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>> Sean Kaldor: Start in one minute here.

>> Sean Kaldor: Good morning. We'll call to order the March 1st, 2012 meeting of the San Jose Police and Fire plan Board of Administrations meeting. We have present Sean Kaldor, Richard Santos, David Bacigalupi, Sean Bill, Damon Kreitzer, Drew Lanza, Elizabeth Rounds, Vince Sunzeri, and our last trustee position remains vacant. We also have present Pete Constant. I will point out, Russ Richeda could not be present today. Russ had a car accident this morning that was apparently quite serious. He appears to be okay, but the car was totaled, so he will not be able to make it. Our wishes go with him. Hope everything, goes well for him. A few administrative items. First of all you received a big packet, that is for our next board meeting, you don't need to tear into that now but keep that handy. That will be for the retreat on the 7th. Another administrative item, I received an e-mail, form 700s will be due. Please everybody, I know we had an issue in the past. Please fill out your form 700, should not be significantly different from the prior years.

>> Damon Krytzer: There is a form you have to sign and turn in right?

>> Sean Kaldor: The City Clerk's office should have a copy for you. Up third floor. Orders of the day. So on your agendas several changes. Items 4.2 A and B have been deferred. Those are the two disability cases both deferred per the request of their attorneys. Under item 2.2, item G, was added passed our sunshine deadline. -- past our sunshine deadline. I'm sorry, just 2.2 G was added. Items 2.3 and 3.2 have documents and items that were added after sunshine, specifically 2.3 had a cover memo added. And 3.2, we received the document after the deadline and also received a letter supplementing it from the deputy City Manager Alex Gurza. So I'd ask for --

>> Move to waive sunshine.

>> Sean Kaldor: Motion and second. All in favor, passed unanimously, waive sunshine and add those to the agenda. Item 3.5 received allocate but not sunshine issue. And lastly, on each of these items today as always if there is public comment, I'd ask you to come up to the microphone and then we'll have our discussion. last bit on

orders of the day. We'll move up item 3.4, about the selection of legal counsel, to see if we can pass that item and have them participate in the rest of the meeting. 6.4 A, chair of the investment committee, I understand there's work out, any other comments on orders of the day? Seeing none let's start with item 3.4. Item 3.4, discussion and action on discussion of legal counsel and authorization of the City Attorney and board secretary to negotiate and execute contracts for the terms of three years with the following firms, firm Reed Smith for a contract 500 thousand and Ice Miller, and Saltzman and Johnson. And I believe we have Harvey leaderman from Reed Smith and Russ Richeda of course cannot be here from Saltzman and Johnson due to the car accident.

>> Damon Krytzer: If I could make a motion to approve all of thel.

>> Sean Kaldor: Motion and second. Any discussion?

>> Mollie Dent: I just want to clarify on Saltzman and Johnson, on related services there may be contract negotiations there's some services that relate to family orders, family law matters and probate matters that we think it will be more efficient for Saltzman and Johnson to handle than Reed Smith and both firms have agreed to do that so we'd split the work up a little bit more. And I do want to take the opportunity to introduce Mr. Leaderman and he has his associate.

>> I can't hear.

>> Mollie Dent: I want to take the opportunity to intros Mr. Leaderman of Reed Smith and and we won't have Mr.-- we will not have the firm under contract today. I think that it would be totally appropriate to have them sit here at the table but I don't think they can represent the plan until we actually have them under contract.

>> Sean Kaldor: Sure.

>> Mollie Dent: So thank you.

>> Sean Kaldor: Further discussion.

>> Richard Santos: Mr. Chair, I have read the selection process, for those retirees who might be watching could you give a brief synopsis, why the proposed changes and before we vote and so on.

>> Sean Kaldor: Absolutely. Mollie do you want to walk through the processing that was done to select the firm.

>> Mollie Dent: Sure, I will do that. We started this back in July, when the city attorney's office came to the board and told the board that the city attorney's office just was too understaffed to continue providing services to the board as we have for many, many years. And we advised the board that we wanted to do an RFP to select outside counsel for the boards. In October the board reviewed a summary that we did of the RFP and we posted the RFP in October. We received responses tot RFP in November, and we received very robust responses. We were happy with the process and with the number of responses that we got that we received. We've outlined on page 2 of our memo all of the firms that proposed. As you may recall, the boards selected two of its members to sit on the panel with the director and with two representatives from our office for the purpose of reviewing the written responses and interviewing the candidates. We dshed and so that was done. The whole panel reviewed all of the written responses and ranked the candidates based on the criteria that the board had approved and the point system that the board had approved. The interviews were conducted jointly with the Federated board. The Federated board has already approved this line upfor their counsel services. The panel -- panel review of candidates was pretty consistent between the Federated board and the Police and Fire board. The points were not exactly the same but it was pretty consistent. The Reed Smith firm ranked very highly by all members of the panel. Now I will say that board member Krytzer was not able to join us for the interviews. He had a last-minute conflict and so he was not able to join us for the interviews. But the interview -- the interviews went very well. Reed Smith is a very experienced firm with California public pension plans. They represent a number of California public pension plans and they also have a very robust investment team. And the consensus of the panel was that it would be efficient for us to keep the investment services and the general counsel services together. We are getting somewhat of a break, if you will, if you want to say that, on the general counsel services, by placing the investment services with the same firm. We as you can tell by looking at the memo, we received

the most proposals in the investment category. Lots of firms were willing to do the plan's investment work. Not so many willing to do the general counsel work. So the reason that we -- and the panel looked at trying to assign all of the services to one firm. The Reed Smith firm did not propose for the domestic relations order type services. And Saltzman and Johnson gave us a very good proposal on that both priet wise and in terms of tear staffing to do it. We just felt like it was going to be more cost effective for that work to be -- for us to go ahead and give that work to Saltzman and Johnson rather than to see whether Reed Smith wanted to do the work. The recommendation of the panel was come to after much discussion. I think that chair Kaldor and chair Crosby can speak to their support for the recommendation but it is a consensus recommendation.

>> Sean Kaldor: Yes, specific to that there were two people from the city attorney's office then Damon myself and director Crosby and two people from the Federated board as well. We had chosen Reed Smith as either number one or number two by all of us. It was a consensus decision. I was impressed by their public plan experience, specifically their California public plans experience. Their clients of who's who of argue the same sides of an issue and one jurisdiction arguing for the city and us arguing for the board, they had some consistency doing that. Seeing their work being used by Cal PERS and they are actually providing service to Cal PERS, I think gave that for the credibility. I was favorably impressed by all of the components.

>> Russell Crosby: Likewise of the candidates we saw, Harvey brought passion, experience, a client list that is exactly on point with the issues that face San José. Lots of experience and a real I think leadership ability that will add a lot to both boards. I think that this is the right decision.

>> Richard Santos: Also will the city attorney's office be sitting at the retirement meetings regardless of how we vote?

>> Mollie Dent: No. Our office may attend the meetings if we want to attend, on behalf of the city. We'll be coordinating with the outside counsel. We think we do have a responsibility to do that under the charter. But we won't be sitting here as the board attorney.

>> Richard Santos: Had a chance to see Mr. Leaderman at the Cal PERS round table the other day so I was very impressed but also the idea that our City Attorney is supporting the recommendations also that means a lot so appreciate it.

>> Sean Kaldor: True.

>> We're not going to have any problems with Russ's transition right ?

>> Mollie Dent: Russ's contract runs until the end of June. I'm doing a new contract for him for the new services. So I would anticipate that he would finish out anything he started for the board. Although you may want your new outside counsel to review it. We can talk about it at next week's meeting at how much you want to transition the work you and Russ were working now.

>> Can we involve Harvey right away even though we haven't signed a contract yet?

>> Mollie Dent: No but I anticipate we will have a contract very shortly so I'm hoping we will have one by your special meeting.

>> Okay, great.

>> Sean Kaldor: Mr. Spence.

>> Who's going to be dealing with those interpretations if the City Attorney is not going to be sitting here, and will we have to wait a long time, I'm just trying to make sure that there's not an overabundance of time that will be loss because of request having to filter it through someplace. I'd like to have the mechanics of how that's going to happen.

>> Sean Kaldor: Mollie can you speak to that?

>> Mollie Dent: Our office as the attorney has a big role of interpreting under California law an opinion of the City Attorney is given deference and weight just like the opinion of the attorney general. Once we're asked for an opinion on a charter or a code issue, we anticipate that we will be asked by opinions on those issues from your outside counsel. And saying that the courts give our opinions deference doesn't mean that the courts always agree or that your outside counsel will agree. But I don't think that it's going to be any more delayed. I think that staffing is still an issue in the city attorney's office. But I don't think that this change is going to make that any slower.

>> Sean Kaldor: So would it work that we would ask our counsel a question, they would interpret what that says and send you that interpretation as well and you say it looks good or we see it differently?

>> Mollie Dent: There are a variety of ways that could happen. We have a number of previously issued legal opinions that, of course, we can just give them on a variety of issues, some of them are issues that keep coming back up over and over again. And the -- in terms of who goes first, I think that that's probably going to be something that we'll have to talk about together. I mean, it's -- it may be that they'll want us to give our opinion first. It may be that they'll want to go first. I mean, it's going to be a -- on a case-by-case basis I think. Because there may be things where we feel like we just want them to go ahead and do the opinion.

>> Sean Kaldor: I think we might see in the first few months of how the relationship works and what might be the most efficient way of doing it.

>> Mollie Dent: I'm pretty sure the first few months are going to be the trickiest.

>> Sean Kaldor: Drew.

>> Drew Lanza: I would just add at our meeting next week, Russ and I are working on what vested rights so it was what was in the Manila folder, probably already posted on the Internet. Everybody is welcome to come to the meeting next week right?

>> Sean Kaldor: Yes.

>> Drew Lanza: I would urge you to come to that meeting deeply on this.

>> Sean Kaldor: Mr. Spencer.

>> Sat down afterwards but that's really the -- a concern we have is that we don't want to get mired in getting lost in the transition of where it goes and having something go out for four or five months which unfortunately fess terse with retirement people because they have a lot of time to think about what's going on more than other people otherwise. I appreciate that look. So if the board would keep that in mind when we have those kinds of requests, we need to make sure that's a fairly speedy process. Thank you.

>> Sean Kaldor: Thank you. The other thing financially we should talk about. Right now we're provided the services of the city attorney's office, and there's no charge to this plan for that. In this new arrangement there will be a charge to this plan for that that will become a normal cost and be charged as a normal cost. That's a different type of accounting.

>> Mollie Dent: Just to be sure, you won't be charged for the city attorney's services, you will be charged by the outside counsel's services.

>> Sean Kaldor: Anything else?

>> David Bacigalupi: Thank you for everyone putting together this report, it is very informative for the selection process so thank you all.

>> Sean Kaldor: Any other discussion? We have a motion and second. All those in favor? All those opposed? Seeing none, passes unanimously.

>> David Bacigalupi: Mr. Chair if we could get their business cards as well to the board.

>> Sean Kaldor: Okay. If we could --

>> Mollie Dent: We'll do that at the break.

>> Sean Kaldor: Yes even if you could give that to the staff as well we could e-mail around names and addresses and contact information.

>>> Item 6.1 A, report from the chair of the investment committee.

>> Vincent Sunzeri: So we had our investment committee meeting yesterday. First thing I'll say is that the structure was gasted, and was a much more productive meeting that be what we've had in the past. It's just a reminder, we do a joint meeting with the Federated board, and makes it -- or the Federated members and it makes it pretty lengthy at times. And we had some challenges. And the new structure I think worked very effectively. Secondly, we had our board chair, Kaldor attend which was very nice to have him at that meeting and see kind of what we're going through. The focus of the meeting was really back on the ALM and just a reminder, we addressed that at the January investment committee meeting. And the Police and Fire members had requested additional information, specifically we were looking for some additional asset mixes. And then stress-testing. And part of the concern was that the focus of the new structure is in anticipation or if, in fact, we see inflation down the road how the plan might respond given the liabilities of the plan. And our concern is at a we need to look at all threats, not just inflation but a deflationary environment more specifically a repeat of a 2008-2009 scenario. And I'm pleased that we have been diligent and measured in the process in that the results came back to sort of reinforce that approach. The stress-testing showed that the asset mix that was being focused on

and recommended in some instances showed actually more down side risk than our current portfolio. And that really wasn't something I think that was anticipated. It didn't happen in every scenario. We did test for environment of inflationary or interest-rate rises in 1994. We looked at 1998, Asian crisis, the dot come bubble 2000-2002. Even last year. I was pleased to see we're moving along more methodologically. My sense is we adopted and what we initially received as a first staff recommendation. Because of the structure of our meeting we didn't get to conclude that process. Trieste Krytzer wasn't there, I'd like him to weigh in as well seeing the new information. So what we're actually going to do is have another meeting so we can come back to this board for the April meeting with a recommendation on what we'd like to adopt. In addition to that, just as kind of a refresher is it's a significant shift that's taking place. Our current absolute return and real return anticipation is 15% allocation to a much higher allocation. The recommended allocation was to move that combined up to 45% down to 10 and that was where for us some of the questions started to fly around. So I think we'll see a good structure. Very confident that the return in volatility will be very favorable from what we looked at from some of the other asset mixes. We are definitely moving in the direction of derisking the plan and that's what we want to see happen. Funding ratios, the employee contribution, all of the analysis that was included in this report was very favorable with these additional allocations that we looked at. Secondly is, we had our consultant weigh in. We had not had our consultant at the meeting in January. They attended, they provided some insight, some of that insight was very informative and enlightening. They proceeded some additional asset mixes that may or may not be considered or adopted but the insights and the thoughts they provided were very helpful to the committee as well. And then finally, we had a presentation from another firm on the outsourcing side, so we continue to evaluate that approach. High vista was there to present very impressive organization. The portfolio they went through and explained the structure, is very unique to what some of the other firms are doing on the outsourcing side. We're continuing to explore that and we'll dig into that a lot more at the retreat that we have coming up. Sean, anything else you want to add since you were there as well?

>> Sean Bill: I think carmen has put together a lot of good potential options for us and the stress testing few more options on the table and I'm pretty sure we'll get this wrapped up pretty soon so we can move forward and take the next step.

>> Damon Krytzer: You guys want to wait until the next supplemental meeting and talk about this now? I'm pretty briefed --

>> Vincent Sunzeri: I would rather have if data in front of you so you have something to refer to.

>> Sean Kaldor: There is something at the retreat Cheiron is going to bring forward the whole discussion of integrating the investment side and the actuarial side and as those two work together you can see the impact of these decisions, that risk you take, the standard deviation and its impact on employer-employee contributions seeing that work together in one big model is going to be a benefit. It might take them a while to work through that so we might be able to have that for a follow up meeting and be able to discuss this in April.

>> Damon Krytzer: What we need is more specifics in the asset seemingly labored process is the context in a lot of ways, you know staff and nesk are talking about the same thing and framing it different right? The definition of the different asset buckets aren't the same. And I think that's part of the problem, that we are having in trying to dos from tests and select an appropriate asset mechanism that's going to work in an inflationary and deflationary environment, we'll take that offline.

>> Vincent Sunzeri: One thing I did fail to mention is we had Alborne there as well, moving forward with the Federated side with the implementation of structure which would allow us to ramp up fairly quickly once we absolute return space. So I he feel like the implementation side is going to move fairly quickly which has been part of the frustration. I guess when I say fairly quickly for us, for a hedge fund implementation it's anywhere from three to 12 months. But that's light speed you know at this level. So it's positive that we're making progress there.

>> Sean Kaldor: Any other questions?

>> Carmen Racy-Choy: I just want to say two things. In addition I want to thank the chair of the investment committee for doing a wonderful job yesterday. I thought the time spent was spent on very good, very focused discussion. And I think the change in structure was very effective and helpful. So thank you.

>> Vincent Sunzeri: Uh-huh.

>> Carmen Racy-Choy: Second, I just want to remind the board, there was a -- this year, with the asset liability study there was a change in framework. The way investment consultants in public plans at large did the asset liability studies is, they might actually model your liabilities and show you what your benefits projections are. But the liability component was never taken into account. Meaning, the city trying to manage the City's contribution level, and the volatility of the City's contribution level, or trying to manage the funding ratio, and trying to look at the volatility of that funding ratio, was never taken into account in setting the asset mix. This approach of including the liabilities was started by insurance companies, maybe 90 or 100 years ago. It was adopted by corporate plans, probably 20 years or so ago, for the very sole purpose that when you focus on trying to minimize the plan sponsor contribution, you actually truly build an asset mix that's tailored for your liability and you're truly minimizing the risk. The key component is, I think everybody on the board understands that we don't make money unless we take on risk. But the key is to focus on taking on risks that are rewarded. And so this year, for the first time, staff did the alm. We actually showed the investment committee the appropriate measures. We projected the employee and employer contributions. We showed a range of volatility for the different asset mixes. We also showed funding ratio projections. And so we have, A, changed the framework. B, moved exactly in the direction that Cheiron is recommending, and they will talk more about that in the March 7 board meeting.

>> Russell Crosby: And because of that, when you recognize all of those different factors, particularly the liability side of the trust funds and focus on trying to to manage the contribution volatility, you come up with different answers than most public plans. And for that reason I think it's very important that the investment committee and then later, the board, when you see this work, understand what's going on, and understand that your portfolio, as a result of this work, will look very different from other portfolios in California. I think that's a very important concept to understand. And that you will not react in economic situations necessarily the way other public plans do. But that's because the portfolio is being constructed in a way that will minimize this volatility and minimize the city having contribution rates that fluctuate the way they have here in the last few years. So to kind of recap: It's very good that the investment committee is asking for the stress testing and looking at this and understanding

how these portfolios will react in all of these different kind of economic scenarios, because you're going to look different from everybody else. And the board needs to understand that as well, that the end result of this process is at a you will look more like a corporate plan or a high-performing, we're not quite ready to talk about liability-driven but you will begin to move in that direction, as have most of the corporate plans in the U.S.

