board votes on it, that's entirely up to you as a governance policy matter. But I just wanted to state that. Whatever you decide in the communications policy will feedback into this item as to whose specific spokesperson at any particular time. I added in the investments that not only will the director implement the investment policies and strategies, but that this ought to include the rebalancing of the portfolio on a timely basis. And we can get into a further discussion of that. The only reason this came to my attention is, there has been some discussion over the last couple of meetings that the policy allocation may have lagged, the implementation of the allocation may have lagged and if I have that wrong, please let me know.

>> Russell Crosby: There are really two different subjects here. The rebalancing is an automatic function now, we use Russell investments to do that automatically.

>> Harvey Leiderman: Got it.

>> Russell Crosby: It is the movement to the new asset liability model that is flagging, and that's fleshing out the old asset-liability model. Entirely different animals.

>> Harvey Leiderman: Okay, so Russell, would you suggest in this one that we don't change that 28B?

>> Russell Crosby: Yeah, I would take off that rebalancing stuff, just because it's not there and there's really no way to address the other one.

>> Harvey Leiderman: Just a verb change on 29 F. I don't think the director has the obligation to validate claims against the system. I think the only obligation is to process them. And I think that's probably -- well, 34 kind of calls it out. Seems to me at any time that the director is doing something for somebody else, not at your direction, that you should at least know about it.

>> Damon Krytzer: Including the City Manager?

>> Harvey Leiderman: Yes. remember this is your policy statement.

>> Sean Kaldor: Dick and then Baci.

>> Richard Santos: Yes I stepped out of the room, but I mean, when it came to recalling the director, I was really happy to see that. I just said see you at the time because used to label Russell as the secretary and I used to go, how? I don't know if I missed the day they were talking about the medical doctors, I assume we're all in synch and we'll move everything we wanted to.

>> Sean Kaldor: Are approved that in the last one.

>> David Bacigalupi: If I understand correctly, Harvey, this is our policy, we write our policy as it should be even though the nuances of our system don't always allow for the normal implementation. Of how the different processes work.

>> Harvey Leiderman: That's correct.

>> David Bacigalupi: So this one very specifically, if somebody, anyone else requests that is our policy.

>> Harvey Leiderman: That would be your policy. It is not inconsistent with --

>> David Bacigalupi: If director's supervisor who hires, fires, says I want you to do this, and you can't -- you know you're not to go back to anybody else and tell anybody that I've directed you to do this? It's a rock and a hard place, I mean, he's got our policy but he still works for somebody else. So common sense would dictate, I.

>> Russell Crosby: , that means going to a department head's meeting, going to a senior manager and beyond meeting, a regular Wednesday meeting with my boss who is Alex Gurza. Any time there's an activity, I mean this is going to be endless.

>> Harvey Leiderman: I think if you have re-- if you have regular meetings like that department head meetings and meetings with the boss, one notice to the board that I regularly engage in these meetings, is sufficient, you don't have to punch the card every time you go downtown. But it's up to you, it's up to the board. I throw this out here and I leave it to your consideration as to what level of information the board would like to have. I recognize, I don't think any of us created the rock and the hard place so we have to deal with it.

>> Sean Kaldor: Sean.

>> Sean Bill: where he is reporting to the City Manager and commute City Manager et cetera. So I don't know, it seems to me it's a little bit overly-invasive personally.

>> Vincent Sunzeri: And that's not the intent, I hope, so maybe the wording should be radio little bit dint. From my perspective, really, what time of staff is being taken away to work on things that the board isn't really directing, and really for us the most important thing is what's happening with the director. If he's being told to do different projects that take him away from focusing on what we want to have accomplished for this plan, we should know about it. We are much more concerned about staff, you know the accounting staff or whatever it might be. We need you to do this analysis and we're wondering why things aren't happening. It's just nice to be kept abreast of it. So I'm not sure how this enters into this discussion.

>> Sean Bill: So then the question in my mind is, let's say Russell has to go to a meeting with the City Manager to discuss some options regarding the plan, that might be you know, controversial, right, and how does he report that? Is that something that he's supposed to report, when there are members on this board who are, you know, members of bargaining units, and how does that all come into play? I think that's an important one to sort out.

>> Harvey Leiderman: I would think, if I may, anything, I would say activities that affect the administration of the plan. And we could put that language in there that would limit it to things that, events that you've got the question which you raised, you know, if it's taking staff around in going to attend to, you'd like to know that. You know, to your question, I don't know if the director is engaged by the city negotiating teams, for example, to talk about things that are within active litigation. And maybe you can't tell us. But -- I don't think that's really -- the intent of raising this was things that affect the administration of the plan.

