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>> Matt Loesch: I'd like to call to order the September meeting of the Federated city employees retirement system and the Federated city employees health care trust. Under orders of the day, what I would like to do, so I'm going to kind of give a list of how I see kind of chronologically how the meeting would flow best for consultants who are here and topics and so forth. I'd like to do the health care trust stuff first, that seems fairly concise, Meketa is here first. 4.1B which is the communication discussion draft of the new asset allocation newsletter. Okay. And then because they're both Meketa pieces and then do the 4.1a which is the investment closed session, Alborne will be coming in here in just a moment. And then back to 3.4 to 3.8 which is the open session, old business. So 3.4 through 3.8. I would like to move 4.2 to after the committee presentations because we're contemplating discussion in the committee structure. I think it makes sense what's going on with the committees and discuss afterwards if that's the appropriate structure so I'm going to 4.2 to after the committee reports. So after the open session of the old business and through the open session for the new business, 4.3 to 4.7, does that make sense? And then do the closed session old business, the legal cases there. All the committee reports. And then finally the committee structure and then we're out. It's a bit of jumping around but I think it makes for a better flow. I know those who are skipping out of the meeting and so forth might not be so helpful but I think it's for both the consultants here and the flow of the topics that can work well. Any questions? I can certainly repeat it. I've got nine items on my little note to make things flow. Would you like me to repeat it?

>> Arn Andrews: Tried to make notations. I'll just make a motion to approve the calendar.

>> Second.

>> Matt Loesch: Under new business, Federated city employees health care trust. 1.1 is the approve of the Federated city employees health care trust from June 21, 2012. I'll entertain a motion.

>> Edward Overton: Move approval.

>> Second.

>> Matt Loesch: Comments or questions? All those in favor, opposed, none. Item 1.2, this is a presentation of the quarterly investment report for the period ended June 30, 2012 by the Meketa investment group.

>> Good morning. My name is Brad Regere, I'm one of the consultants at Meketa, I've been here a few times and I wanted to review the health care trust fund with you. The -- as you know the health care trust was funded in July of 2011. There are seven investments right now in the trust. Two of those were incepted in August of 2011. And that was both of the real assets investments Credit Suisse and first quadrant. The other five passive mandates were all funded in mid November of 2011. So at the end of the June fiscal year, and I'm looking at page 9 of 58, at our materials at the bottom middle, I think you have the same page numbers that I'm looking at here. The total fund at the end of June was 21.6 million. The -- all the asset class global equity, fixed income, real assets were close to target allocations. Global equity at 60% of the trust compared to a 59% target. Fixed income at 28.8% versus a target of 28, and real assets of 10, 8 slightly under the 13% target. If you turn to page 10 you'll see the roster and the five vanguard funds and then the Credit Suisse and first quadrant. On the next page, page 11 we look at performance. For the June quarter, the fund was down 3.1%. And this was slightly below the policy benchmark of negative 3.0 and equal to the custom benchmark of negative 3.1. For the fiscal year, the one-year period, the total fund returned 0.6%, and that is better than the policy benchmark return of negative 2.1 and slightly below the custom benchmark return of 1.6. As a reminder, the difference between the custom benchmark and the policy benchmark gives you the allocation effect. So here you see the custom benchmark for the one-year period in the third column returned 1.6%, that's 370 basis points better than the policy benchmark. And the reason for that is this fund took a few months to get funded and if you recall, the market took a pretty bad downturn in August-September of 2011. So this fund basically missed most of that. The only thing that was invested were the real assets during that portion. So most of the fund was held in cash during that downturn. On the next page, page 12, you can see the returns for the individual strategies. For the second quarter, the equity assets were down, but have pretty strong returns for the calendar year and the -- since inception and since inception on the far right is since performance inception since December 1st. For instance the Russell 3,000 fund is up 10.2% since December and that's through June. On on page 13, I just wanted to point out the real assets Credit Suisse and first quadrant were both funded in August of 2011. And both have been down quite a bit for the fiscal year. And -- but Credit Suisse has been tracking the risk parity benchmark. First quadrant was a little worse

and a lot of that has come in the calendar year so far. If I can go back to the asset allocation, I just want to highlight one thing on page 9 and that is when this fund was set up, the asset allocation was to mirror the pension fund in the pro rata allocation. And so when the pension fund then adopted a new asset allocation in December nothing was changed with the health care. And so we would like to come to the next investment committee meeting to talk about asset allocation with the health care plan if that is appropriate or if the board would like us to. And that concludes what I have to say about the health care trust.

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

>> At what level of assets would it make sense to be more like the pension fund? $20 million seems a little shy.

>> I think that's a great question. And this plan is $22 million at the end of June. Another $18 million was contributed in July. So today, that plan is a little -- this plan's a little over $40 million. Fiscal year to date, I think this plan is up about 6%. And you know, the pension plan has a large amount in hedge funds and private equity. At $40 million the total plan I think you have to consider what kind of you know, how you could execute that -- those kinds of private strategies. And that's something we would love to discuss at the investment committee level.

>> Thank you.

>> Matt Loesch: Any other comments or questions? Okay. Appreciate it, thank you. There is no old business and there's communication for the fiduciary insurance waiver on file. Is there anything else for the health care committee?