>> Sean Kaldor: Damon.

>> Damon Krytzer: I think that's an excellent point. I want to say it in one other way because I think it's key in us adopting an asset liability structure at least an asset mix that we're comfortable with, that's the tradeoff between minimizing the volatility of our liabilities or the risk of us not meeting current capital market assumptions or current capital market conditions. We're going to have to make a decision, one or the other, you know, minimize the volatility or maximize our return per unit of risk given the market that we're in. That's my point.

>> Sean Kaldor: Any other discussion? Good. Discussion from the public.

>> I won't be able to add a whole lot of intelligence to the discussion but on behalf of the San José firefighters, I really appreciate the professionalism and the approach you're taking on derisking the plan. I think I spoke a month or two ago congratulating you on the move to lower the discount rate to 7.5, another move to derisk the plan. We appreciate your diligence. We have a very good plan and we want to keep it that way and I want to say thank you for your hard work.

>> Sean Kaldor: Thank you. Any other discussion or comment? Okay we'll move on to item 2.1, update on vacant trustee position.

>> Russell Crosby: Pete, you probably know more about this than I do. There's closes either this week or next.

>> I think so.

>> Mollie Dent: I think the goal is to have someone for the May meeting.

>> Pete Constant: Due process is pretty well defined on the timing and all that so it's in process. I can tell you at the council end we're going to move it through as quickly as we can once we have everything finished through the Clerk's process.

>> Sean Kaldor: Thank you for that. So with the employees the process at first there has to be a time line for nominations then people submit their nominations, then it goes to the members to vote, they pick who they want, then it goes to the council to approve, whoever they appointed. And there's a 30 to 90 day steps, process that happens.

>> Russell Crosby: This position is an active duty policeman, someone who is serving as a policeman in San José.

>> Sean Kaldor: Questions, comments? Okay, thank you for the update. Item 2.2, so item 2.2, discussion and action on the cruftions made about retirement staff, City of San José officials and our consultants actions around pension plan projections in a recent media investigation. In here you have the news reports, a response or commentary from the City Manager, a complaint filed by attorney Christopher platten, you have a spodges from Hanson-Bridgett which is the attorney for the elections commission, is that right?

>> Mollie Dent: Yes.

>> Sean Kaldor: We also have a response from our actuary, Gene from Cheiron. We have the transmittal from the elections commission which includes some of the other files in here and lastly a letter from the city mayor regarding the future cost estimates. And so that's the complete pile. Now, just to set a little ground rules. Do we have the deputy City Manager here? Alex, I don't want to, in this forum, I don't want to get into issues here where we have a city employee and we as a board -- is there guidelines or maybe Mollie, I'm just looking for a little direction about not letting our discussion go too far into areas we're not allowed to go into.

>> Mollie Dent: Well, I guess I'll make a couple of comments. The election commission has declined to take the complaint but has referred it to the City Manager and to the city council for further action. So I think the board can certainly keep up with that process if you want to. If there is something within the documentation that is of specific concern to the board, with respect to something that is within the board's sort of jurisdiction and realm, then I think you could certainly -- you would certainly want to follow up on that as fiduciaries. So the $650 million number if you will was never provided to the board, so that's not something that the board ever actually saw or used at all. So I don't know if that helps. But it's really whether or not there's something else in here, I think, that is of specific concern to the board.

>> Sean Kaldor: So in all this, the complaint was made that the $sic 50 million number was used for whatever purposes and it wasn't an accurate number. The complaint was made to the elections commission, they said this is isn't in our jurisdiction, we're not going to comment on this we're going to hand it over for the complaints about staff we're going to give that to City Manager and City Manager's office can address that and for the complaints about city council, we hand that to the city council and they give their direction of how they're going to handle that.

>> Mollie Dent: Yes, that is a correct statement of what the elections commission decided.

>> Sounds like we're done.

>> Sean Kaldor: So the only thing I want to add to it, and this is all this week, NBC called me said they wanted to understand how our board works and how the process happens. I talked to NBC and in that process I said here's some documents you should take a look at. And they provided me documents that showed drafts of presentations and revisions to presentations, direction from our board to staff and staff response to that about how they're going to respond or not respond to that. I said these are important things that should be looked at. I don't have the documents in front of me. I'm not proposing to throw them out here. I mean, what I am thinking is, we've had this come out. I don't think it's this board's jurisdiction, if a staff meme said a number and it got used a certain way, I I

just wonder the 650 if we should have cleared the air, be clear about what if actual forecast has, doesn't have anything to do with the 650. When I heard that I immediately called Russ ricked, I asked Russ what should we do with this? He said just bring it up at the board meeting and it can be addressed. I talked to Mollie this morning, saying Russ isn't going to be here many what should I do having given that information to the board member and kind of concurred just being able to put it out there. What I'd like to be able to do for anyone who has any accusations about this board be able to give it to our attorney and let our attorney come back to us and say, to do a little investigation, what are the facts? What pertains to this board? And what should we think about or what should we do and just leave it at that, so we can hear what the recommendation would be coming back.

>> My sense is that this is kind of somewhat of a distraction to the board, that it is really at the purview of the city council and City Attorney it's a staff issue and we really have zero input over staff so I really don't think it's something that merits spending any time on for us at the board level. I've never heard the $650 million number. The only numbers I've heard of were in the 400 area and noting the cost of the fund has tripled in the last decade, 400 million doesn't seem that far out of reason. I don't really see why we would want to spend a lot of time on this. I think it's really the City Manager and the city council that needs to deal with these issues.

>> Richard Santos: From my perspective, when I first saw this on TV and whatever have you, is that when we had the meeting of the day we talked about would the chair make the comments from our board and so on and then what's the direction that Russell Crosby has. And I would just hope the chair and Russell could get together first because no matter what is said comes out of this board so I think we should take a look of that. This isn't the first statement that's come out of Russell's office. I bapt to make sure the chair that was my only concern. The only thing else is political and things happen and life goes on and we'll work on it but we got to make sure you're the spokesperson for this board and before Russell says something I hope you can hook up so we can have some harmony, that's about it.

>> Sean Kaldor: Just to clarify my comments, I basically described the functions of this board, and before being handed allegations, these are things i'll hand it to the board and the board can decide what they want to do. You're absolutely right, I appreciate that. Drew.

>> Drew Lanza: You know there is one change I'd like to suggest the board make in regards to this. Reading this as sort of an outsider, I'm glad to hear what the union said, we're not using words properly and using language properly. it's 400, it's 650, it's not, thanks for recognizing the derisking thing, you're absolutely right. I this actuarial statistical phenomenon. There is some probability it will be 650, there is some probability it will be 400, there is some probability it will be 300. I think we need to change our language and do the background work to communicate this to everybody. The problem in all this was that the news media totally failed in my opinion to pick up on the fact there is some probability it will be 650. The question to the mayor and you us should have been what are the odds it will be 650, do you know, do you have the tools to figure that out? We should have cheiron did it, twisting knobs, you want to see the number go up? We'll twist the knob. We're not doing a good job of communicating to people there is a range of possible outcomes. Here is the probability of those possible outcomes. Some of them are great, some of them are dire. I think we have failed in our duty to communicate that to people. We have failed to communicate it to the media, Police and Fire members and we need to be better really feel strongly of this of communicating. This is not a point. It is a statistical distribution. People get that. People know how Las Vegas works. We always say Silicon Valley is venture capital, the only difference between Silicon Valley and Las Vegas, you get a free drink. All of us are familiar with statistics. We don't have a good job of communicating this. I feel strongly about that. Dkd I don't completely agree that we're not doing a good job of communicating it. At the core we are responding to an article, or a story that took a word out of an e-mail, it took a statement out of an interview and it's all sound bites, so whether or not we communicated correctly or not, I feel like we have been. I feel like the way it's been portrayed, I agree with Sean, this doesn't really have a load to do with the board. At least in responding to this. But I don't know that we could have educated any differently than we have.

>> Sean Kaldor: Vince.

>> Vincent Sunzeri: So I find it interesting when you use the term sound bite and often, that is what it is. And I would suggest all board members go back, review the transcripts from that period of time and see the detailed information that might have said, if there were a worst-case scenario let's throw all of these different factors in the

mix, what could potentially happen? And as you said, Drew, there's a lot of variabilities, the probability's changed significantly. From the perspective of our board, this is really a longer term issue that we're trying to deal with. And the fact is that the director serves almost three masters. And we have the least amount of control over that individual. He really reports directly to the City Manager. For us to be dealing with at the board level does not make sense at all.

>> Sean Kaldor: David.

>> David Bacigalupi: I have to agree with Vince on that, is one of the complexities of our plan has the plan paying for staff that it has no control on. I try to you know, the $650 million figure is at City Hall and I'm trying to just think of my position as a fiduciary, for this plan, with my fellow trustees, we've got a lot of experience from outside business, being brought to this plan. And one of the things I think we're moving towards, I listened to the V committee report today, if last month about influence being put upon our outside consultant. And there's a letter in here, in this massive package of other stuff, that you know, the consultant says that they aren't influenced, they are independent. But I, too, was shown some documents. And some of these e-mails that I saw, it talked about let's just ignore the chairman's request, pretend like we didn't get it. Drop that slide, we don't need to show that to them. The actuary saying it does. So I would just hope that even though our director doesn't work for us, we rely on him on a day-to-day operation. And I think we need to know, and Mr. Chair, I think you said all that's being turned over to the attorney for -- to be looked at. I would hope that those documents are supplied as well. Because it raises a concern to me of the independency of our outside consultants that we're paying good money for. We have some brilliant minds on this board, I'm learning a lot, I've served on this board for many years, but I'm learning a lot from these people that have outside experiences. I don't think I can and I don't think they can if information is being filtered that they get maybe make the best decision. I think that the board has a right to all the information. If we are paying an outside consultant I think we have a right to have the independent thought from that consultant without any filtering, without any you know changing by staff, and if that occurred I think that's a concern of the entire board, if that occurred.

>> Sean Kaldor: Any other discussion?

>> Damon Krytzer: I have one more point. I'm making an assumption because I.haven't seen that information. I think the information we've gotten from the actuaries, from staff, is very transparent. I think we can interpret and take a lot of information i don't feel there's anything -- if there's information that's been withheld again I don't know that tab but if it is then it's likely just an issue of framing or extremes more so than change -- we see all the inputs, right? And we've looked at all the inputs independently. Independent of each other. That go into the model. And I've been comfortable with that all along the way. So I don't feel there's been a lack of transparency. Again I could stand corrected. But I don't know what numbers would have been presented differently as inputs. Maybe just the outputs would have been presented differently. But that's not how we've based our decisions completely.

>> I stood up to talk about what you were talking about a minute ago. What I just heard frankly I'm a little bit stunned. I think we spend a great deal of time and resources selecting experts to get their expert opinion. I think we're not supposed to meddle in their expert opinion so that we get the answers that we want to get. It bothers me greatly, given that my members contribute their funds to this plan for their retirement, that anything might be manipulated beyond standard industry practices. It's very troubling. I will leave that there because it sounds like facts need to be evaluated and investigated and I hope they are thoroughly. With regard to the discussion about this idea that 650 is a possibility, or not, and it's all in the realm of reality, the reality is that this board's job is to, at points in time, tell us what the contributions need to be, what the obligations are, and those are real dollars that come out of my members' paychecks. Inflated numbers, estimates, need to be just that. But they need to be out of this board, official reports and applied science so I'm troubled that we can say that we'll accept any political agenda that says whatever the number is, yes, we'll say as a board that this is in the realm of reality and we'll give it a pass. I don't agree that that's this board's role. I don't know that that's what was intended by that statement.

>> Damon Krytzer: Let me explain then. Because what was intended by that statement is, we're dealing with the inputs not the outputs. I don't math equation as far as I'm concerned. So what I'm saying is, my decisions personally, and the investment committee and the folks that we've talked to, aren't impacted by the output. We're trying to decide what correct inputs are going to these models. And I feel that the inputs have been accurate. If the -- if we're talking about different probabilities, the same inputs could lead to a 400 or a 650 output. We're not

acting on that. You know if we're saying okay within seven standard deviations we could have a billion dollar short, a billion dollar contribution sure, that's a number too. We're not concerned, I'm not thinking about that. I'm thinking about the 7..5% input and the inflation input and I'll let them solve it but we're acting on the inputs not the outputs.

>> And I'm not making any statements about the decisions that have been made. What I'm trying to impress upon you is there's a great deal of political influence that's trying to work its way into this board, that's what it feels like and that's not what this board is about. And that's my concern. Like I set, I will leave the things I just heard, hopefully they'll get worked out. But right now I stand here very concerned. Thank you.

>> Damon Krytzer: Legality me make one last comment on that because I understand what -- let me make one last comment on that because I understand what you're saying. Me, I'm trying to remove myself from that politicized debate and news stories et cetera. The reason that a number of us are sitting on this board is we feel like this is like a very academically pure area for us. And we have the ability to focus on, again, these inputs and isolate ourselves from the outputs and make independent decisions that don't -- aren't influenced by staff or the city or retirees or the unions or anybody, but the people sitting at this table. And that's how I'm viewing our role.

>> And I would fully support that process.

>> Vincent Sunzeri: And I'd also like to respond to, continue to hear about the influence on the board politically. And frankly, I don't feel it. I don't see it. I'd like any independent member to reference any political pressure that they feel. We continue to hear that. It's not happening at this board level from my perspective. And frankly, to trustee Krytzer's point, it is very academic we're looking at. The $650 million number I'd never even heard about. I find it interesting what's taking place maybe in a political arena in fact is not happening at this board level.

>> Sean Kaldor: Pete. And then Gene.

>> Pete Constant: Just real quickly Sean. You referred to these documents that you have that you're going to turn over to the attorney.

>> Sean Kaldor: I don't have the documents but I feel I need to -- I can't just have someone show me them and then say okay I pretend I didn't see them. Someone can say it is not an issue --

>> Pete Constant: So you don't have the documents?

>> Sean Kaldor: I do not have the documents. No. Beth nah. Brnd I resured me is not an investment person, in terms of my background, it's that there seems to be an added safe guard in the investment committee, that we have the presentations by the actuaries, we have the presentations that come here, and what's been very helpful to me is then to hear that the investment committee meets regularly, and really goes, delves into really the absolute facts of the numbers. So that there is -- that there is a double -- the board meets, once a month, but there is an investment committee of experts on the board looking at these numbers, with other experts. And that both boards meet together in fact, and so that there are really triple safeguards in effect. And that's begin me great consolation as someone who is not as familiar with the investment world.

>> Sean Kaldor: So if I can spars what I'm hearing I think it was good that we put this on the table because it is an issue surrounding us as a retirement board. The 650 number isn't some we proved authorized asked for or requested. It's not something we feel we should comment on. And so it was good to go through all that information, and that's the conclusion we're reaching as a board, if I'm paraphrasing. There's not really going to be a motion here. The information I was shown, what I can do is write up away I was shown or what I was told. We can see if we can find it, if there is nothing to it then that's fine as well. I don't want to be told two months from now you knew this whole time. That gets it off my chest and it can be looked at. That's what I'm hearing from this board. Is there any other discussion or action or motion specific to what we can deal with right now, which is the basically the $650 million figure? Okay. One more public comment.

>> My fame is Paul Mulholland, I'm a retired San José firefighter, member of this plan. I think I will just say that I can understand why everybody would like to keep this to a minimum, because it's a major issue right now and you have to look at where the $650 million figure came from. I was on a group who negotiated, if you will, with Alex Gurza's office as to benefits being taken from retirees. And the $650 million figure was used there. Now, the $650 million figure is real. It's out there. People are talking about it. So I -- I won't say I'm hearing that the board is saying, well, we're just going to pretend like it didn't happen, but I don't see anybody wanting to really jump up on it, either. So thank you.

>> Sean Kaldor: Thank you. Sean and --

>> Sean Bill: Just to recap, I think the point we were making earlier, we're looking at inputs into these models and we're not solving for the end number, whether it's $one 50 million or $650 million number. When we're going through these numbers it is all as Damon pointed out, plugging in, for your different asset classes, inflation et cetera, the idea of targeting some number is completely off the table. And I think also, as Damon and Vincent point out we have really never seen the 650 number here. I don't remember ever hearing, the highest number I ever heard was 430 or something like that. Worst-day scenario. And then the last thing I would say, you know again, I think it's as a board we want to be careful not to bring politics into the board level discussion. It's really not the appropriate forum for it. I think this board is trying to stay out of the political arena and, you know, I think as you have heard from members around the table, no one really feels like they are getting any pressure from outside forces. I would say I've never spoken to any of you, in an outside forum outside of this roorm and I've also not spoken to any of the other councilmembers other than Pete who is in this room. If I went in front of the city council guys, they probably wouldn't even recognize me, so there's really no input.

>> Sean Kaldor: Vince then Drew.

>> Vincent Sunzeri: I think it's interesting because I appreciate the position you're coming from because you're negotiating and if you feel like there's this number out there and that number's unrealistic you're negotiating unfairly. So I do sympathize with you. I will say though that if you start to turn the dials and do the inputs and I

have not done that to that extreme, but you start throwing the various variables in there, and that is -- there is a change in head count, we have inflation, we spent hours talking about the discount rate at the last meeting. And that incremental change had an impact on the increased liability. And you think about the discussion in the last meeting. What was concluded in that meeting was we weren't stopping at 7.5%. We're going lower and as we move that dial down, that means that there could be an increase in liability as well. Those are all part of the variables that might have been put into that equation if you go back and visit the transcripts you may see that as part of the content that was discussed there. General Motors just announced that they've lowered the discount rate on their plan to 6.2%. We're not even in the realm of that. If we were to move in that direction the numbers are going to get larger. We're not having that discussion here. I can see how that information may have been concocted in that fashion when you start to throw all the numbers in the equation. But we're not there, we're not discussing that. All we know is that our CIO our actuary are telling us we need to head there. We need to move the number down on the discount rate and that's just one particular variable. So frankly, I think you start to play around with these numbers you can get some really interesting data out there. We're not there yet. But I would have some concerns in terms of where we're at, and that's why we want to try and continue to derisk this plan.

