The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

>> Matt Loesch: Call to order it will the Federated city retirement systems and Federated trust. Orders of the day, the important things that have been listed on the agenda for time certain, those things aren't going to adjust but review how we're going to get through morning, right? What we're going to first at 8:30 is 5.2 followed by 5.3. And I would like to move the closed sessions 4.1, 4.2 and 4.3 to right before 5.6. And then we'll go through the agenda as-is. Or as stated. Under 5.7, that item will not -- will be cancelled. Underother items, orders of the day, item 2.3 B has a new effective date. Of March 30th, 2013. Item 2.3C, new effective date of November 10, 2012. Item 2.3 E a new effective date of December 22nd, 2012. Announce two other things that were received late that are on your table and also e-mailed out and should be in the table in the back as well, 2.8A the benefits review form memo, 5.1A pension flash report, and 1.3, the health care trust some that's the health care flash report, so what I'd like to do is I'd like to get a motion on those orders of the day and then I want to do one thing on sunshine waivers.

>> Motion to approve changes to the agenda including changing effective dates 2.3B to March 2013, 2.3C, just before item 5.6, cancelling item 5.7 and accepting items 5.3, 5.1A 5.2, 1.3, and 2.8A into the record.

>> Second.

>> Matt Loesch: Okay, I'm going to ask you to modify that first motion.

>> Arn Andrews: I thought I had --

>> Matt Loesch: You were trying to read off the things on the table and the last two you read, 5.2 and 5.3A, I'm going to have a friendly amendment to modify those two.

>> Arn Andrews: Move.

>> Second.

>> Matt Loesch: All those in favor, opposed, I want to have a waiver of sunshine, also in your table and also in the back. Item 5.3 received an updated version so it should state 1.2 on our table and should be in the back, there's some updated numbers on page 9.of that and the other was a handout from Alex Gurza regarding the SRBR, for item 5.2. So I'd like to waive sunshine on both of those.

>> Arn Andrews: Motion to approve waiver of sunshine.

>> Donna Busse: And actually a report from Cheiron.

>> Matt Loesch: I apologize. And the actual report from Cheiron did not meet sunshine. Waiver and the handout from Mr. Gurza.

>> Arn Andrews: Motion to waive sunshine on 5.2, 5.3 and the item from Mr. Gurza which I don't know if it's dated or not.

>> Matt Loesch: It's 11-8-12.

>> Arn Andrews: Correct, dated November 8, 2012.

>> Matt Loesch: Motion, do we have a second?

>> Second.

>> Matt Loesch: All those in favor, opposed. Okay. We're on to item 5.2. That's discussion and action on Cheiron's preliminary valuation results. We have Ann Harper and Bill Hallmark from Cheiron.

>> Bill Hallmark: Good morning. So this morning we're providing the preliminary results to the actuarial valuation, next month we'll come back with the full report. We're going to talk very briefly about the valuation process. Some

of the historical trends. Spend a little time talking about the tier 2 integration because this is the first full valuation where we're integrating tier 2 contribution rates, even though we don't have any tier 2 members to value. Then we'll look in more detail at the results, and then some projections for both tier 1 and tier 2 and in aggregate. As a reminder, we always start with this graphic of the tank and the pension fund. When we do a valuation, we are essentially measuring the size of the tank. That's the size of the liabilities and checking on the level of assets in that tank. And the flow of benefits out of the tank. And then adjusting the employer and employee contribution rates so that we can maintain the solvency and soundness of the pension fund. We are updating everything based on the current assets and the current demographics of the system so. In terms of the timing this year, we wanted to -- some things are a little different. We're starting a transition period in terms of the accounting. So we wanted to remind people how this is working. The 2012 valuation results are used to determine the contribution and the city accounting requirements for the fiscal year ending June 30th, 2014. So that includes the member contribution rates, city contribution rates and amounts in the city's ark. And their GASB 27 disclosures. But the new GASB 67 is effective for the plan. The system for reporting for fiscal year ending June 30th, 2014. So this valuation will not be used for the plan's accounting as it has in the past. And we will be using either the 2013 or 2014 plan for that depending on plans to be made in the future here for this board.

>> Matt Loesch: Make sure you're talking into the mic to make sure the recording is picking it up, thank you.

>> Bill Hallmark: Sure. The GASB 58 is effective for the fiscal year ending June 30th, 2015 so that will roll in one year later. So with that, Ann will talk about the historical trends.

>> So I'm going to walk you through some of the historical trend charts that we have in our reports and our presentations. And that shows the trends over the last ten years of the plan. This chart specifically looks at the assets and the liabilities of the plan. And the liabilities are the gray bars and the assets are the lines. The green line is the assets, the market value and the less volatile yellow line is the smooth assets or the actuarial value of assets. And you can see those lines have -- are converging in the last couple of years due to the recognition of the 2008 and 2009 market losses. The funded ratio of the plan started out around 100% at the beginning of this time period and has dropped steadily, and in 2012 the funded ratio is 61%. And that's based on the smoothed

assets, not the market value, it is based on the actuarial value of assets. The unfunded accrued liability has grown over time and at 2012 it is at $1.1 billion. This chart shows the contribution rates for the plan. For the city and the members. And through 2012, the rates are only tier 1 rates. And you can see the rates for tier 1 have increased over time through that period from about 15% to 28% through 2012, while the member rates were steady between 4 and 5%. And in 2013, this is where the implementation of tier 2 comes in. And it's hard to read but those rates for tier 2 are 6.68% for both the member and the city due to the cost-sharing arrangement for tier 2. The tier 1 rate at 2013 is 44 and a half. And then it's also increased for this valuation which sets the fiscal year of 2014 increased to 55%. And this increase is partly due to the fact that the rate is based on a shrinking tier 1 payroll and also with the current asset losses in the market of 2012. This chart is showing the historical gains and losses of the plan. We break those gains and losses into two components. The investment losses which are the yellow bars and the liability which is the gray bars. And the net experience each year you can see is the black line, has been driven mainly by the investment returns and investment losses or gains. So for 2012, we're showing an investment loss of about $120 million. And it's very, very hard to see, but there was a very small asset or liability gain for this valuation of about $2 million.

>> Bill Hallmark: So now for tier 2. First as of this valuation date we have no tier 2 members but since we're setting rates for the fiscal year end 2014 when there will be members we need to set a rate for them. We are recommending continuing the rate we set last month for fiscal year 2013 of 6.68 for each the member and the city. So that piece continues. There are a couple questions that we need to address, however. The board's current policy for tier 1 is to charge the greater of the dollar amount estimated in the valuation, and the percentage of pay in the valuation multiplied by the actual payroll. For tier 2, there seems to be a clear intent to have equal cost-sharing between the members and the city. And so the first question is, since the members have always just been charged the rate, times their actual pay throughout the year, should this policy be different for tier 2? Should we -- it seems to remain consistent with that intent. We may want the city rate to just be the percent of pay times actual pay. Instead of the greater of the two. The other question is, the city has a practice of prepaying contributions at the beginning of the year. And for tier 1, that results, we've been over this several times, in either a gain or a loss. We expect it to balance out but it's either a gain or a loss. Depending on the investment returns for that particular year, and the timing of those returns. Literally, given an equal cost-sharing, that's going to have

the same sort of effect on tier 2, of shifting either a gain or a loss, that we expect to be neutral. But it's still going to have a gain or loss. And that will affect the member rate as well as the city rate. In tier 1 that gain or loss only affects the City's rate in following years. So we just wanted to raise that with the board to determine whether that is still an acceptable practice, given that the expected long term effect is zero, or if there's a more literal interpretation needed for the equal cost sharing. So I don't know if you have any questions on those questions at this point or --

>> Matt Loesch: Well, we can ask specific questions or how much more would you like to get through before you would want the board to weigh in on things? Would you like to --

>> Bill Hallmark: Let's use those as kind of set up questions. We'll go through those but keep those in the back of your minds and we do want some discussion on them.

>> Matt Loesch: I've got them noted as well.

>> Bill Hallmark: Then the other issue, on tier 2 contribution rates, and tier 1 contribution rates, is last month when we presented the recommended tier 1 rates we noted we also needed a contribution of 28.94% of tier 2 payroll to go to tier 1 in order to make that UAL payment. And there was feedback that it was somewhat confusing and perhaps misleading or at least confusing to have a rate charged on tier 2 payroll that went to tier 1. Part of the reason we had do that is for GASB purposes we need to make it clear, at least until the new GASB is implement, that it's one trust, and that the city is making a contribution towards the UAL that's spread over the total payroll of the system. And that's so that our ark meets the GASB standards under the current GASB standards. As soon as they change that, the issue doesn't matter. But for communicating the contribution rates in this valuation to take into account the feedback from last time we're showing the tier 1 UAL rate just on the tier 1 payroll. And so as you'll recall, we have an amortization method where each year we expect the dollar amount of the contribution to increase, by the payroll increase amount. That's the expected increase in total payroll. But when you actually then divide that by the declining tier 1 payroll you are going to see accelerating contribution rates for tier 1. And so that's the way we're showing them here but we also want feedback, is that the way we want them shown in the

valuation report, and going forward? And so those are essentially the two alternatives. They don't affect the dollar amounts we're recommending for correction. It's just how you present the rates. So with that I'll let Ann go through some of the key results.

>> This is an exhibit for the summary of the key valuation results compared to last year's valuation. The discount rate is remaining at 7.5% and the liabilities, accrued liability grew as expected. Both the actuarial value of assets and the market value of assets have decreased with the 1% return on the actuarial value of assets and then a -- about a negative 4% return on the market value. And this has resulted in the funded ratio on an actuarial value basis to decrease from 65 to 61%. And then the funded value on a market value basis decreased from 64 to 57%. Now, this exhibit is showing all the contribution rates and contributions for this valuation compared to last year's valuation. And we're splitting it out by tier and in the aggregate. So at the top you can see tier 1 rates, the member rates have increased slightly. The city contribution rate increased from 44% to 55%. And as we talked about, that's partly due to the fact that the rates are based on shrinking tier 1 payroll. And the payroll from last year to this year has decreased from $240 million to an expected $205 million which is a 15% decrease. The tier 2 contribution rates are the same for both here since we don't have any new members to base the rates on and we're basing the rates on a study we did a couple of months ago both for the city and the member and we're projecting a payroll for fiscal year 2014 for new tier of about $28 million. And this is based on our anticipated expected turnover that we use with our assumptions in the valuation to calculate what the tier 2 payroll will be for replacing the people who leave. And so the aggregate rate for the plan is 49.5%. If you are basing the -- if you are using a total payroll to make the calculation. And you can see that the city contribution amount has only increased by about $9 million from the previous year, from $1 03 million to $109 million and the projected total is going down a bit year to year. The change in membership, these are all based on tier 1 since there are no tier 2 as yet. The active population decreased by 6% and net increase of 1% since the inactives are more heavily weighted. And the payroll decreased by about 1%. With the average active member payroll increasing about 5%. This exhibit is showing the experienced gains and losses for this valuation only. And you exhibit any gains or losses when the plan experience deviates from our actuarial assumptions. And the driver here is the investment loss of about $120 million. And it's from the 3.5%, a negative 3.9% return on the market value which translates into about a 1% return on the actuarial value. And our bogey is 7.5% so in real terms that's about a 6.7% loss on investments for the

year. We also had a retirement loss this year of retirement incidence, which means that we had more retirees than we were expecting. And the gains we had were due to a SRBR transfer which really there was no transfer. So we're anticipating that there would be a transfer every year, and since there was none there's a small gain here. And then the retiree spouse data, that's a data improvement that we worked with staff on for an $8 million gain and then other at $11 million.

>> Bill Hallmark: So this exhibit shows really the breakdown of the components of the contribution rates. I'm not really going to go through it all but I thought it is especially showing how the tier 1 and tier 2 rates are different and how they're constructed differently. You can see in the tier 2 grouping it's just the normal cost with administrative expenses added on and the rates are just split 50-50. Whereas under tier 1 you have the UAL rate is the big addition but also the SRBR rate is added on. So that's the basis for those rates in the individual components. This chart reconciles the rate and the dollar amount from tier 1 from the last valuation to the current valuation. So the investment losses added about 3.8% of payroll to the rate. The SRBR has a somewhat complex effect here. First, we expected $6 million to be transferred to the SRBR based on our assumption which is .35% of assets. That transfer did not take place because investment earnings were too low to have an SRBR transfer. Also, since the assumption is .35% of the market value of assets, since the market value of assets went down our expected transfer for next year is lower. And so those two things caused the rate to drop by .44%. All the other experience had an increase of .74%. And then the decreasing payroll caused the rate we report to increase by 6.75%, but that decreasing payroll means we're actually accruing fewer benefits. So it's actually a $3 million reduction in the actual cost. So we end up with a rate of 55%, and a city contribution that went from 103 to 109.5 for tier 1. The SRBR calculations, this is, I'm not going to go through this but with a negative return, there is no transfer to the SRBR. So this shows all the calculations and how the negative return gets allocated to the different sub-accounts within the system. So with that, shift to our model to show our projections. And here we're showing the aggregate system projections. And just to remind people, the gray bars in the top chart represent the actuarial liability. The green line and the orange line are the assets. The orange being the smooths but since they're so close it's very hard to see a difference in our projection here. At the top you can see the projected funded status of the system. Over time, increasing at the end of the projects to 89%. And then, the bottom chart shows the contributions with the bars on the bottom, the employee contributions, the gold bars are the city contribution. The

red line represents what our projection was last year. As a percent of payroll. And the black line represents the normal cost projection. And before we had tier 2 that normal cost projection was flat. And so the declining slope of that shows the effect of integrating tier 2 over time and the declining normal cost of the whole system. Now, some of this increase in the percent of pay is due to changes in the projected payroll. So wanted to switch and show you the dollar projection. And that comparison. And so you can see the dollar amounts we had projected last year are very similar to what we're projecting this year, till you get a ways out in the projection in the effect of tier 2 becomes more pronounced. So the investment losses that we're absorbing this year do have an effect. But the implementation of tier 2 to a certain extent counteracts that and continues to counteract the longer-term effects of that. So those lines from the prior projection to the current projection are very close in the early years. Now, we put in here the different tiers individually. And so I want to start with tier 2. So the projection for tier 2 is very simple and straightforward because we're in this part we're assuming all our assumptions are met. And so it's just the normal cost going forward of 6.68%, paid by each the members and the city. And so that -- and can you see the black line represents the total normal cost and that's what it ends up with. I do want to show you here that because tier 2 is a young system, and growing, because all the new entrants are going into it, it is really not very susceptible to investment returns in the early term. Initially, it has zero assets. It's hard to lose money with zero assets. And as it starts gaining assets, the influx of new members really overwhelms the effect of the new investment returns. So even having a very bad scenario right now in the short term is not going to have a substantial effect on tier 2 rates. Longer term, it does start to become an issue, and will affect the rates. But not for a while. And I don't know, show you the dollar amounts are growing as the tier 2 is expected to -- expected to grow and gain in population. So those flat amounts do represent growing dollar amounts. Now tier 1 has very different dynamics. We do have growing dollar amounts projected, even under the declining payroll, until the UAL starts to get paid off. And so that drop at the very end is one of the 20-year amortization bases we set up to pay off a portion of the UAL dropping off. And so if we extend this out further, the dollar amounts would drop, reflecting both the decline in tier 1 members and the payoff of the UAL. You can see at the bottom, the member dollar amount declines over time. Because it's just a proportion of the normal cost. But if we look at it as a percent of pay, it grows to the end of the period to be 268% of tier 1 pay. So if we express the contribution as a percent of just tier 1 pay, we're likely to see extraordinary numbers as we go out, in order to pay off that UAL. And then, if we hit -- these numbers are very sensitive to investment experience. As we've shown you before in the past, where it was the whole system, that piece of it, the sensitivity to the investment performance, really carries over to the tier 1 component, as we move forward. So with that, I'll tray questions.

>> Matt Loesch: Could we go back to the merged? Because the initial thing was with both of them as opposed to this.

>> Bill Hallmark: Yes.

>> Matt Loesch: So the rates at the bottom are the combined rates with the aggregate, rates would be the 200-something or 400-something versus -- okay.

>> Bill Hallmark: Yeah, in -- you know, well, we can look at these either as percent of pay or dollar amounts. And I'm not sure which you prefer at this point.

>> With this, can you on the fly drop the investment returns to 7% see what the impact is?

>> Bill Hallmark: I can drop the actual. I don't have it set up to drop the assumption to 7.

>> Okay. But if the actuals are -- be.

>> Bill Hallmark: So that's continuing to assume 7.5 but actually getting 7..

>> Matt Loesch: You guys through with your presentation?

>> Bill Hallmark: We're ready for questions.

>> Matt Loesch: Why don't we take trustee questions or comments on the presentation. You can take that wherever you want to go and see if there's any questions or comments from the audience and go from there. Yes Mr. Armstrong.

>> Michael Armstrong: The mix on tier 1 and tier 2 some you have assumptions on some employee count, where did those come from?

>> Bill Hallmark: Good question. We assume a stable active population. And what that means is the same number of active employees going forward and the same general demographic characteristics.

>> Michael Armstrong: 3,000, generally?

>> Bill Hallmark: Yes, and interest rates are applied to current members and we assume new members are hired to replace those people and maintain that stable population.

>> Michael Armstrong: And are those consistent with assumptions the city makes for financial planning?

>> Arn Andrews: I'm not sure if retirement services works with the budget office or payroll to try and come up with what they see as attrition or growth in the base population. I'm not sure.

>> Bill Hallmark: I think typically there are slight differences because we base a lot of those assumptions on the historical experience of the system, and turnover, and often the sponsor is looking at their actual budget plans for the next year or so, which we're not aware of, and don't have insight on. So there can be short-he term variations.

>> Matt Loesch: That's how we get caught up in the experience study as well. We have to assume any new people going into tier 2 based on the add rate or attrition rate for the old plan. We do the experience study and do the clean up over time.

>> Bill Hallmark: The other thing I should point out with the tier 2 is the rate is very stable, compared to investment returns. But there are significant demographic assumptions underlying who actually gets hired. And variations in those will affect that rate.

>> Veronica Niebla: I also wanted to add, the baseline Cheiron starts with is the payroll for that year right?

>> Bill Hallmark: Yes,.

>> Veronica Niebla: Payroll starts the assumption since we moved to annual you get that annual with one year lag between when the contributions are actually --

>> Matt Loesch: Is that why you're seeing a reduction of about $7 million, in overall payroll?

>> Bill Hallmark: You saw the difference between 2011 and 2012 and that results in a lower projected number.

>> Matt Loesch: Lower baseline.

>> Michael Armstrong: Assuming 7.5% even with these changes, ten years from now, 20 years from now we're still unfunded buy significant amount.

>> Bill Hallmark: Yes, yeah, we amortize the unfunded using 20-year periods for each new unfunded. But the original piece which was a significant piece was set at 30 years, starting in 2009. So if all assumptions are met, we wouldn't have everything paid off till 2039. When that piece is paid off.

>> Matt Loesch: Okay.

>> Pete Constant: Is it possible to get screen printouts of the different ones that you showed us? Just for reference? Because it's hard when we have the one hearing to remember what all -- where all the different lines went.

>> Bill Hallmark: I apologize for that. With the tier 1 and tier 2 integration it took us a little long tore get the model set up.

>> Pete Constant: Just the stops, would be good reference for all of the us, just a comment as far as the turnover, from the City's perspective we have the one more year of deficits which is, I haven't seen the latest projection but the most recent that I'm aware of is $22 million deficit for next year. So there's likely to be some form of reductions, whether it be by eliminating vacancies or whatever the case may be. Then there's a couple of years of left. And then surpluses going forward. And the intent of the city is to start restoring services as the money becomes available. So it's not an immediate thing but it's the goal of the city to get the libraries back open, to get the community centers back open, get the cops hired back, all of that stuff.

>> Matt Loesch: So I think at this point what we have to assume is that our status that we've put in our base assumptions for employment, and we'll clean it up once the experience study comes due, that's my opinion. Mr. Andrews.