>> Arn Andrews: I think let them go forward for the asset allocation as it relates to the trust .

>> Matt Loesch: Anything else? Public or retireee comments? Seeing none, that board is adjourned or that trust is adjourned. Okay. So what I would like to request, I have two waivers of sunshine requests, as we get back to

the pension side. And that's item 4.5, June and July 2012 system expenses they were received late and item 4.7 was also received past the posting deadline, I would like to request a waiver of sunshine on those two items.

>> Arn Andrews: Motion to waive sunshine on those two items and June and July .

>> Second.

>> Matt Loesch: All those in favor? Opposed, okay on the consent calendar is there anything we need to pull? Otherwise I'll entertain a motion.

>> Move approval.

>> Matt Loesch: Comments or questions? What I'd like to do is 4.1B which is the Meketa item. So in your packet you have a two-sided memo that's listed as the San José Federated city employees retirement system long term asset allocation back at our, was it at the July special meeting I believe or was it in June? Where we had talked about communicating to the constituents whatever that is, to the both the beneficiaries and planned sponsors, without it coming in some kind of notation format or some kind of memo format. I asked Meketa to look at it and quick glance and then said to bring it to the board for full review and see if we would like to publish this either put it on the Website or send it out in the next mailing. Brad Regere, once again please.

>> We could have gone in several different directions, this is simply our first attempt at communications, trying to put the investment performance and the long term asset allocation into -- into context. And so I'm going to go through this letter broadly. The chart here on page 1, basically graphs out more traditional based strategies of stocks and bonds and that they've underperformed the required rate of return on those plans over the last five, six, seven years. In the 1990s it was easy to outform and you can see this in this chart. This chart is looking at rolling ten-year returns. And so right now, you would see on the far right the rolling ten-year return is 6.1%. So as it becomes more difficult to generate returns, that meet or exceed a required rate of return, San José and many other plans have needed to move to more global and complex strategies to enhance the returns. On the second

page, you'll see in the top left there's a table that compares the old and new asset allocation. And the most significant changes, the increased allocation to hedge fund, at the expense of stocks and bonds to real assets. But the bottom line here of this chart is that the new asset allocation has the potential for higher return and lower risk and this can be seen in the expected return and standard deviation numbers. That compare between the old target allocation and the new target. So you know, all asset allocation strategies are going to have positive and negative years. Fiscal 2012 was negative for this fund. But it does come off the heels of two very good years. You know furthermore, fiscal 2013 has gotten off to a great start. July, August and month to date, September, we estimate that this fund is up over 5%. And so you know, in closing, this is -- we're happy to modify this based on your needs. Or just let us know, where you want to go with this. And that's -- that concludes what I have to say about it.

>> Matt Loesch: Okay. So again, going back, the intent was to kind of communicate because a lot of the questions that came up around some of the return either being what we expected not what we had hoped, based on benchmarks and/or policies. And so we wanted to communicate what our thought process was. And so I think this kind of does that. But does it do to the extent and in the tone that the board would like?

>> I think it's good. I'd like to perhaps see a little bit more on alternative risk measures other than standard deviation. Sharp ratios.

>> Matt Loesch: I think one of the things we would ask is not to get too much into jargon -- stuff.

>> Okay.

>> Matt Loesch: Make it kind of common language understanding so folks understand what our general philosophy was around this approach. We could certainly refer them because a lot of that detail is in our quarterly book as well. And that's where it gets into a little bit more meat. So that's -- we could certainly add it if that's what the board desires. I think the intent was to kind of make it more common language, understandable. As much as possible.

>> I think it does that fairly --

>> Matt Loesch: Okay.

>> Arn Andrews: I had one comment just on the second page on the table. Right after expected return I think I would drop in board-adopted assumed rate of return. In the sense that I think it -- you know this is showing what we know as a probability assumption based on the asset mix, but I don't know if most of the plan members would realize that that's -- you know, different from what the board adopted rate of return is.

>> Matt Loesch: Okay. Thoughts.

>> How are people going to be getting, receiving this, is it online or --

>> Matt Loesch: That's the next question to staff. I was thinking, how do we -- is the structure and content and vocabulary about the level that we had hoped and the topics and then talk to staff about what would be the best vehicle, I mean posting on the Website is probably the quickest and easiest check on mailers so forth after that. My first, just talk about the content if we're okay and then look at the vehicle to get it out.

>> You might consider providing some definitions as maybe a third page, unless that's in the annual book. I think at least a couple of the terms that have significant allocation are not intuitive to people, the term absolute return doesn't really even sophisticated people aren't going to understand what we mean by that. Everyone understands I think what equities and fixed income implies. But I think in particular the absolute return and possibly the real assets as well. Because we're showing real estate and then we show real assets. And some people would say real assets, real estate are real assets. So what's the difference? So I think that might be helpful to define those terms. The last graph that shows the expected growth of the -- based on the current asset allocation over a long period of time, does not come off particularly compelling. In the way it's projecting because it's projecting over such a long period of time. I mean one might look at that and go, what's the big difference? In fact the dollar

amounts are -- yeah. So it's -- you know it's about a $2 billion difference. Which is actually quite material. But it doesn't quite come across in the way it's being presented. So there might be a way to just simplify that and magnify the potential outcome difference based on the asset allocation.