>> Russell Crosby: And I would feel much more comfortable with that.

>> Harvey Leiderman: That's the intent. Why don't we carry it, engaging any activities that go affect the administration of the plan.

>> Sean Kaldor: The study session that I was drawn, prepare or what position you were put into, but here we are running a plan hand the director has to be put into a spot, now you're putting that spokesperson's spot and that's - - it's not a negotiation issue and it's not just a regular meeting issue but does that really affect the administration of the plan, but you're out of pocket for a day, how much -- to support that discussion just to realize we are paying for that resource and when we say we can't get done things that's a factor.

>> Russell Crosby: I wasn't involved in the background or anything and yes I had to go to the meeting, and I notified both board chair that I had been directed to attend the meetings and I didn't I think there was going to be any speaking on my part and there was no preparation ahead of time. I didn't even know what they were going to do.

>> Sean Kaldor: Right, my point was, they could have easily said, we need a five-year analysis, and --

>> Russell Crosby: My first view was at the meeting.

>> Sean Kaldor: -- you could have been putting a lot of staff for it because maybe just allow us for that.

>> Damon Krytzer: Is the issue clearing at time or what puts the board at conflict?

>> Russell Crosby: It is really both issues.

>> Bettina Rounds: Does the word administration cover both issues, I mean, to your point Damon, and maybe it does. But because it's the administration and policies or the administration in governance. I think administration can be interpreted in a very limited way.

>> Damon Krytzer: I mean from a time standpoint, and to Sean's point, it's not like every time you use the restroom, we need to know. I think what we'd like to know is, okay, you know what, 70% of my time was done doing nonboard related stuff and this needs to change. I think that's sort of the spirit from the time standpoint. The reason we're really having this discussion I think you know is probably in response to a lawsuit. Where we don't necessarily have control over everything that you're directed to do, either. And I think that that to me seems like the real spirit of what we're trying to accomplish here, if I'm reading that right.

>> Harvey Leiderman: That's right. And by administration I think we need the board's administration of the system.

>> Bettina Rounds: Right.

>> Harvey Leiderman: So that encompasses both. If you want to say board's administration that's fine too. So it's understood. It's everything relating to the board's responsibility under the constitution to administer the system.

>> Damon Krytzer: Here's the rough part also. We interpret this all one way, we're all sitting here but this document's supposed to out live all of us right? And that's going to be interpreted by so many people and so many different situations. I don't think that's an answer for that.

>> Harvey Leiderman: That's why the good people at Cortex, this policy will be reviewed every three years. Its shelf life is not Strontium 90.

>> Vincent Sunzeri: And a minor suggestion that we run it through spell check. There's some spelling errors I picked up and be kind of embarrassed to adopt something like that that has errors like that.

>> Harvey Leiderman: An easy one, maybe cosmetic for you to talk about is, do you want to refer to the director of retirement services as the director or CEO?

>> Sean Kaldor: I think your nuance is exactly right. To the degree it's spelled out in the municipal code and the person works for the city manager, it's the director. As soon as we're able to appoint this person and we can make that fundamental reporting relationship change, then it is a CEO of a system.

>> David Bacigalupi: I'd move to approve the policy as corrected and changed during this discussion and presentation.

>> Second.

>> Sean Kaldor: So for clarification those corrections were that item 34 would say add the phrase about boards administration that item 28, we would not include the phrase about rebalancing. That we would run a spell-check. And that it would include Harvey's modifications. And we'll leave 26 in there but we can revisit it right when we do this next policy. Is that what you --

>> David Bacigalupi: Perfect. You've got it exactly right. I'm impressed.

>> Sean Kaldor: We have a motion and second.

>> Russell Crosby: Sorry who's the second?

>> Sean Kaldor: Sunzeri. All those in favor, say aye, seeing none opposed, motion passes unanimously. Tom, board communications policy.

>> Great, thank you very much. I do apologize for any spelling errors. We will address that. The board communication policy, really just a couple of acute areas where we made some changes. One and I understand the board discussed this issue, subsequent to the review of this policy, the idea was put forward that the board at least wanted to consider the option of having the board's general counsel serve as spokesperson for the board and the system as opposed to having the board chair. So we flagged that as an alternative for discussion today on page 1, under the heading spokesperson paragraph 3. And I believe the board's had some discussion in that area already but you may want to try to resolve that today. A related issue on page 3. The last meeting, the City Attorney felt there was some contradictions in this area, so we tried to address them and City Attorney was comfortable with the changes. In paragraph 18, rather than address broad media communications which should be the role of the spokesperson, we've sort of focused on press releases and the board needs to decide would a formal press release be the responsibility of the spokesperson or the director. So that should be discussed. And then, paragraph 21, we just -- no major change. We just clarify the language a little bit. Hopefully, it's a little bit clearer. The City Attorney was more comfortable with this language. The disclaimer I believe is identical. And that's essentially it for this policy. I believe Harry has suggested edits for this one as well.