>> Arn Andrews: Starting on page 9, it seems like you're asking us questions. Starting on the concept of what's the appropriate way to operationalize tier 2 from a payroll perspective. When we went to the floor methodology if I remember correctly it was because of a shrinking payroll. We weren't capturing everything because of the annual reduction in payroll. My sense is tier 2 is going to be an increasing payroll so therefore that methodology may or may not make sense. So tier 2 reverting back to a percentage of pay probably does make sense. I don't know what your thoughts are on that. I know you set it up as kind of a two part question but if I'm remembering our conversation correctly it seems percentage of payroll is probably the appropriate way to go. And then the other question you posed to us is just from a prefunding concept. I mean in the early years similar to the way investment gains and losses aren't going to be that relevant because the dollar amount is so small, my guess is

from a prefunding perspective, the dollar amount will also be small. But if we go back to the presentation last month it seems historically if we had done prefunding net net it was probably a positive for the plan. So I guess from my perspective whether we prefund or don't prefund I don't know if I really view it as shifting a gain or loss based on the analysis that was presented last month. And so it seems as if prefunding should still be predicated on whether or not it makes sense from the city perspective to come and ask the board, and then from the board's perspective last month it appears as if we heard it does make sense from the long run and if we are doing it we should do it from the beginning to in perpetuity. To reach a slight positive. First, I'd like your perspective, do you think percentage of pay is the way to go, since payroll is probably going to be increasing for a long time as new employees come in?

>> Bill Hallmark: I do. I think the rationale for tier 1 was driven around the importance of the UAL payment which is a fixed dollar payment. The normal cost payment is more of a percent of pay. And if you don't have the payroll, you don't have the corresponding liability. Whereas, for the UAL, it, if you have a shrinking payroll, you're just making a lower contribution than what we anticipated to pay off the UAL. So I do think dynamics are different for tier 2 and I think that members are paying a percent of pay, and the idea of equal cost sharing, they all kind of point to percent of pay as an appropriate policy for tier 2.

>> Arn Andrews: Great, thanks. And then going on to slide 10. I still don't quite understand how you use the term confusion yourself and I'm still slightly confused why we have what appears to be a percent of a tier 2 payroll that doesn't even exist yet going over to tier 1. If you can try and help me understand that, that would be greatly appreciated.

>> Bill Hallmark: Yeah, let me-d okay let me start here looking at the components of the contribution rates. So for tier 1, we've got the UAL component. Which is settle as a percent of pay. But there's really an underlying dollar amount. And in the 2011 valuation, we set that percentage, the 26.37, and then also, the SRBR piece based on the total expected formal. Tier 1 and tier 2. And so we needed to collect that 28.94%, on the total expected payroll, in order to collect the dollar amount we anticipated for the UAL. For the amortization of the UAL. Then tier

2 came in. And so part of that expected payroll was going to be tier 2. Instead of tier 1. But in order to collect the amount we anticipated on the UAL we still needed 28.94 on total payroll.

>> Arn Andrews: So as populations are shifting within what is the total payroll, you're still just trying to figure out what the appropriate rate is for city, because the city pays 100% of the UAL, and tier 2 theoretically has no UAL yet. So you're just trying to determine the appropriate percentage for the city to still pay, to capture their UAL commitment even though the payroll now has possibly some tier 1 and some tier 2? It is not as if you are applying any type of UAL to the tier 2 population?

>> Bill Hallmark: No, not at all. It's simply we're calculating the dollar amount. We anticipate getting to pay towards the UAL. And then to get the percentage we're dividing by a payroll number. And last year, we divided that by the total expected payroll. And if you then split that total expected payroll between tier 1 and tier 2, if you are going to apply the rate we still need it based on that total payroll.

>> Arn Andrews: I get it.

>> Bill Hallmark: So what we switched to this year is splitting that. So now it's just based on the expected tier 1 payroll and given that tier 1 payroll is expected to decline over time that's going to make that percentage increase dramatically.

>> Arn Andrews: I thought that's what you were saying but I just wanted to be sure. Because when you just read the language in the bullet it could have appeared to some of our stakeholders as if there was some kind of shifting of liability, I wanted to be sure that was not the case.

>> Bill Hallmark: There is no shifting of liability and the dollar amount did not change. It is just what you are applying the percentage to.

>> And just to be clear there's no contribution from tier 2 members that ends up funding part of the tier 1, liability?

>> Bill Hallmark: None.

>> I would think a lot of people in the audience would be interested.

>> Bill Hallmark: Right.

>> Matt Loesch: Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chair. The tier 2 is based on dollars, not rates. The city shall not be required to contribute more than 50% of the total cost, not 50-50 rates. And so I think it will be helpful for us to get our thinking, whatever you need to do at Cheiron in terms of translating the dollars eventually into rates so the city can handle it as a payroll matter. I think from now on we need to be thinking of this in terms of dollars. Because we need to keep this one governor in shape for the tier 2 which is that the City's cost, no matter what rates you apply, ultimately the city dollar out-of-pocket cost for total cost of tier 2, normal cost, unfunded, administrative expense, cola, whatever, cannot exceed 50% of that total cost. And the rest is math and how you translate that back into the system. So maybe if we think of it in terms of dollars as opposed to rates. Because the rates, you can see depending on the payroll base you're focusing on, look ridiculous. The rates are no longer relevant and less and less relevant.

>> Arn Andrews: Depending on the tier 2 rates are not going to be relevant at all.

>> Harvey Leiderman: The point was made that tier 2 members will only be paying 50% of the cost attributable to their benefits, and the city also will only be paying 50% of the cost of those benefits. However, we translate whatever happens to tier 1, there will be an impact on tier 1 as well. It seems to me the other question that your presentation raised was the SRBR that you're making certain assumptions about there not being -- we had a loss in SRBR so there's not going to be that transfer. Shouldn't this valuation also assume that the SRBR is gone?

>> Bill Hallmark: Well, I think that's -- that's a question that we need direction on. Because we know the city has heard an ordinance. But an ordinance has not been enacted. So we haven't -- we have not reflected that ordinance in these numbers here. And that is a question that we need resolved.

>> Harvey Leiderman: Well, if I may Mr. Chairman, the ordinance is carrying out measure B which has already been enacted. Measure B says SRBR is dissolved and those assets 120 some million dollars that I understand.

>> Bill Hallmark: In this plan it's 40.

>> Harvey Leiderman: 40 in this plan, okay. That money will now be brought into the reserves, general reserves. Still open if that's going to be going into employer reserves, employee reserves, unclear, but still it's going to count into the unfunded liability. We know that is law, the ordinance is going to implement that when it's passed but it's already been enacted by the voters of the City of San José. So that seems to me that that's something that ought to be assumed for fiscal year ending 2014.

>> Bill Hallmark: That's certainly something we can add. We have not -- we have not reflected any of the components of measure B that have not been put into the municipal code. And so --

>> Harvey Leiderman: Understood.

>> Bill Hallmark: So there's quite a few different components to measure B that would affect the valuation if we reflected all of it. We are looking for direction from you which components should be reflected and which should not. SRBR is a pretty straightforward one for us to reflect. I think you can see on this chart it would take 2.81% of payroll off of the tier 1 rate for the city. It would actually take a little bit more, because the transfer of the assets back to the -- the 40 million back to the UAL some would also reduce the UAL contribution. And you know just roughly you'd be looking at something like a $10 million lower city contribution.

>> Matt Loesch: Okay. Other board comments or questions before we ask for input or thoughts from the audience participants?

>> Arn Andrews: You asked my last question.

>> Matt Loesch: I just have the one -- this is on page 14. What kind of things make up the bucket, "other"?

>> Bill Hallmark: Mortality experience, termination experience, disability experience, all of those kinds of things, salary experience.

>> Matt Loesch: Little bullet at the bottom kind of what things fill up that bucket. I know we're going to detail it when we get to Val, spell out that amount of money, what kinds of things are we seeing in all those categories to make that change. I know we talked about it before. What are the things we've talked about here is, any changes we're making we just want to know what the consequences are one way or the other of any decisions we make. So what's going on in any of those things that's making that bucket move, the retiree status some the SRBR, any individual buckets --

>> Bill Hallmark: We highlighted the largest ones. So all the components are smaller, like 2 to $3 million pieces.

>> Matt Loesch: All right, okay. Any other comments from the -- or questions from the board or from staff.

>> Lara Druyan: I have got a quick question. On the SRBR, if the assets were moved over would they be smoothed or would it be an immediate recognition?

>> Bill Hallmark: Actually, we include the assets already but we include a liability for equal to those assets that are in the SRBR. Because under the current structure we assume those would go to pay benefits. So it would not be a change to our assets. It would be a change to the actuarial liability.

>> Matt Loesch: Okay, Yolanda you were up first. I know we don't have the little yellow cards to put them in order but if you have something you want to say. Check to make sure that mic is on some I'm sorry, so everybody can hear.

>> I do have a question in regards to what the legal counsel said right now. I just want a confirmation that the board has adopt -- has said that they were going to assume that all of measure B has been excellented. I do have a concern if there is, that this presentation is done without taking any advantage into effect that it changes, makes this look bigger than it is. And again these are numbers. I know they're assumptions but whether or not it pass he or doesn't pass we need to know how things are being calculated here. Just want confirmation that that's what I heard.

>> Matt Loesch: Got it. So Bill, you said that none of the implementation of measureB is included in these numbers of, correct?

>> Bill Hallmark: Correct.

>> Matt Loesch: Because nothing's passed council --

>> Bill Hallmark: Nothing is in the municipal code --

>> Pete Constant: Except tier 2.

>> Matt Loesch: Tier 2 is reflected but is that part of measure B?

>> So what legal counsel said was that there were things about SRBR that it should be not -- should not be accounted for in here anymore.

>> Matt Loesch: Gotcha.

>> So I'm just trying to figure out what it is that the board has decided that they're going to do.

>> Matt Loesch: We've not decided to take any action he other than what you see here, implementation of tier 2. His comment is, Mr. Leiderman's comment is, should it not reflect the SRBR going away? And so the board has not made any action on how or directed Cheiron how to deal with that yet so none of those numbers are included in here now.

>> Then would I like especially because this becomes a public document that it should state that this does not include any of the measure B stuff so there's clear definition whether it is or isn't there.

>> Matt Loesch: We can certainly do something so that when -- because the valuation is supposed to come out next month, so this is a preliminary actuarial valuation as this one, we'll make sure we'll note that in the presentation next month. Because he always does a presentation, summary of the Val itself. We'll just note that the difference between this valuation and that valuation are noted. Is that clear? Clear dates of when it was presented as well. Mr. Leninger.

>> Thank you, my name is Bob Leninger, president of the San José retirees association. Before I get started I'd just like to Ed Overton keeps us well informed. Our retirees are appreciative of the countless hours you look over the retirement benefits. We do appreciate that. You have a memo from Mr. Gurza asking you to incorporate that in this study. I know you're going to take that into account on 5.6, draft ordinance. We do have a lawsuit on file, I'm not sure if you have been served with it, one of our causes of action is the vested rights on the SRBR, that is a date in court that we expect to have. We objected to the city council a couple of weeks ago on this draft. We'd like to have our day in court. They've asked for their declaratory relief, the SRBR should wait, I'll be happy to talk more about that on 5.6.

>> Matt Loesch: We haven't picked up Mr. Gurza (inaudible) talk about that in a moment. Did you have something to say Mr. Gurza?

>> Alex Gurza: If you don't mind -- good morning, Alex Gurza deputy City Manager. I would like if I could comment on a couple of different issues that have been discussed today. Clearly we tried to study Cheiron's report as much as we could in the short period of time. I wanted to comment on the tier 2 issue. It was a very good question and issue and I think what we want to understand at the time obligations if the city prepays tier 2 at the beginning of the fiscal year but employees do not, they pay it over 26 pay periods we simply want to understand the implications of that since the costs are fully shared and that's really the issue I think we need to understand a little bit better as to whether the city should still prepay even though employees will not be prepaying. Because you could have different impacts from an investment standpoint right? From prepaying it was a very good year, whereas on the beginning it would be better to pay it over 26 pay periods. That's the issue we need to think about as the city decides whether or not it should prepay tier 2. The other question on SRBR, if I could briefly on this item, and I think as Mr. Leiderman indicated, measure B amended the city charter. That has been amended. The city charter has now been amended. And as the board is now aware, not everything in the charter ends up in the municipal code but some implementing ordinances need to take place. SRBR is one of those implementing ordinances. As the board is aware, the council has frozen the distribution of SRBR and that still, there is going to be no distribution to the end of the fiscal year. What we are requesting is that the actuary actually calculate the impact of it, being eliminated as the measure B calls for so that at least it can be demonstrated what positive impact there will be, by eliminating it and putting the balance back into the trust fund. So we can see that the contribution rate will be X as opposed to Y, what you're showing today and I think you've indicated some benchmark 2, what are that was, 2.10%?

>> Bill Hallmark: Approximately $10 million.

>> Alex Gurza: What?

>> Bill Hallmark: Approximately $10 million.

>> Alex Gurza: So that would be $10 million less that the city would have to contribute. Councilmember Constant, $22 million shortfall, 10% less is really significant. That's why we're asking to really understand that letter. Pending litigation, it has been eliminated you know and the effective date of that elimination, again, is going to be at the end of the fiscal year. And the -- in terms of the ordinance, the ordinance has been passed by the city council on first reading, the second reading is November 27th.

>> Matt Loesch: And just so you be clear your request is to have the actuary calculate it. You're not asking the board to transfer the funds. That's not part of your ask today?

>> Alex Gurza: That's correct because the ordinance has to go to second reading. But since the actuary is in the middle of doing the valuation, we felt it was important for the actuary to calculate the impact of that action. But once if the ordinance gets passed on the second reading that will have an amendment in the municipal code.

>> Matt Loesch: Did you have anything else you wanted to ask?

>> Alex Gurza: If I could very briefly because it's also related to the pension issue. And I know there's another memo that I put a little bit later but it's about tier 2 and the rates, that was very helpful to see what was going to happen on the long term rates. And I think sort of on a positive side what I heard say is that tier 2 since it is sort of a young plan not as sensitive to losses. And I think that was the silver lining that had been discussed about OPEB and retiree health care. Won't have that much money there, there's not a lot to lose. If you can see that as a positive thing. But I think that since employees are sharing, going to be sharing 50-50 of the cost I think that's where our concern is simply to make sure that we try the best we can, the board tries the best we can to minimize, the situation where employees are going to have to share significant amounts of the unfunded liable. And we have sort of a looming example of that situation here with retiree health care. Where employees are now paying 50-50 of a cost. And I think if we could all go back when that plan was put into place, maybe decision would have been different about how to fund it, right, so that we don't have that huge unfunded liability that the employees are facing now. Clearly it's different because we are funding tier 2 as the pension is. But clearly assumptions I think five of the last six years there have been losses, including this last year. So to the

extent that that continues, you know, one of our worries is that our future workforce, which is going to turn over, because of our demographics, soon, there are a lot of people in tier 1. Within the next three years approximately 12 to 13% in addition, most of those people who are eligible to retire are in the Federated plan. There's only a very small percentage of people that are eligible to be retired in Public Safety. So that's why I wanted to mention that and ask the board to please look at all the assumptions and I didn't see this year the kind of discussion last year about 7.5 and is that still the long term rate? Last year there was an example if it was 7.5, 7.25. One thing I noted it's not part of this year's presence.

>> Matt Loesch: Okay.

>> Arn Andrews: Can I have just one more follow-up? Because it kind of threads what Yolanda was saying with what Alex was saying. Is there a way to do a pro forma valuation, pending the determination of the lawsuits June of 13 is when this is supposed to go into effect. The items of measure B. So in addition to the SRBR is there a way to do a pro forma that would show the other variabilities you haven't captured from measure B? You said that would be a $10 million difference, could you show the other variables, what that would also be in a dollar amount? So as we progress we have an understanding as things get clarified through the courts what the impacts could or couldn't be if we are through some type of judicial outcome supposed to implement more and more items not just the SRBR?

>> Bill Hallmark: The SRBR is a pretty straightforward change. Some of the others are less straightforward. So providing pro forma numbers on SRBR is not a significant undertaking. Some of the other pieces might be a significant undertaking and we'd need to look at that. So I would hesitate in this meeting to promise that I could do that without taking a closer look.

>> Matt Loesch: Mr. (inaudible).

>> Good morning, trustees, Vera Todorov, on behalf of the association of legal professionals and also on behalf of myself. Thank you for asking for a pro forma that asks for the impact of measure B. I'm assuming that some of

those lawsuits will be won by the litigants and that the city will lose. And if that is the case, and all of the measure B reforms, quote reforms, are implemented, by this board and by the city, where do you come up with the cash then to make up for what you've taken away from employees and retirees? Where do you come up with that? And I think you need to understand what that hit could be for the items that are being litigated and I'm not seeing that anywhere. I'm not seeing the assessment of how are you going to pay people back, once this is taken away? Because that will be the order. I also have a concern with the ordinance that you'll be discussing a few items from now and how it impacts the Cheiron report as well. And so that's why I'm talking about it right now. But please consider my comments for that item as well. That is that the proposed ordinance establishes now an opt out for tier 2, it establishes a tier 3 that you haven't considered. Proposed section 3.28.330.28 is proposed to be amended to accept for measure B implemented tier 2 retirement this is a quote. Any person who is eligible and elects to participate in defined contribution plan under the San José municipal code. So there's an attempt, and this only applies to executive and unit 99 employees. Who are hired in the future. Some of these are the highest paid people in the City of San José. When asked at the November 6th council meeting who this was intended to apply to, the manager responded, oh, a new police chief, department directors that we're having trouble hiring. Et cetera some et cetera. These people are now going to be carved out of tier 1 and tier 2 yet it's not considered what the impact of that carve-out will be on the Federated plan, and it needs to be. So tier 2 is not the only new plan. You now have a tier 2 opt-out as well where all of these people are not going to be participating in retiree health care, they're not going to be participating in tier 1 or tier 2. So I'd like that reflected in Cheiron's report. I want to tell you how this came about however. This was never negotiated with any of the bargaining units. Not with ours and from what I hear nobody else's because supposedly it's only impacted unrepresented employees. But this plan is everybody except nonpublic safety and should have been negotiated. How this came up with on the November 6th agenda, the report that was given, and I'll point you to, it's the November 6th item 3.5, staff report to council, and the second paragraph in the ground connection second half says talks about a June 12th, 2012 approval of changes to Medicare parts A and B and retirees in the Federated system. And then it says also in the staff report submitted to the city council regarding modifications to benefit for employees in executive management and professional employees unit 99 city staff mentioned that in addition to the new defined benefit retirement plan and tier 2 for new employees the city staff would be considering establishing a defined benefit contribution plan for new employees. So your assumptions now for tier 2 don't exclude these people. And so you need to take that into account as well in terms of the overall health of the plan and what that will do to the future of the plan as well. But I also encourage you, as well, to take a look into what Mr. Andrews asked you. Because I don't think the city is going to win every lawsuit on implementation of measure B. So you need to take a look at what happens if we do implement all measure B and what happens if pieces of it cannot be implemented by the city and the liability you will have to employees. Thank you very much.

>> Matt Loesch: Comments or questions from the board? Anybody else from the audience?

>> Arn Andrews: And just to clarify if I understand it correctly, the current valuation doesn't represent any changes. So if the board were to adopt just based on the current valuation, there is no liability to employees from a measure B perspective, it's only going forward as we start deciding whether or not we should move levers. But the current valuation --

>> Bill Hallmark: Right. The current valuation reflects the current municipal code. And so that -- none of the measure B components that have not been put in the municipal code are reflected.

>> I just have a follow-up based on Alex's comment. Regarding the discount rate, the expected ROA and discount rate. When is the board next to review that? So what is the schedule for reviewing the discount rate itself?

>> Bill Hallmark: Well, we do review it with each valuation. With this valuation, the last time the board had looked at it was with the asset liability study, and the assumption in that asset liability study was the 7.5%. So we did not raise this as an issue to consider this year since we had just changed it last year. However we're happy to address it if you think it needs to be addressed for this valuation or we can -- we will be reviewing it again with the next valuation.

>> Stuart Odell: Well generally we have ROA on assets I mean fixed income obviously, there's nobody I don't think in this room that's going osay your expected ROA is the same this year as it was last year for fixed income on a long term basis. So I think it is prudent that we do revisit that set of assumptions and make sure that it's

consistent with what we, when we set them previously if we feel they should be the same at this point. So you know, I don't know what timing needs to be, to have that discussion. But it ought to be something regularly on our consent calendar, every year we ought to be revisiting it just generally. But particularly, this year we've had a fairly large change in assumptions that I'm seeing out there.

>> Arn Andrews: I agree, it should be an annual part of the dialogue you know? And not just the investment assumption but inflation assumptions on payroll and things of that nature also.

>> Matt Loesch: From this end there was no guidance given out not to include or not to discuss it this time. I guess my only thought was, when it was, we haven't fully implemented an income allocation, we went from a pretty high bogey a couple of years ago, before you guys were around. Essentially it was 9% we were going ohave to earn. We got it down to 7.5, and the new asset allocation, I thought let's review it in about a year or so but if you want to bring it back this year and have a discussion that's fine. My only thinking behind it, when I didn't see any discussion in here it probably makes good sense. Let's get that finally in place and it will take no most of that fiscal year to get that pretty close to there but if you want to review you can.