>> Matt Loesch: I mean you could also take a look and see if there is a way to regraph that to have a more compelling story or more clear story of -- take a crack at it and see if you can come up with a different way to graph that. Not to change obviously the numbers but to make sure that it is --

>> I understand. The basic point is this new asset allocation has the potential for a higher return over a very long period of time and we'll look at how else we can show that.

>> Matt Loesch: Okay so we could you have in the quarterly book the definitions of many of these returns. pop that website that doesn't add really an extra page to actual print costs or mailings.

>> And what about adding the actual returns. As opposed to a 65-35. Can we do that as well? And does that make sense for them to see what our actual performance is on there?

>> This, this chart on page 1 is a rolling ten-year. So we couldn't -- we could do that but this fund I think was incepted in '94 oso you wouldn't have a -- you would have rolling ten-year starting in 2004. There wouldn't be a lot of data although we could just graph out what the returns have been, maybe.

>> Matt Loesch: Have that as a second line starting up in 2004 Maybe is that a thought?

>> We could do that.

>> I see what you're saying.

>> Matt Loesch: Maybe add a different line another color for actual returns for the plan.

>> Maybe it's just notating X, versus a 65-35 portfolio which would have returned Y.

>> Got it.

>> As Z over that period. I mean it could be that way just that simple, three numbers for them but just kind of a way of -- because the portfolio was not invested 65%. You're probably just using an index or something to come up with. So that's not the actual allocation over that period of time. So it is -- it is a useful data point to know the actual performance.

>> Matt Loesch: Okay. So as far as like further review and so forth, my recommendation, just because the IC, the investment committee will be meeting sooner than the board will then. Make Meketa is take another quick look at it and ask them to approve going forward. logistically rather than coming back in October before we send it out or something or post it, is that okay with folks? So if you can make revisions and get it to staff so they can get it to the IC. As far as when is the next mailer going out what is the process how do we get something in there what would you think?

>>> We actually don't have scheduled mailers. we mostly now put everything on our Website. We could do a special if you want us to start doing that or -- we do have some people you know we can send them electronically.

>> Matt Loesch: Maybe what we can do is there a portion on the Website, unfortunately I only look for certain topics, I don't scroll for information. Is there a news and investments --

>>> There is an update section.

>> Matt Loesch: I don't think it necessarily warrants a special mailing just because of the cost involved. If there is an electronic mail-out group put it on there and just to get as much as we can maybe a special communication

directly to the city council, request Councilmember Constant bring it to the city council himself in his update, meeting update. Get it out as much as possible potential communication to the council once it's done. Mr. Constant.

>> Councilmember Constant: Just wanted to ask, if not is there a way like during the open enrollment mailing or on the Website there is a sign up to get on e-mail. It might help us to build that base.

>>> We did reach out to people when we stopped trying to do not so much hard copy, reached out to people and saying, do you want communications from our department, we could do that again, I also thought we could do payroll, the city active site payroll, they post things up with the payroll and we can hit most of the actives.

>> Councilmember Constant: I think it would be great if there was a signup on the Website where people could join the mailing list too.

>> Matt Loesch: Open enrollment, going out neon pink flyer with more information.

>> Arn Andrews: Perhaps the retirement representative may have access to an e-mail posting to help populate that.

>> Matt Loesch: He could bring it to whatever next meeting they have and send it to --

>> We have a guru in charge of the e-mail so we'll get that over to the person.

>> Matt Loesch: Once this is finalized, once the investment committee is done with it kind of send it out, is that cool? All right. Thanks. So let's do 4.1A which is the closed session conference. Closed session conference with investment consultant pursuant to government code section 54956.81 to consider purchase of particular pension fund investment. Hard to predict the time. Pension staff do you predict 25, 30 minutes? Okay, we'll be back. [Closed session]

>> Matt Loesch: Reconvene. Out of that closed session 4.1a there is no report-out at this time. So for the orders of the day, we are down to item 3.4, or I should say back up to 3.4 and 3.4A discussion and action on the city council ordinance regarding the Federated city employees health care trust issues. Discussion and action regarding how members receive refunds of 401 (h) contribution amounts when member terminates before retirement. Okay, we have in our packet a memo from staff. That will return in 41 (h) employee medical contribution process is there any staff comment on that first? Ms. Niebla. I know you're in the process. Thank you. Is there any comment on your memo before any board discussion? It's okay.

>> Veronica Niebla: It's became of outlined in the memo. The 401 (h) account is basically a subaccount within the retirement fund benefit account are actually funded by the pension fund.

>> Matt Loesch: So that's one of the tricky things. So for example, if some employee leaves and asks for a return of contributions because they're contributing the retiree health care portion and their pension portion, the retiree health care portion goes into the pension account and not take the benefit, the portion of -- to pay out what they paid into the retiree health care the 401 (h) account is what was contributed into the 401 (h) account which is an interesting anomaly.