>> Sean Kaldor: Harvey.

>> Harvey Leiderman: Okay, nothing too extensive. So just teeing up item on the first page, how do you want to handle the spokespeople or person. Board chair, who's going to do it, who's going to say is there going to be a

default setting so that's just something for discussion. Item 9 I wanted to make it clear. That under the Brown Act, I added language that's consistent with the more recent amendment to the Brown Act, that makes it a misdemeanor for board members to disclose any confidential information they may have obtained in closed session to anyone outside of closed session. Really a minor edit to item 10, in terms of providing notice to the city council. It's really not substantive, just in terms of notifying timely notifying and providing public notice of meetings and that sort of thing. Not significant. Item 12, use the CEO language and chief operating officer language, we don't have chief operating officer, I'm sorry, Donna is chief operating officer, that needs to come back in in number 12. But basically number 12 is to govern the communications between board members and staff. So that I've seen many times in other places board members just occupy an enormous amount of time of staff to the system. So that's a good addition. I'm sorry, Tom, I took the Canadian spelling out of 16 for favoritism.

>> Quite right.

>> Harvey Leiderman: And I think that's about it. Whether you want to call it general counsel, legal counsel, doesn't matter to me. So the key issue I think here is, who do you want to be the spokesperson, under what circumstances, and who picks that person, unless you want to do that right now.

>> Sean Kaldor: Dick.

>> Richard Santos: Well it depends, it could be general counsel, legal counsel. In my opinion I would want to see the board chair have that authority. And again it needs to be flexible. Because it may you at one time, it may be Russell. But it has to be some sort of consistency. Because I think in the past the City Manager may have given direction to Russell and that's in conflict with what we may want to do or the board chair. So I would concede it to the board's chair. Nos. the board members feel differently.

>> Sean Kaldor: Vince.

>> Vincent Sunzeri: So couple things, first on 3. I'm comfortable with the comment that the board chair is a spokesperson except I believe in matters of litigation, ballot measures, I believe the board collectively should determine who the spokesperson should be with those sensitive issues. And then on a different bullet point under 16. And under 16, it towards the lower part of the paragraph it says that board members are expected to refrain from actively seeking out investment opportunities for the system. Actually one of the benefits of having board members in the investment community is, they might be able to bring forth some interesting opportunities that staff, the deputy director or CIO may not be aware of. So I would suggest watering change that the CIO or the investment committee. So we have a chain, a flow on how those ideas might come through the system. But we don't prevent that from happening completely.

>> Harvey Leiderman: Second sentence of paragraph 16 says that, I believe.

>> Vincent Sunzeri: Currently it says --

>> Russell Crosby: Says refrain.

>> Vincent Sunzeri: Currently it says board members are expected to refrain.

>> Harvey Leiderman: The sentence above that.

>> Sean Kaldor: Here's an opportunity to go after it but you're not supposed to pick up the phone according to this policy --

>> Vincent Sunzeri: I would include in this the investment committee. CEO, correct. That might be another process to vet those ideas as well.

>> Sean Bill: I think that the whole reason many of us are here to bring our investment expertise. I think that would do no service to the fund to say you can't bring ideas to the table. That kind of defeats the whole purpose of having people on the board.

>> Sean Kaldor: So just because I'm kind of trying to write this down, you're saying that board members should refer investment opportunities or other CEO or the CIO or the investment committee for investigation. There's a sentence after that?

>> Damon Krytzer: And then strike the last one.

>> Sean Kaldor: And the last sentence is gone.

>> Correct.

>> Sean Kaldor: Just to cover everybody here, there's not going to be any conflicts, if somebody calls up bob, says it gets referred to the committee, so the whole committee hears it. I just wanted to keep everybody safe.

>> You could always note that Vince brought in XYZ.

>> That should cover it.

>> Sean Kaldor: Great.

>> Vincent Sunzeri: Going back to the third bullet point I'd be curious on the thoughts. My suggestion is when we get to what I consider to be sensitive matters that the board collectively decide who's the spokesperson rather than the board chair speaking unilaterally.

>> Sean Kaldor: Russell.

>> Russell Crosby: My suggestion, to have your general counsel speak for you. Not the chair, not the CEO, not me. And you don't know at any given point where the litigation is going to come from. So by saying oh well if it's a litigation matter or it's a ballot measure let's send it to the counsel. Well, you don't know. I may say something or he may say something that generates the next lawsuit. Why don't you just put in the boards that I've worked for in the past the only person that spoke for the board was the general counsel.