>> Donna Busse: Did you have discussions with Meketa at all during this process?

>> Bill Hallmark: Yes we did, I think Brad is here, he ask comment. But they haven't done a full review in their subasset class decisions were still being made so the last formal thing was the ALM study. Now, they obviously have internal study that they've been working on bud --

>> I'm Brad Regere from the Meketa group. Brad and I did talk about that and over the last year once the new asset allocation was approved, we have talked in the spring about subasset allocation, and so in order to do the type of analysis that trustee is talking about, Bill and I were talking about whether or not Meketa should bring forth all the subasset allocations, our expected returns standard deviations which had not been discussed at the board level. And so it would probably be, if the board would like to pursue that, we're happy to do that kind of

analysis. And be a part of the conversation some rather than having Bill present something that we haven't done yet.

>> Matt Loesch: Okay.

>> Edward Overton: Does Cheiron typically include a review of capital market assumptions, on a go-forward basis as part of their actuarial review?

>> Bill Hallmark: Yes, detail varies from client to client, depending on their preferences and how frequently they do a full experience study. We obviously want to make sure that each year the assumptions are within the range of reasonability. And you know, we still feel the 7.5% is within the range of reasonability for the asset allocation as we understand.

>> Edward Overton: Thank you.

>> Arn Andrews: So for this period you would basically, you're just keying off the same correlations and asset classes that were adapted last year when the investment committee folks thoroughly vetted it? You were not anticipating doing areview of those correlations again?

>> Bill Hallmark: That's correct. And given all the subasset classes we would like to rely on your investment consultant and make sure that what we're presenting is consistent with what your investment consultant presents and we're coordinating that analysis of that investigation.

>> Arn Andrews: I would probably refer that to the investment committee, if you want to review the assumptions made last time, if you think they're still reasonable, that's what drives the conversation of a median rate of return and expectations.

>> Lara Druyan: Yes I think from at least my part we should do this with the investment committee.

>> Matt Loesch: We should do that in August or September annually so it kicks in and flows in nicely to the valuation perpituity as well. We can keep talking what we want to do going forward here. Councilmember Constant.

>> Pete Constant: I just agree that it's something that we should have a discussion. Because if you recall last year, there was quite a bit of discussion on where we were going to go on the rate. And my conclusion at the end of that based on the discussion was, that that was one step in a series of steps that was going to be taken annually to get to a rate of return that everyone was comfortable with trying to hit that 50% odds of hitting it. And I think what Alex pointed out is really important. That as we go forward, we're talking about the impacting not only to the city but each plan participant. And that has quite a bit of impact on each person. And so I really think it's something that we should have the full discussion, because as you look at other plans, everybody's having the same discussion about getting lower and lower. And I just came from the international foundation event this week and especially the nonpublic plans are already ratcheting their rates down and they're ahead of us in that game. That's a discussion we need to continue to have. I had a question, back to your projection stress test slide, number 18, one of the ones you gave us was showing just the tier 1 costs. And it was the rather steep chart on if bottom where the percentage of pay was going up significantly, the contribution rate. Is it easy to convert that chart to dollar amount, to see the dollar contribution, versus the percentage? OI think that's another one where a slide would be helpful for us to have for reference. And I had another question but I lost it.

>> Matt Loesch: If you get to it before we get done discussing or interacting.

>> Martin Dirks: Quick question for Bill. Alex brought up in could be a big turnover in staff because of retirements and such as that. Are your assumptions like that or are they quite different?

>> Bill Hallmark: Our assumptions have rates of retirement for different situation he. So we are looking at the actual individual employees in assigning a probability that they will retire in the next year. So I think they probably

do reflect the dynamic, Alex was talking about, because it reflects the number of people who are eligibility for retirement.

>> Martin Dirks: Data on each individual?

>> Bill Hallmark: Yes we had complete data on each individual.

>> Matt Loesch: Other comments or points of discussion? Okay. So you need a couple of things, some direction from us. And I think the first item would be on the tier 2 integration. Whether we would like you to project a floor or use a percent of pay concept for tier 1, tier 2 and the current policy. What are the thoughts of the board here? Mr. Andrews alluded to as the pool is decreasing tier 2 as the pool is increasing to do it as a percent of pay. Didn't necessarily make a motion on it but if there's a discussion around that or if someone wants to make a motion on that what you'd like to do.

>> Arn Andrews: I'd make a motion for the valuation period June 30th, 2012, continue to use the board-adopted policy for tier 1 that it's the greater of the dollar amount estimated in the valuation and the percentage of pay in the valuation multiplied by the actual payroll and for tier 2 utilize the percentage of pay valuation mode multiplied by the actual payroll.

>> Matt Loesch: Is there a second?

>> Edward Overton: How is that going to be impacted by the --

>> Matt Loesch: Is there a second or no?

>> Edward Overton: I'll second.

>> Matt Loesch: Mr. Overton.

>> Edward Overton: The payment of the 28.9%? Is that going included in the city's prepayment or how has that -
-

>> Bill Hallmark: That has already happened. This will affect fiscal year 2014. For fiscal year 2013, the city prepaid the full dollar amount of the contribution.

>> Edward Overton: Right but from an ongoing standpoint will it have any impact? I mean there's going to be a payment nor this in the next valuation.

>> Bill Hallmark: I think that's the later question here. This is just affecting how we collect money on tier 2. Then the next question is, well, one of the following questions is, how do we present the rates for tier 1 and tier 2? And most specifically how do we present the rates for tier 1? That 28.94 really is a question of how we collect the money for tier 1, not how we collect it for tier 2.

>> Edward Overton: Okay.

>> Matt Loesch: Okay so we have a motion on the floor to have a same account going forward for tier 1 some tier 2 for any other questions or comments on that? To get clear direction. Are you okay Mr. Overton?

>> Edward Overton: Yes, I'm okay, I just want to make sure we don't mix up the strategies or the processes for collecting money or tier 1 and tier 2 and then not be getting enough in tier 1.

>> Matt Loesch: Got it, pretty clear now. Any other comments or questions, so on that all in
favor? Opposed? Okay. On prepayment or not prepayment for tier 2 --

>> Arn Andrews: And I don't know if it's a motion but I would take Alex's comments, and Harvey's comments that for tier 2 it is 50% of a dollar amount, it's not a contribution. So if the city does prepay in tier 2, theoretically they

have paid legs of a dollar amount than 50%. I would ask the legal counsel and the actuaries the impact of what prefunding would be on currently the legal construct of retire 2. There is time on this because it's the city that makes the determination whether they are going to come forward to the board for prefunding. I don't think we need to make a decision on prefunding, that will come before us at a later time, we need a little more analysis on that so all of us understand what the implications could be on prefunding on tier 2.

>> Matt Loesch: To be effective, to prepay our contributions and there has been a similar ask, the ask right now from the city is which one's better? And so we're not really great at providing opinions, we're about making the decision, which one. Is the ask, like you want to prepay or -- over the last month we have been prepaying on tier 1, it's been a net positive. Not a grand net positive but a net positive. It certainly has not been a net negative. Now, this is a different plan. Where the positive and negative -- on prepaying on tier 1, net positive just helps the city or hurts the city some right? In tier 2 it could hurt the city or hurt the employee as well because of the shared of the funded liability.

>> Alex Gurza: Thank you, Mr. Chair. We appreciate the information you provided on the impacts of prepaying. We understand from a long term perspectives there's a budgetary reason for doing so. I think this new issue that we had not contemplated, we appreciate the board raising it, how it impacts tier 2. Whether there is any additional insight that Cheiron has provided, we do need to consider and I think the option he the city would want to, prepayment, on tier 1 and tier 2 or alternatively, how much would it be to prepay tier 1 and we prepay it over 26 pay periods. I think those are the options that the city would have to think about unless there is something else the city would have to come up with.

>> Matt Loesch: Gets rid of unfunded liability or adds unfunded liability to the employees because they chose to prefund, that would have to in my mind be a discussion.

>> Alex Gurza: A question for the board or your shares, let's assume that happened, the employees in tier 1 prepaid and the tier 2 did not? How would you go if setting the new rates when it it's supposed to be is --

>> Bill Hallmark: I think other issue we haven't raised that is really not an actuarial question, is sort of the optimal question. Just to use made-up numbers, if the contribution was expelling from the city and the employees, $10 million each for each year, with the prepayment the city would only pay something like $9.7. And the employees would pay 10 million. If he end of the year we would report 9.7 by the city, evenly if those adjusting for interest came out absolutely equal as you would expect, you still have the opt fiscal issues the city wants to decide if they want to handle that.

>> Alex Gurza: We need to consider that these issues you raised and come back to the board on the issue of prepaying tier 1 and tier 2 or just tier 1.

>> Matt Loesch: I think -- it should not accept especially when we're talking about dollar amounts because the dollar amount will be what it needs to be. Mr. Leiderman.

>> Harvey Leiderman: So that the impact would be shared equally up and down by the city and the employees 50-50.

>> Alex Gurza: That's interesting Mr. Leiderman. People come and go during the year we would have to think about how that would be coming to work but we'll discuss that as a possibility, thank you.

>> Matt Loesch: As far as how to calculate and what to calculate?

>> Bill Hallmark: We can put in the report what the beginning of the year dollar amount is and defer decisions what to do. Some of the implications happen next year if they actually did it. How with would we --

>> Matt Loesch: Shorter positive we would see it next year and how it cleans up.

>> Alex Gurza: Does the report show the dollar apples that we would pay for tier 1 or separately for tier 2?

>> Matt Loesch: For prepayment?

>> I don't recall exactly in we got that breakdown here. What would be the dollar amount at the beginning of the year for tier 1 and separately for tier 2.

>> Yes.

>> Veronica Niebla: Page 12 aggregate.

>> Bill Hallmark: It's just an aggregate number, we can separate that.

>> Matt Loesch: Did you have something to do about the prepayment? On the prepayment concept so we're clear to gives clear direction, should we make a motion to give direction on that? I'd like to make sure they know what to calculate and what to report on.

>> Arn Andrews: Okay, motion directing the actuarial valuation to show what a prefunding dollar amount would be for both tier 1 and tier 2.

>> Second.

>> Matt Loesch: Comments or questions, is that clear? All in favor, opposed. On the idea of the SRBR, the idea of calculating around the SRBR, I'm sorry you had something you wanted to say.

>> Bill Hallmark: Can we address just confirm that you want the tier 1 contribution rates to reflect only tier 1 payroll?

>> Matt Loesch: Yes, absolutely. I think that's what we -- I'm sorry I did not know that was a question before us. Wouldn't that seem the make sense?

>> Bill Hallmark: Yes, just as long as you understand that those rates are going to be --

>> Matt Loesch: The rate will go higher as the devisor is getting smaller.

>> Arn Andrews: And I think we can continue to work to educate our stakeholders the same way we are recently doing a newsletter around our asset allocation, we can also create education around why contribution rates may or may not be relevant anymore if we are paying just a fixed dollar amount.

>> Matt Loesch: On the SRBR, I think it would make sense to do the calculation, understand what that impact is, the ordinance is going to be there or not. I think if we plan for those things and at least know it so you have done the math behind it, right now we are not asking to move the funds, seems prudent, I'll make a motion to ask the customary to calculate what the impact would be, moving the funds for the SRBR, not directing him to move, but to calculate what the impact would be. Is there a second?

>> Arn Andrews: You're saying both, additional calculation showing what it would look like if the assets were absorbed?

>> Matt Loesch: Both.

>> Arn Andrews: Second.

>> Matt Loesch: Comments or questions? Clear enough? All those in favor, aye, opposed. On the other elements of tier 2 --

>> Bill Hallmark: On measure B.

>> Matt Loesch: Try to figure out how best to give you guidance and get information back here that's useful. Maybe what we could ask is next month to come back with a list of items that you understand are directed for you that would change your calculations. And then we can give you directions on that list of elements. So -- because it's not here in front of us, I don't necessarily want to say go figure out the impact of measure B, are I think that might be -- we've talked about that before being pretty harrowing. If you come black with a list of things you would understand, elements that would change your calculations then we can give guidance next month based on that. Any thoughts?

>> Maybe this is for Harvey. Do we have an ETA on when courts will decide the litigation?

>> Harvey Leiderman: Do you have an ETA when Greece will return to normal? Probably going to run in tandem. Excuse me for being facetious. No, we have no ETA. These matters should be tied up. I hear today there is another lawsuit that I haven't seen has been filed. So no, these things are going to be cooking along for the next year at least.

>> Okay. Sure.

>> Matt Loesch: But we have to put the wheels in motion, get some calculations. So doesn't say a motion. Do you understand what we're asking for?

>> Bill Hallmark: Yes, we'll bring back a list.

>> Matt Loesch: Okay so I think we're good on the pension Val right? Councilmember Constant you had a comment?

>> Pete Constant: I just had one question. Based on what we have here, what is the net difference between the total dollar amount compared to the projected dollar amount that was given previously? When we got our five-year projection.

>> Bill Hallmark: Very close. Here we're showing the red line was last year's projected dollar contribution compared to the gold bars. So over the five-year period, there's a slight increase some primarily due to the investment months.

>> Pete Constant: If everything was accepted in the valuation here what would the net difference be to the city?

>> Arn Andrews: Were you projecting is that 115? You are projecting 115 last year and it's actually going to be 109.5, is that correct?

>> Bill Hallmark: I believe that -- no, that's the timing ire. So let us get you the exact number.

>> Matt Loesch: How about this, if you could e-mail that to staff so we can get that out. That way we could be clearer. Because rather than picking at charts and trying to remember what number was projected last. Did you a five-year projection that was based on last year's valuation and we have current numbers that are running in this year and he's just requesting if there's a delta, right?

>> Pete Constant: Thanks.

>> Matt Loesch: Just for the one year.

>> Pete Constant: Just for this, the year.

>> Matt Loesch: Is that clear?

>> Bill Hallmark: Yes.

>> Pete Constant: 2014.

>> Matt Loesch: So we're good there. Any other -- oh, we wanted to give, make sure we kick to the investment committee clear direction what we wanted them to do about the capital market assumptions. Anyone hazard to make a motion on that? So we're clear what the investment committee is to do?

>> Arn Andrews: Motion for the investment committee to review current capital somethings and correlation he and come back to the board with their result and utilize that data to also provide us with a median rate of return assumption.

>> Edward Overton: How can they do that without an ALL?

>> Stuart Odell: Expected return on the assets.

>> Edward Overton: Where did you get the data from?

>> Stuart Odell: Where do we get the data from?

>> Edward Overton: Yes, you talking about long term --

>> Stuart Odell: They're going o-- Meketa would review what they think the expected return on various have asset classes and subasset classes has changed from the last time we set the 7.5%. Do we think based on our target asset allocation or current asset allocation do we think that rate has changed overall? But it doesn't -- you can independently look at your expected ROA without looking at your liability stream.

>> Matt Loesch: We did capital market assumptions before we did the ALM. We applied that and we came up with an asset liability model that matched what we thought we could get in the range of lessonness. That was kind of the process. So ask them to go back, go look at those capital markets assumptions and just evaluate them and report back to the board what you think the currents capital market assumptions are.

>> Edward Overton: So the data will be coming from Meketa basically?

>> Matt Loesch: Yes.

>> Arn Andrews: In conjunction with consultation with the investment committee. The way I understand it.

>> Lara Druyan: And Meketa presented you us data from several different source he, right? We evaluated that and tried to come up with something we felt was reasonable.

>> Matt Loesch: So the obvious question will be, will this be reflected in this valuation? Timing wise it probably with it not be because the valuation will be coming forward next month. Whether we can get these things in and whether it will be affected, we can make a decision as a board to review the discount rate. I don't know if we can get that in for current valuation. We could make an effort next year to make sure it's for sure ahead of that but for this current cycle I don't know.

>> Stuart Odell: Depends on what the outcome of the analysis is as to how the board may want to take that into consideration.

>> Matt Loesch: So we'll kick it to the investment committee. I'll make a motion, make a motion to ask the investment committee to review the capital market assumptions and report back to the board on that review.

>> Stuart Odell: Second.

>> Matt Loesch: Comments or questions, all those in favor? Opposed? Thank you.

>> Donna Busse: So is our intention to bring back another preliminary with all of these? Or are you going to come back with a final? Sound like you're not ready for a final.

>> Bill Hallmark: Our intention is to bring back a final with pro forma numbers for the SRBR change. Is that your expectation?

>> Matt Loesch: Depends what happens with the vex committee and what the board has to decide next month whether we say either, look some these market assumptions would completely blow your Val and we need both pieces of information.

>> Arn Andrews: And Police and Fire historical don't approve their Val until January. We can move in tandem and see what the investment committee comes up with. We can have the Val, and look aat --

>> Donna Busse: Once they put the Val out that's the product and every time you want to change it, that's a new product. I don't want to get charged --

>> Arn Andrews: Until we accept that.

>> Matt Loesch: Until the board accepts that.

>> Donna Busse: I don't think so.

>> Veronica Niebla: That's not how the billing works.

>> Donna Busse: That's what I meant administratively. Billing wise, it's final, once he gets of sets a new value he has a billing.

>> Stuart Odell: Once you change one number you charge us for a whole new valuation?

>> Bill Hallmark: No, there's a margin cost for a new valuation.

>> Arn Andrews: I would like to see the results that come out of the investment committee.

>> Donna Busse: That's fine. I just wanted to put it out there.

>> We trust you to be good to us.

>> Matt Loesch: You're very trusting. Speak for yourself. Okay, did we vote on that? I'm not sure we did.

>> Arn Andrews: No vote on that. Motion and second.

>> Matt Loesch: Any comments or questions? All in favor? Opposed. Okay thank you. Switching gears. Okay. While we're changing slides, we're going to take a very brief five minute break. I'm seeing some eager eyes, so five minutes. [Recess]

>> Matt Loesch: We are on item 5.3, discussion and action on Cheiron's preliminary OPEB assumptions. They are moving the computers as to which one's presenting. Take a moment, transferring files to make sure we're up and running. We're getting there.

>> Bill Hallmark: Okay.

>> Matt Loesch: So here we are. Again we have Bill Hallmark and I'd like Bill to introduce his new compatriot.

>> Bill Hallmark: Good morning, I'm Bill Hallmark and with me today is Mike Shoening who is an actuary who joined Cheiron on August 1st. With Ann and others. Mike came to us from Bach consultants. Many years of experience. He has been involved in setting the health assumptions and doing the claims analysis for your plan so wanted to introduce him to you today and make him a part of this presentation. I will say unfortunately, I have a

plane to catch, and so we're going to run through this presentation quickly. And I'm going to abandon Mike to handle all of your questions. So --

>> Matt Loesch: Very screen.

>> Bill Hallmark: Introduction to the whole system, I apologize for that but we'll go through these slides here. And so when I leave, what I was doing was getting the presentation onto Mike's computer so when I leave I can take my computer. We'll do brief background, talk about some of the key program changes, the specific OPEB assumptions and then here we are addressing some expected return assumptions that deal primarily with the accounting issues. We are not addressing the 7.5% but the accounting assumptions. So again, this valuation determines the -- unlike for the pension, this valuation determines the accounting information for fiscal year 2013 and the contribution amounts for fiscal year 2014. The contribution strategy has been based on the latest MOAs which indicate that full annual required contribution would be contributed fiscal year 2014. So there's one change here. If in fact that is true, we understand parties are negotiating because of the current MoAs have expired. We would suggest making a switch and also using this valuation for 2014 if they actually make the full arc or intend to make the full arc contribution here so we don't have that one year difference that would create problems between the funding and the accounting. The contribution strategy has been to transition to the fund the full arc over a five-year period that started in 2009. It was originally set up as a straight-line phase-in, but there were limits on how much the member and city rates could increase at .75% of pay each year. And those limits have driven the funding the last few years. We use the entry age normal cost method. We amortize the initial unfunded liability, initial meaning as of the 2009 over a 30-year period and then like the pension any changes are amortized over 20 years. Changes since then. Contributions, the retiree medical is split 50-50. The retiree dental is like the normal cost and the pension where 8/11 is paid by the city and 3/11 is paid by members. These were our expectations from the prior valuation. We show the liabilities and assets on the left, with the projections, there was a projected increase in the liability followed by a projected decrease. That has to do with the discount rate expected to change as you go to fully funding the arc. We'll talk about that a little bit later, that there's blended discount rate used for accounting purposes, based on how much of the arc you contribute. The NOO stands for net OPEB obligation and that what appears on the City's balance sheet. And the graph on the right we show -- the bars show the

funding payments. The red is the accounting expense for the city. And the gray area is the projected benefit payments that come out of the system each year. So you can see we've been contributing very close to the projected benefit payments, and expected a huge increase in the contribution amounts to get above that and to get to the full arc. I think it's -- because of all the changes that are going on in the system, it's important to understand where the liability for this plan comes from. And there are two pieces, an explicit subsidy and implicit subsidy. The explicit subsidy is the health care selected by the retiree but up to the max of the lowest cost plan for active employees. And we've had a change in the lowest cost plan this year that we'll get into. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total retiree plus city-paid premium. We know that health claims vary by age, and if the premiums are set over the entire group including actives and retirees, there is an implicit subsidy in the premium structure between the actives and the retirees. This really affects the premedicare retirees. Pre-65 retirees but it's an additional cost and it affects all the plans that a retiree may select. So some of the key plan changes, in the last valuation, we based the analysis on the health plan options available for 2011. And there were changes both January 1, 2012 and now, additional changes anticipated January 1, 2013. The key changes eliminated the $10 co-pay plans. And the co-pays increased to $25 in the Kaiser plan which is a significant component. And then January 1, 2013 which we were anticipating in this valuation, there is the introduction of the new lowest cost plan which has a $1500 deductible and has a direct impact on the explicit subsidy. There are also some lower cost premedicare plans added that have an impact on the implicit subsidy. The reminder, we use the same assumptions as in the pension valuation, where they are applicable. In addition, there are a number of assumptions we have to make for the OPEB valuation that we do not make for the pension plan. And so we're going to go through these now, and I'm going to turn it over to Mike.