>> Arn Andrews: I just notice it wasn't a recommendation. We are doing this the way the municipal code currently reads. The favorable determination from Ice Miller. But have we asked if it's appropriate that the pension portion is the sole provider of moneys back to the employees as opposed to it beings on the pro rata way it was originally contributed either the medical portion or the pension portion?

>> Veronica Niebla: I think the reason they formatted this way in the municipal code is because you cannot refund as the medical benefit account but because the medical benefit account is a subaccount of the pension fund, one trust combined together there was the option to do the return, otherwise it is not legal we cannot withdraw any of the contributions or money that went into the benefits account .

>> Arn Andrews: Not legal per our municipal code or not legal per some other jurisdiction?

>> Veronica Niebla: I believe a 401 (h) account is a nonrefundable account.

>> IRS.

>> Veronica Niebla: IRS yes.

>> Edward Overton: So do you make an accounting notation to get that out of the general reserve?

>> Veronica Niebla: General reerve for the contribution I believe it does. I'd have to research the path that it goes through. I know it goes back through the pungs fund but which reserve it's actually getting out of I'd have to research.

>> Edward Overton: It's not a big deal. But if you are talking about refunding the employees' contributions, they have X in their retirement account. If you give them X plus one, that one has to come from somewhere.

>> Matt Loesch: Mr. Leiderman.

>> Harvey Leiderman: Yes, just to report, the IRS reports this not as a refund but as a appropriate to grant a supplemental benefit out of the pension trust as opposed to a refund out of the 401 (h) account. And one of the reasons this has come up in conversation is because, with the employer 115 trust, which had -- was originally designed to allow employee money to no longer flow into the 401 (h) account in the pension account but now to go into the 115 trust there is absolutely no mechanism by which employee contributions can either be refunded, out of the 115 trust, or the pension trust can do what we're doing with the 401 (h) account which is to grant a supplemental benefit equivalent to the members trust. It's important that everyone understand that, the design of that 115 trust does not permit any money that come out of that trust back to employees if they terminate and want to withdraw their pension contributions or allow any kind of equivalent pension supplemental benefit for them

leaving the money. So as we go forward, if the rates of, like, you know, 15% of the employees payroll is going to be contributed to the one -- is designed to be contributed to the 115 trust, somebody that does that for 15 years and decides to forfeit any of those.

>> Matt Loesch: Fairly quickly and that's why because we had asked right now for the employees contributions as they come in not to go into the 115.

>> Harvey Leiderman: Right.

>> Matt Loesch: And the city council agreed not to accept them, there is still capacity in the 401 (h) account. So the employee's contribution is still going into the 401 (h) account for a period and it's unclear when it needs to go into the 115 trust. So as of now if someone asks for return of contributions they can get those back but it comes out of the pension side. When and if it goes into the 115 trust there is no ability whatsoever to return contributions made into if they seek their money back. As Mr. Leiderman said, as the current projections are listed, based on the current negotiations and the current rates are quite high someone is paying 15% or a large number into that fund, they cannot ask for that money back and they will not get it back if it is in the 115 trust. So there's got -- it's kind of dual. How this whole 401 (h) reimbursement of the pension account came about and what to do going forward if anything.

>> Arn Andrews: I think given the current understanding by any employee that's worked for the city less than five years I think this information if it hasn't been communicated to the administration already, needs 4 '01 (h) reaches its capacity there needs to be a different I show that they will not receive those moneys back they will be lost some costs.

>> Matt Loesch: Yes, it is a sticky situation to try to -- Mr. Gurza.

>> Alex Gurza: Good morning, Alex Gurza deputy City Manager. This very same item was before the Police and Fire retirement board meeting earlier this month. And couple of -- just a point of history. When we were looking at

what trust vehicle to create for retiree health care because we knew we had to get out of the 401 (h) plan because of the IRS limitations. We were well aware of the issue with the trust vehicles bit not being able to return employee contributions. And that is true what Mr. Leiderman indicated for the 115 trust but it's also true for the plan we have now, the structure that we have now, that you cannot return employee contributions out of the 401 (h). Around the same time the board was going through the tax qualification issue and that issue came up about ensuring that the plans are not refunding employee contributions out of the 401 (h). And so there were amendments in the code made to make it explicitly clear that the money that employees are getting are coming out of the pension side. Now, just so you're aware, some board members from the Police and Fire plan expressed concern that money that was supposed to be for retiree health care was left there but refunds were coming out of the pension side. And again what I explained, they asked me about this sort of from are a policy perspective, again from a policy perspective we don't have any objection to returning contributions to an employee from the the question is does the IRS allow it and does the board then allow the contribution to come out from somewhere else. So again this is all really a complex IRS issue. If we could structure the 401 (h) account or a 115 to allow an employee contributions we would. It's really a oficious regulations .

>> Matt Loesch: The municipal code states that return of contributions and retiree health care comes from the pension side. Will the employee allow that to have the money coming out of the employment account to reimburse that ?

>> Alex Gurza: Any understanding is there are two options, you can stop doing that, meaning, or do this, which is what's been happening. Which is refund -- make it explicit that it's coming out of the pension side. And that was an ordinance that came from tax counsel that added language to be really clear on that issue.

>> Arn Andrews: Is it strictly a board policy decision or is there anything out of the administration side that employees who come to the city and leave after five years are under the assumption that they'll get these moneys back?