>> Damon Krytzer: Our general counsel struck that, though.

>> Vincent Sunzeri: He did, I'm curious why he did that.

>> Harvey Leiderman: Well, in matters that are litigation or involved in legal affairs, ballot measures, things like that, I think that's fine. I have noticed in my career that being a lawyer communicates something to people off the bat, that you may or may not want to communicate. Every time you're asked to talk about something, for example, if someone that raises, you know, asks a question, from the media about how many people are in the system or something like that. And then you bring out your lawyer to answer that question, that may communicate a defensiveness or some other attitude of the board that is something that you're not really trying to communicate here. I mean all you're trying to do is just have one person be the spokesperson. So sometimes, being a lawyer is not a plus.

>> Vincent Sunzeri: He would concur with that. Again I'm comfortable with the chair serving as the spokesperson and only the chair. But I just want to make that distinction between when they should and then when it goes, if we choose for it to go to legal counsel.

>> Sean Kaldor: Myself and then you Baci. The challenge with all of this is if some reporter calls on issue X and their point is, the plan is massively unfunded. Maybe that's their point of view. I can talk to them for three minutes and they will get the ten seconds where I say unfunding is a serious challenge and they caught it there and there's not the rest of the discussion and the whole caveat up front or we're still in discussions about this, we have a lot to

think about here. It is a tough spot to be in as current things have shown out not just on litigation but it can be the role of independent people on the board, role of employees on the board, future cost forecast, how are things working, it could be any question, the effective staffing on plan performance. If they want me to start talking on that I can give them five sentences and there will be one sentence in there that fits in with the story and that's what they can use. I'm not saying that they manipulate things. I gave them that sentence, that sentence is there but that just thrown out there will make it look, hee goes Sean again, here goes the chair again trying to stick it one way or the other. Having the board chair speak as the spokesperson opens it up to that situation. And other than saying hey we'll record the whole conversation we'll share the whole conversation with the board or I don't know another solution, punching it to the attorney yeah does make us seem like we're hiding something but it insulates any individual one of us saying, he's causing a problem, he's trying to be a muck raker here.

>> Damon Krytzer: Why don't we go through annual media training and keep the board chair, we're arming you with --

>> Sean Kaldor: I'm willing to do this. But don't shoot me, we saw the sound bite that's not what's going on, that's one of the issues, the issue they were focused on today.

>> Vincent Sunzeri: My thoughts are you have to intelligently determine when you want to sit down and when you just walk away. The second thing is at a at least at our firm if you're going to have any kind of communication with the media you get those questions in advance so you can prepare a response and if a question is asked that's not on that list you don't respond to that. Now they may certainly take one sentence of your five-sentence answer, and you can't control that. But at least we know what the responses, given what the questions were.

>> Harvey Leiderman: One of the nice things about working for a publicly traded company is you have the SEC all over you if you make a statement that moves the stock price. So folks in private business have learned and have been trained that they are not -- you know their answer is no comment and they don't get ahead of the quarterly reports for example. Folks in the public sector don't have that to worry about so they have other things to worry about. One of the arts of being a spokesperson is knowing when not to speak. And there are many times

when the question from whatever source is not simply seeking information, but seeking a sound bite. And there are time to not offer a sound bite. So I'm perfectly comfortable being the spokesperson and frankly if there are situations where I think you don't want to have an attorney be the person who interfaces with whoever's asking the question I'll just say so. Because you know, my default setting is, the board has no position on that particular issue. And if the board is going to form a position, it will have to be on an open, public agenda at our next meeting. Period.

>> Sean Kaldor: So I -- if the preference is to not put Harvey in that spot and make it look like we're hiding, I can take that on, I would agree to go through media training, I've dealt with media a lot but usually not in this type of role. I want to still be realistic about the mayor was interviewed with his PIO and media advisor and still they got the little sound bites they wanted to use. I respect the media tremendously. I believe they are going for the truth and honesty behind things and they have to dig for things. When they hear us say these things they're pulling it out and now they've gotten to it. But it doesn't necessarily get to the.

>> I think Sean has a much higher respect for media than I do. My thoughts are just during this period of going through a lawsuit, I actually think several people sent me the clips from you guys on the TV and I thought you guys did a very nice job of speaking and you were very articulate. But what stood out to me was, the board feels and that was a little bit disturbing to me because none of us had discussed these issues, okay? It would have been in my opinion wiser to just say no comment. You know. I'll refer you to our legal counsel because we have lawsuits pending, we do expect that we'll have more lawsuits pending, right? I think we have a person that's capable of handling this thing. I think it would make a lot of sense until we get past this period to ask him to lead the effort with media. Once we're past this effort, I think Sean you were very photogenic on TV. But from a liability standpoint I think you're putting all of us out there when you guys go out and speak. And I don't want to be out there.