>> Sean Kaldor: Drew.

>> Drew Lanza: So I think that's exactly what I was talking about earlier. As an engineer and you work for NASA you're in a meeting like this all the time. When someone says 650 three questions, what is the probability of 650 or higher what assumptions did you use and will you share the model? And if they don't's those three questions you should immediately call a halt to that conversation. My suggestion to the board would be again we should take some small role in trying to enforce that level of is discipline and dialogue in the plears. I don't want to again say what's the probability what are the assumptions what is the model? You know, blow the whistle, call a halt because you're not having an intelligent conversation at that point, that's what you just said and I would agree with you. To the extent we can help because we're involved with actuaries and so on and force that level of discipline on people to ask those questions, I agree with you Vince nobs on the wall we should do that because it doesn't benefit us when the political dialogue in the background is inefficient and ill informed. I'm not taking a stand about thinking of assumptions. We should take a stand on point where we try to more broadly educate the

community around us and if that sounds pedantic I apologize. It does drive us all crazy. Not a week goes by I'm not in a meeting where somebody throws out a number. You sit back and say where in the hell did the number come from?

>> Sean Kaldor: Okay, any other further discussion or comment? Okay. Thank you I think that was a good discussion. Item 2.3. Authorize the actuary to perform cost study on agreed-upon benefits regarding purchase of leave of absence service for fire members. So in item 2.3 you have a recommendation on November 20th, 2007, which is approved by this board, on December, 2007, and then there's a cover letter from the deputy City Manager Alex Gurza, February 27th, 2012. Who would like to give us a summary of what this is all about?

>> Mollie Dent: I'm elect since it is our 2007 memo that is in the packet. And you can see from this 2007 memo that I've only been doing the work for this plan since 2008. This is from the former senior deputy City Attorney who is the attorney for the plan. Benefits were negotiated for the fire members in 2007. And the benefits, the way the negotiation worked, the new benefits were supposed to have an ordinance drafted for them and then that would go out to the plan actuaries to determine that they would be cost-neutral. Apparently the referral out to the actuary never happened. So (inaudible).

>> Sean Kaldor: Please speak right into it.

>> Mollie Dent: Sure, I'm sorry. So in 2007, I believe there were some enhanced benefits negotiated for the fire members. The process that was -- followed when those type of benefits were negotiated and the process that is yowmented in the MOA for these enhanced benefits would be for an ordinance to be adopted to confirm the enhanced benefits and then for that ordinance and the enhancement of benefits to be put out to the plan's actuary to determine that it would be cost-neutral to the city. And so what happened, and the board approved the ordinance and the board approved putting the ordinance out to the then plan actuary, Segal. But the ordinance never confirm for this board that it is now going to go out to the process that was envisioned in 2007. It won't go out to Segal, it will go out to Cheiron. And Cheiron will perform the analysis of the ordinance that would then allow the ordinance to go back to city council to be adopted.

>> Sean Kaldor: And this benefit was the purchase of prior service, if someone took six months maternity leave O&M they pay the cost --

>> Mollie Dent: There was actually three pieces to it, that was poanlted out in Mr. Gurza's memo. Just to clarify for the agenda because the board has already probed this going out to the charter in 2007, it's really just to let the board know that it's going to go out now and it's not going to go out to Segal, it's going to go out to Cheiron. So the ordinance embodies all three of the benefits enhancements.

>> Sean Kaldor: So we don't even need to take action, this is kind of an update?

>> Mollie Dent: I'd like the board to concur.

>> Sean Kaldor: Reaffirm?

>> Mollie Dent: Reaffirm having it go out to your actuary and having it to be Cheiron.

>> Alex Gurza: Good morning, Alex Gurza deputy City Manager. To put a little bit of cop text to what Mollie indicated. The agreement was made with the San José Police Officers Association in service credit, the very, very clear that it is to be completely cost neutral to the plan. It is unlike other purchase of service credits that exist in other plans. So the member has to pay not just if contributions that would have been made but the entire actuarial impact to the plan of adding service credit. And so that's a very important feature. So there was a two-step process. One was first, could it be done? Not for individual but could it be done overall to ensure that it's cost-neutral so that was step number 1 in the 2005 agreement. The then actuary, I'm not sure if it was Segal at that point indicated it could be done in that way. And then as an individual meme wanted to purchase that credit, calculation would have to be done for that member to determine what they is would have to pay and the agreement also includes that the member would have to pay for that analysis to be done. And so that's just a point of the background. Segal came up with a methodology to do that and so since it's been some time you've

changed actuaries one of the requests I made in the memo is that now since you have a new actuary not only to do it for the fire members of the plan but also to revisit the methodology to ensure that it continues to be cost-neutral and have no impact to the plan.

>> Sean Kaldor: Thank you.

>> Mollie Dent: So just to be clear what's on the agenda today is to do the first piece of it, with Cheiron which is the piece that looks at implementation of the benefit for firefighters, at the plan level. If the board is interested in having their actuary relook at how the benefit is calculated at the individual member level, then we can -- that can be brought back as a future agenda item. But that's not what's on the agenda today.

>> Sean Kaldor: So is there a discussion or motion? We have a motion to approve, do I have a second?

>> David Bacigalupi: Second.

>> Sean Kaldor: We have a motion and second. Any discussion on the motion?

>> David Bacigalupi: I have a question. Aren't we -- aren't we just officiating what we are already been doing .

>> Mollie Dent: You are officiating what you have already done and allowing Cheiron to do it instead of Segal.

>> Sean Kaldor: Prior service credit this stuff was not done we had one recently try to do it and was told no it can't be done because the stuff wasn't dorn. I don't know what could be done no cost because you can always just keep charging a member more and more until they make up the cost I think. But I mean, I support this having to go out and come back to us and tell us what the original direction was.

>> Mollie Dent: Part of the actuary's response may be the manner in which you need to structure it to make sure that there's no cost.

>> David Bacigalupi: And I thought there were guys on the police side that did buy back time so --

>> Mollie Dent: There have been. There have been members because the police benefit was codified and there was an actuarial report done for the police benefit, which was -- which recommended -- which said that it was unclear away the cost impact was going to be, whether there would be one or not. And which recommended that, after there was some experience with the benefit, the issue be revisited. So it has been implemented for police. It's been code fight and --

>> David Bacigalupi: But somehow we dropped the ball in codifying it for the other half of our membership?

>> Mollie Dent: Somehow we dropped the ball and it didn't go out to our actuary.

>> Sean Kaldor: Any further discussion? All those in favor? All notices opposed? Seeing none the motion passes unanimously.

>>> Item 3.1, now do we have our members on the -- our consultants on the phone?

>> Russell Crosby: Bill, are you still there?

>> Bill Hallmark: This is Bill I'm here.

>> To the Police and Fire fire department retirement plan. Bill, this is just finalizing everything we decided at the last meeting. We just need a seal of approval. Are there any changes?

>> Bill Hallmark: That's correct. Last meeting we presented a report, but then had a discussion about how administrative expenses were divided between the city and members. The decision was made at that meeting to not use (inaudible) administrative expenses into the normal cost and previously they were part of the investment

return assumptions. The decision was made to allocate the administrative expenses in the same proportion that they would have been under the old method. So in this report, simply recalculated that split of administrative expenses, by calculating what the members would have paid, if we had used an investment assumption that was ten basis points lower because ten basis points was the amount previously used for administrative expenses. And allocated that cost to members, and then the remainder of the administrative expense costs to the city. The result is, essential, about a 16 basis point change in cost, reducing the memes' cost and increasing the City's cost. So this report just reflects that decision and there's no other change from the prior report.

>> Sean Kaldor: Is there a motion? I'll make a motion to approve.

>> Motion to approve.

>> Sean Kaldor: And seconded by Santos. Any discussion on the motion? All those in favor? All those opposed? Seeing none opposed the motion is accepted. Next item 3.2, discussion and action regarding Cheiron's June 30, twin other post employment benefit plan OPEB actuarial valuation. And we also have as a supplement to this, calling 3.2 A here it is letter from Alex Gurza to Russell Crosby regarding the five year projections for the OPEB cost. So we have the presentation up on the board.

>> Russell Crosby: We have Marcus Simkin on from Cheiron.

>> Bill Hallmark: Let me make a brief introduction. Margaret is one of the founders of Cheiron and she leads up all our OPEB valuations. She's done the lion's share of the work on this valuation and since I'm not there to share this presentation, I'm going to let her lead the presentation, in I'll chime in with any comments that are helpful to answer any questions as needed. With that I'll let Margaret take it from there .

>> Thank you, Bill. Hi, I'm Margaret tempkin, I'm an SSA, a fellow of the society of charters and I'm a principal actuary for Cheiron and a founding member. I've actually worked on this case. Today we're going to do an actuarial overview of the process, we're going to show you our transition from Segal to us, we're going to show

you some of the key results, we're going to talk about some changes since the prior evaluation, we're going to show you sensitivity in the health care trends and we also have a projection model you have on the pension side, we also have that for OPEB and we'll talk about future issues and concerns. I believe you may have seen the tank, as we call it. In the case of the health fund, the tank is -- represents the actuarial liability of the OPEB cost. The total tank, the green level, bar, represents the assets in the fund. And the white area at the top would represent your unfunded liability. As this fund is being funded, you will have investment earnings, the small amount right now, and you have employer and employee contributions coming in. And as we have coming out is our benefit payments and small amount of expenses. Right now, your tank is pretty much a lot lower than that. But you're assumed to build that up. So this is kind of a process, money comes in, money goes out, the tank fills up, the difference in the bar is your unfunded liability. When we formed the transition from the 2010 Segal valuation result we were able to replicate the present value of future benefits within a .7% which is within the actuarial standards of practice, with plus or minus 5%. So we were able to do that on both actives and inactives. And then the actuarial liability, we were actually a little bit -- much closer. A negative .3%. So we were quite comfortable with the transition. And then, the normal cost percentage, we were a little bit lower. Different things come into play open the entry age normal cost calculations in terms of normal cost percent. Whether there are certain ways to value the present value of future earnings or what have you. We were verve comfortable with our transition so now we move on for this year's. I do apologize for it being a little bit small but we tried to throw on the two major pieces of information on here. The top section would be the gabbed valuation results. Under GASB valuation results that discount rate is developed and calculated based off of the 7.5% discount rate and some portions of what the city pays and doesn't pay. And then we develop a blended rate between a 7.5 and the 4% and we come up with a 5.4 discount rate this year. The discount rate dropped from 6.3 to 5.sen. Increase in the liabilities from 946 million to $1.3 billion.

>> What's the 4 again? Thesen.5 and 4 blended rate?

>> The 4 is basically the cost of purchasing or the borrowing rate, the cities.

>> Russell Crosby: Plan sponsor, this is a required accounting calculation so it's off the plan sponsor's ability to finance. And on a long term basis we take that number from finance, that comes out of them and then it's blended with your discount rate from the pension plan, on the basis of how funded the plan is.

>> Damon Krytzer: So we blend the 7.5 on the.

>> Yes, percentage of the arc you've paid in the past so there's a pretty detailed calculation.

>> Damon Krytzer: Great, thank you.

>> Sean Kaldor: Since you brought it up, you know I'll ask it when I get to that detailed calculation. I didn't see it. Thank you.

>> And it is a prior actuary's method, not a method we would be using.

>> Sean Bill: Just out of curiosity for background, how much is in our OPEB in terms of assets?

>> Getting there, next line, 600,000. 6 -- 60 million, I'm sorry, rounded in thousands.

>> Sean Bill: And the liability is 1 billion?

>> 1 billion.

>> Damon Krytzer: It was unfunded, we're paying --

>> Sean Kaldor: Kind of pay the interest time type Bettina. Bends.

>> Bettina Rounds: . I'm sorry Bill. I was asking, since this is a method you wouldn't use that we're looking at are we going to look at the method you would use?

>> The blended discount rate, Bill.

>> Bill Hallmark: The blended discount rate?

>> Yes.

>> Bill Hallmark: Well --

>> Carmen Racy-Choy: Bill, just to give greater context the slide here shows on 6-30-2010 there was a blended discount rate of 6.3 and based on the same approach for blending in 6-30-2011 the discount, the blended discount rate went down to 5.7, and I think the question is following a comment that this was a blending approach developed by Segal. I think the comment was, this is not your blending approach, and the comment is, what would the result be if your blending approach was used.

>> Bill Hallmark: Well, we haven't developed a specific blending approach for this plan. We note that the approach that Segal developed is different than GRS developed for the Federated plan. And our interpretation of GASB is that it's supposed to be a blend between the amount -- the proportion of the arc that you contribute between the total arc and the pay as you go cost. And so our concern on these plans down the road is that the current blending approach does not go to the 4% essentially, if the funding falls to essentially pay-as-you-go . So that's our concern with the current blending approach. I don't know that it makes any significant difference in the mixed valuation right now, but if you look at our projections it could make a significant difference in the future. However, I would point out, that significant difference is only on the accounting numbers. The funding numbers are developed completely separate from that. And so it would not change the funding numbers.

>> Carmen Racy-Choy: And so your answer is this impacts financial numbers of the city this does not impact your funding valuation and the contribution, am I correct?

>> Correct.

>> Bill Hallmark: That's correct.

>> Damon Krytzer: Doesn't that run into the same problem that we just had and that our accounting numbers are -- I mean, let me ask this differently. What would your -- just more directly. What would your blending methodology be if you were starting from scratch?

>> I believe Bill just stated that we don't think it would be much different than the 5.7 for this valuation. But in the future when we look at projections we have to look at the pay-go costs. Dbz.

>> Damon Krytzer: I understand.

>> We are think.

>> Sean Kaldor: As you get more to paying the full arc it is less of a blended ratio, is that what you mean?

>> As you --

>> Bill Hallmark: Yes, as you get closer to the the amounts get smaller.

>> Sean Kaldor: So from my understanding on this right, there's a bill you're supposed to pay and instead of paying the full bill we've been doing a pay as you go. So instead of getting the full discount rate for our investments you get a blended rates between kind of the bonds some 4% and what you make on the

investments. The more you get towards paying the full bill, the full arc contribution the more you go up to the full discount rate?

>> Damon Krytzer: But that's what this Segal rate does.

>> Bill Hallmark: I can say -- do you have table 16 that's on page 15 of the bound report?

>> We actually took it out of there.

>> Bill Hallmark: At the very bottom of that table it shows that the is 19.2%. So if you were fully funding and paying the ark at the 7.5 discount rate the city would be contributing 19.2% of pay to the plan. The city for this next year, is actually going to be contributing 9.19% to the plan. Now, that percentage includes the implicit subsidy which is not part of the funding calculations. But that next line says that that is paying 47.5%, of the arc that they should have been paying. And so the blending is paying 47.5% of 7..5 and 52.5% of 4 to get you to 5.7. The difference that we would publicly make is look at what the pay as you go cost was and do the spread between 7.of 5 and 4 last the spread between the full arc and the pay as you go cost. So you'd get a slightly different blending on the discount rate, and you would probably move it down slightly.

>> Damon Krytzer: Okay, I'm with you, no, I am. Thank you.

>> So continuing on, this would be something I guess we would approach next year when we continue to do the valuation. As this was already approved in a prior board. So now we're at an unfunded actuarial liability on the GASB of $943 million compared to $887 million. So it's not that much of an increase. We're a funded ratio of 6%. So that's the assets over the liabilities, 6%. Okay? We also have a smooth actuarial value of assets, very similar to just smoothing out your gains and losses oaf the past five years so we know the market value is 59 million, 59.sen million compared to our actuarial value of assets of 68.7 million, we have some losses bringing into the plan . As we go down to the fiscal year ending 6-30-12 our city arc if paid as a percentage of pay would be 32.55%, compared to last year of 24.08%. In dollars, it's $62.1 million compared to $60.5 million. It's not much

change in dollars, but it's a lot alarmer change in percentage of payroll and that's the nature of the decrease in the payroll for the past year.

>> Sean Kaldor: So payroll went down but the liability doesn't really change so --

>> The OPEB liability will not change, it is not based on pay, it is by payments of insurance.

>>> He 7.5% discount rate, we are derisking from 7.75 to 7.5. Our actuarial liability same assets, so now we have an unfunded liability of 597 million or 9.2% funded ratio. If we drop down to the bold line, the fiscal year ending 6-30-13, we throw in the member contribution rate of 7.48% compared to 6.21 that increases by the 1.25 maximum percent on the POA, the city contribution rate goes from six.74% to 8.11% so the total dollars going into the plan on that funding basis would be $14.9 million compared to the 16.3 million on the following year.

>> Damon Krytzer: Can you help me with the significance of those?

>> The funding basis is how you guys are actually funding the plan. So the actual moneys that are going into the trust. The top section is what goes on the City's financial statements. That's the disclosures.

>> Carmen Racy-Choy: So there are two standards on the health styted. The accounting standards and so the actuary actually prepares the portion for the city's financial statements based on GASB standards for health plans. And the second section is what should the city and the employees contribute for the health benefits? That's based on a different valuation. That's based on a actuarial, based on the actuarial standards. So the chore proposes a funding valuation. The assumptions you've fundamentally already approved. The major different is, the actuary has a long term view and the actuary -- the actuarial methodologies try to maintain as much as possible a stable contribution over time. The accounting standards worry more about reflecting the actual liabilities The actual expense for the year that has passed. So it's really different poiivets and different standards. The bottom part the funding valuation is what the city actually pays and the employees actually pay

and that's really the one you really care about. The accounting standards is, it's kind of a service you're providing the city request the numbers that they need to put on their financial statements. Versus thank you.

>> Bill Hallmark: I should also clarify, the funding valuation numbers and we'll go through this, are being significantly influenced by the agreement between the members and the city on how to fund the plan and limits to those funding contribution amounts.