>> Alex Gurza: Well Mr. Andrews, administration would allows the return of contributions so again the issue if we had discretion to return it or not return it would be a different issue. The question is, you have to do it with the IRS regulations and what it allows or doesn't allow. Once we move out of the 401 (h) completely I think this issue will unfortunately have to go away because you can't return contributions. The issue if the board wants to set up some supplemental benefit then absolutely the administration and the bargaining units would have to be involved. If you wanted to give somebody something in return that could even be bargainable.

>> Arn Andrews: What I'm bargained with the unions, if the determination was to be made that no we don't like the idea of pension funds being utilized to return medical contributions is that something that would run afoul of anything currently either negotiated with employees?

>> Alex Gurza: There's nothing in a union contract about the technical details of return of contributions. It's what the municipal code said. And I would think the issue of what employees know, is a good point what they might get understand what those rules are.

>> Edward Overton: And it's an issue that needs to be addressed given the fact that we're ratcheting up the medical contributions to a substantial portion of the employee's pay.

>> Matt Loesch: Oh, absolutely, right. That's why the discussion's here. Mr. Constant.

>> Pete Constant: One of the examples, I don't remember if it was you Matt who made it as an employee who was here for a long period of time, but really it only affects those who are implode less than five years, right, because vested.

>> Matt Loesch: What if they choose not to get contributions back? If you are not here for 15 years you don't get retiree -- this is another topic that comes up frequently. If I'm here 13 years and I don't get retiree medical got to be here for 15, can I just get my retirement money back? Can I get a return of contributions just like that, leave my pension in and get a return of correction on the retiree medical contributions.

>> Pete Constant: Has that happened in the past?

>> Donna Busse: The answer is no.

>> Matt Loesch: Have they asked or -- the.

>> Pete Constant: Just leave their moan in is that correct?

>> Matt Loesch: We'll give them the money back if they ask for it or if it's pre-five years.

>> Pete Constant: If they're leaving the plan at that point.

>> Donna Busse: Correct, if the member terminates the actual co-language though is the default is return of contributions if they don't get us information in time or -- unless they have 20 years of service. So the default is an ROC even if you have 19 years.

>> Arn Andrews: But there's no bifurcation. You.

>> Matt Loesch: Just for the answer's sake is it a legal thing why one -- why you can only -- why you have to get both? Is there a reason why you cannot ask for the retirement medical contributions back and opt out of that portion? The municipal code says return of contributions.

>> Harvey Leiderman: I believe Mr. Chairman, to get a return of contributions you have to terminate your participation in the system. You can't be a member of this system and get correction back from your 401 (h) side.

>> Matt Loesch: That's one of the key things, questions get asked. Yes, it's the five year term but it's also the 15 year for retirement medical where folks are thinking, if I am not going to get the retirement medical can I get that

money back? And the answer is no unless you pull yourself out of the pension as well. And so the question is what to do about this at our level besides communicate that there's an issue. I think that's one that neds to get communicated. I think we need to figure out how to communicate that and to whom and through what vehicle. But if there's any action in addition to that, what we need to do if anything.

>> Veronica Niebla: I think one thing just to really note you understand that there are two different trust funds that are established now. In the past there was only the trust fund that had the subaccount which was the medical account. In a sense the 401 (h) and the retirement fund were linked together, they were one trust. But completely separate, the assets are not commingled. There's a separate confusion because it's the thought that the 115 and the 401 (h) are very similar and they are completely different and the rules for them are completely different and there is nothing tying the 115 to the pension trust the one the 401 (h) is tied to the subaccount into the pension.

>> Matt Loesch: Okay. Thoughts, comments, questions of the board?

>> Arn Andrews: Does the administration you know it sounds like you're keenly aware of these issues. Does the administration have a preference from a policy perspective or has council articulated a prenches from city preference?

>> Alex Gurza: IRS regulations. And again to say that if we -- from a policy perspective we have no objection to returning an employee's contributions. We understand the issue of an employee contributes significantly to the retiree health care trust and oh, I can't get that contribution back. I mean that -- so if we could do it we have no necessary objection to it. Yet the concern would be you know given the challenges on the pension side you know, it's -- I guess it would be an issue of money coming out of the pension that wasn't really for pension. But we see it as -- from a longer term perspective, it's as we transition to the 115 trust the question is do you keep doing what you have been doing until we don't use the 401 (h) anymore or do you change it? So we don't have a firm position one way or the other on that.

>> Stuart Odell: So make sure I understand. If the employee passes the five-year mark he has been contributing 15% of his pay into this retiree medical account and he leaves or wants to leave after, say, ten years, all of those correction that he's made he loses, and am I interpreting that correctly? Is there nothing to prevent the city from saying, to the extent you have vested contributions from -- that you've put in, no, we can't return the money to you, because the IRS won't allow us. But you can use those contributions towards medical expenses going forward? Even though you've left the city after ten years? I mean there should be a way that, if they're employee contributions that they're either utilized or returned to the participant in some manner. I mean can you provide an additional benefit to them or instead of vesting after -- would you require 15 years to get into retiree health?

>> Matt Loesch: Yes.