>> Sean Kaldor: You're much kinder than the guys in the department. They said the camera adds ten pounds. Exactly how many cameras were on you?

>> Damon Krytzer: A little water weight associated.

>> Sean Kaldor: Baci.

>> David Bacigalupi: I actually like the way it's worded by heavy. The chair would be the spokesperson but you may delegate that. I could see where there would be many issues you'd delegate that to Harvey. You'd say that's a legal matter you'd have to speak to our counsel for answers to that. You're going to have answers to refer to the director because he's got the the information. It could be an investment thing well let me refer you to our investment committee chairman, who was involved in the decision making of hiring this company that maybe something sprung up on this company that we hired and stuff. So I can see where there would be times where you would want to delegate that and I think that would be effective.

>> Sean Kaldor: I think the discussions we had earlier all predated the lawsuit. Now we have the issue which absolutely I don't want to say anything that interferes with the lawsuit. Something I can't comment on anything to do with any of these issues.

>> David Bacigalupi: One of the other things just to seek into to that is there is a lot of things that get -- interviews that take place that don't get played for months and so --

>> Sean Bill: And I don't think anybody wants to muzzle anybody, you have to have the right to speak, First Amendment. We have to be very, very clear that when any of us are speaking that we don't represent the board and we're not speaking on behalf of the board. Because that's the first thing that come comes out on that TV spot is the board is da da da da. Okay? So I think that you know, we don't know where the lawsuits are going to come from and Baci, I thought you were very articulate either.

>> David Bacigalupi: Cut the ten pounds part. I don't want to hear about that.

>> Sean Bill: We don't know where our lawsuits could especially in the six months coming through the system. So I think if not, on a temporary basis, that we delegate to our legal cowl until we get through this period and we shift back to a normal operating procedure where the chair would be able to speak on behalf of the board. We have so many potentially liabilities that we should be very, very careful.

>> Sean Kaldor: All right so how do we -- I'm kind of hearing a couple of different ways of handling this.

>> Richard Santos: Chair, I support what I said, Dave has said, I think is appropriate. This is a responsible position and we're all going to have fiduciary responsibilities. And if you don't count on your chair you elect him every year or her. That's the way it's supposed to be and he has enough experience and knowledge to delegate when it comes to Harvey. Sean, you're right, there are going to be a lot of situations coming up and I'm going to put our authority with the chair, that's where I stand.

>> Vincent Sunzeri: I just want to be clear that if we're going to go in that direction I think we need to be much more definitive about what we as the board are comfortable allowing the chair to comment on and not comment on. And I'm not comfortable with any care whether it's Damon Drew, Bettina, doesn't matter who the individual is, commenting on very sensitive issues that might put us in a difficult spot. And so whether it's matters of litigation, ballot measures, I think that's where the board chair needs to defer to legal counsel and I think we need to be a bit more specific in language here.

>> Sean Kaldor: I doubt there are things the media would want update on plan performance. They're not going to call to ask about that. It's going to be an issue that's controversial which would go to the -- Bettina and then dick.

>> Bettina Rounds: Well to your point Harvey about worrying whether we look bad because we do defer everything to a lawyer, I think it looks worse if we have the chair, the first line, and then he defers it to the lawyer. Because I think that then really looks like you're you know running. And so I just think -- and we-and didn't we say we could change this at any time. So I would recommend certainly from my point of view that we say for

the next six months, we just -- as long as we know that there's stuff out there, let's just give it to Harvey and take poor Sean out -- his friends don't have to comment on his weight anymore.

>> Russell Crosby: It's also very tidy from a staff standpoint. Because we get calls that come in in all different directions from all different places. And if we can simply say, there he is, go talk to him. It will make life a whole lot cleaner for us and easiest for us to support that over a lot of angles.

>> Vincent Sunzeri: I would be supportive over the next six months at least.

>> Sean Kaldor: And we could revise this and change it.

>> Vincent Sunzeri: We just added ten pounds to you Harvey.

>> Harvey Leiderman: I wish the cameras aed hair. I think I've been nominated as the only hydrant at the dog show.

>> Sean Kaldor: I'll make the motion to adopt the board communications policy as drafted by Cortex with the modifications recommended by Reed Smith. With the following changes. First of all, that item 16, the last sentence will be removed. And the second to the last sentence will have the investment committee as one of the places that proposals should be brought to. Also, that in item 3, there will be the alternative proposed, the board apples general council serve as the spokesperson for the system, or may delegate, serve as the spokesperson for the system and then item 18, as you had drafted in there saying the spokesperson, press releases concerning the system will generally be the responsibility of the spokesperson. Such releases will be shared beforehand with the board.