>> Just quickly, looking at historic trends, the plan started recording the liabilities since 2003. And at those periods of time we were based the first two valuations were based off of the funding standards. In 2006 GASB came out, so then we had it we're showing the disclosure amounts on those pictures in terms of the actuarial liability. And then, the green line are your assets layered on top of your actuarial liability. And as you can see that it's basically you know 6% of it. So we just look at this historical trends to see what's going on in the past, so we can understand the future.

>> Sean Kaldor: So what happened in 2006 with benefits to cause the --

>> It's not the benefits. It's when GASB came into play and we had to drop the discount rate from 8% to 5.3%.

>> Sean Kaldor: And it's just to thank you pes bevel I think the projected benefit payments for the next ten years. Instead of for all future times.

>> Sean Kaldor: Okay, thank you.

>> Again, another historical trend chart. We show the -- in yellow the employer rate, in green the member rate, and in red, the arc rate. And the arc rate is, again, based off of the blended discount rate. And as you can see, it has the member and the employer rates have increased from roughly one and 2% up to 6, 6.7, 6.3%. But steadily been increasing, and in 2007, we throw on the arc percent and then it's gone up and down over time. And that's a factor of your blended discount rate. So now we're up at 32.5% for your arc rate. And that's a disclosure item.

>> Sean Kaldor: And the blended discount rate you say goes down but our percent of the arc has gone up.

>> Oh, that's actually the contribution rate as a percentage of pay. So --

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

>> Yes, okay. And again on the funding policy to answer the board members' question on the funded policy in the past it was to spread the cost of the projected benefit payments for the next ten years as a level percentage of pay over the next ten years. And then in 2009 and 2011 the city and the unions agreed tops over a five year period so we actually have the police has started two years earlier than the fire and basically we phase in the -- the fully funded arc over a five year period. So with the police transition we're almost at the end and the fire we're just at the beginning.

>> Damon Krytzer: Which we do or don't meet with the caps in place? We can't fund it over a five year period --

>> We do that phase in without the caps.

>> Damon Krytzer: Instead of five right? The number but it's not five.

>> I think we'll get to that but I believe what happens with the caps is that we hit 11% and 10% respectively and we never really get to the full arc. Okay? So as you know the costs are split for the medical 50-50. The dental is 3 to 1. And the implicit subsidy is fully paid by the city. Okay? As you had stated, that there is those caps. Those annual increases of 1.35% for the city and 1.25% for the members. As you go through the phase-in you'll see that. The ultimate contribution rate is capped at 11% for the city and 10% for the members. And then we understand that if the calculator rate exceeds the maximum readdress the 10% and 11%, shall be constructed to oblige the members to pay no more than 10% or the city to pay month more than 11%. We have actually

eliminated all of our contributions to toggle switch can switch that off but all in our projections in our report it's 11 and 10, okay? The next two pages are --

>> Damon Krytzer: So 11 and ten trump five? Like that's the absolute cap, the 11 and 10, the 75 is sort of a pipe dream and 11 and ten is --

>> Yes. Yes. The next two charts are how we do the phase-in and then how we apply the caps. So it's a little bit -- it's very interesting. The first section tells us what under the old funding basis the rates would be, so the first line says in total that we would have 10% of the rate. Under the new actuarial funding of the arc would be 28% and this is for police only. And we phase it in 80% of the arc gets applied and 20% of the old fund-in. That's the next section, to 24%. These two charts on this presentation are slightly different than the Val report. The Val report's correct. But the phase-in actually, and the phase-in actually doesn't apply like you said gets trumped by the maximum increases. And then, we put down the prior contribution rate so that we can actually apply the maximum increases to those, so that we can go from last year's prior rates to this year's with the caps. So that's why there's three different rows of rates. The rate that will be paid is the last line. The caps contribution rates for the members of 8.26% and the city of 8.96% or a total of 17.22%, that's for the police. We have the same picture for the fire. Again, the phase in contribution rate is actually incorrect on this slide. It's correct in the valuation report. It's really 20%, instead of 15. On the fire we're phasing in 40% of the new and 60% of the old. However the phase-in still gets trumped by the cap of 1.35 and 1.25%. So the members would pay on the fire 6. 6.26%. These are all your funding results. Okay? Some quick items to note. Since the last valuation. As you all know that the active population has declined by 14%. As well as the total pensionable pay has declined by 24%. Everything -- the retirees and the spouses covered, actually increased by 4.5% to 3,000 participants from 2900. And just to note that the OPEB obligation is based off benefits provided not off of payroll. So as larger percentage of cost.

>> Sean Kaldor: On this I noted the dental coverage is around 1800 and medical is around 3,000. Didn't we set an assumption recently that 100% of retirees will take dental?

>> I believe we did. Bill?

>> Bill Hallmark: Yeah, we are seeing the retirees and spouses with medical coverage is 3,000. Arounds then it's just the retirees with dental coverage.

>> Sean Kaldor: Okay so it's about 100% of retirees that take dental coverage?

>> Bill Hallmark: That's right.

>> Spouses we count as a person, a body.

>> Sean Kaldor: They are a person. Thank you.

>> The next slide tells us how we you know, reconcile our actuarial liability. So we take the actuarial liability from the prior year, and we roll it forward with the expected normal cost and we take out the expected benefit payments and we give it interest at the 6.3%. And then we come up with an expected liability of $1.10 billion and our actuarial liability this year is $one.3 billion so we have a gain of $7 million. sources of those gains and losses the first three of them are gains and the fearing's one was a census change. We with less actives to provide coverage for, you're going to have a gain. However combined in that are the additional retirees so the gain is not that large.

>> Damon Krytzer: Can I just stop you here for a second?

>> Sure.

>> Damon Krytzer: Why would we use the 6.3 interest for liability?

>> We're actually rolling forward the liable. So we use the interest rate that we used at that valuation point in time.

>> Damon Krytzer: As postto --

>> 5.7. This is under GASB.

>> Damon Krytzer: Okay.

>> This is under disclosure, okay? So the next thing is, we actually changed our claims assumption so we had a small -- we had a $14 million gain in claims assumption. We actually redid the claim curves compared to Segal's. Then we redid the trend assumptions which I believe the board approved in a prior meeting and that gave us a gain of $96 million. You actually changed the demographic assumptions underlying in the expectation of people taking benefits in the future and that gave us a slight loss of $23 million. And then the discount rate changes from 6.3% down to 5.7% gave us another loss of 86 million gave us a net gain of $7 million. So pretty much right in line with what we're expecting.

>> Damon Krytzer: I know I'm beating this up, I have to ask this one more time, apologize to the board. That's GASB's rule because it seems weird to inflate the liabilities based on partial market valuation as opposed to cost. The 6.3, that's the blended GASB --

>> GASB's rule to use the 6.3 to roll forward the liability?

>> Damon Krytzer: Yes, is that -- that's just what it is.

>> Actuarial standard when rolling forward liabilities, you always use the interest rate in the prior valuation. If we were rolling forward the funded liability we would use 7.75.

>> Carmen Racy-Choy: I'll try and answer that. I think the liability calculation, at 2011, is using the 5.7. So that's when that applies. Basically what they're doing is looking at future cash flows and discounting the 5.sen. The prior

years was then at 6.3 if my memory is correct. So they're trying to move from that liability, why the cash flows were projected and the discount of 5.7 was used to a year later. Since the 6.3 was used as a basis of that liability, she has to roll it forward at that discount rate for a year.

>> Damon Krytzer: I totally get that. I guess what I'm saying and if it's the rule it's the rule but on the funded side of it, if we're looking at the liability none of the -- the liability is more predictable than a blenld of a market rate and our marketing cost it's a blend of dental cost.

>> Carmen Racy-Choy: On the funding side yes. You're using a different rate 7.5.

>> Damon Krytzer: 7.5 which is our mact assumptions which is kind of odd to me too.

>> Carmen Racy-Choy: They should in the valuation, when you're reconciling the two numbers they would project at 7.50 but then they should reflect what 23rd happened from the point of view of benefits being phased out. Is that clear or no?

>> I think what you're trying to ask is why GASB's (inaudible) and really GASB's explanation that they have is that the money that's in the fund can be used at the fund discount rate but the money that's not in the fund could not be -- the City's assets are a lot more restrictive so they won't achieve the same benefit or same return as the plan. So that's why (inaudible).

>> Damon Krytzer: I understand the blended rate too. I guess what I'm saying is why wouldn't the -- why wouldn't the increase in liability be based on the -- our assumed changes in health care costs for instance as opposed to any kind of a function of market returns that we've decided?

>> This is just to bring the liability to the end of the year. So instead of discounting it from 2011 back to 2010, at 6.3, we have to bring it forward to the end of the year. It's just an interest rate to bring it forward to the end of the year.

>> Russell Crosby: But you're right, the liability is based on the underlying health care costs and that's what you spent all the time on exactly.

>> Damon Krytzer: Doesn't have anything to do with the sic.three orsen.3. .

>> Carmen Racy-Choy: There's different components and actually what happened to your health care costs and so fort are basically shown in that gain or loss analysis. So you're absolutely right.

>> Damon Krytzer: And then we're baking in, I mean we've seen projections of health care costs too and I guess my question is why aren't we using our expectation in changes in health care costs to value it forward as opposed to some market rate which as we know is going to be not right?

>> The actuarial liability at 2010 actually includes those expectations of change in market cost. Those are our trend assumptions. So it's already implied in that starting number. So all we're doing is taking the number from the beginning of the year and applying it to the end of the year. So that the benefit payments are, expected benefit payments actually include the expected trend costs or the health care cost for that one year. So we actually take out those benefit payments and increase the discount for one year. We give it one year interest to the end of the year.

>> Damon Krytzer: We give it one year interest to the end of the year twice then because we're doing it for the health care assumptions and then we're doing it again for the discount rate. Right? I mean you're saying it's baked into the change in valuation already. Why wouldn't that suffice to say okay, we have you know, a $900 million liability right now, our health care expenses our projections are at 5% increase so we use a 5% discount rate? You're saying I think if I'm hearing it right and maybe I'm noting hear it but the 5% is already baked in there so we're doind 900 million spot at 5% increase already in and then we're also adding in the 6.3% to value it forward, is that wrong?

>> Bill Hallmark: I think the way to think about this is when we see a valuation we project out the expected benefit payments into the future. And then, we're essentially discounting those back to the valuation date, at the discount rate. And so if you want to estimate what you expect the liability to be a year later, you have to make an adjustment for that one pure year of discounting all those projected cash flows. Those projected cash flows have embedded in them all of our trend.

>> Damon Krytzer: So to me that answer kind of sounds like it's the opportunity cost of the money being here versus in the retirement plan. Is that fair to say? I mean Carmen is that fair?

>> Carmen Racy-Choy: Well let me give you an example. Let's just for simplicity sake assume we have one cash flow and it's a $25 cash flow one year out. At the beginning -- at 2010, the way you would calculate the liability, you would discount the $25 using the 7.50 which is the funding rate. You would move the year later so at June 30, 2011 you now know for example that the liability is now $26. So Cheiron comes back and says, well, your liability is 26. So what they're trying to do here is reconcile the $25 discounted at 7.5 to the 26 today. And so the first step of that reconciliation is, taking the 25 discounted at 7.5, rolling it forward at 7.5 and saying okay, the amount that I need to reconcile is 25 to 26, and what is it due to, in reality it's due to the underlying changes in your cost of benefits. And they're saying, that cost of benefit change is $1. I thought it was 25 last year, now I think it's 26. So by rolling that 25 that was discounted at 7.5 at 7.5 you are just trying to get to what was the claim benefit estimated at last year.

>> Damon Krytzer: Rite, I guess all I'm getting at is the process. To get from the 25 to the 26 using the expected changes in health care benefits versus our market rate of return seems to be intuitively to me more --

>> That's all baked into the change between the actual and the expected. And that's where you get to what caused the $7 million gain. Now we broke it down into five items that caused the $7 million gain. Under our assumptions in 2010 we can't cause that to roll forward. It's just like you are paying a mortgage on your house. If you missed one payment, or something like that your actual would be different than what you expected it to be.

>> Damon Krytzer: I'm having a bit of a rough time with this but I know this is not the last time we're going to see it.

>> The actual cost of health care though, has given you a savings of almost $109 million if our actual cost.

>> Carmen Racy-Choy: I'll just at one thing. The way you move from a $25 liability to a $26 is you actually look forward. And they will use your assumptions for inflation, what they think claim experience would have been, and whatever other proposed changes to the cost of the benefit that they have proposed to you. So you're absolutely right, that when the 25 changes to 26, that's entirely due to the assumptions that you have approved on what's the underlying benefit, how are we going to value it, and the inflation trend, predominantly. Dksz right and it's then curious as what was the 6.3, wasn't that the -- that was the old --

>> That was the old blended rate.

>> Damon Krytzer: And that's the rate we use forward or is that just an independent 6.3?

>> That's the rate we use to roll the liability forward to the end of the year.

>> Damon Krytzer: Which was --

>> Because the liability at 2010 was based off of six.3% discount rate. So it's actual versus expected or expected is using 6.3.

>> Damon Krytzer: But the 6.3 here, in the, you know, in 2010 or 11 or whatever that number was, was based on a blend of our market assumptions and the City's borrowing costs, correct?

>> Uh-huh.

>> Damon Krytzer: But the explanation to value it forward is based on our inputs for innation and for changes in costs, no?

>> No.

>> Damon Krytzer: So those are -- those could both certainly be 6.3 but they're two totally separate 6.3s right as opposed to the other 6.3 comes from our 7.75 which is.

>> And 4.75.

>> Damon Krytzer: And 4.75, it seems like there's two different methodologies coming forward for me.

>> When we roll forward a probability from a require year normal cost was going to be $32 million. The expected benefit payments that came out for that one year cash flow was $28 million. And the expected increase due to the discount rate going from one year prior to one year current, is $60 million cost of interest. That's it, just cost of interest.

>> Damon Krytzer: Okay.

>> Carmen Racy-Choy: Can I suggest that if it's possible for Cheiron to draft a bit of a explanation on how liabilities are rolled forward from the prior ye to the current year, specifically for the health side, on both the GASB and funding basis? I think this can provide a little bit more clarity in general. Because it also applies on the pension side, as well as -- it's the same practice.

>> It is also very similar to how you do expected assets. It's the exact same --

>> Damon Krytzer: That's sort of intuitive to me. I'm comfortable with what you're saying completely, it's not intuitive to me I'm not.

>> Sean Kaldor: We can follow up with written explanation or follow up at some other point. If you're comfortable with that that's great.

>> Drew Lanza: For him to say intie tiff for the same sentence it's brilliant.

>> Sean Kaldor: Is there anyone here present for the retirements that we had set as time certain for the retirements at 10:30? I don't see anyone here for that and the two disability applications were deferred from this agenda so we'll continue as we're going. Can I ask a quick question?

>> Sure.

>> Sean Kaldor: Hopefully this is ax swinger math, a little simpler. The liability which we thought $7 million more than it was, liability came down by 7 million, a rounding error in the big picture, but the reasons for the liability, if I go to the changes below, the census didn't have retiring, hiring, whatever was going on we changed the claims assumptions, we adjusting everything based open what is reality versus what was in the plan before. And those kind of trend and assumptions issues, actually reduced the liability.

>> Yes.

>> Sean Kaldor: By some $87 million. So fixing the plan for stuff we didn't know improved it by $87 million and then we still have the discount rate which made it more expensive by $85 million so a wash. I wanted to make sure which way things were running.

>> If we were to look at the funding reconciliation we wouldn't see as large of an impact through the change of discount rates.

>> Sean Kaldor: Okay, thank you.

>> Another piece of the picture that we look at are the sensitivity and health care trends. Now we assume a trend for premedicare versus postmedicare. This chart shows us in the center of the chart is the baseline based off the assumptions we are using for the valuation. On the left side we would reduce the medical trends by 1% overall so everybody would drop down by 1%. And on the right side we would increase the trends by 1%. And this is just telling you the impact of how health care changes in the future, and it doesn't kind of fall into where we expect them to fall into, we can say we're going to reduce our health care cost by 1%, we could see that the change would be from 1 billion to 845 million, would be a savings. Just due to the health care trends. Now ton odor side if health care increase and rise higher than expected we would see a $2 million change in liability. Just telling you the sensitivity in the liability due to health care trend. On the bottom section tells you the GASB arc not the fund-in, the GASB arc, if you had a 1% decrease in medical trend that your arc would drop from $62 million down to $48 million. And if you had a 1% increase in medical trend you would see it go from 62 million to 81 million approximately. So it's just telling you your boundaries, your boundaries of the health care marketplace. What's going to -- if it goes down or goes up you could expect some kind of change in the future. Okay? Again issues of note unlike the pension plan reduction in payroll do not reduce the benefits or the liabilities. It also results in a higher cost of percentage of pay which we talked about at the very beginning. The reduction of active employees resulted in oop retirement actually increased the retiree liability. Also, unlike the pension plan the actual investment returns have very little impact on the contribution rates. We're only 6% funded so there's not much in the pool. Maximum contribution rates under the MOAs will be reached soon causing the parties to meet and confer shortly. And additional contributions or cost savings will be needed to fund the promised benefits.

>> Bill Hallmark: I just wanted to --

>> Go ahead Bill.

>> Bill Hallmark: I just wanted to emphasize the second major bullet there. Since we've talked a lot about leverage ratios and talked about increases to contribution rates, here the market value of assets ratio is .3% of payroll as opposed to in the pension plan it's almost 14 times payroll. So where in the pension plan a 10% gain or

loss on investment return has an impact of almost 140% of payroll here it would have an impact of 3% of payroll. So you know because this plan is really just starting to get funded it's really not sensitive at all to the actual investment returns.

>> Sean Kaldor: Okay, thank you Bill.