>> Stuart Odell: I mean, what if it was after five and applied to their contributions or something of that manner? But it seems like it's a very large dollar amount that you're taking out of their pay, that they're forfeiting and that 20 years ago is a long period of time and these are new hires that are coming in. Perhaps the chance that they stay 20 years is a lot less than the current active folks that you have here today.

>> Alex Gurza: I wasn't quite sure what the reference to 20 years because currently it is 15 years to qualify for retiree health care. And ever since we've had by the way a retiree health care benefit it's been this way where you can stay here for 14 years and retire. And you'll get the pension. You won't get retire ehealth care and you won't receive return of contributions for the 14 years you worked here.

>> Stuart Odell: But it wasn't 14% of employee pay.

>> Donna Busse: We are not contributing 14%, that was a hypothetical. Right now we're at 13%, six pensions seven medical something like that but it could be that big.

>> Alex Gurza: Right, in answer to your question, we could reach those resource issues but we would have to figure out what could be done that would be in compliance with the IRS regulations.

>> Edward Overton: But the 20-year reference Mr. Gurza I believe is what the return of contributions trigger. You have an option up until 20 years, where you can elect to roll your money into an Ira or some other vehicle, and if you don't do that, we automatically refund you unless you have been here 20 years.

>> Alex Gurza: I understand, thank you, Mr. Overton. The larger issue I just wanted to say, the larger issue of retiree health care is that and well beyond. We have a situation now as you well know that the retiree health care benefit is only 14% funded based on the last valuation. It is one issue to look at how to get employees money back, but the other is how we address the retiree health care benefit, we are talking to our bargaining units about our larger issue which is the significant increase of contributions that are going to be necessary by the city employees to fund that benefit.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: My comments are long the same lines. We have to keep in context how we got to the higher contribution rates. That was for the past 20 years we weren't fully prefunding making the full contributions to the employee health care. Even though the arrangement or agreement had been made with the employees it wasn't until 20 years later that there was an active plan to fully fund. It was a very small fund. When people are paying for employee health care, they are not just paying for their own health care, unfortunately it is 20 years of inactivity. That's why we're at that low percentage, low percentage of funding and a very high percentage of contributions that are going to keep increasing 3EU6R7B8G9SDZ 34R*EU6R7B8G9SDZ so this is really another interesting nuance to the retiree health care saga that goes on. It's not even just the contributions, in the last ten, 15 years started to go like that and we were funding at a two, 3% of salary rate for a long time. And then GASB came out and said, you really have to be true about what your liability is on this. And then when that happens, the negotiations ensued about going towards full funding. And what would that full funding thing look like. And then here we're at a stage where nothing goes to full funding and nothing changes from last year's funding both going from 7.5 to 15. That's where the 15 comes from but it's another interesting wrinkle in what's going on in retiree health care that this in particular has just not been discussed is where that return of contributions really comes

from, what that source of dollars is. Is that an issue for the board to be handing out pension dollars, to return something else. Tax counsel says it doesn't seem to be and the IRS says it's okay. The question is, do we proceed forward with this current plan and do nothing, or do we make an active choice to do something around that? That's kind of why we're at the discussion point on this top I be.

>> Alex Gurza: Mr. Chair, if I can add one quick point, the city never receives a return of contribution. In the example of the employee who works several years the city will are contributing 15% for that employee and that money stays in the fund and would never go back to the city ever I just want to raise that make that clear.

>> Since represent a number of milk plans this can't be the first time you've seen this or I hope it's -- we're not plowing new ground here. Are there things we can learn frb other groups that have dealt with this issue?

>> Harvey Leiderman: The structure in other jurisdictions is really very different than it is here in terms of the 115 trust. And I'm not presently aware of any of my other client funds that are putting employee contributions into a 115 trust. So there may be others who are doing it but where we've structured it elsewhere it does not include employee contributions. And from this board's perspective, there's really nothing we can do about that. You know whether or not contributions into the 115 are going to be refundable or creditable somehow else from the city is a matter of collective bargaining negotiations between the city and its employees and we really don't have a role in that.

>> Martin Dirks: So in that regard as I understand it, if someone comes and we do refund their money out of pension assets and the IRS has called this a supplemental benefit, does that put us in -- what kind of position does that put us in, we would have created a new benefit effectively? Are we allowed to do that?

>> Harvey Leiderman: I think it's been created by the city by writing it into the municipal code.

>> Matt Loesch: So our plan documents the municipal code in this sense says this is how you will return contributions. It is not the board coming up and generating a benefit. It's simple -- not that simple, the code has driven this conversation and this vote is driving our actions on that.

>> Martin Dirks: I guess it's not clear to me, what are our options?

>> Matt Loesch: I think it probably ought to be communicated. I think that's the one thing we must do is communicate this. Whether it's from a letter to the board to the city clarifying this is the current situation to confirm everybody's aware of this and ask the city to forward that on to all the bargaining units, so they're aware of the current situation how it is, and because if it's a shock to the board members about this, it probably ought just to be communicated. And if there's -- I don't know if there's a future action of doing something how it's contributed. That's how the plan document says now.

>> Martin Dirks: So we'll simply continue to pay it out out of our pension assets?