>> Good morning. The first set of assumptions we have to make really deal with starting, the data we're working with 2012 data so we know where the retirees are enrolling in the plans and they have to be in one of the $25 plans if you are in the pre65 plans. Now, there are some people because of the premium differential that will select a lower-cost plan. Essentially what we did did is looked at what happened when you introduced the 25 plan against the 10, and who moved and looked at that as well as what is the premium differential as well as the benefit differential to get an idea where people would go. Currently about 68% of the pre-65 retirees are in that

Kaiser $25 co-pay plan. We think 95% will stay there and 5% will move. The reason you're not going oget a lot moving is the difference in their actual premiums they to pay is actually less than the deductible. So someone who's really not convinced they're not going to meet that deductible is going to take advantage of that. We see kind of similar things with the HMO, blue HMO, big change of people moving into the $30 because that premium differential is so big because most people are going osay jeez I can save a couple thousand a year in premium contribution he for kind of a nominal increase in my co-pay. So we really think a lot of them are going to switch over. A similar thing for the PPO plan. The premium differentials for those plans that have been put on the table by the carriers are so great versus the benefits that we think a lot of those individuals will actually shift into the lower plan to save those premium dollars out of their normal pension checks. We look at the Medicare eligible, those plans aren't changing from where they are today, so we basically expect people to elect them the way they are electing them today, rounding things up a little bit, similar for the dental, we don't think there's going to be a lot of changes. The big changes are for the pre-65 side, a lot comparison between benefits and how much they actually have to pay out of their pockets for the cost because of the new Kaiser high deductible cost plans. Next slide. We adopt the same cost curves we do the valuations on. We are really comparing here is what was used for 2011 valuation versus the 2012 which takes into account these expected differences. As you can see, it's a fairly modest change pre-65. It's about a 5% reduction versus, I mean versus the 9% we thought it would go up. So it's kind of net almost a 15% change. It's really big for the post65, because of the $25 plan for Kaiser. Significant difference in premium. The initial valuation we initially thought it was a 7% increase, we are seeing a 25% decrease. Overall aggregate claims are lower because of the plan changes and with the actual renewal experiences which will have a positive impact on the valuation. And this next page really is kind of graphically illustrates that implicit versus explicit subsidy. And the dark gray is really, here's when the premiums are so the premiums are a certain annual amount on the top for Kaiser, pre-65 and once Medicare hits it goes down and it's a flat amount over. The yellow line, claims go up as you get older and basically you get that big drop once you hit Medicare eligibility because Medicare is paying a big piece of it. So you can really see net net over the entire period the difference between the premium and the claims over person's lifetime post-65 is about the same. Those plans are really set of-supporting. You can really see the difference pre-65 so with the implicit subsidies is the difference between the yellow line and the actual gray line underneath of it. Essentially if you carry this all the way back to the youngest ages that yellow line keeps going down so your active employees are essentially subsidizing the pre-65 retirees and the value of that subsidy actually has to be recognized in your valuation. It's pretty big for Kaiser. It's not as big for the PPO plan because again the premium is a little bit closer to the cost and where people select the active people you tend to see an older population, therefore, the rates are more consistent with that older 65 population anyway. So you don't get the huge differential in the costs. So the other big assumption is really health care trend rates. And you generally start at you know what is your current experience and you grade down to some longer GDP rates, which is what Medicare does, because if you keep the existing 8 to 10% forever, you reach a point in time where we're all working in the medical industry which really doesn't happen. And so in 2010, we relooked at it and basically set the extent of the grading period to be 15 years to be more consistent with what we're seeing in the industry. We still want to keep that in place but the one change we do recommend is again, because the long term capital market really isn't producing high returns, which really has an impacted what the long term GDP is, we don't thinking the long term rates are as high as they are going to be, so to be consistent with that, the investment numbers and the trend numbers all tied together, we recommend reducing the long term rate from 4.5% to 4% to be consistent with all those changes.

>> Do you think this would be impacted at all by the health exchange in California?

>> The long term rate 4% no. Essentially all that's going to do really is, if it works, as expected, so if it really dogs come through and really does ensure a lot of people and in fact helps bring down the cost of care takes all the uncompensated care out of the system, then you're more likely to hit that longer term 4% rate. Whether it does or not is anybody's guess at this point.

>> Arn Andrews: I was thinking moving up.

>> Yeah. And the next page really shows the graphical differentials between last year's and this year's numbers. The top two numbers are the top two -- are the what we use in the last valuation for the preimposed Medicare and the red lines show the current and then the yellow shows the dental. And realize the big differential is they're a little bit lower, and they start about the same point and they just end up diverging a little bit in the out years as we're trying to balance them, 4% rather than 4.5%. The big, one of the other big changes is really

changing that explicit subsidy, if we looked at the prior valuation and based on our trend assumption. The fiscal year, 2013, lowest cost plan which would have been the $25 Kaiser plan was 464.08. And then using trends that projection for fiscal 14 would be 612. Now that we have real numbers, the actual number for 2012, fiscal 13, is the 554 which really indicates that Kaiser's premiums really didn't go up as much as we anticipated they would, which is good news. But now we see a big drop because now we've got this new plan that's the low-cost plan, we're actually going to drop in fiscal 14, assumption is 476 number, impact on not only the pre-65 but the post-65. Because before there was only one plan where the post-65 premium was greater than the 554. Now there's I think all but two of the plans were actually higher than the 476.76. So more retirees are going to post-65 paying a slight premium versus before they weren't paying any premium. And basically same thing happens pre, and post, and for the family coverage the same rates apply because the rates are basically consistent with each other.

>> Bill Hallmark: Switch back just briefly here on the discount rate. For GASB purposes it's a blend of the expected return on the investments of the plan. So the assets in the trust. And the expected return on employer assets depending on how close the contribution is to the arc. As I indicated at the beginning, the 7.5% assumption on plan investments, we didn't revisit on this analysis but on employer assets in my discussions with Meketa there has been a significant reduction in the assumptions for short term fixed income securities. Last year we had a 30-year assumption, from the staff that indicated 4% on those. So obviously, nobody was expecting a 4% return immediately but over a 30 year horizon they were projecting it to increase to a 4% return. Meketa does projections or capital market assumptions over a 20-year horizon. They don't do a 30-year. And the short-term depending on which index you're looking at, it's 2.8 or 3.2. So that's significantly lower than what we had last year. But again, that was a 20-year assumption, and we are looking longer than that. And so actually we are suggesting a 3.5% assumption which I thought was on this slide but I don't see it right now. A 3.5% assumption to account for the difference between the 20-year outlook and the 30-year outlook. But that's a decrease from our 4% assumption. This will have no impact on our funding projections, since those are based on the 7.5 but it will impact the City's arc that they would report. The -- we also wanted to talk briefly about the method used to blend the discount rate. It's supposed to be the expected return on planned investments to the extent contributions are at least equal to the arc. And the expected return on city assets if contributions are less than or equal to the pay-as-you-go cost. The method we've used historically that we inherited does a different interpolation that would

allow the rate to be above the expected return on city assets, even if the contributions are below the pay-as-you-go cost. So we're suggest modifying that discount rate blending method to interpolate between the pay-as-you-go discount rate and the full discount rate, instead of between, been, between the other rate. So the prior methodologies on the right, and what we would have calculated is that the city arc was 22.95% for this fiscal year. And for this fiscal year, the City's contributing 7.91%. That's 34% of that full arc number. And so we would have applied a 34% weighting to the 7.5%, and the 65% weighting to the 3.5%. The chart on the left shows how we would -- how we're proposing to determine the discount rate. And it results in a much lower discount rate. Because we're essentially looking at a total contribution, here we bring in the City's implicit subsidy contribution. But a total contribution of 17% for this fiscal year compared to a total arc that also includes member contributions of 30%. But also recognizing that the pay-as-you-go rate is 16.33%. So the total contribution only exceeds the pay-as-you-go rate by .96 of payroll and the required amount in access was 13.88%. And so that results in only a 5% weighting to the 7.5% and a 93% weighting to the 3.5. The discount rate to 3.7% both of them are substantial reduction he from the discount rate used the prior year. And will have an exact on the City's arc. So we'd like the board to adopt the recommended OPEB assumptions and the expected return assumptions as well as the blended discount rate methodology. With that, I'm going to depart, walk away and leave it to Mike. And I appreciate your time, thanks.

>> Matt Loesch: Travel safely. Comments or questions from the board?

>> Arn Andrews: Sure. So the valuation that we have, has a couple variables, changing it sounds like some are positive in the sense that you know, you were anticipating increases and it looks like we have declines on both pre-Medicare and post-Medicare and yet you're also bringing assumption recommendations forward. But I don't see anything here that can give us a sense of magnitude of what each one of these changes means from a total perspective. I keep hearing there's going to be an effect to the arc but it's hard to quantify what that is. I don't know if you can do that but if you could just give me a sense on slide 12, recommend reducing the ultimate rate from 4.5 to 4, what magnitude of change that is. Slide 12, the premiums being significantly lower, what the effect of the magnitude of that might be. Slide 15 we're talking about moving from a 4.5 return to a 3.5% return. I think you said there was no impact on funding projections but will affect the arc. And especially knowing that currently

unless something changes we're heading into full funding of the arc in this period. I'd like to get a better understanding of that. And I -- and then the final one was also moving the discount rate, the blended discount rate on slide 17 from a 4.88 to a 3.7. Could you give us a sense of what all this means in aggregate?

>> At a rehigh level, yes.

>> Arn Andrews: We'll start high.

>> Got to go backwards. So if we start, the first piece of it really is going to be the impact of the fact that now we've got new plans that are offered that are less rich in benefits. Pure claim cost piece of it. And roughly, that's going to reduce the overall liabilities in the normal cost by about 7%. The trend piece of it is going to be about another 5%, if we look at just taking that ultimate out from four and a half to 4%.

>> Arn Andrews: Reduction of 5%?

>> In total, reduction of 5% in liability.

>> Arn Andrews: And liability normal cost?

>> Normal cost about the same thing. All these the effect of the normal cost and the liability are about the same roughly. Some we may find it's 5 versus 4.5 but all in roughly the same order of magnitude.

>> Arn Andrews: Okay.

>> Then the changes in the explicit subsidy amount is really going to be again about another 5 to 6% that gets added on. It's not quite as big because the impact isn't as big about post-65 as it is pre-65. Because again a lot of the post-65 people are in Kaiser and this has no impact on Kaiser because the Kaiser premium in either situation is still well below what that explicit subsidy amount is. And so you kind of bring all of those together and just the

percentages they multiply out we expect a net impact of this, again the full funding rate of 7.5% is going to be roughly a 20% reduction in liability and in the normal cost. So therefore you see 20% reduction in the normal cost piece. You won't see quite a 20% reduction in the arc, or the kind of unfunded liability component piece of it because again remembering those are in pieces so the 30-year piece of the initial liability doesn't change. The 20-year amortization of the various changes emphasis won't change in that 20% reduction will then get smoothed out over a 20-year period. So we're thinking maybe net net net, as we go to this page here, that net net net 30% total arc gets a full funding rate will probably come down to somewhere in the 24 to 25% range as a first cut just because of the fact that you're not going to recognize an entire 20% reduction liability immediately. It's unfortunately going to get smooth in.

>> Arn Andrews: So it's a net net if we do go to paying full arc between the city and any employees they should actually see a reduction.

>> They see a reduction over what they would see otherwise right. If you look at the 30% split that 50-50 it's 15% apiece. That would go down to the 12 to 12 and a half% range.

>> Arn Andrews: Thank you.

>> Which then again does impact this calculation because since again this calculation just gives us an example of what it looks like under the current. Now that the 30% is only 25%, under your current, you're still contributing more close to the 25% so you can represent more against the 7.5% because these two numbers come up. But these two methodologies will probably present a rounded for accounting purposes.

>> Arn Andrews: And in slide 17 incorporates the proposed methodology incorporates all your suggested recommended changes?

>> No.

>> Arn Andrews: This is 30 -- if we do all the change -- assemble this just gives you an idea of how the method work. We place these numbers, we figure it out what it is, the 4.8 might go up to 5.5, and 4.7 may go up to 4.9. You are still going to see some methodologies about based what they work.

>> Matt Loesch: The reason Arn is jumping on this, go ahead with this methodology without any concept of what the impact cost or percentage change would be, because we've chosen at times to phase in changes because of the impacts. Large changes one way or the other we want to make sure that is the proper choice, I'd like to see a little more firmer, representation of what this will -- the effects will be when we come back. So my question really is, does your plan to come back with the valuation after this or come back similar with the pension with the preliminary impact, once we understand these impacts directly.

>> My understanding is coming back with a preliminary to show that.

>> Matt Loesch: We wouldn't get the full Val until January, right?

>> Correct.

>> Matt Loesch: Questions.

>> Stuart Odell: On the employer expected return on employer assets, is that consistent with the City's investment policy for how they invest their money? Is that what you're -- how are you coming up with 4% number? The current assumption of 4% was based on a 30-year outlook instead of 20.

>> Provided by the city and basically what we're saying now is, given the input we've gotten from the investment consultant and given what they think the longer term return is going to be on the fixed assets which is really what the City's assets are invested in that the 4% is probably too high. Since their 20 year is between 2.9 and 3.2 which is why we're recommending going to a 3.5 to represent a longer view of the fixed market.

>> Arn Andrews: Go ahead and jump in if you want but historically, the historic yield on the City's operating portfolio, this is you know annualized averages of yields over the period of the portfolio, but the City's operating portfolio has a five-year maturity horizon so it's a very different construct. And so if the recommendation from I guess it's Meketa and the actuary is for them to determine an appropriate rate and deviate away from what the city used to provide, I don't see any reason why that --

>> I think the other difference you're looking at is the difference between 30-year outlook that was approached in previous valuation he and knowing that down to an only 20 year portion and there's also the change of going to Meketa providing the information versus the historical information that the city had on their portfolio.

>> Arn Andrews: Bearing in mind the City's portfolio has a five year final. I think the Meketa assumption is probably --

>> Stuart Odell: My question is, is Meketa using the right benchmark against how the city actually invests the money? So Meketa has picked a short term investment grade benchmark, is that consistent with the City's policy? Or are they investing it more conservatively or less conservatively than that?

>> Arn Andrews: If the idea is to key off what the city does with their funds --

>> Stuart Odell: Well isn't that what that's supposed to represent?

>> Arn Andrews: Yeah, then the -- the city has a much more conservative policy to answer your question.

>> Stuart Odell: Right. So I'm trying to understand why we're using an expecting ROA assumption that's inconsistent with what the City's actual investment policy is? Because wouldn't-d if the city is investing, I don't know, you know average, what is your policy? You know, 90-day LIBOR or something like that?

>> Arn Andrews: It is a five year maturity horizon, however our duration is probably barely over 300 days.

>> Stuart Odell: Closer to a 1-year and are you allowed to invest in below treasury grade types of securities, I'm assuming you have some guidelines around that.

>> Arn Andrews: We function off the California (inaudible).

>> Stuart Odell: What I'm trying to get at is is the benchmark that the city is following.

>> Arn Andrews: I guess the question is this is where the actuaries come in, we have always provided a historic yield, if you are trying to capture historic yield then the 4% is reflective of history. If you are trying the capture what actually happens on an annual basis, this is a very different number than what our annual return would be currently.

>> Stuart Odell: I mean, the yield on the portfolio today has got to be very, very low.

>> Arn Andrews: Under 1.

>> Stuart Odell: That's actually your best indicator of what you think returns will are as well at least over the short run. Maybe not over 30 years but you're starting from a 1% yield on the portfolio. It's pretty hard to believe you're going to get a 4% return on it in this environment. Now over 30 years we can make some assumptions.

>> Arn Andrews: And I don't know and maybe Veronica you do, but on a GASB basis do they catch a historical projection of what you've returned?

>> Veronica Niebla: Similar to the systems return, you're looking forward and look for forever long you're looking at, it looks like the actuaries are now recommending a 20-year outlook so it's just a difference of whether or not it wants to be based on a 20 year outlook of the him taking what they're investing in and trying to project that out 20 years. Or if the board wants to take the approach of having Meketa come up with a projection that is closely tied

maybe to the City's type portfolio and taking that estimate, and including it in the valuation. I believe it's supposed to be representative of the return that the city would be getting on the -- on the contributions that they're not making. So that's why there's that allocation of what's on the plan side, what's on the systems side, what's on the city side. How many are they really gaining on the money they are holding and haven't funded item?

>> Arn Andrews: And if that's the case I think either one is consistent. Meketa is showing a 1 to 3 year horizon. Our own benchmark is we Keyed off a two-year, that would be squint. When they say investment grade bonds that's consist with our policy. Anywhere from well rated corporate to treasury type securities. But majority as an agency.

>> Matt Loesch: I think the only note about the 20 and the 30 is Meketa's numbers come out a 20 and we're trying to extrapolate from a 20 year to a 30 years. That's what the difference is. Meketa is presenting a 20-year assumption.

>> I can speak to that, our 20-year assumption we created an asset study that produces 20 year numbers. I understand in our prior years we weren't asked what our assumption was for this assumption. We provided our general assumptions which are based on our 2012 asset study. Which is 20-year numbers.

>> Stuart Odell: And would your 30 year numbers be any different than your 20 year numbers?

>> I don't think they would be -- you know significantly different. Bus you know, you'd like to probably in this case, they might be slightly higher. But you know -- I would --

>> Stuart Odell: Maybe you're biasing down your assumptions now, given the low interest rate environment you're in, you're saying between years 20 and 30 things will have moved, continued to move back up and sort of the low interest rate environments behind us so you get a little bit of a bump. The question is whether there's really a 70 basis points bump from your GOV credit I assume to a 3.5 recommendation. I'm not shush how I see that, how you get from 2.8 to 3.5. Maybe the actuaries can comments on that?

>> The investment grade bond of 3.2 so it's a little bit less of an increase.

>> Stuart Odell: The investment grade bonds I assume is more of an ag type of -- what is your benchmark on the investment grade?

>> Typically, it's exactly what trustee Andrews is was saying, it's more of the aggregate.

>> Stuart Odell: So that would be less consistent with how they actually invest. So they're more conservative. So I think at least my view would be, we should be using the benchmark that most closely rents how the city is actually investing the portfolio. Which is shorter duration than the Barclay Zag.

>> Okay.

>> I'd like to come back, this, the blend, is it an equally weighted blend? So the 7.5% and the 4%? Is it weighted equally like 50% for each?

>> No no no. It's basically weighted based on what percentage of the total arc you're actually contributing. The closer you are to the pay-go cost the closer you are to the bottom of the range, 4, 3, 2, whatever you consider the bottom is. The closer you are to contributing to the total arc the total you are to the 7.5%.

>> I guess what I'm looking, what assumption makes on this.

>> Stuart Odell: Most of it. If you look at his next slide it's 95% of the liabilities being calculated based on the discount.

>> It doesn't ask what you've contractor be, it's really the example which is based on what the 2012-2013 and 2010 are, essentially the 3.7 is going to be closer to if you use, if you took the 2.8 and just made it 3 because the

math is a little bit easier then 3.7 is going to go down to 3.2. Because again you're weighting a lot of that closer to that 3.5%, because you're only are contributorring 5% of the differential between the pay as you go mark to the rest of the arc. It has to be below the discount rate.