>> David Bacigalupi: Second.

>> Sean Kaldor: We have a motion and second. Any discussion? Seeing no discussion, all those in favor? Aye? Any opposed, seeing none opposed the motion passes unanimously. We will now revisit the role of the chief executive officer. Item number -- we didn't accept anything on this, right? So for the CEO, the issue was item number 26, a CEO may serve as a spokesperson for the Department of Retirement services and shall not represent the board or communicate on behalf of the board unless authorized to do so by the board. Is there proposal for how to rephrase that?

>> Sean Bill: Shall we leave that to legal counsel and ask them to forward it on to Tom?

>> Sean Kaldor: I thought we'd adopt it now and not have to revisit it. 26 was in the air. We said we had to revisit number 26. Accepted the rest of it but we had to do the communications policy before we could come back and talk about the CEO's communications policy.

>> Russell Crosby: We actually had a motion.

>> Sean Kaldor: What did we say about it?

>> Russell Crosby: Approved as modified, 34 add board of administration, 28 delete rebalancing, do a spell check, Baci moved, Sunzeri second.

>> Sean Kaldor: Does anyone want to revisit that prior motion then for item 26, saying the CEO may be the spokesperson for the Department of Retirement services and not on behalf spokesperson for the department. But not for the board or the plan really. Is that good with everybody? Baci Baci.

>> David Bacigalupi: Based on what we just said, it seems to me we would want to eliminate what the entire section. What we've just designated, we've set the policy that our legal counsel is going to be our spokesperson unless we change that. This is in conflict with that. For that reason, I'd move that we eliminate item number 26 from the policy regarding role of the chief executive officer.

>> Sean Kaldor: We have a motion Bacigalupi and second Santos. All in favor, all those opposed, seeing none opposed, most passes unanimously. Tom, we have begin you a fair chunk of work. Can you update those and bring those bass as accepted?

>> Certainly.

>> Sean Kaldor: I realize the investment policy needs feedback from the investment committee and investment staff.

>> Damon Krytzer: Did we get an updated? We vice president seen that in two months.

>> Sean Kaldor: Tom, would you give us an updated version of IPS?

>> Certainly, working with staff, that's about ready.

>> Sean Kaldor: Okay, anything else from us?

>> No, that should do it.

>> Sean Kaldor: Does any member of the board have preference for what policies come forward next month, assuming we spread these out over the next two months? Okay, Tom pick a is up set that can take a reasonable period of time, keeping in mind investment stuff may not be ready for next meeting.

>> Great, I will, thank you very much everybody.

>> Sean Kaldor: Okay, let's continue with the orders of the day, item 3.2, update on payroll FLSA and overtime issues.

>> So the last update I received from the city was that local 230 actually wanted to sit down with the city and the plan's external accountant to go over the FLSA corrections. I understand that that is going to be scheduled for late in April. They're still kind of working out some of the logistics and getting the dates set up. At this point we are waiting for the information to come back over from the city. But I'm not sure if we want to go through all of the process if the numbers have a potential of changing.

>> Sean Kaldor: At least we have a list of who was impacted and roughly how much. We know the size of that issue and things are moving along. I understand there might be issues with the numbers or there's concerns about how it's going to get paid off, and we're waiting.

>> I'd like to file with the city in either case and to move forward with it.

>> Sean Kaldor: Thank you. Item 3.4, we will revisit, if Councilmember Constant comes back in time while we're still in session. Item 3.5 update on the vacant trustee position.

>> Russell Crosby: It's going through the City Clerk, regular process. There's I believe only one candidate on the ballot, and they're still going through with the ballot. I think because write-ins are allowed. But it's moving.

>> Sean Kaldor: Do we know the date that the POA is having their election?

>> Russell Crosby: I don't, sorry.

>> Sean Kaldor: There will be an update next month, we can get a date of their election and when council will appoint it.

>> Russell Crosby: When it will be seated.

>> Sean Kaldor: Really, the question is when will we expect this to be on the board.

>> Donna Busse: Coming up, I don't think it's going to happen for your next board meeting.

>> Sean Kaldor: May not do in June, probably looking at August. They get names, middle of may, maybe June.

>> Russell Crosby: It usually moves pretty fast. Once the election is held the clerk moves it right through.

>> Sean Kaldor: We're going to be going through education sessions, the more they're here for, the better. That takes care of those situations. We now go into closed session. And when we return from closed session, well, let's get an opinion from everybody else. Can I move a schedule around at this point without it being an issue?