>> Arn Andrews: Only until the 401 (h) reaches capacity and the IRS has communicated no 401 (h) hits capacity is there anything we want to do as a board to address the fact that currently the pension plan is paying for release of medical benefits or do we want to stay status quo?

>> Matt Loesch: And until the money gets into the 115 they will not receive return of assets.

>> Martin Dirks: How much are we talking about?

>> Matt Loesch: To the individual or collectively?

>> Martin Dirks: Collectively.

>> Matt Loesch: The 401 (h) has -- as she flips through the CAFR quickly -- there is no employee contributions in it at this time .

>> Donna Busse: Will be on the phone later i don't know how close we are to hitting the limit where we can't contribute to the 401 (h) anymore.

>> Veronica Niebla: I know we're close but I don't know how close we are. I know we had an at least three or six month window if hit been employee and city contributions if it had been before fiscal year 2012.

>> Matt Loesch: So rough math, if it's 50-50 it should be six to 12 months?

>> Veronica Niebla: I'm not sure.

>> Matt Loesch: I mean, it's --

>> Edward Overton: On an individual basis, Michael, it could be substantial money. So when we ratchet up to the 15%, you talk about the average salary of $50,000, you're talking about 7500 a year, person works here and decides another company is where he wants to be or he wants to start his own business. We've had people worked 20, 25 years, who said I always had my inkling to start my own repair shop, give me my money, it could be a substantial amount of money.

>> Matt Loesch: So this conversation could be the communication if you want. If you want a formal communication to someone, if you don't, that is why -- what is the desire of the board?

>> Arn Andrews: Just personally I think considering this has been the practice for a number of years if not decades and we know it's going to be a self-fulfilling prophecy anyway, where it won't be able to occur anymore six to 12 months I don't see any reasons to change what has been the current practice. But I do think there needs to be a strong communication effort on the administration side to either inform employees that, going forward, it

will not be able to occur or, if the council from a policy perspective wants to consider if there should be some offsetting benefit you know that's a council directive, that doesn't come from us. But personally as a board member I don't see any reason to change what has been the status quo for probably decades.

>> Veronica Niebla: And just to give a perspective. Currently these are draft financial statements but the employee portion of health contributions is about $46 million.

>> Arn Andrews: In light of the fact that we also have an IRS ruling that says this is a mechanism that's allowed to occur. And it's one that's been occurring for decades. I say we allow it to wind out its course and then --

>> Edward Overton: Going forward we're looking substantially more money than we were in the past pps.

>> Arn Andrews: Like every other aspect of a benefit the employees will have to know that this is one of the variables they will have to consider in total of their benefit structure and I think it's an administration and a council policy decision more than one for ourselves what the future will be.

>> Edward Overton: Yeah, I understand that. I think the council is going to probably look to the professionals in the retirement department and the board to come up with alternatives that are presented to the administration for them to evaluate.

>> Arn Andrews: If I heard the consideration correctly there are no alternatives once we go to the 115. The IRS has said you cannot release from the pension plan and you can't release from the 115. That's why I said as a board if I understand the conversation correctly we have no alternatives. It would only be on the administration side and the council side. Currently we have an alternative as I understand the chair correctly and that is do we want to change the status quo now and personally as a board member I'm advocating that I don't see a reason to change the status quo.

>> Matt Loesch: Okay.

>> Stuart Odell: I agree. I don't see any reason to change the status quo. There's a lot of inconsistency between what I'm hearing, where we're returning contributions on one side, and yet you know, going forward, we're saying well, those contributions are to pay for past accruals of service, and so it's okay that we're not returning them there. So we're sort of talking out of both sides of our mouth here. But my suggestion is, we don't mess with it right now. And we let it stay.

>> Lara Druyan: But I also agree with Mr. Andrews' pound that this should be clear in terms of communication with the city employees.

>> Stuart Odell: Definitely.

>> Lara Druyan: For sure.

>> Arn Andrews: Right because the IRS in essence is creating a different benefit structure. Employees should know that that's an outcome of this.

>> Lara Druyan: Absolutely. Particularly because the impact on the employees in terms of what they're contributing is higher than in the past and that is different right? So we may be doing what we've done before but since that's changing I think we have a responsibility to make sure that messaging happens properly.

>> Alex Gurza: I just want to be clear from the administration standpoint. We're not saying it's okay that employees don't get there -- can contribute that amount and don't get their money back, not saying that at all. So the issue becomes how do we structure the trusts that's compliant with the IRS regulations and we cannot return them cash. So as we go forward some of the ideas you mentioned Mr. Odell, we will certainly look into those. But if we had been able to structure a trust where employees could get a return of contributions we absolutely would have looked at that. It's really the limitations of the IRS not that we decided we didn't want to return contributions.

>> Matt Loesch: Do you think that the administration has been abundantly clear with the bargaining units? Even really kind of a basic level as to what the current structure is and what will the eventual structure that happens going into the 115 trust?

>> Alex Gurza: I think we have an opportunity to negotiate with our bargaining units now and that this clearly will be a topic in those discussions about how it works and so because I said later in your agenda we're having a request for Cheiron to talk to the bargaining units so clearly we'll be talking about those issues in that setting.