>> And the last section is our stress-testing. Very similar to the pension plan, all the yellow boxes are inputs that we can change. On the topside we have the health care trend rates that are being sumentd into the future. Our preMedicare postmedicare our dental preand post, and plan B as this plan covers part B. Also we have the investment return assumption 7.5. Our assets will earn 7.5 hopefully but we also have a discount rate ofify.7, this again is a GASB per here. On the other side we have the investment return salary increases of 3.5 because we do this as a percentage of pay. And the amortization increase is 3.5 which would amortize the unfunded liability as a percentage of pay. Our expected return oon the city assets of 4% we're actually assuming that continues into the future when we do our blended rots and then we have a little switch here that says whether we want to continue the annual caps or not. Actually, continue them at 11% and 10%, we actually can change the ultimate caps and show you what actually happens. The left-hand graph on the bottom are your assets and liabilities. The yellow bars are your actuarial liability and you can see it's at $one billion in 2011. And it goes up to approximately 2.5 billion in 2031. The red line is your net OPEB obligation. That's what shows up on your accounting statements. The city statements. And you can see that increases, the reason that increases is the difference between your arc payment for the GASB and the amount of money that you actually pay towards the plan. The green line are your assets and you can see your assets will grow. I believe they grow to about $205 million from $60 million. The right-hand graph is our plan fund-in. Layered in the back side is the gray shaded area that's our benefit payments expected to be paid into the future. On top of that, you've got the agree bar and the yellow bar on top of that. The green are the city contributions and the yell are the employee correction. And then you've got the arc payment, the red line, up top. Now as you can see, that your contribution rates once you hit 2020, your contribution rate of 11% and 10% actually are a little bit less than your benefit payments, and your benefit payments actually will be exceeding the amount of money that's gone into this fund. So we can vary this in any

way that you want but kind of gives us a picture of what's happened to the fund in the future. Anybody have any questions?

>> Carmen Racy-Choy: If you can maybe remove the cap and show the full picture, and then maybe just change the inflation maybe increase it and decrease it to kind of show the potential impact.

>> Okay, I believe this is the way this is -- yes. If I remove the caps, it will level out. But I'm not --

>> Sean Kaldor: So remove the caps basically both the city and the employee puts in 15% of pay?

>> I believe that's -- if I put in ten it still caps out at 10. When I put in 20 it still came out the same. Bill, you coded this. How do I do it? I apologize but --

>> Sean Kaldor: Let me ask this. There is a certain amount we need to do to approve this but would the board members feel it would be worthwhile having an education session on OPEB, maybe in our governance thing, a one-hour discussion after the board meeting how it works? I realize, employees pay half or a quarter of the benefit you have this whole funding ratio thing, something that's not trying to get to 100% furnitured overnight and it all changed in 2005, there's so many aspects going to this. I can see people's heads are kind of spinning. That's what I'm --

>> Richard Santos: Essentially the dollar amount.

>> Sean Kaldor: The billion dollar liability and the dollar amount going out on an annual basis for both city and employees. So maybe if we can do that as one of our first education sessions?

>> Yes, I would gladly come in and educate.

>> Sean Kaldor: Is that a threat? Councilmember Constant?

>> Pete Constant: One difference I saw in this versus the Federated plan.

>> Ash Kalra: Is, they showed the projections not only as a percentage of payroll but also in dollar amounts. Can you toggle that to see dollar amounts?

>> It's -- not right now but I can do that, yes.

>> Pete Constant: Okay. I was just wondering if we were going to get projections in real dollars just so we could see.

>> I believe that on the five year plan there were projections of real dollars. So we know that that's -- I can't remember. We know that it's capped, and I was trying to think off the top of my head what the dollar amount was in the presentation.

>> Bill Hallmark: We did a five-year projections in both dollars and percent of pay for the city.

>> 15 million.

>> Bill Hallmark: So they go from 15.5 million for fiscal year ending 2013, up to 23.3 million for fiscal year ending 2017. But that includes the 11% gap.

>> Pete Constant: I guess where I'm looking is where is that so I can just refer to numbers. I couldn't find that.

>> Bill Hallmark: There was -- I think those projections were attached to one of the Val reports. Might have been attached to the pension Val report.

>> Russell Crosby: It is at the back of the pension Val report, if that's what you're looking for, the five year projection, at the back of the Val report.

>> Sean Kaldor: This is for the pension plan last couple of pages, are a five year forecast, out the 2017, for pension and OPEB, dollars and percentage rate.

>> Bill Hallmark: Yes, and the first vehicle shows them combined and then there's the caps for Police and Fire on page 2.

>> Sean Kaldor: Okay so I do have one question, one simple question I think. I'm just looking at page 13 and page 17 of the actual report. And its about the -- what is the arc it says for police it would be calculated 28.1 and for fire 27.8 plus 2% I get 25. So I'm trying to reconcile why is it 25 blended but 28, 28 and a little change either way for the other two. Are you following me, or have I totally thrown you or are you --

>> You're totally throwing me. Which --

>> Sean Kaldor: Table police department the total, you have medical dental then total, total is at 28.11.

>> Okay.

>> Sean Kaldor: And for fire below that 27.8. So blended rate should be somewhere again those two, roughly 28%. I'm just trying to reconcile that to table 16. On page 17. And then there it says the explicit medical is 23.3 compares apples and oranges? Just trying to make sure that implicit subsidy isn't included, right, there should be no implicit subsidy?

>> Bill Hallmark: I think the difference is the amortization period.

>> Oh, yes yes yes. You have --

>> Sean Kaldor: Of course, it's so obvious now. Explained to to me.

>> The police have a 27 year amortization period. But when we do the blended discount rate we use a 30 year, not a closed period so 30 year open, so it always goes 30-year amortization.

>> Sean Kaldor: Police have 27, fire has --

>> 29.

>> Sean Kaldor: 29. And when you do the blended you use 30?

>> Right.

>> Sean Kaldor: Okay.

>> Carmen Racy-Choy: So why is that, why is on the blended basis you're using 30, if you are blending 29 and 27?

>> The method that was developed by Segal used a 30 year open amortization schedule to do a blented discount rate.

>> Bill Hallmark: For determining the arc as well.

>> Yeah.

>> Carmen Racy-Choy: I didn't hear that then.

>> Damon Krytzer: In determining the arc as well.

>> Bill Hallmark: The 30 year rolling amortization is the basis for determining the arc. The 27 and 29 are the amortization periods set in the MRA's group determining the amounts.

>> Carmen Racy-Choy: I don't understand why there would be a difference between what was agreed in the MOAs and what is being used to do the arc.

>> It's a difference between GASB and fund-in. So under GASB we're using the 30 year amortization. If you were to refinance your house every year.

>> Carmen Racy-Choy: Why wouldn't -- I guess my thought is that the GASB should be kept in mind with the agreements as well, meaning if there are specific MOA agreements, those should be at least those should be followed through to the accounting standards.

>> Mollie Dent: Well, I think that would be actually a decision for the board, actually, that's up to the actuary --

>> Carmen Racy-Choy: Absolutely.

>> Mollie Dent: Because aGASB would not, under GASB you would not have to next look at the arc as opposed to being negotiated by the parties. But I think what the actuary is saying that was the assumption that was previously approved by the board for the arc calculation and they've continued to use that assumption, I think, am I getting that correct?

>> Bill Hallmark: That's correct.

>> Sean Kaldor: Ask an innocent question, little bee's nest there.

>> I believe under the POA it says just for fund-in. So GASB is not set for fund-in, for disclosure use.

>> Sean Kaldor: Okay, again I think we can have a broader education here the broader piece than just this is there any discussion before we get to Alex Gurza's memo? Okay. Deputy City Manager Alex Gurza sent us a memo and I'll ask him to talk to that.

>> Alex Gurza: Good morning. I know you have already had a long discussion but it was definitely sobering to go through this OPEB, particularly the modeling stress testing they do at the end so can you see what the different changes are. I think the biggest concern at least from my perspective when I see that chart, is where benefit payments are expected to exceed contributions. That's a significant concern. For the newer board members just to set a context the city had made great strides to trying to address our OPEB issue. Slide I think it was slide number 6 in the presentation showed the big jumplet in the liability in 2006, and as Bill Hallmark pointed out that was primary due to the shift in the methodology of what GASB required. As Mr. Hall Mark indicated, previously because we didn't have those GASB valuations and the resulting actual liability. It was being calculated just payments over the next ten years. So but you request see the green line -- can see the green line at the bottom that bottom, they're all the way down. I think then if you look at the funding ratios of even 6% I think if we were talking about a 6% funding ratio for pensions I think there'd be significant concern. I think there's significant concern here. But we started on the road to start to fund it, and under -- and pay the arc but that's a long road to go from where we are to what it takes to fund the arc. And the City's first agreement was with the San José Police Officers Association, a very significant agreement, they were the first ones to reach an agreement to start to head towards that. And as part of that agreement because it was such a big shift that's why you see this negotiated caps and things like that because it was a concern of where it was going to go and how much of a jump there would be from one year to the next. That same cap where you have to meet and confer when we reach it does not exist on our Federated side. That was the agreement but really once we sit down once we know we are getting othat amount and decide to go from there. That's why my letter stribility caps we wouldn't ever go before that number. One other reason for wanting for us asking what would the arc be? When I say the arc I don't mean the GASB basis arc that you have to produce. I'm talking about enology what the arc will be on the funding basis going forward. In the five year projection. Not asking you to change any assumptions, use the 7.5, all those things

you currently do so we can know what that arc will be without those caps. Open be the Federated side you may not be able to follow that, Cheiron did the same thing, that is really alarming where without the catch the total for 32%. So almost half of that is employees and half of that for the city. And that led to a discussion among the Federated board of what can they do, they started talking about reducing the cost of health care. Literally understanding it is not the purview of the board but because those costs were so high it led to the beginning of that conversation. So we think it is absolutely critical for us to know what is that number in the five year projection without those caps so we can start grappling with that and deciding what to do. I know it is very simple because you have that yes-no so toggle that off and you could just supplement that five-year projection we would greatly appreciate it.

>> Sean Kaldor: Sean.

>> Damon Krytzer: The end of that was a good point as well we've brought up wellness, in the context of disabilities dick you know is all over that, I think that's an excellent point. We never really saw that conversation through it all but it would be interesting because you know you're right, there is an aspect that does in some way, I don't know if it's our, how it falls to the board. But to talk about wellness not only with regards to the disabilities but wrarts to the try to figure out weather it's at the retreat or at a future meeting, how and if we should address that at all.

>> Sean Kaldor: We'll bring that up when we get to the disability term determination process in that committee. .

>> I just got to read the memo from Alex. I bring caution. What he has brought forward clearly is this is a meet-and-confer item and he's asking you to put out possibly a report that would value a different agreement than would exist. I would remind everybody that we have I would just caution that being asked to value something different, and report differently than what you normally do, you know, it is something that I know this board has said they would not make a practice of. Certainly, I've been at this pension reform task for quite a while and I can tell you running these reports is very costly. If the board is going to start to take this on, I don't think that's what this board is here for. If you are, you're going to have a big line of people behind me.

>> Damon Krytzer: I'm not super-clear on what you mean though.

>> Well, in his memo he's saying disregard the agreement because it specifies that there will be meet and confer at some point. Well, that's true of the entire retirement plan. I'm just make -- I'm just offering that I don't want this board put in the middle of this issue.

>> Damon Krytzer: That's a fair point. Away part of what specifically are we --

>> Sean Kaldor: So this -- I guess there is two pieces to the request. One is to provide away the dollar amount would be if the full arc was paid. The second is asking us to use those different numbers for the forecast. So it gets down to our official forecast and if we are going to issue --

>> Mollie Dent: I don't think, I didn't view the request that way and perhaps Mr. Gurza could speak to it if he views it differently. You viewed the actuarial forecast is in the valuation you've approved it. If you want to provide additional information to the city and the bargaining parties for that matter, concerning what the valuation based annual required contribution would be, in the absence of caps, you can ask your actuary to do that.

>> Damon Krytzer: That was exactly my assumption too.

>> Mollie Dent: That was my understanding of the request not to change the official --

>> Sean Kaldor: I'll ask Mr. Gurza, the point of the full arc be used for probltion projections,.

>> Alex Gurza: Absolutely not, not the official board forecast. We just want to know what the number is and absolutely do not want to have you get in the middle of meet and confer, that's not why we're here, not the purpose of the request. We think it's absolutely critical. We think you as trustees would want to know what the number is, what is that arc. And that's the only purpose of our request is to know what that number is.

>> Sean Kaldor: We know the arc this year is 62 million, it's just a matter of what Wass the forecast for the next five years is that right Bill?

>> Alex Gurza: And it's a contribution rate. If we look out a few years, it just says 11. Because they're using the cap. If you take off that cap what is that arc, very simple request. Rk and quite frankly you had to do that at some level in order to do the valuation isn't.

>> Alex Gurza: Rather than us having to get exactly what that number is if you just give us the numbers behind that, at a may be alt that the need.

>> Mollie Dent: I think they are look are for dollars rather than percentage of contribution.

>> Alex Gurza: Dollars and percentages.

>> Mollie Dent: Well those are the percentages.

>> I have no objection to providing the dollars that represent that line. Contribution rates, what will they be? New agreement that doesn't exist? Is that what we're asking for? I'm having trouble understanding what contribution rates will be. 50% of that number? Sure. If that's an agreement but that's not currently an agreement.

>> Alex Gurza: I think really what I'm asking is, if you look at the Federated OPEB valuation that Cheiron did, when you see 32.34% it's the percentage of payroll that you have. And that's really what I'm asking, obviously dollar amounts as well. So is he very similar to table 15 just not limited by the caps.

>> Mollie Dent: I think the difference is for Federated there were no caps. So it's easy to show the dollar amount that goes with the arc. The point is, how that gets split between the employer and the employee, is going to be subject to whatever is bargained for.

>> Alex Gurza: Should be clarified, we limghtsdz every year, it's dint in Federated than in Police and Fire how much it would go up. But at the end of that period, sort of like an adjustable mortgage, it adjusts up to pay the mortgage. And in sphrd it's a significant comumple up to pay the mortgage. We're simply asking, what will be our mortgage payment if I can put it in simple words, we want to know what the mocialg payment is and know what that sticker price is to know what we're saying.

>> Sean Kaldor: Please, I apologize.

>> Mr. Chair, I'd like the opportunity to address agenda item 2.2 which I was not able to be here for when it was on the agenda. The media reports. I realize that it is -- it is out of order in term of chronological order.

>> Sean Kaldor: Would it be possible if we could finish this agenda item and then do it after?

>> I didn't want to miss the next comment period, that is fine.

>> Sean Kaldor: To be clear with everybody, as each item comes up please make yourself known and we're very open to public comment on each agenda item. Let's wrap up this discussion and I'll put it right after that. Thank you, I apologize. Okay. So we have a request, we've already accepted 2.1, and the forecast, and that's done. Excuse me that was 3.1. 3.2, I'd accept a motion just to accept that and move on with that and then we can address the request from the city to provide separate calculations.

>> David Bacigalupi: Move to approve the report.

>> Sean Kaldor: We have a motion, do we have a section?

>> Second.

>> Sean Kaldor: Motion and second, all in favor, opposed, seeing none opposed the motion passes unanimously. We have been requested to provide a full set of figures that would show at the full arc what the total contribution would be. And this is the City's, you're requesting for the full arc or are we to make assumptions about the split between the city and the employees? Or is it just the City's arc, assuming it's still 50-50?

>> Alex Gurza: I assume nod when you do the calculations if you take off the caps altogether, retiree medical is 50-50. I assume when you do these classes have to have that in the system. Dental I believe is 75-25. So I do think it would be helpful to -- I only see where you have the total you're going to have the two component parts. How much would the City's contribution about and the arc be. So you would have to have calculated the employee's side Nos. I'm incorrect and so that's all part of the calculation is to have to do with what that funding split is.

>> Sean Kaldor: So if the caps were reeived.

>> Alex Gurza: What the rates would be pps.

>> David Bacigalupi: I have a question. This isn't agendized for a request to do something additional with our actuary I mean are we allowed to each take action today?

>> Mollie Dent: I think in terms of acting on the OPEB valuation, you can ask for supplemental information from your actuaries if you want. I would say that in terms of the information that has been requested, the annual required calculation is calculated at a 100% level and then is split. It is not a matter of building it up from the building blocks, it is a matter of breaking it down. I mean it's pretty easy to do a 50% of an annual required contribution. I'm not good at path and even I can probably do that. So I think providing the dollars that go with the annual required contribution is not anything really for your actuaries, and it's really not anything for other people to break it up. But it's up to you, part of approving the OPEB valuation. If you want to ask them to provide the additional information they'll provide the additional information first to you and it will come back at a future meeting.

>> Sean Kaldor: Dick.

>> Richard Santos: I was just saying (inaudible) speaker comment.

>> No objection to knowing the number, we certainly all want to know that. But to come back with a 50-50 split when today we have an agreement on caps who knows what an agreement might be. It may not be a 50-50 split down the road. This is clearly explore tries. This like I said there's going to be a line behind me of folks that want this kind of work done. I just caution.

>> The board adopted a policy on request for actuarial work back this October. I don't have it in front of me but there's different levels and exactly he's right about who's supposed to pay and where do you consider this kind of request? Do you can it a follow-up to valuation that you are requesting or is it a negotiation type of request and we do have a policy on that. I'm sorry I did not bring it with me.

>> David Bacigalupi: Too bad we weren't at our own office.

>> Sean Kaldor: Had to go there.

>> Damon Krytzer: We have a policy, I don't think we need our conflict attorney.

>> Donna Busse: At the end of the day you could authorize --

>> Mollie Dent: I recall the policy enough, if you want to receive this information for your own purposes you can certainly request your actuary to provide it. And pay for it and have the plan pay for it. And it is part of the -- it can be considered part of the action on the OPEB valuation. If the policy also does speak to information that both parties to the negotiating process have asked for. And at least I, from what I've heard today both parties to the negotiating process are saying yes, they would like the information at the global level. At the annual required

contribution level. They would also find that information useful. You don't have to ask your actuaries to do it, but it's really up to you.

>> Sean Kaldor: If we sent a unilateral request we would have the parties.

>> Mollie Dent: It would be up to you if you wanted it done. If you wanted it done they would pay for it unilateral.