>> I guess what is not clear to me is what is the intent of GASB in this?

>> That is the intent of the GASB, unfortunately.

>> Veronica Niebla: Try to value where the assets are being held as of the transaction date. Because the fund is so lowly funded, they are not available since the monetize isn't there to be invested and achieve that level. Then the assets are held in the system and should be expected to return the rate that the system has.

>> Matt Loesch: Again, this is for the actuarial funding?

>> Veronica Niebla: This is for the actuarial funding. The negotiations between the bargaining units are to get to the points that the members and the city are funding at the GASB rates.

>> Edward Overton: This is so the city reflects on its balance sheet, the difference between the funding as opposed to be city assets as opposed to the funding for the plan, is that right? It's an accounting --

>> Veronica Niebla: There's separation of reporting requirements for the city and the plan, as far as a disclosure and then the funding and how the contribution rates are actually can developed.

>> Arn Andrews: And Veronica my understanding to GASB 67 and 68 is moving us to this direction anyway, how we account from a accounting standpoint the liability?

>> Veronica Niebla: There is going to be a difference in reporting and funding. So right now there is a difference for this board for OPEB between reporting and funding. However I would just note that the bargaining units and

the city have entered into an agreement to move to so there wouldn't be a difference between funding and reporting.

>> Maybe I'm missing something here but are we sort of fooling ourselves thinking we're going to get 4%? We want to have -- we say we have good news in the arc but do we really?

>> Arn Andrews: And I guess the question boils down to, are you trying to look at what your historic expectation is or the current expectation is? It sounded like Veronica answered before that GASB is looking at it from an historic perspective so that's where the discussion is.

>> Veronica Niebla: I'm not sure it's historic, it's the assume rate of return of he 7.5, same approach. The plan is looking at 7.5, long term assumption for return rates. So the portion that's going to the city is the same type of approach. You're look at the long term assumption for the City's portfolio. Essential.

>> Arn Andrews: So the City's portfolio long term and a declining interest rate environment has historically yielded somewhere around the 4%. Now as each year goes on and we're in that lower interest rate environment obviously it will continue to drag that yield down. So it depends on what time frame we want to capture as a board to be reflective of what this interest rate should be.

>> Stuart Odell: I think setting a long term forward projection based on historical past is not the methodology that's being followed in all of the other assumption setting process. So it may be an input into the process. You look at historical performance as an input but when Meketa's setting their projections, their forward-looking projections, based on where we are today, so I would suggest that our methodology ought to be consistent across this as well. And my recommendation here would be that Meketa include this assumption for this plan as part of the other assumptions that the investment committee is reviewing as this is another asset class that we need to consider. And as part of that, Meketa should have a copy of the investment policy statement from the city, so they know that what the guidelines of what the city is investing in. And set the closest benchmark to the investment policy. And then we review that assumption the same we review all of our other expected return on asset

assumptions. I don't see it any differently. The reasonable rate of return for a one-year, duration liability, assets with a duration of a year or so. But I think at least process wise we ought to -- everything ought to tie together.

>> Arn Andrews: I was going to make a similar suggestion to move it to the investment committee the same way we did on the other asset allocation.

>> Stuart Odell: The last thing I would say with respect to Meketa is doing some projection around going from 20 to 30 years since we're explicitly taking a different investment horizon with this set of assets. So if there's a premium or a discount, associated going from your 20 to 30, we ought to have Meketa's assumptions for that and the rationale for that change.

>> Matt Loesch: Okay. So how about decision time, have we kicked things around a little bit? Or is there more to kick around? I'll venture to say, apparently there's some people from the audience who would like to speak so Mr. Gurza.

>> Alex Gurza: Thank you, Mr. Chair, make some comments, this sounds like it will be referred to the investment committee as well. I did have some comments on the long term rate, Cheiron is recommending to lower it, everyyear the scale things are said, how can health care keep going up? Because of the GDP, it continues to do that. I'm wondering whether or not there's information available about whether or not using 4% is now standard in the industry versus I would assume Cheiron's recommending to other clients going to a 4% long term trend rate but is that standard now? I mean because I would assume that in all OPEB valuations you have to use some assumptions. Just wondering what is the range of assumptions that are being used for the long term trends.

>> It's slightly complicated. It really depends and I'll give you, it's a brought range, not only are you looking at the long term impact but you also need to make sure all your economic assumptions are holding together. You wouldn't say that 4%, if 7% is long term inflation. We tie all that together. We look at not only what we see in the community that other people are evaluating, we look at what Medicare actuaries are doing, what they show the medical environment are doing. We see long term trend rates depending on how those assumptions roll together

between 3.75% and 5% depending on the situation. And because we're doing some longer term economic assumptions here, that are the more conservative or lower end of what we think the economy is going to grow into the future is why we are at the lower end of that range. If we were doing something that says well we really think investment opportunities are going to pick up and the economy's going to pick up a lot sooner you're going to be closer to the 5% range.

>> Alex Gurza: So we just have to know if the board would be interested in more information before making that decision of lowering it to 4 because it seems like it's a significant change. The other question that I had is on page 17. And I know that the OPEB discussion gets even more complicated in reviewing than the pension side partially it's because the distinction between a GASB accounting what goes on the City's books versus funding. And so it might not be the only one that was track it exactly. But on this particular slide, what I -- if we look at number 7, which says that the arc is 30.21%, is that what Cheiron is projecting to be the full arc?

>> No. That is what the full arc contribution would be under the current valuation. So that's not what we're projecting it to be. If you look at what the impact of the proposed changes are, that total arc is actually going to be probably closer to 24, 25%.

>> Alex Gurza: Okay, 24 to 25 which is good news considering we were expecting it to be closer even beyond 30.

>> Beyond 30.

>> Alex Gurza: 32 or --

>> Something like that yes.

>> Alex Gurza: What I'm wondering what we have found very helpful in Cheiron's other in the pension valuation is sort of a reconciliation because I'm having a hard time tracking what contributes to the 24. In other words, how

much of it is attributable to the lower low price plan how much of it is attributable to the change of assumption similar to the reconciliation that is done on the pension side, that might be very helpful.

>> That's typically included in --

>> Alex Gurza: The next step?

>> The next step correct.

>> Alex Gurza: At least for as the board knows we're engaged in discussions now and so what we should anticipate then and correct me if I'm wrong then is a full arc of somewhere in the 24 to 25% --

>> Is what we're thinking it's going to be now yes.

>> Alex Gurza: Okay, all right thank you very much.

>> Matt Loesch: Other comments or questions from the audience?

>> Arn Andrews: I have one other question.

>> Matt Loesch: Why not.

>> Arn Andrews: I'm just curious. When the city made the determination to go from pay-go to full funding, and they adopted a five year phase-in, in your experience with other clients is five years a reasonable phase-in? I'm just --

>> Honestly it depends on the situation. It's really hard for me to say. That's good, bad or indifferent, because it kind of really depends on where you were and what the situations were at the point in time that you made the decision.

>> Alex Gurza: I want to clarify, you said when we went from the pay-go method, I want to clarify the city was never on a pay-go method. It is one of the things that keeps coming up. Many place is or on a pay-go basis and still are. The board had a what was referred to as the board policy method for funding which was a very modest refunding that varied in this plan versus Police and Fire. So we never were on the pay-go basis.

>> Matt Loesch: Does that answer your question, Mr. Andrews?

>> Arn Andrews: Yes.

>> Matt Loesch: Now are we at some decision points? So your request for decisions from the board were adopt OPEB decisions, adopt expected return assumption adopt blended discount rate methodology. Sounds like we could talk about what we want to do around the OPEB assumptions. Before we firm up the expected return assumptions we might say we could give direction to you as a particular number going forward for this month and see if the investment committee comes back with different direction for next month or what we change from there then we can make a decision what we want to do on the discount rate methodology. Sounds like kind of where we are. Does anybody see it differently? Okay. I'll entertain motions. Again, the rappic lack of motions.

>> Arn Andrews: I'll go first, I'll just go on health care trend right? I also have a similar problem every year when we discuss this in respect of it being a percentage of GDP so I'll recommend maintaining the health care trend rate as 4.5%.

>> Matt Loesch: Is there a second?

>> Second.

>> Matt Loesch: Any questions or comments on that?

>> Edward Overton: Why would we deviate from the actuary's recommendation?

>> Matt Loesch: Talk to the guy who's making the motion, ask him.

>> Arn Andrews: Because I know conceptually, the way it's always brought before the board it's discussed that as a society or as a government will never allow health care to become X proportion of our economy because it's just not sustainable. And yet, in my adult life it seems to me what we've been doing is maintenancing an unsustainable system. And so until I see something that looks like legitimate change, even though conceptually I understand it I just don't see it happening in reality.

>> Edward Overton: Yeah but there's a broader general market-speak to this whole health care trend and I think with social's input, Medicare's input with the other actuaries in the industry saying 4% trend --

>> Arn Andrews: I believe they set between 4 and 5.

>> About about 3.75 to 5.

>> Edward Overton: I'm comfortable with a 4.

>> Matt Loesch: Okay. Other comments or questions?

>> I guess I'm in line with Arn in part because this geographic area I think has even more cost-push pressure. You look at the structure of the health care delivery systems here, in wage growth, et cetera, et cetera, I think there's going to be more pressure and there are fewer providers entering the market also. So I would be cautious.

>> Matt Loesch: Councilmember Constant.

>> Pete Constant: You know I just have to agree. Because every year when we've had this discussion I've been the skeptic even at the 4.5 rate because we know that people are living longer, new treatments are being discovered, everything is more expensive. And no matter what period you look, there's never been such a rapid dropoff in the cost. It's been you go back as far as you want, you'll never see that quick of a decline that's proposed in these declining rates. And that's why I've always been skeptical of it. So I agree. I don't think we should go any lower than we absolutely have to until there's some indications that we're really going to see those type of trends.

>> And if I had a major medical problem I'm not price sensitive, I don't want to die right away.

>> Stuart Odell: From my perspective, the actuary needs to justify the change from one year to the next. And you're not giving us really good data to support that change. I think it's what happened in the world between last year when we were at 4.5 to this year when you are recommending 4? You know what is it that's driving that 50 basis point change? What happened, that shows the difference?

>> One is the view from Medicare, the office of the actuary, lowered their view of the long term guidance and the second piece is, again just we're trying to keep internal consistency between what the long term investment picture looks like, which has gotten lower. Because that is actually an indicator of what the long term growth in the economy is going to be. Which then impacts how quickly we think we're going to get to the point again of the overall assumption of what's the percentage of GDP in which we think health care can't increase which is definitely up for discussion. And it's the number it's at now, when people first started doing valuations back in the late '80s said it never ever could get to this number but it did. So is the long term number we're thinking of, is that going to be good, bad or indifferent, is hard to tell. Lower the long term pictures consistent both the long term economic picture and basically what the federal government is thinking. In what they see is long term picture of

health care which again, in their mind takes into account what they believe the long term impact of health care reform is going to be.

>> Stuart Odell: I can see relying on what the Social Security or what they are providing you for data but our expected ROA on our assets is the same as it was last year, at least currently. Like that hasn't come down yet. Now if it did maybe I could see you tying them together, say okay your expected ROA on assets went down. So we should expect this trend to go down. But we kept our expected ROA on assets to be --

>> But not on the City's piece of it which that is the piece that caused us to drive it because we're lowering that bottom end.

>> Stuart Odell: I see what you're saying.

>> Edward Overton: Slide 13, if you are going to change the 4.5, the recommendation to go to 4 don't you have to change all of those trend line numbers on slide 13?

>> Matt Loesch: That shows both of them.

>> Edward Overton: I know but each category, the trend is going down. Each year.

>> Matt Loesch: I think they're showing the current and they're showing the proposed. So either it stays the same at 4.5 or it goes down to 4 and that's what they are proposing.

>> Edward Overton: Also the proposal for premedicare is going down from 6.83 to 6.63. Am I reading that incorrectly?

>> Staying the same. For 2012?

>> Yes, starting point remains the same and you're just grading it down over that time period to the lower number.

>> Matt Loesch: All the start points are the same. And you're just changing whether it ends at 4.5 or it ends at --

>> Edward Overton: Okay, I see.

>> Matt Loesch: Ms. Druyan.

>> Lara Druyan: Did the election and the results less uncertainty perhaps about the changes at the federal level have any impact on your analysis?

>> No, because our analysis has always been based on the fact that that is the law of the land, and we expected it to continue. So I mean we didn't even expect because our expectations of the election, that even if the White House had gone Republican the senate would still stay democratic and therefore nothing would have changed anyways.

>> Matt Loesch: Okay. Any other comments or questions? The motion on the floor is to maintain the 4.5 ultimate return rate. Second on that? Any other comments or questions? Okay. All those in favor of maintaining the 4.5 and not taking the recommendation of the actuary. [ayes]

>> Matt Loesch: All those against.

>> Edward Overton: No.

>> Matt Loesch: 5 to 2. On the health care trend rate. On the expected return on assets, whether this is going to be the long term part of this number, if we just give them a number to plug into today, to come back with the -- unless you wanted to give steps to come back with two different results we could do that as well. What are the

thoughts there? Tell them to use what they're recommending the 3.5 and just come back, while the investment committee is doing their work or we could ask them to come back with something other than that, page 15.

>> Arn Andrews: Motion to use 3.5 suggested expected return on assets pending review by the investment committee.

>> Matt Loesch: Is there a second to that?

>> Second.

>> Matt Loesch: Comments or questions on that? Okay, all those in favor? Opposed? None. Okay. Sure we get anything I need, missed to give direction.

>> Arn Andrews: Blended.

>> Matt Loesch: On the blended rate analysis only one that's left. I'll entertain a motion unless there's further discussion.

>> Arn Andrews: Motion to approve the recommended blended discount rate methodology.

>> Second.

>> Matt Loesch: Questions.

>> Veronica Niebla: Is the 3.7 going to be the ultimate blended rate or is the 3.7 based on the 2011?

>> The 3.7 would be based on the 2011.

>> Veronica Niebla: Is that down from 6.1?

>> It will be hire than, the arc comes down therefore you're contributing a greater percentage of the arc so it's not going to be 3.7 but it's definitely going to be a lot lower than the 6.1.

>> Veronica Niebla: Thank you.

>> Arn Andrews: I believe you said it but I just want to be clear, the ultimate valuation shows the impact of all the variable changes we just described.

>> Matt Loesch: Okay, so the motion is to accept the proposed methodology. Any other questions or comments?

>> Second.

>> Matt Loesch: Second was --

>> I seconded.

>> Matt Loesch: Mr. Armstrong. All those in favor? Opposed? Okay. I assume that would come through. That reflects what the pension is right? So if the pension changes then (inaudible) okay. Welcome aboard, onice to meet you. We're going to scoot because we're moving on to stuff. Okay. We had a time-certain at 10:30 that we're slightly tardy for. Is Mr. Chasuk still available? Why don't we do the disabilities, consent calendar. 2.1 to 2.nun. I'll entertain a motion.

>> Arn Andrews: Motion to prove consent calendar.

>> Second.

>> Matt Loesch: Comments or questions on that? All in favor, opposed. Okay are we still getting set up, I'll do number 3 that's the death notifications. I'd like to request a moment of silence for those who have served the city and have passed. [Moment of silence.]

>> Matt Loesch: Thank you. I don't normally do that, Peter Tenesca was a co-worker of mine who retired last year, superquiet, supernice guy, superdetail oriented, he was detail oriented for a surveyor, good man, very surprised when he passed away some unfortunate. Okay. Moving forward. Item 1.1, 1.1, approval of staff recommendation to deny service connected disability. A. Matthew Chasuk, security officer, convention, arts and entertainment, request for a service connected disability retirement effective August 1, 2010, 12.68 years of service with reciprocity. please come forward. Okay, what we have before us, again we have the script I'm running through so if you wouldn't mind if I lead the conversation as we go in the hearing.

>> Certainly.

>> Matt Loesch: The application is for a service connected disability for Mr. Chasuk and Ms. Costanza. Will you be presenting any witnesses other than yourself?

>> No.

>> Matt Loesch: I would like to present Ms. lam, and Dr. Das will present the medical. Ms. Lam please.

>> Applicant Matthew A. Chasuk, degenerative disk disease. Current age 51, with 12.6842 years of service. Medical reports in your packet, work restrictions reflect Mr. Chasuk should avoid sustained kneeling or high impact. Separated from service on July 31st, 2010, at the time of separation and application the applicant was on modified duty, no permanent modified duty was available, and no alternate employment was available.

>> Matt Loesch: Okay, Dr. Das.

>> Dr. Das: Mr. Chasuk has applied for a service connected disability retirement for lower back problems and left knee arthritis. In my evaluation of the medical records I determined that he did not suffer any caps take iting injury to his lower back but did have residual disability in his left knee from osteoarthritis therefore provided work restrictions. However from a work related standpoint based on my view of the hurt and my review of the mechanism of injury I do not feel that his disability is work related.

>> Matt Loesch: Thank you, last you asked that I direct my questions and orders to you, is that correct?

>> Yes.

>> Matt Loesch: Would you confirm that you received the staff dated 12 with orders attached?

>> I did.

>> Matt Loesch: Will you stipulate to the relevance of the reports?

>> I do.

>> Matt Loesch: Will you stipulate to other reports?

>> Not at this time.

>> Matt Loesch: You say there are no additional witnesses you would have at this time. Ms. Busse, evidence and report supporting your recommendation.

>> Donna Busse: At the August 16th board meeting Mr. Chasuk's attorney Ms. costanza submitted records and the committee requested that Dr. Das review the reports. Dr. Das advised the committee that he reviewed

additional information and did not make any changes to original restrictions. The committee addressed some what they perceived as errors in Miss Costanza's brief in which the committee refused to consider his back injury. Immediately statement that his doctors did not attribute his medical condition to be totally false. During the hearing I pointed Ms. Costanza to the report dated February 11th, 2011, which Dr. Millard checked the boxes that his medical condition was prophylactic. Ms. Costanza asked the case be deferred until more medical evidence could be said the work restrictions for his back and knee were both preclusionary and prophylactic. Dr. Das did not change his work restrictions as the doctors did not offer any explanation for the change in opinion. The committee recommends denying a service connected disability. They felt the testimony presented by Dr. Das was persuasive, regarding the osteoarthritis not soft tissue damage caused by the incident. The fact that both knees have similar findings but only the left knee was involved in the incident and the fact that he presented literature 3129 of your packet such as weight and prior injury and surgery. The applicant did not provide persuasive evidence to counter the evidence presented by Dr. Das other than opinions from other doctors that were not substantiated by medical evidence or epidemiology studies.

>> Matt Loesch: Is there a representative from convention arts and entertainment? Not seeing one, Ms. Costanza please submit your testimony in support of the application.

>> Thank you.

>> Matt Loesch: I'm sorry one thing. If you would please speak into the microphone,.

>> Better?

>> Matt Loesch: Pull it real close.

>> I have an aversion to mics. So thank you. I'd like to point out a few things if I might. I mean I'm obviously not giving testimony here. But with respect to what Ms. Busse stated in terms of whether or not my client has -- was

able to sufficiently respond to Dr. Das's findings, I'd like to draw attention to the most recent medical reports dated September 14th.

>> Matt Loesch: If you would, if you have a page from our packet, because we have 300 pages. We want to make sure we are looking at what you are asking us to look at.