>> Russell Crosby: There's your issue.

>> Sean Kaldor: We're going to be losing some people here. I want to --

>> Russell Crosby: Question on can he change orders of the day at this point and take something out of sequence? It's really the consent calendar, death notifications. And then you can do your closed session, everybody doesn't have to hang around for to you come back.

>> Harvey Leiderman: I don't see any problem with that.

>> Sean Kaldor: Okay so we'll do that quickly. We'll go through these. First of all, we did the service retirements. So we'll do the death notifications. These are all note and file. Item 5.one, notification of the death of W.J. Til Mon Martin, police sergeant, retired June three, 1987, died February 28, 2012, survivorship benefits to Marilyn Martin, spouse. Notification of the death of John Riolo, fire captain, retired June 3, 1987, died January 30, 2012. Survivorship benefits to Patricia Riolo spouse. Notification of the death of Christopher Shimek, police sergeant, active employee died November 27, 2011, survivorship benefits to skylar Shimek son. Notification of

death of Richard S. Weiser police officer, retired March 11, 1995, died February 20, 2012. No survivorship benefits. With the patience of the board I would ask for a moment of silence for these public servants and the time they served. [ Moment of silence.]

>> Sean Kaldor: Thank you. We'll move on with committee minutes for the investment committee. We've had the report from the chair, so we can approve -- we just accept the minutes of the meeting. So item 6.1 B is just a note and file accepting the minutes from the investment committee meeting. The ad hoc committee I understand we're waiting for the ballot measure and focused open the implementation. Finally we have the consent calendar, itemsen, we have with the recommendation of staff moved two more items into the consent calendar, item 7.1, which is the normal approval we normally do, no reason to break it out separately and rescission of retirement. We also decided to start moving those into the consent calendar just to save time. Is there anyone that would like to pull items from the consent calendar? I'd like to just pull itemsen.8,B, bravo which is a list of committees and members. Is there anything anyone else would like to pull?

>> David Bacigalupi: Move approval of consent calendar.

>> Sean Kaldor: All in favor, opposed, that passes. 7.8 B, the bottom of my file. So this is a list of who's on what committee. If you flip it over to the back, what I was discussing a little bit earlier is moving things around a little bit. Who's on what committee. Some are on many committees some are on no committees. So my recommendation on the ad hoc governance to reactivate that, but adding bent, and we're talking about Sean and Vince as alternates in the ad hoc committee. For the investment committee, with Conrad gone I've stepped up as the alternate to being an active member. We're talking about somebody stepping into the alternate role Vince, Mr. Bacigalupi would you be interested in being an alternate for the investment committee?

>> David Bacigalupi: Okay.

>> Sean Kaldor: So on the investment committee Sean Bill you are on the board and an alternate for the governance. Myself chair of the board on the investment committee and chair of the investment

committee. Damon on the board and the investment committee. Drew on the board and the disability and the governance committee. Keeping in mind the disability is inactive. Bettina on the board and pulling you into the governance committee. Dick vice chair of the board and chair of the disability process and then the governance committee. Vince, on the board, chair of the investment committee, and also, open the disability committee. And then that's it for the committees.

>> Damon Krytzer: And alternate.

>> Sean Kaldor: Yes, you're also alternate on the governance committee.

>> Vincent Sunzeri: The only suggestion I have is do we want to conclude the disability until there's a need to start it back up because nothing's happened there in probably four months or so. And I just wonder if this might give us an opportunity to look and see if there's another strategic area that we should focus on. And that would free up some board resources to go in that direction. Just throwing it out there, I don't know if it's critical or not.

>> Sean Kaldor: You okay with deactivating it shutting it down and we could reconvene it however, whatever everyone wants to do. Is there a preference?

>> Richard Santos: If it's not broken leave it alone.

>> Harvey Leiderman: Mr. Chair from a Brown Act point of view it's better to decommission it, so it doesn't look like a standing committee that never meets.

>> Sean Kaldor: So we can shut it down and then it would be easy enough to reexcavate it and give them a new objective when that time comes. So for the minutes we can pull that off the regular committee meetings but we would need to add the ad hoc governance meetings. Okay, 7, 8, education and training I'll highlight 8.4 the Cal APRS training.

>> Donna Busse: Sean you need to approve that.

>> Sean Kaldor: Thank you. I'll make a motion to approve 7.8 with a modification. Motion and second, do we have any questions? All those in favor, opposed, seeing none opposed item passes unanimously. 8.one, and 8.2-

>> Drew Lanza: I would thank Veronica, we all paid our insurance stuff.