>> Russell Crosby: It was broken into two categories. The first part of the it could go ahead and there was no addressing of who pays for it it's just a plan expense. It is part of a valuation that's been approved by the board. The valuation assumptions are approved by the board and this request, it seems to me should just go forward. As a natural normal request based on the existing valuation which was approved today. Nothing's being modified, nothing's being asked to change. It's just based on today's --

>> Mollie Dent: It's additional information. It's not to go in the valuation. But it is part of if you will follow-on to the valuation.

>> Russell Crosby: Correct, correct.

>> Sean Kaldor: Scenario right?

>> David Bacigalupi: But it's additional information with modifications because it's taking the cap off, right?

>> Russell Crosby: No. He's simply asking for what is the underlying arc going through that period. Unless I've misunderstood Alex.

>> Alex Gurza: No I have to say after the presentation and the slides shows out in the out years you may be paying more benefits out than contributions I really think at trustees you would want to know this information. I think the actuary in part of the slide actually said that additional contributions or cost savings would be needed to

fund the promised benefits. It just seems information that you would want to know given that the retiree health care is so low-funded you've got a funded ratio of away was it, 6%. That means it's only 6% funded and all we're asking is to know what if the contributions that should be going in to fund these benefits, is no more or no less than that request. That I think you as fiduciaries would want to know the answer to.

>> Carmen Racy-Choy: By the way this was information that used to be provided by Segal in their valuation. And if another actuary is looking at the valuation the way you would assess whether the numbers are right is by looking at the full arc. So I think it needs -- it could be provided. But with the full disclaimer that this is the full arc and that currently the MOAs have caps which have been applied so this is not the basis of contribution. But this is information which, if another actuary is analyzing the report, you typically would ask for.

>> Damon Krytzer: To put this in context we're talking about like a ten minute change on a spread sheath right? We're spending more time to talk about it probably than you could do it, because you could do it in the hallway, right?

>> Russell Crosby: Correct, they've got it.

>> Sean Kaldor: It's just how this is represented. Is this a forecast? It is not a forecast. This is not what the numbers will be but this is the way the numbers would be if the following scenario played out. I agree it can't be a whole lot of work.

>> As Carmen said, I would do it on the 7.5 total arc I would not split I city by employee simply because that's not been decided. Total arc five years 7.5%.

>> Russell Crosby: Correct.

>> Sean Kaldor: There's a few other decisions because once you go to the full arc it changes the discount rate discussion. There's a little more math to that.

>> Damon Krytzer: I'd be happy, is this a motion type thing?

>> Sean Kaldor: We're looking for a motion.

>> Damon Krytzer: I was the person that brought up whether we should be paying it in the first place, like pushing a button for complete informational purposes I suggest we run the numbers.

>> Sean Kaldor: So we have a -- it's a motion to provide just to elaborate, the toll arc for Police and Fire plan for informational purposes.

>> Damon Krytzer: Correct.

>> Second.

>> Sean Kaldor: Any discussion on the motion?

>> Richard Santos: Is there bets of benefits to the plan I can support it if it comes back and it changes anything on the meet-and-confer process then it's how we use that information. So we have to be careful in that area, not what Mr. Sapien is saying, as we are fiduciaries looking at the plan if does it benefit the plan then the answer is I would support it.

>> We are not asking about the percentages or anything like that just the general number.

>> Richard Santos: How you go about using it for general information.

>> Sean Kaldor: Any further comment on the motion?

>> David Bacigalupi: My only comment I think anything extra we're going to start opening a door where we're going to do requests from other agencies it is a matter of pushing a few buttons very normal cost. To keep our record clean, I don't have the policy in front of us but to keep our record clean, we should ask the city to pay for it, get it done, and they could probably have it in the hallway before we left.

>> Sean Kaldor: Would you recommend April amendment to the motion that if there is a charge --

>> David Bacigalupi: There is a motion on the floor contrary to what I was arguing against so I would be against the motion.

>> Mollie Dent: Could I make a suggestion that you do make it clear that the information should come back to the board at a future board meeting because I think that would be most appropriate.

>> Sean Kaldor: I'm interested in approving what it could be phrased. wait.

>> Mollie Dent: I do think when it comes back you're going to have to have a little bit of discussion between cirches of funding and GASB funding, there's a GASB term annual required contribution but obviously OPEB funds are not always fully funded. So I think you have to -- that number stands for something. But it stands for something that is not necessarily a requirement. But so I think it would be appropriate for it to come -- if the board wants to see the number for the board to ask for that to come back to the board in a future agenda item along with the discussion about what it means.

>> Sean Bill: Then to be clear this is asking for additional disclosure on work they've already done in terms of actual dollar amounts, it's not asking them to do new work, just putting new numbers on instead of a graph line.

>> Sean Kaldor: So to -- I guess I'll offer a friendly amendment to bring it back for board approval at the next meeting if that's September by the motion and would seconded it? And Sean seconded it. Any further discussion? All those in favor, aye. [ayes] , and all those popes opposed? Beeps anyway.

>> Sean Kaldor: We have one one opposed, chairman Bacigalupi. Gls my name is mark renner, I'm the law partner of Christopher platten.

>> Richard Santos: Could you come to the microphone I'm tough on hearing.

>> Good morning, my name is Mark renner, I'm the law partner of Christopher platten who most of you know. I would like to have a comment on 2.2, and bring a piece of portion to you. First I just wanted to preyful comment on one of the items that was attached to your agenda, there was a link to the mayor's letter of February 15th, as I read that letter, to the elections commission, his response to the ethics complaint it says in essence that continued using of the $650 million figure was perfectly proper and not misleading because if in fact the return on investment was not going on the assumption that this board has been going on then you would have a catastrophic number like that. In my mind that's the kind of logic that says if a pig had wings it could fly. I mean this board makes decisions based on information that it gets from its service providers. And it relies on that information in order to make its professional judgments within its fiduciary capacity. And to continually focus on a figure which is not based on even the numbers that this board is going on, as if it had some relevance, we do very firmly believe is misleading. As I said you spend a lot of money properly so on professional service providers to give you the most accurate information possible. And that brings me to the point of information that I want to bring to you this morning. Just this morning we have filed a lawsuit in Santa Clara superior court with three participants two participants of this plan and one participant of the City's Federated plan with what we regard is a breach of fiduciary duty. What this lawsuit is in regard to is expenditure of this plan's and the Federated plan's assets for a special study that plant administrators had undertaken in July of last year which had nothing to do with the fiduciary purposes that you are to exercise when you sit on this board. The reason we say that it had nothing to do with your fiduciary duties was because the assumptions that the service provider was given to produce that special report had nothing to do with reality. And those who caused that report to be produced knew it had nothing to do with reality. If that -- that being the case we believe there is a very firm case where there is a breach of fiduciary duty for this plan to expend its plan assets on something that has nothing to do with the two duties that you have as a fiduciary which is number one, providing benefits to the plan participants, and number two,

defraying reasonable administrative costs to the plan. Because this was basically a study what if a pig had wings then it could fly it had no fiduciary purpose whatsoever. So for that reason we are asking that the individual fiduciaries that engage in these plan activities make those plans whole that they ordered to be further restrained from any further fiduciary breaches and that they be removed from any fiduciary duties to these plans. The russell Crosby, former in-house actuary, the city itself and those defendants. We have also named this board, and this is the major point of information that I wanted to bring this to you personally we have named this board and the Federated board as necessary parties in interest. Now what that means is not that you are defendants in the action. But it does mean that we felt that we were legally required to name the board because the board knowingly or unknowingly ultimately ratified, approved what we believed were expenditures in brooch of fiduciary duty. So that's the reason the board is in the complaint. Not because an accusation is being made against the board but because we were legally required to name the board as a necessary party. I have copies with me of the complaint. I only have one copy with a file endorsed stamp on it. I would be glad to provide the clerk of the board with a copy of the complaint this morning so that the board members can have copies of it as soon as possible.

>> Sean Kaldor: I'm looking right over at our toarps with a question what do we do?

>> Mollie Dent: You ask provide a copy to whatever you want the board to have to the clerk. That's fine.

>> Sean Kaldor: What is that?

>> Mollie Dent: He can certainly provide copies of whatever he wants the board to have directly to the clerk.

>> Sean Kaldor: Is that the City Clerk or --

>> Mollie Dent: The clerk of the board here.

>> Sean Kaldor: Thank you.

>> Mollie Dent: It won't be considered service but it's very nice for him to offer to provide a copy for you to look at.

>> Sean Kaldor: Okay. Why don't we take a five-minute break and we will reconvene at 11:30 for the last agenda item. [Recess]

>> Sean Kaldor: We'll start again. I appreciate everyone's patience to allow a little discussion. So we've received the paperwork, it's been handed to the clerk here. I've talked with our attorneys, they're going to review what's been submitted and come back with their analysis and recommendations based on that. And remind everyone on the seventh meeting we also have a discussion about our fiduciary responsibilities and the laws and such that apply to that. So we'll see where all that goes and look forward to hearing back from their valuation of what's been submitted. Okay. Do we have one two three four five. Yes. Okay. Still with a quorum. And at 10:30, Vince Sunzeri left. 3.3. Approval of rules and regulations for voluntary deductions from pension benefit payments.

>> Donna Busse: This was dues increase, from 15 to 43 and the implementation, and then we roisted that we had to have an orps, and that has gone through. So the ordinance has gone through. The second reading was on Tuesday so it will be effective 30 days from last Tuesday. So now we needed to bring forward subject to the ordinance a rules and regulations from the board on the administration of the voluntary deductions. Which I presented. And I've also outlined the retirees association how to implement the dues change for them based on Nancy Pyle's request to not stop the deductions for at least three months feedback since my memo went out from the retirees association. I don't know if you would want to speak on that. (inaudible).

>> You can go ahead.

>> We appreciate the fact thinking outside the box but we're going to opt just to go ahead and start the deduction, when the ordinance is in place rather than a catch-up because the -- if you look at the amount, it may not look like a lot to those of us who are working to some of the people that is two and a half times from away they would be normally paying from their salaries. That would be a killer. We'll wait until the final implementation to let it go

ahead an go. We would like to are ab to run our members in our association, rather than have retirement services do nap we would like to look at a different option where the people who don't turn back in the cards saying they want to increase their dues, that those members who already signed up and are paying $15, that they would continue to be able to do that. And you let the association deal with the fact that we have to have members chink their sign-up so that we could increase their dues. Rather than just blatantly wiping people off the map. So we would like to go into discussions, fortunately Donna and I have not had a chance to discuss this. But these are discussions we would like to have, that you let the association take care of its membership rather than have retirement services deal with those people. Donna Jim you are you --

>> No do exactly what we're doing, go ahead and send out the cards and those people say yes they want to have the bigger deduction, that happens. Those people that don't send back the cards, you continue to take out the $15 because it's going to be the same computerization changes that would have to occur. And we would be able to go ahead and talk to our membership and trying to get them to increase or do whatever. That's what we would like to do.

>> Sean Kaldor: Can we put a time frail on that maybe six months and then --

>> Donna Busse: Well I mean that was kind of the gist of my whole memo is that we really wanted to get away from having two different rates because it is a leave 1100 and leave 100 the same because that's an individual adjustment. We have to go and do every single record individually and change the people to 43.

>> But you're going to have to do that anyway.

>> Donna Busse: No we don't if we turn everybody off we now retirement association pay I $43. That's just one change in the system and then we have to stop the few people who don't want the change.

>> But if I can common sense would say you have to turn off everybody then go back in and turn on those people that have the 43. Donna no we don't. All we have to do is system level change the $15 deduction to a $43

deduction and then start the people and it sounded like it was not going to have so many people we have to turn them off individually.

>> We need to discuss this off line in here because this is not something we are going to really agree on. The other thing that we -- that needs to be done, which I haven't seen, is the fact that someone who retires next month, as far as I know, retirement services has done nothing so that they don't have to -- we don't have to go out reach out to these people and have them sign another form and go at it. Retirement services has known for over three years that there's a problem with this law because Federated has tried to change their dues over three years. So we would like to see something in place right now so that a person who signs up for retirement next month is covered under the new guidelines. And we don't have to reach out to them and change this whole thing over. And I'm not sure that that's in your memo. I'm sorry --

>> Donna Busse: We can do it definitely on a go-forward we can structure the opt-in the way I'm outlining it here.

>> Mollie Dent: I think the idea is to develop a form as soon as possible for the members to sign that would allow them to opt-in to the benefit only at the level that has been approved by the association for its dues.

>> That would be fine.

>> Mollie Dent: We would turn them on though at the same time as everyone else, I think that's because of the whole issue of turning everyone on at once. So even those new members I think might go in at a lower level initially until we are ready to turn the whole thing on.

>> As long as they are signing the form that says it is right now. That's what I'm concerned -- I haven't heard anything about that, seen anything about that, that there's a change to that policy. If I was an active employee and say I want to retire next month, I don't want the employee to fall under the old system, I want them to be under the

new system, so we have to reach out to them and tell them what that is. I haven't seen anything in the writing or retirement handout about that.

>> Sean Kaldor: So I just want to make sure we understand, you have two issues then, one is the transition for those that don't return the little stub, and the second is, people who retire today, onward.

>> Donna Busse: Yes.

>> Sean Kaldor: Okay. Dpb and John, I have had this discussion with retiree association for a while and this is just a basic disagreement on administration. I don't think we're going to resolve it. I think the board is going to have to direct the staff.

>> Sean Kaldor: Okay. So it seems on the second issue, I'll take the easy one. That I'd ask that the policy be updated to reflect that effective March 1st any future retiree will be -- will sign in at whatever the dues are, as they change they will be changed for that retiree. So that will take care of the second point.

>> David Bacigalupi: They agree to pay the dues that's set by the board of the retirees association.

>> Sean Kaldor: By whatever association. If group X changes their dues by five bucks they can -- that will be the disclaimer made known to then. Second modification I'd ask for would be just a clarification. And that's 3A. And I'm just thinking about someone reading this in ten years. It says all deduction setups and changes must be submitted to retirement services and signed by the beneficiary. I just want to clarify that when association changes its benefits, sorry, its dues, that you don't need somebody sign by the individual beneficiary every time that happens.

>> Donna Busse: That would be twru because we're going to get one --

>> Sean Kaldor: It is a transition.

>> Donna Busse: Right. We still need to get the one continuous change authorization from every member.

>> Sean Kaldor: So I guess I'm proposing a series of things here so 1, 2 and then the third one is this issue of -- I'm trying to understand how much work it is if they say people don't return the card they are saying we want to call those people say hey, return your card, you're saying it's easier to turn them all off.

>> Donna Busse: That's not what I'm saying.

>> David Bacigalupi: They want to continue them as-is rather than turn them off.

>> Donna Busse: That's what they want.

>> Sean Kaldor: What do you want to do?

>> Donna Busse: We have to turn individual record versus a change to a $15 or $43 at the system level.

>> Sean Kaldor: For that group that doesn't go you want to just turn them off.

>> Donna Busse: Right then on a go-forward any time the retiree system changes we change it on a system level. Every person that is out, we change dues back, because I think this was supposed to be a one-year, $43 raise then when they want to change it back we'd have to go back to each individual record and change it back. If we take the people out who don't want the dues then at the system level we'll change it to whatever level they want.

>> Sean Kaldor: Can we create a new association that's retirees low and retirees high --

>> Donna Busse: Any time you throw anybody into anything you create the deduction and set the deduction up in their individual report. Unless it's an existing deduction they already have which it already is and then we just change the amount.

>> David Bacigalupi: Donna isn't it going to be more difficult if you turn people off they go out and resolicit, then you are signing them up like new retirees?

>> Donna Busse: There is that chance but judging on the election and the way the vote was, it sounded like they had 99% of the people congregation to the dues increases.

>> Mollie Dent: I'd point out if they stayed at 15 and they wanted to be increased at some point in the future up to 43 you would have to go back in and manually do it. So if they can solicit people and get them back in at the $43 level then the individual gets to make a change a year, three can make that change if they want to. It's not that those people will be lost, they can come back in if they want, the goal over time is to minimize the administrative burden by having everybody be in at the same level.

>> I'm afraid we have odisagree with that. Because what you're doing is in fact you're cutting the association membership off. Paws of a recent interpretation of something that -- because of a recent interpretation of a city ordinance where we have been working for area with a lot of people who have allowed us to -- or we have been operate being under and now all of a sudden we have this rather arrogant interpretation of the city charter that says we have to go back in and change everything that goes on. So we're asking for a little help here so that we can meet the new requirements that have been placed upon the association, but also, so we can go ahead and maintain our membership in the organization. And I know the board's item is not whether we have members or not, but I think the fairness of the fact is we're more than willing to make it, if you would, in compliance with the charter. But we need too little leeway here to get this done. And that's what we would be doing. Because not everyone's going to respond to the post card. Let's face it folks, you all know that. Common sense would tell you not everybody is going to turn back that post card and we're going to have to work very, very hard to have that happen.

>> True.

>> Drew Lanza: Now I'm totally confused. So Donna away you're saying is we have how many records in the system over a thousand?

>> Donna Busse: There's about 1200 retirees.

>> Drew Lanza: What you're saying is, Drew, I don't want to touch all those records, I gotcha. So what you're saying is I want to touch the smallest number of records possible. The easiest way to say is the bulk are at 43, I'm not going to touch the records at 50, I heard you're right, so what's are you saying? What's the problem? Why can't we hear from your members who want to go to 43 then we switch the system to 43 then we have to go through the 100 or twontd records that want to stay at 15. Why is why is that a problem?

>> Donna Busse: I'm saying stop.

>> Drew Lanza: You're saying stop what?

>> Donna Busse: Stop the 15 so we don't have two different rates.

>> Sean Kaldor: Change it to zero.

>> Drew Lanza: You can't do 15 and 43? You can only do 43 or nothing?

>> Sean Kaldor: You could create a separate association at 15, join them in and change it to 43 later.

>> Drew Lanza: I was confused now I got it.