>> I do, 2-5, 2-7. Well, hold that thought, because I want to get back to that. That's actually a memorandum from Mr. Crosby. The medical reports are on 4-33. These are the most recent medical reports from Drs. Wall and millard. One of the comments was that the doctors did not indicate anything other than the injuries were -- that he sustained on the job in 2003 were work-related, and that they are documented anatomic and physiological abnormalities. These doctors made these findings based on diagnostic tests that were previously ordered. These tests were taken in 2003 and 2004. Was immediately taken to Kaiser after the two incidents. One incident involved his knee getting smashed up on a pole while he was riding in a cart. So you've got a moving -- he's riding in a cart and then you've got the knee smashing into a stationary pole. That was the first incident where he was treated. He was subsequent referred to the Sore clinic. Very reputable clinic. For Dr. Das to infer that flies in the face of information we provided you with treating physician starting with Kaiser in 2003. And then you have the following incident where he -- a chair collapsed. And Mr. Chasuk's back was injured. By the back of the chair because the chair fell apart. And again he was taken to Kaiser. He treated continuously with Kaiser and also with doctors at the sore clinic. Underwent MRI's underwent fluoroscopes. Consistently treated. He is back to work on his work restrictions based on what Drs. Wall and millard put him on at the sore clinic. This brought him up to July 2010 when the city writes a memo to him, a letter stating, on July 29, 2010, there's no position that can continue to accommodate your work restrictions, your modified work restrictions. Up until this time he was fine. So we're talking about seven years, right? Working at the city convention center as a security guard, month problems with his work restrictions, with his modifications. The letter goes on to say, this is written by Allen Demurest, human resources, I quote, there is no expectation the city will be able to accommodate your permanent work restrictions now or in the future. This is 2010. My client is now left with no job. He applies for a service disability. Retirement disability. I don't know what else he could have done at this juncture. It wasn't for 18 months, no word nothing from the city when Mr. Crosby writes another letter back to the convention center dated December 22nd, 2011, he

addresses I.T. to Jennifer Rosenblatt, convention arts and entertainment, can you provide a memo stating whether the above restrictions for Mr. Chasuk, the same restrictions he had been on all along, up until 2010, whether the restriction is can be accommodated in either this employee's current position or another position with the department? Well, at this time he doesn't have a position right? Because he was let go in July of 2010. But this was a memo that went out, February 2012 to get a response. And keep in mind. This wasn't sent to my client. This was all interoffice memos. Here is the response for Allison Suggs dated February 9th, 2012. The above restriction, same restriction, Mr. Chasuk should avoid sustained kneeling because he hurt his knee in 2003 when his knee got smashed into the pole, driving the city cart around, climbing stairs, high impact activities with his knee. The above restriction cannot be accommodated in Mr. Chasuk's regular position of security guard. The restriction could have not been accommodated in any vacant position for which Mr. Chasuk qualifies. So, given that, I think it's incumbent upon this board to grant this service disability. If you look at the city's charter, it clearly states that if the city cannot provide a disabled employee with another, make reasonable accommodations with another position you have no alternatively. It is a mandate. And that in conjunction with City of San José Municipal Code, and section 400, the powers vested in this board, I just -- I don't see how we get to this point, two years later and still wondering why my client doesn't have something granted, a disability retirement.

>> Matt Loesch: Okay. Do you have any questions you would like to ask any other witnesses that have testified so far? Ms. Costanza?

>> Let me take a moment. I just want to reiterate that there were significant diagnostic tests that were conducted on Mr. Chasuk. For whatever reason, doesn't want to take into account. And frankly I don't think it really is important at this point. We have provided sufficient medical evidence based on the records from the sore clinic and given the fact that you clearly have the discretion to grant this employee a service disability retirement.

>> Matt Loesch: Okay. Dr. Das or Ms. Busse, do you have any rebuttal to the testimony that's been provided by the applicant? That you would like to provide?

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

>> Donna Busse: I think specifically you should probably address the work relatedness issue.

>> Dr. Das: If there is an issue I believe I did provide work restrictions based on his osteoarthritis and his knee, I believe he has work restrictions related to that. My key view is the work related necessary of the arthritis. He is a candidate for knee arthroplasty. Those, since he described striking his knee against the pole. And so his disability is due to the knee arthritis and I do not feel that the injury or his -- excuse me that his disability is related to his work activities based on my review of the medical literature and the described mechanism of injury.

>> Matt Loesch: Would you like to question any --

>> I really don't have any questions for Dr. Das because I'm not going ochange his opinion and I don't have any impeachment material other than the doctor's reports, Dr. Wall clearly states that left knee, medial meniscectomy 4-133. Right after the incident and left knee injury from 2003 is the cause of his current pain and symptoms. Report dated September 14th, 2012, by Dr. Wall. I don't think it gets any clearer than that. Yes, reasonable doctors can differ. But this is his treating physician. This is his doctor that's seen him since 2004. So no questions for Dr. Das.

>> Matt Loesch: Would you like to make a closing statement?

>> I would, you can see I'm kind of impassioned about this and I'm sorry if I'm being too loud. But yes I do. I'm very offended that my client has had to go through this for two years. And I understand there's policies and procedures. But given the city charter, given the municipal code, given the facts and circumstances that my client was terminated, because the city couldn't find any other job for him, with the restrictions that he had been working under for seven years, it leaves nor alternative but to grant him his disability retirement and it's service-related. My client wants to say something.

>> Matt Loesch: Sure.

>> On top of what Laurie was saying, my position was changed. Prior, they gave me a document, the city, and Team San José gave me a document, that showed that my position, my job duties were going to change. No one else's did. Mine did. And that's what I want to say.

>> Matt Loesch: Okay, thank you. Before I close the hearing and for deliberation, do the board members have any questions of any of the witnesses that have testified?

>> Edward Overton: Does that include the attorney?

>> Matt Loesch: Yes, I presume you're talking about the applicant's attorney.

>> Edward Overton: Right. Yes I'd like to ask counsel to address the findings on 3-122 and 3-123.

>> Repeat that?

>> Matt Loesch: 122, 123.

>> Edward Overton: 3-122, 3-123.

>> I'm sorry I took the packet apart and I didn't find it quickly can you tell me what it is?

>> Edward Overton: The ultimately of afternoon MRI from 2007 and describes pretty much in detail what the MRI showed. And by and large states that there's minimal issues with the back. I mean there's a bulging and degenerative changes and the things that were result of aging and time and not from the specific incident that Mr.--

>> Certainly. That has to do with the low back injury and there were clearly subjective findings made when my client presented at Kaiser immediately following that injury in 2004 and certainly now we're in 2011, which is the most recent MRI that I think you're referring to.

>> Edward Overton: Right.

>> Of course that is going to show degenerative problems and disease. That's not really why we're asking for this disability retirement here today. It's really based on the left knee injury. And that of course -- nobody's denying that that is exacerbated by arthritic changes. Talking about injuries that occurred in '03 and '04. It doesn't take away from the fact that there's no alternative position that my client was offered, within the city, with the modified restrictions. He was ready, willing and able to work. And the city terminated him. And said, not at this time, or in the future is this employee going to be able to work with his work restrictions. And they were very minimal. No bending, no lifting 20 pounds or more.

>> Matt Loesch: Kneeling.

>> Kneeling, thank you. Right. Very minimal.

>> Matt Loesch: Anything else Mr. Overton?

>> Edward Overton: Yes, none of the doctors produced any real objective evidence that supports your client's claims. The restrictions were pretty much prophylactic, and based on subjective complaints of pain and inability.

>> Well, if you look at the Kaiser records, when he first was injured, there -- the findings were clear of contusion on his left thigh, his left knee, bruising, the swelling wouldn't go down. Even through physical therapy, that was noted on the Kaiser record by the Kaiser doctor, he did undergo physical therapy at Kaiser, he still experienced, it talks about fluid which I have always said, water on the knee, that didn't go down. Now these are all symptoms and problems that did not exist prior to the injury that occurred on the job.

>> Edward Overton: So are you saying now that Mr. Chasuk is withdrawing his back application?

>> Matt Loesch: It is listed on the application, it absolutely is.

>> Is it? No I'm not prepare to withdraw it at this time. Based on Dr. Millard's report which is 4-130, Dr. Millard's signed this request for permanent work restriction on September 12, 2012. And it says that he clearly checks off that the back injury from 2004 is the cause of current pain and symptoms. And I'm reading directly from his document that he signed. Which should certainly be as good as him sitting here as a witness before you today.

>> Edward Overton: Well, the Los Gatos imaging study continually uses the term, minimal and mild, with relationship to the back injury. And I'm trying to connect that with the fall and his issues on the job and when there's no real objective evidence as to what occurred, how the back was really injured, it's difficult to get to service causation. I'm not saying that he doesn't suffer from issues which cause work restrictions. But I don't make the connection to the job.

>> Then how do you explain his termination and not being offered any -- any other work with reasonable accommodations?

>> Edward Overton: Well, that's a personnel issue.

>> Well, it's a personnel issue that affected my client's life.

>> Edward Overton: Right. And maybe --

>> And whether it's determined as a change in personnel or what --

>> Edward Overton: Maybe there is some disability on his part but again the connection between that disability and his work is difficult to make. I can see perhaps some non-service connected disability.

>> Well, I don't know how you can insert, with all due respect, how it is that you can insert your judgment over that of two very prominent, well respected doctors at the sore clinic. They have no pecuniary interest here, they have no bias, nothing to gain. Their reputation is on the line by signing these documents and submitting them to you. I don't know why they would lie --

>> Edward Overton: I'm not saying they would lie. The weight of the evidence including Dr. Das, plus studies, the weight of the evidence does not come down on the side of service causation.

>> Dr. Das did not provide any evidence other than his opinion and articles that have nothing to do with my client. He never examined my client. Never reviewed the medical records of my client that were submitted and my client sought treatment from immediately following these two incidents in '03 and '04. So I don't know how relevant Dr. Das's opinion is here today.

>> Edward Overton: Well, Dr. Das reviews and summarizes and gives objectivity to the medical reports on the outside physicians and we rely heavily -- at lease do I --

>> How he discounts Dr. Wall and Dr. Millard and doesn't give any credence to their opinion.

>> Matt Loesch: One moment. Further questions, do you have more questions Mr. Overton? We're going to close and we'll deliberate as well. Do you have questions Mr. Andrews?

>> Arn Andrews: I had one for Dr. Das. He stated in regards to the knee he didn't think the degenerative conditions, from a pole strike, what would you expect from a pole strike?

>> Dr. Das: I would expect a fracture or something significant if you are going to have arthritis, a severe meniscal tear or something. Based on the description it's more of a contusion. And the disability that he has and the problems that he's having are due to arthritis, over a long period of time. And that's where the -- you know, that's where the issue where I draw the line. The issue is you can argue about contribution from that pole-strike to the satellites and to his disability. And that is the crux. But what I can --

>> Arn Andrews: And I was going to say,to so let's go to the crumb for a second. On page 420, the last paragraph it basically says, Dr. Das's opinion and based on the opinion of Dr. Carson wall and millard, exacerbated the degeneration in his left knee. Can you speak a bit about that? Dr. Das I think exacerbation would be terms you would use for pain rather than pathology. There's no evidence that the pathology advanced or changed. The report describes more symptoms. When we are talking about degenerative symptoms, people can have very ugly looking X rays and be completely asymptomatic and people can have very clean looking X rays and still have symptoms. So that is a conundrum. However, Mr. Chasuk has problems with weight bearing and all of these issues, due to arthritis. Which would -- you would not expect with a contusion. And so that's why I think that the majorities of the contribution of the symptoms is due to arthritis and the epidemiology is quite clear in terms of what causes arthritis in individuals.

>> Matt Loesch: Other board member questions of any of the testimony?

>> Could I address what Dr. Das just said before we move on to a different subject?

>> Matt Loesch: Because we're going to move to deliberations and going to close the hearing so quickly.

>> You talk about pathology with respect to the knee injury. And you said that you could have ugly X rays, and be completely asymptomatic. Is that what my client was, asymptomatic before this injury?

>> Dr. Das: I don't know that.

>> You've reviewed all the records, right?

>> Dr. Das: I have the records that I had.

>> Any recordsto to indicate that he had symptoms prior to this injury?

>> Dr. Das: I don't have any records predating the injury so no I don't. I did not review any records predating the injury so yes, I would not have reviewed any records predating the injury.

>> You have all of his Kaiser records don't you?

>> Dr. Das: For the lower back or for the knee?

>> All of his Kaiser records as a city employee.

>> Dr. Das: I don't believe that was forwarded to me, all of them.

>> Have you ever treated patients? As a treating doctor?

>> Dr. Das: Yes, I have.

>> And when was the last time you treated a patient?

>> Dr. Das: I recently treat patients for first aid problems now.

>> And the city pays you for that?

>> Dr. Das: Yes.

>> Do you have a private practice?

>> No I don't.

>> Then how do you treat patients?

>> Dr. Das: I don't understand --

>> It's a question, if you're a doctor I'm a lawyer, I have clients you have patients. Do you have private practice where patients come in and get treated and you treat them?

>> Dr. Das: I don't have patients and I don't have a private practice.

>> I'd like my client to describe how the knee injury occurred. Maybe there's some confusion here. Go ahead.

>> I don't know if anyone knows the mechanism of how my knee was injured. We only know from what was presented in the packet.

>> Okay, I'll give you a brief synopsis of it. I was riding in a cart at the convention center in the lower parking garage and I checked an emergency stairwell door which is something I would normally do. Parked the cart near the poles. So I can go check the stairwell. Did that, walked back to the cart got in the cart. Well, as I pulled away, my left toe, of my boot, was sticking out of the cart itself. It caught the pole. At that time it pulled my leg out. My knee contused, hit the pole. And it was stuck between the cart and the pole as the cart continued to move forward. The only thing that saved me is I was smart enough to think there was a dead man switch underneat the seat. You roll off of it the cart will stop. That's what I did. The damage was done. My knee was smacked hard and I was pulled apart. This being my foot, this being my hip. This is my knee. Basically, hit the pole, and it was pulled apart.

>> Matt Loesch: Got it, okay.

>> My lower back I'll address that real quick. It was an incident with an office chair. And the office chair had been used by numerous individuals not just myself. The back portion of the chair snapped off as I sat in the chair and this was witnessed by a San José police sergeant. And that chair fell apart. I went backwards. Onto my back. Onto the broken piece of the chair. And there was approximately a seven inch piece of steel protruding. I fell on top of that piece of steel in my lower back. And till this day I'm still suffering the pain. I can't move certain directions without revisiting the pain from the site that I was injured. I go for epidural injections every four to six months to get me by. But it's the only thing I could do. This is not something that's -- I'm taking lightly. This is something I have to live with the rest of my life. These are both accidents. These were something that happened while I was working. And I hope you guys take that in consideration.

>> Matt Loesch: Okay, thank you.

>> Thank you.

>> Matt Loesch: Further questions from the board of any testimony that's been presented? I have one. Could you open your packet to 3-99? 3-99 if it's not too torn apart.

>> I'm sorry, the packet got taken apart. Can you tell me --

>> Matt Loesch: I'll try to --

>> I'm very, very sorry.

>> Matt Loesch: These forms are hard to summarize. Again it's a statement of million condition disability retirement, again from Dr. Wall. And this is 14 months before the -- sorry, two years before this last one, that he's

maximally medically improved, any treatment reduces symptoms, there's no reflection there that this is work-related. And that's kind of what I -- what I'm kind of hung up. There seems to be several reports that are just -- even from the same doctors that are just slightly different in what they're saying. And to say that -- and the one report here that comes back, the last work restriction one is the one that says now, that to me that's the only one that says clearly after many, many many reports from Dr. Wall because there are a lot of them and several duplicates in here, kind of indicate that that knee injury is now the cause of the -- that is the cause of the disability. Not that he's disabled from a -- that we don't have -- that the city does not have employment for him, to me that seems kind of settled. Your presentation that the city doesn't have a position for him, I'm not disagreeing with that. It seems like but whether that is -- the injury is caused, whether the disability is caused by the injury in 2003. That's where I'm not connecting, and because of all of the -- the way Mr. Overton said but the preponderance of the report that it's not caused by the work. Not that he's not disabled and that the city didn't have a position for him. That's where it's leading to me. The service related disability is not connecting for me. This is just one of the ones that was similar kind of opposite or not -- not clearly indicating when he had a chance to say this is work related, this is definitely as a result of the 2003 incident it's not there.

>> Right, I understand and it is confusing and it kind of goes to the nature of the ebb and flow of the way patients feel. And I think at certain points in time he did feel better. And I think it wasn't clear you know in terms of the in the doctor's mind as to whether or not this is reached a point to where it is what it is, and I.T. not going to get better. Maximum capacity. So I think that's the only explanation I have been given after talking to the doctors myself personally and my client talking to them because I certainly raised that issue as well. And some days he does feel better and sometimes he has completely -- it seems as if he's improved but then he takes a few steps backwards. And the longer this goes, right, it seems like you know, the more the different things we're going to get, up until this point up until September 2012, when we finally said look doctors we have to know this, you know, we're presenting this to the board. What are your feelings, what are your opinions, please. And this is what the September reports were a result of that.

>> Matt Loesch: Thank you. Any other question before I close the hearing for deliberation? Okay, seeing none, the hearing's closed for -- and so we'll deliberate. Any opinions I'll entertain a motion. Comment that you would like to make?

>> Edward Overton: I'd just like to comment that on page 3-14, and this is Dr. Das's summary of the other medical practitioner's work and in the top paragraph second sentence, relationship between the employment of City of San José and the degenerative changes in the knee cannot be established. And so based on that there is degenerative changes. I can't establish connection between work and his injuries. I would ask if Mr. Chasuk would accept a nonservice connected disability.

>> Matt Loesch: If you would like to ask that you may.

>> We really weren't prepared to make that determination now, if that's acceptable. If we're being given a choice one or the other, if you are taking one off the table --

>> Edward Overton: I'm just trying to explain that I -- my review of the evidence I cannot establish AOE, COE. Given what the medical reports say?

>> Matt Loesch: Okay. So would you like to make a motion or would you like to --

>> Edward Overton: Well I like to make a motion but I want to understand Mr. Chasuk's willingness to go along with that. If he is not willing to go along with it then I won't make a motion. If he says that's acceptable, I will make a motion. I'm not saying it's going to pass but that's what my position is.

>> Well, maybe I can pose the question. Would it be more appropriate if we find out whether or not you are willing to vote in favor of him getting the service connected disability?

>> Matt Loesch: We could have the question. That's why I mean -- is the board, would someone make the motion to accept staff's recommendation? Would someone make that motion?

>> Edward Overton: Accept --

>> Matt Loesch: Staff's recommendation to deny?

>> Edward Overton: I would make that motion.

>> Matt Loesch: There is presently a motion -- to deny -- to accept staff's recommendation to deny the service related disability. There's a motion on the floor.

>> Arn Andrews: Second.

>> Matt Loesch: Okay, second. So the motion is to deny the service related disability.

>> Edward Overton: Correct.

>> Matt Loesch: Any further comments or questions? The consequence is if we continue and go on and vote to deny, can they apply for a nonservice related disability?

>> Harvey Leiderman: Mr. Chairman, they would not need to reapply. You can make a motion under section 3.28.1270 of the Municipal Code.

>> Matt Loesch: I'll make a substitute motion to deny the service related disability retirement,and approve a nonservice related disability retirement.

>> Arn Andrews: Second.

>> Matt Loesch: Can the same seconder second? You can't second.

>> Lara Druyan: Second.

>> Matt Loesch: Okay. Comments or questions on that? On the substitute motion? All those in favor? Aye. Opposed? None. Thank you.

>> Thank you.

>> Matt Loesch: Okay. Why don't I recommend this. Ten minute recess so we can grab something to eat, use the restroom, so we can plow through this and get to the closed session. 12:25 we're going to reconvene per that clock. [Recess]

>> Matt Loesch: We're back and we're on to item, 4.1, 2 and 3 we're going to hear right before 5.6. I'm going to exert a slight bit of chair peripheral, you'll allow me to get some of the things on the health care trust as well and then go to the closed sessions. We're waiting on folks who want to make presentation, that will be brief. We have an update on pension administration RFP, 4.4.

>> Donna Busse: I'll be quick. The staff has met with the -- had presentations from the three responders, they're trying to arrange a site visit in the next month and hopefully bring a recommendation to you at your January meeting.

>> Matt Loesch: Okay, January new fund. Any questions on that? 4.5, discussion and action authorizing the secretary to negotiate and execute an agreement with Granicus for agenda management software voting system software and hosting services and additional budget of $15,000 for mobile services. we have an item in the packet, right? Yes, sir. Barbara's not here.

>> Donna Busse: Barbara's not here so we did look at the number 2 which was Granicus and had presentation with them. We are recommending going to them. They are slightly less expensive. They have improved their software since we saw them back in February so some of the mobile app issues that we had with them originally they now have that capability. Basically the same as what sire had as far as what you could, the end users can do with the mobile app. That's our recommendation.

>> Matt Loesch: Gotcha. What should we expect or the implementation?

>> Donna Busse: Implementation probably three months. It takes on the back end side of putting the packet together is what takes a long time to set up and then we'll have a demo for you, I think we're trying to schedule a demo for you next month.

>> Matt Loesch: Great, next month demo and February kind of implementation. I'll entertain a motion.

>> Edward Overton: Move approval.

>> Stuart Odell: Second.

>> Matt Loesch: All those in favor something done. 4.6. Update on retirement services organization and staffing.

>> Donna Busse: Keep going. Put a little cover on there to kind of highlight some of the changes. One of the biggest ones, Leslie came and started October 29th. Put a little bit of background on there. We did fill one of the vacant analysts, benefit analysts position, but I think those are the changes from last month.