>> Sean Kaldor: 8.2, Cal APRS trustees training here, double tree hotel, Saturday, up 8th, I understand people have stepped up to help chaperone that.

>> Damon Krytzer: Not willingly but I went along with that, okay?

>> Russell Crosby: We still need to know for purposes of approval though who's going to go. Even if you are doing something there --

>> Sean Kaldor: Let staff know if you will be attending.

>> Russell Crosby: Only person we've heard from is Dick Santos.

>> Sean Bill: I'd like to attend the Cal APRS, those are good. There is also a S ampCRS conferences to be very good very informative.

>> Sean Kaldor: Can we add that to the.

>> Sean Kaldor: All right, proposed agenda items public comments, we have one.

>> (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) the Medicare retirees have an option to get reimbursed for the medi-Cal part B. We have about 80 some percent who actually apply and get that reimbursements and there are a number who 10 or 12% is but what I'd like to do for the association and ask the retirement services to do is to release the names of the individuals who didn't apply for the Medicare part B and the association would take care of notifying these members and finding out if there's a an address problem what's going on why they are not applying for their benefit. So that's what I would ask for help from the retirement board is to direct retirement services just to release the names of the individuals who were -- who could apply for the Medicare part B reimbursement and who didn't.

>> Sean Kaldor: Baci.

>> David Bacigalupi: Just confirming that there would be no indication of involvement of our staff doing phone calls or legwork or anything like that?

>> None whatsoever.

>> Sean Kaldor: I don't each need to ask. Harvey.

>> Harvey Leiderman: You should have a buzzer or something.

>> Sean Kaldor: Special buzzer.

>> Harvey Leiderman: I think the request I understand but it raises some serious privacy issues, confidentiality of member records, people have identified may have made for their own medical coverage without deep research on the subject matter my sense is, that we can't release that kind of information.

>> Okay, I just -- I needed to -- I wanted to ask. Because being the president of the association we would like to see that the members are associated. Without actually knowing if there's a problem in the communication

process, we don't know who to contact to try and get them the benefit that they've been negotiated for. So thank you.

>> Drew Lanza: Can you think Harvey a way to get members that information? Since we are charged with helping people.

>> Harvey Leiderman: We put a newsletter out, put something on the Website. Totally supportive. Obviously you're trying to do something that you believe will benefit these members. But folks are very sensitive about the release of that kind of information. And the courts have basically carved that out as you know an area of privacy that is still preserved. So.

>> Russell Crosby: And Donna what's the process of notifying?

>> Donna Busse: We send letters out to individuals that are eligible already. I think what he's asking is following up with people who don't respond. And I think our information, I think the information is on the Website. I'll have to double-check that. I think the information is on the Website but I'll have to double-check that with Carol. Of the availability to do that, I guess. I'll double check that.

>> Harvey Leiderman: In other words, the advice is on the Website now of the plan. To people, that that is an available option for them to choose. If they choose not to do it, it's a problem with our releasing their identity to your organization.

>> I understand. Just the fact that most Police and Fire after they retire they turn off. So the Web -- when you talk about Website and all of you here are very wired. My older employees who are on Medicare, they're de-wired, de-everything so that's very difficult when you say it's there. I appreciate that but --

>> Harvey Leiderman: Are they open automatic deposit?

>> No, not everyone is.

>> Donna Busse: We also put notification on the check stub as well. We do that as well. We send a letter out and then we also put a notice on the checks that this is coming up and to get your part B in.

>> Sean Kaldor: If they're not doing the Medicare part B does it cost the plan more or less? Doesn't change anything?

>> Donna Busse: It is reimbursement up to the maximum amount, up to the maximum subsidy they're allowed to get reimbursed up to the maximum of Medicare part B.

>> Sean Kaldor: If it's saving us to do more outreach, if it's not, it's not. Got it. With that we will move into closed session. For that we turn off the cameras, we'll go into the other room.

>> Vincent Sunzeri: Can I take one comment?

>> Sean Kaldor: Yes.

>> Vincent Sunzeri: I'm in downtown rotary for San José, next week we have a debate on pension reform between Councilmember Constant and Councilmember Kalra. And if anyone wants to join me, as a guest, please let me know. I can probably bring about nine people along. I've extended the invitation to the Federated chair. So if anyone has an interest, it might be interesting.

>> Sean Kaldor: So it's yes for Councilmember Constant and no for Councilmember Kalra?

>> Vincent Sunzeri: I would imagine.

>> Sean Kaldor: Okay, let's go into closed session and we'll go into the other room, no staff, no councilmember, no recording. When we're done we'll come out and report out from that closed session and then we'll adjourn the meeting. [ Closed session ] [ Concluded ]