>> That's not really accurate because I belong to several organizations police chaplaincy from five to $10 they would be obligated to go back in and change that on a one to one basis. So I'm not saying that we're creating anything that isn't already being done, with the deduction process. And I'm asking for relief for a long period of time so we can go ahead and get that done to comply with what's been proposed here. So I don't think we're being unreasonable on that because you're cutting -- you'd be cutting out recognized people, go ahead Baci.

>> David Bacigalupi: I just want to compliment the organization too. Remember part of this whole package is the retirees association has been working with Russell to eliminate the paycheck stubs that won't be going to out, as many of them. I guess if you still want one you can still get one. But this is going to eliminate a lot of the work that our office has to do and they won't have to do it in the future and the association has been very aggressive about working with the retirement staff to do that.

>> Russell Crosby: It's not so much that it will reduce the work in the office, it eliminates postage. The savings really come from postage, not work changes.

>> Donna Busse: Little bit of work.

>> Sean Kaldor: Let me ask a question then go to Damon. The difference between 15 and 43, the $28 that is a temporary thing that will get turned off at some point right and go back to 43?

>> That is something the association, Mr. Chair, of course.

>> Sean Kaldor: Can we set up a $28 thing, apply it to those people and delete it from all the ones that don't get it and turn off the 28 when they lower the dues? Would that be as much administrative work as you're doing? What he's asking for?

>> Donna Busse: Basically setting up a new deduction. Any time you are setting up a new deduction you have to apply it to the individuals. If they already have a deduction there which they already do for the retirees association all we have to do is change the amount of that deduction to a higher level.

>> Sean Kaldor: To give you another deduction would be manual work.

>> Donna Busse: Say.

>> Damon Krytzer: Wouldn't a viable answer be to hire someone for two weeks and let them do the data entry?

>> Mollie Dent: I don't think so.

>> Damon Krytzer: If we paid for someone for two weeks to do it?

>> Mollie Dent: It's going to happen on an ongoing basis. Every time you change the dues you're going to have two different levels. I think if you look at the policy you'll see that there's a very different rule for organizations that do not have the same amount for all individuals. So if the retirees association becomes an organization that doesn't have the same amount for all individuals, they have a $15 dues level and a $43 dues level. Then the proposal in this policy is that you won't change that on a global level. You'll only change that on an individual level. And it would only be changed one time a year per organization and the total individual changes would be 25 a month. So the policy is, recognizes that when you try to change the individual deductions it takes a long time because it's very work intensive.

>> Damon Krytzer: Because of the minimum or maximum amount of changes? Dsh.

>> Donna Busse: We're trying to limit the amount of deductions we do all the time. So what you are speaking to is 3D where the deduction amounts are not the same for an individual we want to limit those changes as well.

>> Damon Krytzer: I understand. But all I'm saying is couple thous thousand members 90% are going to be turned on the rest is going to drip in. We are concerned going in manually changing 2,000 or whatever it is. We could do that and then manage the 200 people that are going to slowly drift and at some point it's going to change back out and we're worried about doing the same exact thing the other way although then we could change the entire group back to another flat amount. It sounds to me like a temporary issue. And I understand what that says, but is there a MacGiver deduct tape solution, this is a one time event and let's just do it I would have sat and done some of it. If we all take a few we would spend less time than we're talking about. Kb.

>> Donna Busse: Probably true. There's 2500 members on the Police and Fire plan, there is another 1200 or so on Federated, another on POA, we're trying to -- we're trying to change our workload. We'll do whatever --

>> Damon Krytzer: I want it to work. What I'm asking, for us to hire a temporary worker, not that they've agreed, but reimburse us minimum wage for two week for someone to come in and manually change it. (inaudible) wore hiring them. (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) (inaudible) our system is such where you have access to be able to change something. It is not to set it to rks other deductions as well. So that's exposure. You want to make sure whoever is going to come in to make those adjustments is going to do just those.

>> Mollie Dent: There is not a way for the city to hire a minimum wage person to come in to make the changes to the retirement system. Let's just say that.

>> Drew Lanza: We have got to come GASB and intuitive in a sentence and then City of San José and duct tape. Apparently no.

>> Sean Kaldor: Do you say there would be like a two or three month phase in?

>> Donna Busse: We could get a cost of what it would take to get a temp person in. I mean like an analyst level what's the minimum, $28 an hour plus 30 to 40% markup from a temp agency.

>> But if you can't do it, there's no point in getting a cost estimate.

>> Mollie Dent: That's the way they would do it. It's not a minimum wage person is what she's saying.

>> Donna Busse: One per to come in and do it.

>> Bettina Rounds: If it isn't a minimum wage person it can be done?

>> Sean Kaldor: You're talking about the permissions and the access right?

>> Who knows what we're talking about.

>> Drew Lanza: Well your request is very reasonable. Anybody here doesn't think the request is reasonable? Donna has come back, I hear this it is painful it may take time may take money, the request is reasonable. We want to have members potentially at two different levels and how do we make that happen? A reasonable request yes or no? It's the kind of request you'd make if you were him.

>> Donna Busse: If I were him yes. But if he were me would probably say we wouldn't do it.

>> Drew Lanza: He would say oh my God it's hard to do.

>> Donna Busse: We have a lot of resource constraints but we'll do what we have to do.

>> Sean Bill: How many different retirement groups are you guys dealing with, in terms of.

>> David Bacigalupi: Whey whittled it down to four I think for us.

>> Sean Bill: And then for Federated --

>> Donna Busse: Has a couple.

>> Sean Bill: And being a relatively new trustee to the board I would ask why does the Department of Retirement services not handle that, why are the associations not doing this in terms of soliciting contributions from their members, handling all the interactions with retireees, why is the Department of Retirement services even doing it?

>> Donna Busse: I believe it's just a courtesy that the retirement department extended at a time when they probably had capacity to do it.

>> Sean Bill: So then is there a city rule as to why this is -- what the Department of Retirement services do we have an obligation to do this?

>> Mollie Dent: No you don't have an obligation to do it but the council has approved the ordinance that would allow you to do it. There was some question about whether it should have been done under the prior ordinance. So now we have --

>> Sean Bill: I have a question why we should be even doing this for all of these groups. We are tax our resources in a very constrained atmosphere of availability to it makes no sense to me.

>> Mollie Dent: It is within your purview to do it, it's within your purview not to do it and you have a policy before you that would allow you to implement it.

>> Sean Bill: Another question. One other question. Is any of this money being used to fund lawsuits against this board?

>> No.

>> Sean Bill: No money from these associations is going towards these lawsuits?

>> In my association we are not party to any lawsuits.

>> Sean Bill: Are there any other associations that are suing this board?

>> Sean Kaldor: There's only one lawsuit.

>> Sean Bill: Any other associations that are named in that lawsuit because if they are that raises a big red flag for me.

>> Sean Kaldor: Same situation with the City of San José, that firefighters, police officers they all pay union dues. Those union dues are used for whatever purpose.

>> To sue this board.

>> Sean Kaldor: They can be.

>> To sue the board.

>> Sean Bill: That brings open another Pandora's box, of exposing ourselves to funding lawsuits against ourselves.

>> Sean Kaldor: Baci and Councilmember Constant.

>> David Bacigalupi: I'd like to point out Sean the association or the retirement department isn't doing it for the association. They're doing it for me. They're doing it for dick. People that are retired which the actives have the same ability. I'm not great with computers, and stuff. Butt otherwise I'd have automatic bill pay going to everything. But it saves me from writing checks to certain recognized organizations having owrite a check each month, get my deposit, make the deposit of my retirement check and write those checks out by having a payroll deduction, it is doing it for me as a convenience as a retiree as a member of this plan as somebody who has paid into this plan for 33 years.

>> Sean Bill: I respect that, but we're under extremely constrained resources.

>> David Bacigalupi: But at the same time there is some as you know as a retiree I may sound selfish but a little bit of accommodation I think is deserved after all these years.

>> Sean Bill: Don't disagree with that. I'm just saying and my mood's a little tilted after the day's events but you know -- I think it's something that we should explore. If it's becoming where this is becoming a big distraction and big time suck on our staff's time it needs to be fixed. But if it's something that can be commented we should comment. I'm not in favor at a time when we are all so short staffed, we are always talking about our accounting people being extremely short staffed spending a lot of time on a association that could use their own money to set up their own system to get the money from their members.

>> Sean Kaldor: Pete and Russell and Bettina.

>> Pete Constant: First of all let me say we're talking about constrained resources and I think our professional staff has made some very important points. The question is who's going to do the work to chase down the members. Is it going to be our staff doing it one by one or is it going to be on the retiree association to, within the 90-day period contact all of their members to have them participate. And I think that's the key discussion here. And then Sean just to answer your question directly, I'm a member of the organization. And it was explained

to me through the communications from the organization, this increase is to fund a war chess to fight the city and pension reform.

>> Sean Kaldor: So to the question you raised about who's going to contact the members. Is that retirees association that's going to do the outreach?

>> Donna Busse: We were going to do the outreach because we wanted to get the direct deposit receipts stopped. So we wanted to do one communication --

>> Sean Kaldor: A mailer to ive.

>> Mollie Dent: But I think the retire eassociation would be doing follow up to each of their --

>> Sean Kaldor: We're not going to.

>> Mollie Dent: No we're not going to do that.

>> Richard Santos: I could understand people saying it's a war chest, that's your perm opinion, has nothing to do with this thing here it's your choices. Since I've been corked associated for over 40 years here. Widows and orphans, people who have lost their lives. Yet tomorrow FLSA take money out you would not hesitate you would all be doing this no questions asked. Who's in charge, the board, City Manager's office or the city council? This has been a friendly service and I don't understand what's the big deal. It just goes from 15 to 43. You know? We should have gave direction months ago, we're making this a political thing instead of saying hey, if it has 97 been done before I could understand possible red flags. This is a regular service that we've given to everybody else and it's nothing new and not to do this doesn't make sense. We're sitting here wasting time serving three masters. We've got to our initial Cortex let's take care of business and move on. Spending hours on this stuff is ridiculous. We're fiduciaries we should have given that direction it could be done. What you don't understand is as

long as it's been here again one more time. Whoever wants to take some pay out tomorrow you do that automatically. This is a friendly service and all you're doing is just establishing what has already been done.

>> Sean Kaldor: Sean wanted to respond to that then Russell and Bettina.

>> Sean Bill: Again I think it makes perspective sense for retirement association to collect dues from their members. I don't think it makes perspective sense for our staff to be doing the legwork on it.

>> Sean Kaldor: Russell.

>> Russell Crosby: They elect through the process two of the trustees that sit on this board and in my mind that gave them special standing why we need to go down this road why we need to work with it. Why we need to have some type of cooperative arrangement with them. Because ultimately, we're connected at the trustee level. That the two associations on Police and Fire and in Federated end up essentially electing two trustees, one in that side, two over here. So we need to have some type of relationship with the retirees association more than just arm's length. Now I'm not necessarily in favor of all the other entities out there but certainly I can see where the two retiree associations should have some kind of special status here.

>> Sean Kaldor: Bent.

>> Bettina Rounds: I appreciate the two points. And I think Sean said earlier a six month duration to do the transition, that we should be able to reach some kind of compromise on this discussion even though I know that it may temporarily cause more work but my understanding is that there are about 200 people who would not move to the higher level. In the fire and police.

>> Donna Busse: That's actually the assumption, actually less if it goes the way the votes came in.

>> Bettina Rounds: If there was a transition period and it was agreed that it would be six months and their associations would try to get their membership squared away on this would that work?

>> Sean Kaldor: I don't know if I said six months. It's three months, right, to the end of June.

>> Bettina Rounds: So an additional three months.

>> Sean Kaldor: Ocould we send the mailers out see what the responses are, if we have 500 that we need to contact, clearly we have an issue. If we have 30 we need to contact seems easy to plug them in. But at least get the cards coming back, the change going forward.

>> Donna Busse: The period is not an issue, how long do they want to wait before they collect their new dues.

>> Sean Kaldor: Did I hear that you didn't want to do a catch up, you just want to start?

>> Absolutely right, the catch up isn't implement annal for our older members at all. We have to have the ordinance go through and a letter that needs to go out thnd Councilmember Pyle's 90 day window that was talked about at council. Those are all possible. If I can I appreciate the offer to fund a person to do this, because this is a -- this is a big change for everyone. And I can appreciate the fact that the board wants to minimize its resources. So as the association president, I would have no problem talking about doing that. Funding an individual to take care of this transition so that we comply with the charter, that the members who turn back their cards are at one level, the people that aren't at another and we try to get everybody at the same level. I have no problem with doing that. I understand your concern, Sean, I can't see your last name. But I appreciate your concern as to the resources, I understand that. So --

>> All right so I'll make a motion.

>> Mollie Dent: I wanted to suggest that I think what is -- I think there are a couple of changes to the staff recommendation that are being talked about and I thought I would try to encapsulate those in case people are interested in that. One of the changes to the staff recommendation that I understand is coming actually from the retirees association is that for their changeover to the $43, it would change over to $43 at one point. There would be no catch-up provision as staff had set out. So if the time frame for that is taking us to June or July, then the $43 would start in June or July. If I'm reading this correctly. I think the other thing that the retirees association perhaps is suggesting, or might be, something that's middle ground, is that rather than turning off the individuals, that don't agree to the $43, you go back in and you turn those individuals on at the $15 level. And you do that for some shorter period of time, three to six months. And see if they return their cards for the $43. If they don't, then they'd be turned off. I think that's kind of what I'm hearing.

>> Donna Busse: No, I don't think you want them turned off.

>> Mollie Dent: So if you wanted to leave people in at the $15 level you would have to have two categories of membership basically so your membership would have to be split out.

>> Sean Kaldor: So it's March 1, if we were to say get as many people to switch over as you can, send out the mailing, do your calls, whatever you need to do we could make it effective July 1st and our August meeting two days later, we could say how many are outstanding, Donna could say I've got 200 people, it is going to cost $3,000 to do all those, or we can say that's too much or we can say three of them, plug in the changes no problem.

>> Mollie Dent: I would recommend you come back with a status report in June before the July 31st turn on date.

>> Sean Kaldor: I'm trying to look at a way to quantify how big the change is going oto be.

>> I appreciate that. I hope we can work together to number one get the letter out so it's clear and unsubstantiated. And find out who denied respond so we can in fact talk to those people so we're not in the dark. And your suggestion would be very viable, yes.

>> Sean Kaldor: Damon and then Dick.

>> Damon Krytzer: I'm just asking this from a money standpoint or turn on turn off standpoint. Do I remember, I thought you had mentioned in the past that this wasn't voluntary, it's like you turn it on or you leave the organization and don't pay the 15. Is that wrong? Like people still have the option to stay at 15 or is it 45 or they're not part of the organization anymore?

>> Well that's what I want to go ahead and run my organization from. I mean we've proposed this and there are people who may not respond or whatever. So instead of losing them I'm looking at my association saying I'll take this money and I'll try to assess those people however I can to get them up to the 43.

>> Damon Krytzer: Yeah because that's kind of different. Right? Because in the other way as I thought I rebtd this solution works because it is on and off right? And we just change it to 45 and then we turn off the other folks I mean if that's not the way you want it to work obviously --

>> Yeah and again what that does is, it automatically cuts down the membership, the way we run our organization. I guess that's what I'm saying to you. I'm trying to alleviate the retirement services from running the retirees association which has its officers and bylaws. So by just those people who return the card because that's what they have to do to change, that's what the city has to change, they get changed. Those people that don't return the card they've already signed when they retired and gone over the 15, we just leave them alone and you let me deal with them as an entity to say if I'm going to do any changes obviously if I have to do any changes beyond that let's say if I was to go to 55, can't do that to the 15 dollar folks, because they haven't returned the form to say the city could do that. That is still on the onus of the association to take care of that situation.

>> Damon Krytzer: All I was saying is if it is binary, you're in or out it sounds easy we could just do it right? And I'm not suggesting you do that I'm just logistically, I'm just thinking how to make it work quickly.

>> Sean Kaldor: Dick.

>> Richard Santos: So much for keeping things simple. What did you do when as I recall years ago, retirees gave $10 a year.

>> Yes.

>> Richard Santos: When it went to 15 how did that happen?

>> We sent out a mail out ballot, we got a return from the membership that said yes. We then wrote a letter with our letterhead on it to retirement services requesting the change and in 30 days that letter was -- got a return on it that said yes and the turn-on was done to the amount that they voted on so they went from 10 to 15.

>> Richard Santos: That's my point, here we are.

>> Drew Lanza: We could do that today but the problem is that's not what they are asking us to do. If we turned it from 15 to 43, that's not what they're asking you to do.

>> Russell Crosby: It's a legal issue.

>> Drew Lanza: I agree it isn't easy but that's what they're saying.

>> Mollie Dent: Could I try to make another suggestion? We need to have some sort of policy in place for the organizations that are -- that we want -- that staff wants to implement on immediately. If you'll notice the memo covers five organizations, total. So apparently the policy would be implemented on immediately. For the retirees

association it sounds like the implementation is not going to occur until July 1st anyway. So one suggestion I'd have is that you could adopt the policy with direction to come back and revisit it, at your June meeting, with respect to the retiree association after you see how it goes with their campaign. So that's just an idea. Because if we don't have a policy in place, then we're kind of in limbo for all of the groups.

>> To address the gentleman who said yes, we would like everybody to be turned on at 43, period. But unfortunately all of a sudden the City's charter has been interpreted by saying it can't be done, we find that puzzling, after the association has been over -- I've been here for 40-plus years and I think Dick out-ranks me as far as time here, we have been doing just fine. Yes, that would be what our wish would be, everyone goes to 43.

>> Mollie Dent: Let me be clear. There's not a city charter issue. There was a city municipal code issue. There was a nonassignability clause in the municipal code. That particular issue has been fixed with the ordinance that was adopted. So now the council has said, that the board can have this kind of program, if it has rules and regulations, and the rules and regulations are followed. So the problem that we have with the individual member dues is the individual members sign up for dues at a particular level.