>> Matt Loesch: Was Ferrigno, is that another city employee or a new hire from outside?

>> Donna Busse: She came from the library department.

>> Matt Loesch: Welcome Leslie, hopefully you'll have a pleasant experience. Any questions or comments about the staffing? Okay. Item 4.7. Discussion and action on the status of retiree association dues change. No memo in our packet. Keep going, went to lunch.

>> Donna Busse: That's too bad. They're the ones that wanted me to put this on the agenda. The retiree association requested we put an item on the agenda regarding the dues change. My memo was just kind of giving you a background. I know this has been going on for a couple of years now. We have finally got to the point where we have worked out with Reed Smith a letter that will accomplish everything that they wanted as far as ongoing dues changes without having to get written authorization from them and remember I attached a letter of the copy there. Ed unless you were going to speak for the retiree association on some of their issues? The main thing Reed Smith said this mailing should not be coming out of the plan assets. I did communicate with that with them, reason why I had you put that on the agenda to maybe ask for something different.

>> Matt Loesch: Mainly whether we authorize any kind of cost whatsoever on the mailing, Reed Smith's recommendation is that plan not pay for that. And it doesn't appear to be a request from -- I don't see a request from the retirees association asking you to pay for this. Through this action we would also be providing them mailing addresses and periodically sending them use to the mailing addresses that they can mail themselves. That's what it appears here. Questions or comments.

>> Arn Andrews: I just have one question.

>> Edward Overton: I just want an explanation, staff also recommend stopping other types of voluntary third party deductions? What kind of deductions are you talking about?

>> Donna Busse: We stopped that back when you guys adopted the policy and we were really only allowing now the retiree association dues. So there are, trying to think what some of the other ones people had. Management association --

>> There was a management association very small dollar amount maybe a total monthly vendor check of 25 to $75 a month. In addition there were some leftover combined giving campaign type of donations that hadn't been discontinued and needed to be discontinued.

>> Edward Overton: Was there anybody participating in those campaigns?

>> Veronica Niebla: There were a few members, most of the vendor payments there were between five and ten that were going out that were all under $75.

>> Edward Overton: Okay.

>> Donna Busse: So when the board adopted their voluntary deduction policy they voted to eliminate everything except for the retiree association dues. And the volunteer would have the ability to come forward and request to be added but that has not happened.

>> Matt Loesch: Mr. Andrews do you have a comment or question?

>> Arn Andrews: I'm not sure how we were going to do the newsletter mailing but I don't know if there's a way to identify the retirees from the newsletter mailing, this could be dropped in there and kill two birds with one stone.

>> Donna Busse: The newsletter went primarily by e-mail.

>> Arn Andrews: Oh it did okay.

>> Donna Busse: We put it on their next mailing that they can come by the office to pick it up.

>> Arn Andrews: All right.

>> Matt Loesch: To send out collection for another Association with in my mind seems appropriate.

>> Edward Overton: The plan is benefiting if the advices are stopped however.

>> Donna Busse: The advice were taken out, the plan's original proposal would be to opt out the advices, we could justify paying for it because that is a plan expense that would be a savings but the council had thought it would be too confusing to the retirees to get two different types of options on the same mailer, so they recommended separating out the dues completely and now we cannot justify paying for it.

>> Edward Overton: Okay.

>> Matt Loesch: So to be clear the recommendation is to --

>> Donna Busse: There is no recommendation.

>> Matt Loesch: Not to do anything, just not to do anything. Right? Or to accept these letters, do we need to accept these letters as the letters that are not appropriate --

>> I move that we not do anything.

>> Edward Overton: We have approve this.

>> Matt Loesch: Approve the letters. So I'll entertain a motion, how about that.

>> Edward Overton: I move staff's recommendation to send out the dues change letters or authorize the retirees association that it's more appropriate to send the dues letters out.

>> Matt Loesch: Is there a second on that?

>> Can we hear it again?

>> Matt Loesch: Okay. I can provide a substitute motion if you would like Mr. Overton?

>> Edward Overton: Okay.

>> Matt Loesch: I make a motion to authorize or to approve these letters, as noted in the packet, as the dues deductions, letters, for retirees association, and authorize staff to provide the addresses on a periodic base as updates to the retirees association.

>> Arn Andrews: Second.

>> Matt Loesch: Comments or questions? All those in favor? Opposed? Thank you. 5.1. A and B. We have investments presentation of the pension trust flash performance report as of October 2012. Discussion and action on the approval for the secretary to negotiate and execute a contract to extend -- extension with eagle asset management for a three-year term ending June 30, 2015. We have here on the table, 5.1A oflash report from Meketa investments and Brad Regere is here.

>> Flash report pension fund. Before I get into the numbers here I want to provide some context in terms of where we are right now in the markets and the general economy. The third quarter markets improved despite some mixed economic data in the U.S. and the slowing global economy. Some of the optimism due in part to the actions taken by the European central bank and the federal reserve. The European central bank has outlined plans to keep interest rates lower for struggling nations and the Fed in September announced a third round of quantitative easing. The month of October and different time periods ending in October. Equity markets declined generally a few percentage points while fixed income markets were up less than a percent. Towards the end of October, hurricane Sandy hit the East Coast and the markets also braced for the presidential election that was to come at

the beginning of November. Fiscal year to date, international equity returns have been very strong and you see that in the second column. And the foreign equity section, 7.8% return fiscal year to date, the MSCI Aquiex US, emerging markets up 7.1%. Concerns that we have right now, I will just mention three. Now that the elections are over, many of the attention in the marketplace has turned to the potential impact of the fiscal cliff which could result in tax increases that are -- that could significantly impact the economy. Second, earnings from companies have not been as strong as expected in the third quarter. Raising some concern about corporate earnings for 2013. That will be something we'll clearly want to watch and then third, the outcome of the European sovereign debt issue and what's going to happen to the European union. So with that backdrop, let's look at the pension fund. On page 2, at the end of October the fund was valued at just over $1.9 billion. During the month of October a major transition of assets was completed. Russell investments managed the transition. Seven accounts were terminated, partial redemptions from three more, five new accounts were hired, and three new accounts added more capital. So close to $700 million was transitioned during the month of October. To that I will point out here in terms of market value or real assets which increased during the month from $270 million to $380 million and much of that increase was partly the transition funded a new natural resources index fund. Additionally, on October 31st, the initial funding for the first absolute return allocation was made. So that shows up here, happened on the last day of the month, performance for that absolute return and for the allocation that was made will start in November. On the next page look at performance. And before looking at these numbers I would like to highlight something. As if the large water mark and the footnotes that are on a lot of these pages are not clear enough, these flash reports are preliminary. For this report, there is a mistake that happened, and it's the risk parity benchmark which is on page 4. Credit Suisse provides the risk parity benchmark. Under, the return is zero.9. The final number was not available. So two days ago, they gave us a preliminary number. And then last night, they released their real number. And what we found out last night is that they gave us the spread between the custom risk parity and the Dow Jones risk index. Negative 3.1 not positive .9. This has not impact on the estimated numbers for the total fund or any of the composites, but it does change the benchmarks that this fund and the composites are compared to. So going back to the first page, the October, the total fund estimated down negative .6%, and the policy benchmark, if you factor in what the actual risk parity number is, it would equal the policy benchmark. So the relative performance is not as bad as what you're looking at here. Highlight some of the preliminary nature of these reports. So the point of these reports is to give you a more current up to date estimate of where this fund or how this fund is performing. But that does change the policy benchmark numbers going across. It would equal in October the fiscal year to date up 4.5%, the policy bench that is correct 3.3% is the estimate not 3.7. Slightly better for the calendar year, 7.4, versus 7.2 for the policy, slightly better 5.1 versus 4.8%. Equity and real assets, down negative 0.5%. The global equity down negative 0.6%, considering the large transition that happened during the month of October. We would consider that a very positive outcome. That it is slightly better than the benchmark there of the MCSI Acqui. The private debt managers there was no data available for all three of the private debt managers at the time of this report. So real assets. The negative 2.8% in October was actually slightly better than the negative 3.1% from the risk parity benchmark and as I said before the absolute return performance will start in November. And that concludes the flash report for the pension fund for October.

>> Matt Loesch: Thank you, comments or questions. Okay, note and file that. Report from Ron Kumar regarding the eagle asset management for? Do you have any comments? Questions or comments from our board? Item 5.6.

>> Motion to approve.

>> Matt Loesch: Comments or questions? All those in favor? Opposed. Thank you. On to 5.4. Discussion and action on system expenses for September 2012. Ms. Niebla.

>> Veronica Niebla: The regular memo is in your packet. I'll take any questions you have on the monthly expenses for September.

>> Matt Loesch: Okay, comments or questions from the board?

>> Arn Andrews: Just a formatting comment. The if there's a way to copy these better, you lose a lot of the headers and stuff.

>> Matt Loesch: There are some photocopy issues that will be resolved with our electronic board pacts. I'm sure.

>> Veronica Niebla: We'll resolve that so it gets a lot clean are.

>> Matt Loesch: Any other editorials? Otherwise I'll entertain a motion.

>> Edward Overton: So moved.

>> Matt Loesch: Comments or questions. All those in favor, opposed. 5.5. Discussion and action on stakeholder's education. since this is Mr. Andrews action he wanted to add I'm sure he can focus in.

>> Arn Andrews: Just wanted to keep the conversation going because I thought when it started at our last board be revolving around the newsletter, whether we use newsletters as a way to provide education, or there's other ways to engage stakeholders having them participate or at least notify them more when we have educational session at a board, just make sure there's better outreach that way, conceptually I would like to keep talking about stakeholder outreach and education.

>> Matt Loesch: I'm teasing, didn't expect a briefing on it. But I do think that we try have systematic education pieces and because the board chose not to have off site meetings or special meetings to have full-on discussions on those things we tries to tag them on to meetings. Because we have so many issues, measure B or OPEB meetings, these meetings do run long on Thursdays and so the educational pieces at the end frequently get dropped and postponed which makes it challenging. And with staffing being the way it is, to know whether we have -- it would be great to have someone who was a communications person on staff who is creating those kind of things, those kind of education pieces out of the discussion items we have. I'm sure that could be something we could ask for them to propose during the budget cycle, a lot of departments have communication people that do those sorts of things. It might be something we request that they add this year because it would membership facilitate you know making sure that there's either publicity for education or giving good synopsis or kind of

layman's terms of the kinds of things we're discussing here. It would be a unique skill set to take the discussions we have here and boil them down into communication pieces. It would be interesting thing to do. Councilmember Constant.

>> Pete Constant: I wanted to say I did take the one page -- I guess it was a three-page communication thing on the asset allocation and shared that with the council, everybody got a copy, the millions of people who watch our meetings, did have the opportunity to see it. A couple of councilmembers came up and said it was very informative.

>> Matt Loesch: It is because of board time already, it is a heavy task for the board to pick up. Whether we look for a staff solution, between the both plans it wouldn't be that pricey but I would be in my mind a great value. You already do lots of benefits educational things and that person could have a dual role as far as the benefits but it's really hard to get somebody who can do actuarial investments and investment type communications. Donna I have been talking about Veronica on that.

>> Arn Andrews: Today's valuation presences, giving a little more narrative, disseminating that or putting it on our Website. Of the presentations we get, just the one that shows the dollar changes and why it occurred from the one credit cards year to the other, that's the type of feedback I get from stakeholders, why didn't our contribution rate go up or why does the city have to pay more money? We already know the information we have to repackage it and disemanate it.

>> Matt Loesch: Mail it out to whoever who wants. Yes.

>> As someone approached by retirees just in my day-to-day life in San José, I wonder if we might want to have a meeting, a gathering in which people are able to ask questions or we can talk about the kinds of things that are probable in the back of people's minds, like the commingling issues, there's different tiers what does that really mean? Maybe people would like the ask the investment committee, why are you investing the way you are? Why is this a good idea? Perhaps give retirees a little more access in an informal basis to the board?

>> Matt Loesch: The problem is who attends, how do you Brown Act it, how do you document someone's availability? Make sure whatever you're presenting is something that the board has done, not trustee X's position on what's going on. I think this board has been very good about not to present anybody else, communicating clearly what the board has said and not one off thing. Councilmember Constant community meetings similar to what he's describing. What would be your thoughts about how effective that would be about communicating some of this stuff?

>> Pete Constant: Well I think the interactive part would be very effective. But how you would do it logistically and how many people would attend, that would be the challenge. Because we have retirees that are dispersed all over the place. We have you know city employees that are dispersed all over the place as well. So getting them together in a forum that would be conducive to giving the information would be tough. However, there may be a way, if a communications person were to come to fruition that you could have bite sized chunks available on the web that people could get whether it be short, slide presentations or screen casts or Youtubes or something like that, that could help explain things to people. But I'm just not sure that a submit or a forum type, then you would work because of how far flung some of our members are.

>> If you had a live event you could do a video and put it on the Web.

>> Matt Loesch: My thoughts are, why don't we agendize this again, so we have our base discussion on it, I think it's clear to staff to kind of think about how different maybe find out how other departments have created communication people and some of them have just come from the ranks around the department so it's not necessarily going out to hire somebody, who is curious about that before, has base knowledge, my department can do that and stuff.

>> Arn Andrews: Could provide training, if you can identify someone they can help with training.

>>> It might not be a big add. It might be pulling someone from benefits to do this stuff. Maybe we could be creative, and talk about this next month as you're prepare budget. No action. Before we get into 5.6 we'll go into closed session. And what I'd like to do is all the health care stuff first, if there are no objections, only minor things will be heard.

>> Pete Constant: Does that mean I have to hang around and come back for 5.6?

>> Matt Loesch: Unfortunately, yes.

>> Pete Constant: The most efficient way of getting that is through my updates. But I have a Public Safety committee meeting that starts at 1:30 so it can't be -- I may have enough mass to be two places at once I just haven't figured out how to split.

>> Matt Loesch: Move forward.

>> Arn Andrews: Do you need to close --

>> Matt Loesch: No, because it's still open. Actually opened up the health care trust at the beginning as well. So we can get through what we need with Mr. Regere. 1.1, approval of health care minutes from October 15th, 2012. I'll entertain a motion.

>> Move approval,.

>> Second.

>> Matt Loesch: All those in favor, opposed. 2012 flash report, 1.3, presentation of health care flash report as of October 2012. While you're at it.

>> Let's start with the third quarter. I'm looking at page or at the bottom center there's a pages number I'm looking at page 9 of 60. That correlate with what you have. It's the aggregate assets for the health care trust plan.

>> Matt Loesch: Unfortunately I believe I only have the flash report, and we never received the full fund valuation in our packets. I mean I have it in mine -- you did? I feel slighted. Anybody else not get it? When I look at it on -- I did look at it online.

>> Lara Druyan: But not in paper.

>> Matt Loesch: So I don't have it in paper. Why don't we proceed.

>> Do you want me to --

>> Matt Loesch: Proceed.

>> Okay. At the end of the third quarter September, the fund was valued at 41.7 million. That's up from 21.6 million at the end of June. And it is largely the contribution in July, the $18 million contribution in July is -- accounts for the jump in assets. All asset classes are close to their target allocation and within range. There were no changes to the manager roster in the third quarter. Because of the contributions, one Vanguard fund, Vanguard total bond market index was able to take advantage of a different share class which has a lower fee. So the effective fee for Vanguard total bond market index change from from 10 basis points to 5 basis points, once they got above the $10 million minimum investment. On the performance for the fund for the third quarter, the fund was up 5.4%. That is equal to the policy benchmark return of 5.4% and 20 basis points better than the custom benchmark. Calendar year the fund is up 9.8% and the one return is 7.2%. I'll remind you the one year return of 7.2%, you'll notice it is significantly lower than the 15.1%, a year ago this fund wasn't it heavily invested, it was all in cash. And didn't until November. Since inception returned a 4.8% return versus a policy benchmark of 2.5%. During the first quarter stronger am real assets at 7.3%. Looking at the individual managers, the first page, the global equity and fixed income are all in index funds. A couple of things to note. The Vanguard developed

market index and the emerging stock index both will be changing their benchmark in a few months. Vanguard is not -- they are changing it from the MSCI benchmarks to the CRSP benchmarks and they had not identified an exact timing when that was going to happen. They decided it was going to be quote a number of months. The latest we've heard they're targeting January, we're hoping to get some more data from them in December and be able to report if there's any analysis of what this will mean for these investments. The real assets returns for the third quarter, Credit Suisse was up 7.7% versus the custom risk parity of 7.3, and slightly lower than the 7.3% for the benchmark. For the one year number, both have underperformed, or I'm sorry, Credit Suisse has equaled the risk parity benchmark and first quadrant has been slightly underperformed.

>> The real assets returns for the third quarter, Credit Suisse was up 7.7% versus the custom risk parity benchmark of 7.3%, and first quadrant was up 6.8% which was slightly lower than the 7.3% for the benchmark. For the one year number, both have underperformed -- I'm sorry, Credit Suisse has equaled the risk parity benchmark and first quadrant has been slightly underperformed. First quadrant has larger allocations to some of the sectors that have not performed as well, including natural gas, sugar, coffee, lean hogs, which all performed -- all had negative returns, and first quadrant had higher allocations than Credit Suisse, and that's partly why they underperformed for the one-year period. We have an attribution charts which you see, and I will just highlight that since inception, the total fund has outperformed its policy benchmark by 2.3%. Since inception the allocation effect of 2.9% represents that this fund was largely in cash when the markets were trending downward, in August-September of last year, and that the negative selection effect of minus 0.6 is primarily from the performance from the real asset managers. This report has additional detail for each manager. And the asset classes which I'm not going to cover unless there's any other questions, that would conclude my third quarter report. And I can move on to the October flash.

>> Matt Loesch: Please.

>> The October flash, there's no change to the roster. All asset classes are close to their targets, and remain within target ranges. In terms of performance, the total fund down negative 0.5% in October. And that brings the fiscal year to date return to 4.9%. The relative returns, we have the same issue here as we did with the pension

fund, where the custom risk parity benchmark is wrong. And so the relative performance is much closer to the total fund estimate. So the -- for October, the fund performance number of minus 0.5 is equal to what we think the policy benchmark is of minus 0.5. So you see a 0.0, but once you factor in the negative 3.1% for the risk parity benchmark instead of the positive 0.9, it would equal the policy benchmark and be ten basis points better, the total fund, versus policy for fiscal year year to date. And that's it.

>> Matt Loesch: Questions, comments from the board? Otherwise, we'll note and file. Thank you. So we have item 1.4, discussion and action on the health care trust expenses.

>> Veronica Niebla: So in your packet you have a memo that contains some information about how the health care trust expenses are going to run through and really at a high level what you're looking at is the health care trust is completely separate from the pension fund. But there is an overlap to create the assets for other postemployment health benefits. Which is a combination of the assets that are in the retirement fund that are part of the 401(h) that have reached their limit and then the city actually funding now in the 115 trust vehicle. And so this report on a go-forward basis will be very similar to the one you have in pension but it will only relate to the health trust. So it's not going to be the expenses for OPEB or health benefits. It's going to be the expenses only for the health trust. So I just wanted to make sure to make that differentiation between plan, the plan as far as the health plan versus the vehicles that are used to fund it.

>> Matt Loesch: Questions from the board? I -- your mentioning of the 401(h) around the expenses made me think of something, I apologize, it's not directly related to the expenses, but the 401(h) limits, and are those just for tier 1 as far as the limits of 401(h) or is it going to be the tier 2 as well? How do the limits on what happens to that --

>> Veronica Niebla: That's a good question. I'm not sure as far as the answer. Since there is no really a tier 2 in medical that was created, it was only a tier 2 that was created in pension, really the OPEB or health portion stays as one combined unit.

>> Matt Loesch: But the 401(h) limits are based on the normal costs of the pension contributions, right?

>> Veronica Niebla: As far as if the employees continue -- if tier 2 hires I guess if you want to put it that way are contributing if he same rate as tier 1 members into the health plan their contributions at this point are going to continue to be contributed into the 401(h). So they will be commingled until there is such a date where the separation of the contributions enter into the 115 trust.

>> Donna Busse: We can check with --

>> Matt Loesch: We can check, I know it's a side comment.

>> Donna Busse: I know what you're talking about.

>> Matt Loesch: I'll entertain a motion on the -- we don't need to accept anything, just note and file right? Okay, great. Old business, future agenda items. Public retiree comments? Health care trust is agenda. Okay, so we're off to closed session. oh, sorry.

>> Harvey Leiderman: Before we go into closed session, I noted that there's two typographical errors in the agenda item 4.2 closed session description. And if I may, Mr. Chairman, I'll just correct those.

>> Matt Loesch: Please.