>> Mollie I'm sorry, I really can't hear you.

>> Mollie Dent: I'm sorry. The problem we have with the individual member dues is the form the member signs says I authorize dues to be deducted at X dollar level. We need a form from them that says that they authorize us to deduct the dues at the level that your organization has set in order for us to automatically do it. There is no charter problem. There is no longer a code problem. It is simply a matter of the form that the members have signed say the dues are at a certain level.

>> I'm sure you've looked at the format and the form itself says nothing about anything, it's just -- it has a number of 15 that's on that box and that box has changed, as we have requested dues changes. So we have no language in there that would -- and I don't see any on the form that tells anyone that the dues can't change at any time. And

they've all elected voluntarily to become a member of the organization, knowing that the organization has rules regulations and officers.

>> Mollie Dent: We need something from the individual member that allows us to change the dues as the board changes the dues. And that's what we're looking to get in the next 90 days.

>> Sean Kaldor: Okay so to encapsulate that you're recommending first of all the policy being change for anyone going forward. Anyone who retires from now, going to be handed a piece of paper that says and second --

>> Donna Busse: Anyone who hasn't signed up yet we can do it. We can't go retro, to people who are going --

>> Sean Kaldor: Going forward so this doesn't get any worse and then we're saying let's do the outreach we do the mailer they reach out to everybody we get all of them back and see where we stand at our June board meeting.

>> David Bacigalupi: And make it effective July 31st.

>> Sean Kaldor: Make it effective July 31. We determine whether we split, see how many we have left see how big the beast is. . Is that --

>> David Bacigalupi: I'll make a motion to that effect.

>> Richard Santos: Second.

>> Sean Kaldor: We have a motion and second. Any further discussion?

>> Drew Lanza: Do we want to amend that motion to say four out of the five groups we approved the memo for, you brought up that point Mollie.

>> David Bacigalupi: Actually I think it is just four.

>> Drew Lanza: Or three out of for.

>> Mollie Dent: The question for staff is whether the groups other than the retirees association you want to implement the policy as soon as the ordinance is effective.

>> Drew Lanza: You know what I'm saying?

>> Sean Kaldor: Yeah so part of adopting this policy we're not doing the phase in so that is out. And the three groups or five groups that don't meet our benchmarks, the 54 members, they're no longer going to be -- that's all immediate. It's just the four groups and of those only one has a dues increase that we need a few extra months to sort out.

>> Drew Lanza: So just amend the motion to say for the other three groups we approve this policy as written today rather than wait, is that what you're saying Mollie?

>> Mollie Dent: Yes.

>> Drew Lanza: And you guys can do that Donna right?

>> Donna Busse: Yes.

>> As a point of clarification the phase-in was just a staff recommendation. It is not in the ordinance, we are talking about apples and oranges as far as that goes.

>> Sean Kaldor: This is how we get it done.

>> Yes, thank you.

>> David Bacigalupi: I'll accept the friendly amendment.

>> Sean Kaldor: Does the seconder accept the friendly amendment? Any -- oh, just as a point, to these other associations we should send a note to them saying if you want to have future dues increases we need this letter from all your members because we are going to have the same issue with all of them, right? Just let them get on the ball right now on that.

>> David Bacigalupi: Not necessarily. The other organizations their sign-up form may be dint. We need to look at that. I don't know what the sipeup form is.

>> Mollie Dent: There are only two types of-os, some of the organizations are only due type organizations. So pes the organizations that don't pay dues are the members have to individually say how much they want their deduction to be.

>> Sean Kaldor: Special, okay. I just don't want this coming up in a year for somebody else. So we have a motion and second. Any further discussion on the motion? Seeing no further discussion all those in favor? [ayes] all those opposed seeing none opposed, motion passes unanimously.

>> Thank you for your time on this issue. Really appreciate it.

>> Sean Kaldor: Thank you for your patience in working with us. And Councilmember Constant the board I gratitude to the city council for their amendment of the ordinance to facilitate the work of this board's business. Okay.

>> Richard Santos: See the reruns on as the world turns.

>> Sean Kaldor: Item 3.5, update on payroll audit, FLSA and overtime payment issues.

>> Richard Santos: Let's make it a popularity contest.

>> (inaudible).

>> Sean Kaldor: This has been an issue for a while the reason it's become more important recent is I think there's employees who want their money back, and as retirees who we owed some money to and I'm worried about the statute of limitations, what was relaid to me and this is an uninformed -- not an expert opinion but someone says there's a three year statute of limitations from the date we were first noifd this, we were notified on this January 14th, 29. So I'm worried at some point we can't get the money back and if a retiree is getting too much, the plan is out that money. I don't know if that's exactly right. I feel a sense of urgency to get this resolved, we give so we're looking at where things stand. Sorry.

>> I'm Kahn canamoto payroll reports to me so we do have this -- the memo we September out was saying that we do have this all calculated and we are -- our plan is to execute and provide the distribution back to the employees, in March. So just to give you some high-level figures. The total contribution that we're requesting back for -- this is only for the active employees. Is $739,877. And that's made up of $487,000 city contributions and the employee refund contribution is $252,000. And some change there. What we are planning to do is, we're going to give that back, on the March 23rd paycheck. So it's second paycheck of March. And then we're going to be also deducting that from the employee contributions that we make to the retirement department. Just to give you some figures, it affects 594 firefighters and the range is from a high of $3015 to there's actually about four firefighters that were going to have to pay like $30 or something. And so the reason that is, is there was a period, this is what's caused some of the lateness of this. The auditors, Macias, Gini & O'Connell had found an audit adjustment. And so what they said was that we needed to take -- we actually did not send you over the contributions during like I believe it was three months. And so the problem is that we didn't overcontribute, but we also didn't send over some dollars that should have had contributions on it. So for most people, it doesn't make

any difference. But for about four people, they didn't have enough refund of contributions to cover what they had to pay. So they're going to have to pay like 30 to $35. The average overall is $425.

>> Sean Kaldor: And so that resolves the issues between the city and the employees, active employees.

>> That's correct.

>> Sean Kaldor: And then there's between retirement services and the city did the numbers get squared away with the information they've begin us?

>> The active numbers keep in mind that (inaudible) FLSA overpayment, there's still the second FLSA adjustment that has to be with the holiday in lieu that we also need to be adjusted which goes in the other direction for the active members. So when retirement services has (inaudible) we don't have the detailed information, hoping to get both of them at the same time so that we can go ahead and make one correction for FLSA. But again we're really only (inaudible) active members tip the retired members there is some legal piece we need to go through as far as if there is an amount that can be refunded.

>> Sean Kaldor: Still on the active members then, the holiday in lieu piece are we going to do it once or are you going to give us the numbers separately and do it in two steps?

>> The holiday in lieu piece, the actual payments to the employees have been made. I think they were made --

>> Sean Kaldor: So it's just between us and --

>> What's remaining is the interface file to update all the records for the employees. We do have all that information so what we'll be doing is sending over both the FLSA compensation records and all the FLSA litigation records. That should all go over in the March 23rd time frame or before if we can get it done. Then there was one other issue that was in the audit report and that has to do with the higher-class pay. So there is an issue on

higher-class pay and we are trying to get that memo actually -- the memo has been completed, there's some -- we have to go through all the additional calculations and then the communications to all the employees about the refund. So that's going to probably not happen until in the April time frame.

>> Sean Kaldor: And so this issue is someone who works higher class gets a little stipend for working a higher class job. We took pension out of that, when we gave them the higher class but that's not pensionable pay.

>> That's correct. That came out of the audit that the City Auditor did and I believe that report came out in October of 2009. So we have worked on that, we've got the figures, it's a little bit simpler than the FLSA because the FLSA we have to recalculate all the FLSA and break them into the pensionable and nonpensionable on the higher class pay it is just pulling the higher class pay and returning the contributions. So that --

>> Sean Kaldor: That's it for actives, we know of no other issues with active employees?

>> The active Police and Fire employees.

>> Sean Kaldor: Yes.

>> There is one other item that we know about, and that is, when the disability 4850 payments went in at the beginning of 2010 it wasn't in the city ordinance that those 4850 payments were pensionable. And so we had not provided the deductions, did not provide the income and the contributions to retirement department, then later on it came -- I think we changed the ordinance and made them includable all the way back to the beginning. So whereas we have put -- we have taken the deductions on most of the employees we have not sent those files.

>> Sean Kaldor: So it's still like a three or four month window, only those people on disability only during that time.

>> Kind of broad but --

>> I think it was about seven months.

>> Sean Kaldor: Okay.

>> Part of this we have been waiting for the interface file. We have interface formats that we can use, they have all been tested and so we will be getting all of those types of adjustments that have been waiting for that, we should get that over in probably the next two months.

>> Sean Kaldor: So for that one maybe June?

>> Higher class pay?

>> Sean Kaldor: No the disability?

>> Actually 4850 will probably go over in the next couple of weeks.

>> Sean Kaldor: Okay.

>> And Sean I just want to highlight, once we receive the information, if we get the file in a transferable file we can interface it with our system but then at that point we would have to go back in and for all of our retired members we would have to recalculate to see if it impacts them.

>> Sean Kaldor: That's the first part then we have all those men and women that are retired that we might be paying too much to or too little to?

>> Mollie Dent: Now that we know the numbers are coming we'll start working with staff for members who have been either overpaid, in this case it is going to be overpaid on this one.

>> And the other question would be if the offset for the FLSA correction, overpayment for active employees can be offset against employee contributions.

>> Mollie Dent: We will take a look at that.

>> Sean Kaldor: Now it kind of gets to our court to resolve this.

>> We'll take staff and go back and rerun everybody that's affected.

>> Sean Kaldor: I don't envy you.

>> It is our position that it is only the active employees that are going to be getting returns. We will provide all the information on the inactives also and we will break those into two separate files.

>> Sean Kaldor: Thank you. This is a hulg step. It's a business thing and I don't want to be paying out benefits that shouldn't be paid out to people with the situation we're in. I want to make sure that people if they have paid contributions for it it's got to be part of a bill reconciliation. Any other questions? Great. Thank you very much for everyone's lard work on this. Update on board retreat. Item 3.6. You've old received the agenda packet for board retreat. Received presentations from everybody, I think it will be very good. Think it will be a very informational session. Logistics, it's going to be held at the Hayes mansion. If you don't have directions please contact Russell. Lunch is going to be provided.

>> Richard Santos: Not like today.

>> Sean Kaldor: Never assume this meeting ends short.

>> David Bacigalupi: Should we bring an overnight case?

>> Drew Lanza: Doughnuts over there dick.

>> Richard Santos: I'm doughnutted-out. No wonder I got a cold.

>> Sean Kaldor: And everybody knows their parts. Bettina, there is a section on encompassing short term, maybe we can get together and shouldn't be a big discussion but raise what they toferred do. Retirements item 4.1, service retirements, do these as a group. Item A Richard E. brooks police sergeant, police department, effective April 2nd,2012? 26.98 years of service. B, Henry brunson, fire inspector, fire department, April 28th, 2012, 22.16 with reciprocity. And Datev J. stornt, police department, effective April 14, 2012, 27.36 years of service.

>> David Bacigalupi: Move for approval.

>> Second. Of, all passes unanimously.

>> 4.2 A, Louis P. Zapata, police officer, from.

>> David Bacigalupi: Move to approve.

>> Second.

>> Sean Kaldor: All those in favor, opposed, motion puss unanimous. Item-k motion and second to rescind application of Robert R Lopez, approved at the January 5th, 2012 meeting for the effective date of January 21st, 2012. Motion?

>> David Bacigalupi: Is this the second time he rescinded his retirement?

>> I think so, I think you've seen him a couple of times.

>> Creating a lot of paperwork.

>> Sean Kaldor: Motion and second, awe cx any opposed? None opposed. 4.2 change of status for both were deferred by the attorneys. I'm sorry, should have brought that up.

>> You did.

>> Item 5 deaths notifications these are for note and file. First glen castillo, replies sarge and 5.2, notification of the dt of Elizabeth J. Cunningham police officer who retired, March 15th, 1980, died January 28th, 2012 with no survivorship benefits.

>> If I could say something for the board, for Ms. Cunningham. She started working as an I.D. clerk, went to dispatcher, and became the first police officer with a group that has changed the way policing is done across the nation. She was very active in the women's Police Officers Association of bringing other women to the group, especially the management and also with the national police association which does exchanges between foreign governments, so we can know what's going on in other countries and do a cooperative effort. So she was quite active and she will be quite missed by her family. I did attend her wake and there was over 150 people there who expressed their condolences. Just wanted the board to know she was a very valuable member and continued to be a valuable member even after retirement. Thank you.

>> Thank you.

>> Richard Santos: Question Dave, Glen castillo, was he (inaudible) president?

>> Sean Kaldor: He was. Rth all respect to the gentleman in high, any benefits you see today he is responsible did a hell of a job.

>> Sean Kaldor: Out of respect for both those people ask we take a moment of silence. [Moment of silence.]

>> Sean Kaldor: Good, thank you very much.

>> David Bacigalupi: Thank you.

>> Sean Kaldor: Item 6, committee minutes and reports. 6.1 we already heard the report of the chair of the investment committee, their next meeting will be March 28th. Item 6.2 --

>> Richard Santos: What time? 10:00 a.m. meeting, yes.

>> Richard Santos: Sixth floor?

>> Russell Crosby: Correct. Rlts thank you.

>> Sean Kaldor: 6.2, ad hoc committee for disability determination process. Conrad Taylor was the chair. Trustee Santos could you take on the chair of that committee?

>> Richard Santos: I'm going to take it over and we can get that moving .

>> Sean Kaldor: Once a month or whatever it needs to be. It seems easier to set everyone's schedules. 6.3, the ad hoc governance committee, we have not met since the last the minutes are attached here, and that ad hoc committee is thus discontinued. And we'll receive our full, you already have them in your hands from the March 7th meeting. Consent calendar, we usually take this as one big motion if anyone is --

>> Richard Santos: So moved.

>> Sean Kaldor: We have a motion, do we have a second?

>> David Bacigalupi: Second.

>> Sean Kaldor: We have a motion and second to accept all those thing on the consent calendar. All in favor, opposed, seeing none opposed passes unanimously. 8, education and training, 8.1, educational programs and courses, 8.2, conferences and seminars, 8.3, research papers and articles. 8.4, the Cal APRS training, will be here, if there are any classes you're interested please let staff know.

>> Richard Santos: Mr. Chair, I also give credit to Sean Bill for taking on the last round table.

>> Sean Kaldor: Well held event. We see people attending our boards how well respected they were. Proposed agenda items I have two. One is the -- to have an education session about OPEB, and I'd ask you to look at the agenda and if it's going to be a packed agenda bump it back a month. And the second is, just to come back to the board for that full OPEB arc. We'll need an agenda item.

>> Damon Krytzer: We talked a little bit bit about, I don't know if I want to agendize it but the have you talked about the the wellness item dick?

>> Richard Santos: Thank you. I passed out a handout, when I was on the board in 1993, with the late George Shirakawa and everyone has not done much since then. So talking to a few members just Linning to them they're all eager to take this on. So as I said to staff give me a call ASP, and we'll get something implemented. I've been talking to Dr. Das, it's going to take unions and all of us to chip in to try to get something going. I don't know i don't know. But I will always keep you abreast of what's going on. Because then they can't do anything without everybody's permission. But I know we can make something better than it has been. Talking has run amok. After 20 years we need to do something. Talk to other councilpeople and I spent time with our liaison, Councilmember Constant, you know talking about doing a bet job at workers comp and so on. We do have some very good

people by the way in workers comp. It is not at all adversarial. We can do a better job. Legislation is something out of our hands. Again, we can do this. Not taking on any more time but thanks for bringing it up.

>> Sean Kaldor: I can relate to you I know the firefighters physical fitness assessment and a --

>> Richard Santos: Should we bring this up as a topic so we can understand and I can share with the board.

>> David Bacigalupi: I don't want to take too much time here but I want to compliment Dick Santos. When he was on the board before he pushed very hard for wellness and preventive treatment and he single handedly pushed this board into approving exit physicals for every retiree and I'll tell you, from personal experience, and many others, that that exit physical did a lot of good. I personally found a heart defect that I wasn't aware of because of that exit physical. So Dick's had this issue on his mind for a long time. He's pushed it in the right direction. Sometimes you pay a penny and you save a dollar and I personally want to thank you and I think this board, we're well served.

>> Richard Santos: Thank you.

>> Sean Kaldor: Are there any other proposed agenda items?

>> Richard Santos: Yes. Councilmember Constant, maybe when it's appropriate sometimes you can list some of the things that you've taken to the city council on our behalf and maybe give a report, you know, because I know there's times that we've given certain discussions here and you'll say yeah I'm done doing this this and this. But I would like when you can periodically tell us about some of the things you've taken an the feedback that would be appreciative.

>> Pete Constant: The council asked me to do the same thick in reverse. What they did was put a standing agenda item so there wasn't a need to always try and meet the requirements to post things. If you want to do that to have an item, when I have an item I can just give it to you verbally. If that works that would be fine with me.

>> Richard Santos: I just want to hear what the relationship is going if you are taking our message forward. People talk about lawsuits, I'm trying to prevent them. The more I can do I appreciate the relationship.

>> Damon Krytzer: I got one more too. Half of this packet is disability information that we're going to see again. Why am I still getting paper? How are those electronic packets coming, we haven't heard about those in a while.

>> Donna Busse: We're waiting for contracting still.

>> Damon Krytzer: Waiting for what?

>> Donna Busse: Contracting. Dbz what does that mean?

>> Mollie Dent: We are looking at the contract and because you do get the health information, there is contracting information about the way health is handled in the contract.

>> Damon Krytzer: That wasn't handled in the RFP.

>> Mollie Dent: No, it wasn't handled in the RFP but I don't know that it's going to be held upful longer.

>> Sean Kaldor: Any other agenda items? Public comments, with that I'll adjourn the meeting. Thank you very much for your time. [12:47 p.m.]