>> Harvey Leiderman: 4.2 talks about conference with legal counsel and cites four cases involving the measure B litigation. There had been four cases. There are only three listed. The fourth case was the City's case that was filed in federal court, and that has since been dismissed. So the reference to four cases should be three. The code section reference, there's a typographical error. It should be code section 54956.9 (a). Not 45, et cetera.

>> Matt Loesch: Got it.

>> Harvey Leiderman: Thank you.

>> Matt Loesch: So we're going to go into closed session on item 4.1, 4.2, 4.3. [Closed session]

>> Matt Loesch: Back out of closed session on items 4.1, 4.2, 4.3, there is no report-out on closed session. Moving on to item 5.6. Discussion and action on the city ordinance amending various sections of chapter 3.28 of title 3 of the san José municipal code to clarify the city charter supersedes the Federated city employees retirement plan in event of conflict, clarify the definition of tier 2 member, discontinue Supplemental Retirement Benefit Reserve, clarify actuarial soundness is determined consistent with the California constitution, and make additional requirements for mandatory Medicare enrollment, to be effective January 1, 2013. We have a memo in our packet. As far as referencing all of that, of what was presented to counsel and the actual ordinance, there's nobody here from staff or the attorney's office to present anything. Is there any comments or questions from the board? (inaudible).

>> Matt Loesch: I'm sorry? (inaudible).

>> Matt Loesch: The office of employees relations, the entire office is on their way down. A representative from the office of employees relations. Okay, we'll see if they generate comments or if there's comments from the board that get us to that point. If there are public comment on the item. Is there any comment from the board? On what's recommended here? All right. I'll make a motion to make public a memo, recommendation from our legal counsel, with a reference to response to what the language that was presented there, that my motion is to make that public and to transmit it to the city council as our response.

>> Lara Druyan: Second.

>> Matt Loesch: Comments or questions? So that's just a motion to transmit something and to make public. Well, seeing it just made public 30 seconds ago. Laughing yes, sir, before we move.

>> Harvey Leiderman: Mr. Chairman, just for the record, is your motion to waive confidentiality, of that specific document, to make it public?

>> Matt Loesch: I apologize, that's exactly what I intended, to waive confidentiality on the legal document, on the memo, communication to the board. So we have a motion to make that -- so that our motion right now is just to make this documentation public and to transmit that to the city council. All those in favor? Opposed? Okay. Public comment before we do anything in addition to this?

>> Bob Leninger president of the San José retired employees association. I'm not too sure it is, the details of what you voted on for 5.6. I spoke a little bit earlier today, when the item was going on in relation to the SRBR. The request from the retiree standpoint, that portion of the ordinance is premature. The city has asked for a day in court in terms of asking for declaratory relief to determine the legality as they see it of measure B, and we have filed a lawsuit contesting the constitutionality of four of the provisions in there, one of which is the SRBR on various vested and contractual right basis. So we just told this to the city council, requested it a couple weeks back when they first heard this, that let's just have our day in court on the SRBR. I'd like to request the board to take a look at that, as well, to let it have its day in court, that's where the city chose to go first. And then, all of a sudden, came in after we filed and for some reason want to go ahead forward. We think it's a rush to judgment on something and it deserves its time where we both want to take it and see what the constitutionality of the SRBR is. You know, I forgot, I apologize, I didn't bring a copy of the memo that I sent to the City Council. But as a side note, it's unfortunate they weren't willing to talk with us when we made some suggestions and recommendations, as did the Police and Fire retirees about a year ago on this in writing where we suggested based on comments from individual councilpeople that perhaps what we would do is give back a big chunk of the SRBR to the unfunded medical account. Between the two of us it was about $40 million and that the formula be changed so that there would be a recognition that it would be mostly directed towards the lower pension lower income retirees where it belongs. You've seen what's happening with medical plans and medical costs. When you have a system like we have, where about 45 to 48% of the retirees have a pension under $30,000 and you see what's happening with accelerated medical costs, and things like CPIs that exclude the volatile you know food and energy sectors,

things and whatnot, really doesn't reflect what's happening to retirees, especially lower-income types, we thought we had a pretty good proposal and they weren't willing to talk to us. And so we think that they've chosen to take this to court rather than talk it out and make some kind of a negotiated deal on this that would work fair for everybody and put some money back into the coffers for the city, so we think we should go there and have our day in court. And you should side with us on that and recommend this be dropped from this ordinance.

>> Matt Loesch: Okay, some of the items -- so in addition, essentially the memo we just released to be sent off to the city council was primarily focused on the actuarial stuff, nothing to do necessarily with the SRBR portions of what was in here. Now, we've gotten guidance from Mr. Leiderman that this is the law of the land. They've put together their ordinances. Now it doesn't necessarily tell us to transmit the money from one pocket to the other. I mean do we want to have an additional communication with the city council about that? Do we want to leave it alone, leave it stand pat? Is there anything we would like to do around some of the other elements? Mr. Leiderman, do you have anything to say?

>> Harvey Leiderman: Mr. Chairman, it would be useful for us to get some direction from the city as to their intentions. After the passage of measure B the city announced that it intended to seek a declaration from the cord essentially validating a number of portions of measure B. The night after measure B passed, the city filed a lawsuit to that end, in federal court seek a declaration on five or six provisions, key provisions of mush B. And I thought that that was what they had intended to do before implementing any portions of measure B because that is what was publicly stated and stated in these papers. Other litigation then sprang up in state court initiated by members of the system and employees of the city. Since then, the city has dismissed its federal court complaint. And while stating an intention to bring those allegations into the state court, as far as I know, it hasn't happened yet. So right now, as your counsel, I don't know what the City's intention is as to seeking a declaration on the validity of measure B. Because it's going forward with implementing ordinances, our obligation under law is very clear. There's clear Supreme Court precedent in the state that says that a retirement board such as this, any public body that is obligated to carry out a certain body of law, can't suspend its implementation of that because it thinks it's unconstitutional or somebody else thinks it's unconstitutional. Only a court can do that. We are not under a stay or an injunction from implementing anything that's in our plan document, city charter and the

municipal code, primarily. So as these ordinances go forward, unless there's some stay from court and unless the city specifically says, these are not to be implemented until it gets a validated declaration from the court, we don't have any choice and I have no choice but to recommend to you that your obligation is to carry out the law. If this ordinance goes into effect, it says, as measure B says, that SRBR shall no longer exist. And effective January 1 of 2013, the funds are to be credited back to the general -- actually, as we heard this morning from Cheiron, it would be simply a reduction of the liabilities associated with the SRBR assets in the system. So I don't see where we have, regardless of the policy and regardless of what's going on in court proceedings, no court has enjoined us, no court has issued a stay. The city has not said officially that we should not implement this or any ordinances until it gets validation from the court, because they've dismissed that action. So I don't think we have much choice in the matter.

>> Matt Loesch: We could request clarity.

>> Harvey Leiderman: I think I just did.

>> Matt Loesch: Sure. Anything from the board before Ms. McKenzie? Please.

>> I think in your packet you also have a copy of the memorandum that went to council regarding this item when it went to council. There's a statement in there that says, it's on the first page under background, consistent with the stipulation agreed to with the parties and the pending litigation, changes to ordinance will have an effective date of January 1, 2013, the only stipulation that I'm aware of that anybody has entered into is on the Public Safety side, which does not affect the Federated plan. So that statement is a little misleading. There has been, to my knowledge, no stipulation with any of the Federated groups that have filed actions. The ordinance itself, I think has real problems. I was -- Mr. Leiderman was kind enough ogive me his copy of if opinion and scanning through it I would agree with what he has said in there, and he probably has said it more eloquently than I would have been able to do in this short time. But there are other issues besides the actuarial and the inherent conflict that would be in these provisions. Because the ordinance would implement or include measure B wholesale right into the Federated plan. And there are conflicting, internal inconsistencies within measure B that now would be part of

your plan various provisions of measure B have been been challenged. I think if you put together, and I know you haven't seen the retirees association lawsuit yet, but I think if you put together the provisions that we're challenging plus the provisions of the active employees are challenging, it's pretty much every provision of measure B. Pretty close. One of the things that's in there, that Ms. Todorov alluded to earlier today, is the third page of the draft ordinance where it's carving out an exception for tier 2 members. This is for any person eligible and elects to participate in a DC plan established under the Municipal Code. I'm not sure what that means, exactly. At the council meeting the City Manager indicated that this was specifically for unit 99 people. That is, those who are not represented by employee organizations. She's having trouble apparently hiring people into executive positions, because of tier 2. And so she was talking about, for example, the Chief of Police, well, that's -- this isn't going ohelp her with the Chief of Police because the Chief of Police is a member of the Police and Fire plan, not the Federated plan. And this only applies to the Federated plan.

>> Matt Loesch: Chief -- I'm sorry to interrupt. Any new Chief of Police actually is in the Federated plan, if they've not been members of the existing P and F plan, they'd be members of the Federated plan.

>> Okay, so then it would help this recruitment. Okay. But if she promoted from within it would not. Okay. But it also apparently is supposed to be some sort of an opt-in program so that people could opt in to this defined contribution plan. We don't know what that plan is yet, so we don't really know whether it would raise certain issues. And one of the issues that I was concerned about was whether this raises a tax issue. Like the voluntary election program did, whether you can have the employer pickup apply, and if not, then what do you do? And we don't know. We don't know for sure who all would be eligible. And I'm assuming but you know, that's always dangerous. That they don't mean the deferred compensation plan, which is the only defined contribution plan that I know of that is currently in the municipal code. And everybody is eligible to be in that one. I'm guessing they're not talking about that. You've already heard about the changes in this thing that would discontinue or dissolve the SRBR. I think that's problematic and that is one of the issues that's been challenged both by actives and by retirees. As far as I know, there has been no meet-and-confer session regarding how the money would go back into the plan. The establishment of the SRBR was subject to meet and confer, and even though the employee organizations have may have waived their right to meet and confer, at least it's subject to it. And it would seem to

me if you are now going to dissolve it, how the money goes back into the fund is subject to meet and confer. Of course, I'm not employee relations, so I don't know. The -- one of the provisions that Mr. Leiderman has already addressed is the part about maintaining the actuarial soundness in a manner consistent with pension protection act. The provisions in here which are page 10, I believe, those provisions that are already in the code are the pension protection act. Except for the part that is in a manner consistent with. But the pension protection act doesn't use the term actuarial soundness. That was a piece that we added when we enacted this section, because people were concerned about maintaining actuarial soundness in our plan. But what this does that's different from what's already in your plan, I have no idea. If you compare the pension protection act with the provisions of this section, you'll find they're pretty close to word for word. The other one that, to me, is very problematic, is pages 13 and 14, which deals with Medicare and requiring retirees who reach age 65, it says, to enroll in Medicare part A and part B. Well, then there's a provision on the next page that says, if the member was hired before March of 1986, which is when the city and the employees started paying into Medicare, and you're not eligible for Medicare part A at no cost, well then you provide this verification, and then you have to enroll in a Medicare plan provided by the retirement system, but it doesn't relieve the member from the requirement on the preceding paragraph to enroll in part A. Part A premiums right now are $451 a month. And there is a late enrollment penalty that applies if you did not first purchase part A when you were first eligible. We have, according to retirement services, 90 people, and this was I think as of October, who are retired, at least age 65, and not in a Medicare plan. This is a combination of Police and Fire and Federated. She wasn't able to break that out, so I don't really know how many of these people are Federated. But if they have to go and now enroll in part A and part B, they're going to incur a whole lot of cost that I don't think is the intent of this ordinance. But it's so poorly written that you can't really tell. Also, for part B, there are late enroll penalties. Currently if you are a single person and your income is $85,000 or less, your part B premium is $99.90 a month. So you would now be requiring people to enroll in part B. But there are late payment penalties for that. And of these 90 people, I'm told that 17 are at least age 75. So they've been out of the system, they've been eligible for Medicare for ten years, assuming they wanted to buy this stuff. So I went on the Medicare Website. They have a penalty calculate. I made up a person who would be 76 years old, single and income less than $85,000 a year. Who would then be enrolling in Medicare, well their enrollment period is January through March. So we'd have to wait for that time for them to enroll. The penalty for that person is over $200 a month. $209 plus change. Add that to the almost $100 for part B, that person would have to pay over $300 a month just for part B and if you're also going to make them enroll in part A some these people can't afford that. I don't think that's the intent. But somebody needs to make sure this ordinance can't be read that way.

>> Matt Loesch: Were all these communicated in your memo to city council that you proceeded when this was heard?

>> No, because I didn't have a memo and I had about a minute and a half to speak.

>> Matt Loesch: Okay.

>> So it looks like maybe I have to write something. But it's -- at the very least, I think the board should recommend that this provision not apply to current retirees who are age 65 and above. Because you've got these other pieces that I don't think anybody's really thought through.

>> Matt Loesch: Okay.

>> So my thought would be just tell them no on all of the issues. You can't accept it. Until it gets worked out. I mean, I've been hearing, oh, it's not the intent of this ordinance or anybody to stick it to the retirees but it does. Unless somebody redrafts it.

>> Matt Loesch: Got it.

>> And that's not me.

>> Matt Loesch: Thank you.

>> I did send an e-mail to the person listed on here as the contact person in the city attorney's office. Asking about what protections would there be against the late enrollment part B penalties. And also, raising the issue of, is there a tax issue relating to this exception for unit 99. I have not heard back. So I --

>> Matt Loesch: Okay.

>> I don't know the answer to what they looked at.

>> Matt Loesch: Thank you. Comments from the board.

>> There is a transcript prepared of your testimony. You might wand to forward that to city council. You said it very well.

>> I have to go back and listen and write this all down.

>> Matt Loesch: No, there's a transcript that's produced. Copy and paste. Comments? Desires? Communication? Seeing none --

>> Edward Overton: Do we need to do something to have Susan's comments forwarded on, or is that --

>> Matt Loesch: Did you capture all of her comments? The question, honestly, my reaction would be that this is going to come out in a transcript and if Susan wants this communicated from the retirement association, that retirees association should --

>> Edward Overton: So she's going to get the transcript?

>> Matt Loesch: Well, it's made public once it's -- the transcript will be made public when? How long does it usually take? Few days.

>> Edward Overton: Oh, okay.

>> Matt Loesch: The transcript should be posted online in this case next to the audio-recording of this meeting. I get that there's a sense that folks want us to respond, don't do this. Don't do these things. And opine as to whether these ordinances are good, bad or indifferent. Getting guidance from our counsel that it's -- some parts of this are not our job to try to say we don't like that, or this has other ill effects, is to deal with it as part of our future duties. I believe our releasing of the letter and the confidentiality of that does our part. I think you brought up some really great points of things that are often missed, these details of how they affect individuals. And I can imagine if this was say my mother or someone like that, that was receiving these kind of bills or some kind of -- forced to do something, it would be very scary and I think you're right, that the attention needs to be brought to it, I just don't know if it's our role to do that. And by the rest of the other six not jumping saying it's our role, either --

>> Arn Andrews: I think board member Dirks gave good advice. There's a transcript here, I think it was articulated very well and I think if you just start to disseminate that information to the council, you know then that's one of the better avenues for your voice to be heard.

>> Matt Loesch: Any other comments? Mr. Leiderman.

>> Harvey Leiderman: Given the fact just memberly the way they operated today, Councilmember Constant had to leave for another meeting without hearing this conversation. I would recommend that we affirmatively make the transcript available to Councilmember Constant, rather than just let him passively find it on the Internet. But if we would -- someone would bring it to his attention directly, that might be useful to get the comments to the council.

>> Matt Loesch: That's a good idea. Make sure staff gets this done, to make sure this portion of the transcript is forwarded to Councilmember Constant. Any other comments? Okay, thank you. So 5.7 was deferred. Item 6.1, investment committee, last meeting was held October 10th, next meeting is December 12. There is no update

from the chair on there but is there anything that the chair would like to speak about on the investment committee?

>> Lara Druyan: No, I think we sort of lagged some of the meeting minutes behind. So we voted to send the board's already approved, and three new investments in the absolute return space. And last meeting, last week was cancelled, and we'll meet again in December.

>> Matt Loesch: Okay, on the audit committee, update from the audit committee chair?

>> Michael Armstrong: We have our first meeting scheduled for Monday, the 26th. We have our agenda, it will be posted I think it's a week --

>> Veronica Niebla: It will be posted on the Monday before the 26th, Monday the 19th.

>> Matt Loesch: Very exciting, wonderful. Governance committee, Cortex is still trolling through folks. If you have not spoken with Cortex about their research please reach out to them. If you haven't -- if you don't have the contact information, reach out to me and I'll get you their contact information. They want to interview all the trustees and staff and if Mr. Leiderman wants to participate, that's fine as well, providing insights to their research. And we're hoping for a meeting possibly in December for the governance committee but it's depending on when the research can get done. On item 6.4, so this is the ad hoc personnel committee, update from the chair. We are hoping as per item 5.7 that fairly soon, we'll be at a stage, because effective tomorrow the ordinance that would allow us to meet in closed session for personnel matters, such that we could interview a person in closed session as a board in toto is effective tomorrow. So once that is effective we're hoping we could schedule interviews and get interviews in the very near future so keep tuned to that. On item B a discussion and action on the recruitment process. Again, there's -- we're hoping to schedule interviews. They're filing up and doing some background stuff on the chief investment officer position. Once this stuff is finalized we'd like to have the investment committee look at the panel of folks from the -- that search, to see what their background is, if it matches kind of what we're looking for on the investment side. And then, discussion and action regarding the

scope, composition, duties of the committee, the one thing that was very clear in our March -- in our May meeting, it was actually May 17th, I had to go back and check, was this was a six-month ad hoc committee. That six months expires, if everybody can count to six, Saturday. So the ad hoc committee would be dissolved the way we formed it. I would recommend that we possibly stretch that beyond our six-month date then, and possibly look at maybe January time frame. Maybe February. So that we can get through this -- the director search and the CIO search and then at that point we can come to more formal committee. That's my recommendation. I'll make a motion to extend the term of the ad hoc personnel committee to the completion of the CIO search.

>> Arn Andrews: Second.

>> Matt Loesch: Okay. Anything else there on the scope? I think we have, so I think we're good to go there. Any comments or questions there? All those in favor? Opposed, okay. Education and training, note and file. Stuff about Cal APRS conferences and seminars and so forth, any future agenda items? Public or retiree comments? Real quick. At 2-something we'd like it quick.

>> Do it very quick. I only get a minute in front of the council.

>> Matt Loesch: Make it a minute and one second.

>> I wasn't here for the 4.7, I apologize, I thought that was going to be done after you came back from the closed session on the dues. I appreciate with the attorneys putting that all together so we can cooperate with you and get that out. I just needed a clarification, I understood the exact same system on the Police and Fire letter that there was going to be a 50-50 cost share. I realize there's not the opt-in on the letter, in terms of the notices on the pension. But I understand the police on the very same system have a 50-50 cost share on that. Is that true?

>> Donna Busse: That is correct.

>> So I would just request the board if they do it now, open it up or think about it next month or something. Maybe it's a small amount of money but only asking to do it the same way they're doing it. The cost sharing.

>> Donna Busse: What's the estimate on the Fed side?

>> Veronica Niebla: Slightly slightly larger amount of members so I would think maybe $500 more than what Police and Fire have, depending on the extend of what they would like in their communication. It could be anywhere from 2500 to $3,000 for communication.

>> Matt Loesch: The only note I made is that Reed Smith through Mr. Leiderman made a comment that that was their recommendations that we do not. And it seemed like good judgment but I'm hoping to hear what other trustees have to say. I understand the Police and Fire chose against legal counsel on that and chose a different path. That is a fact. But anything from the trustees?

>> Arn Andrews: I have no inclination to go against legal counsel.

>> Stuart Odell: I agree. I don't think we can justify using the plan assets for nonplan matters.

>> Just wanted to have my chance to make my point and have you consider it so appreciate it. Thanks.

>> Matt Loesch: Although it's not really public, I'm not public or retiree but I would like to make one change to the committee structure. And this is mostly, this is on the investment committee. Mr. Dirks has expresssome issues with scheduling a time to be able to meet the meetings regularly, so I would reach out to Mr. Andrews if he would be available to fill in his slot, and slide in to take that slot. So I mean technically, by the chair's role I can just do that. But that's not really my style. I'd like to have communication and let everybody on the board know what's going on and why. So I've asked Mr. Andrews to fill in Mr. Dirks spot on the investment committee so that we can free up some time for Mr. Dirks in his new position of employment. So that's going to be effective on the

December meeting. So effective now he's now on the investment committee meeting unless there's opposition from the board otherwise. Okay, we're adjourned.