>> Matt Loesch: Bel Mr. Leiderman, do you have other clients that don't put their employee cash into a 115 trust, what do they put into?

>> Harvey Leiderman: Is employees are not contributing. The employees in other jurisdictions are essentially back filling through payroll deductions a reduced compensation. They're essentially back filling the employer contributions. And the employer is putting all of the money into the 115 trust.

>> Matt Loesch: So the contribution for the employee employer is 5% and the employer is paying both and hence the employee's salary is a percentage less is what you're saying?

>> Harvey Leiderman: Right.

>> Matt Loesch: Comment for Cal PERS and so forth.

>> Alex Gurza: Different from where Mr. Leiderman has worked employees share for the retiree medical 50-50 and that is not something that exists for the other places. Many other places had A a different level of benefit. Our is much, much higher than many places and those agencies were simply on the pay as you go basis. Premiums were just being paid. That way and weren't funding it through a 401 (h) or any mechanism in the past. Ment agencies are starting to look at how do we fund this versus the pay as you go. We're in a much, much different situation in San José.

>> Matt Loesch: So what's the verdict, what are we doing, what would you like? It sounds like if I could summarize in my own head as far as doing anything about current contributions and return of contributions sounds like the board is kind of no-change mode status quo. But with a communication request or formal communication from the board what is the desire of the board?

>> Arn Andrews: I don't think we necessarily need a recommendation because we're not changing the status quo. But on the communication front I would think that either our attorney or retirement services staff summarized the fact that we are aware that the 115 trust does not have a release mechanism. And once we hit the cap on the 401 (h) that that in essence will change for employees who have been with the city five years or less to recoup their medical benefits aware of this element and that it is in the future going to bind us from ever being able to release medical benefits to employees who have been with the city five years or less.

>> Matt Loesch: Contributions.

>> Arn Andrews: Crrgss, yes.

>> Matt Loesch: Does that match with other folks?

>> Edward Overton: I don't think the five years or less really needs to be in there. Anyone who does not receive a retirement benefit would not get their contributions back. Because if you hit -- if you have been here ten years and you pull your money out you don't get contributions back either.

>> Matt Loesch: Okay. Does that --

>> Alex Gurza: Mr. Chair you're certainly welcome to send a letter. I am here a representative of the administration and and certainly understand, we really are fully aware of these challenges .

>> Matt Loesch: Would you be suffice of the record that the meeting,.

>> Arn Andrews: We're aware of it and we've communicated that we're aware. I think Mr. Gurza is correct we don't necessarily need a written communication. The public record is evident.

>> Matt Loesch: So no action, great discussion. 3.5. Discussion and action on the higher class pay retirement contribution adjustment letter from Cheiron dated August 13, 2012. I'll let you get set up. We have from Cheiron we have Ann Harper here. Is there anything that you would like to preface it?

>> Veronica Niebla: This is a request of the board to have Cheiron review the higher class pay pensionable amounts that were included in previous final average salaries that have now been determined that they should have been excluded and the city has come up with correction amounts to adjust for active and retired retirees. Retirement services sent this information over to Cheiron and these are the results.

>> Matt Loesch: Anything you would like to add on it Ms. Harper?

>> Bill Hallmark should be on the line too to discuss. I'm not sure whether he's on.

>> Matt Loesch: Bill, are you there?

>> Donna Busse: We have to dial in here.

>> Stuart Odell: The phone is not connected.

>> Matt Loesch: How about we take a quick pause, I know Bill is supposed to be on the line on that, if you would rather have Bill chime in. You were supposed to give the presentation on the tier 2 thing.

>> Yes.

>> Matt Loesch: While we work on getting the telephony working. So we're going to switch real quick, somehow how nimble we are to item 3.6, discussion and action regarding Cheiron's treer 2 contributions rate recommendations for fiscal year 2013.

>> We are here to discuss the new tier 2 contribution rates for this new fiscal year. We're going to go through a background of the evolution of tier 2, discuss some key plan provisions and go through the proposed tier 2 assumptions discuss the fiscal year contribution rates for 2012-2013, outline the discussions the board needs to make and an appendix which is an actuarial certification and summarizes some of the plan provisions and the data that was used in our analysis. So around mid June the city council voted to implement a new tier of pension benefits for new employees. And shortly after that we received some draft ordinances to review. And there were several exchanges between Cheiron and the city with Cheiron's comments and questions, posed to the city and then responses from them. And by late August, the city council adopted these final ordinances effective September 30th. And we're here today to recommend initial contribution rates for the new tier. So how does the tier 2 benefit differ from the current plan? In slide shows key -- a comparison of the key plan provisions which have a significant cost impact on the plan. So the benefit multiplier under tier 2 there's a 20% reduction. And members now under tier 2 must be age 65 with five years of service to receive an unreduced pension benefit. They are eligible for an early retirement benefit at age 55 with five years of service but with an actuarial reduction. And this differs from tier 1 benefits in that they receive the 2.5% multiplier with no reduction regardless of their age starting at 55. The cost of living adjustment there's at least a 50% decrease in that. And it is now also based on CPI versus being a fixed or automatic cola that happens every year. And under the current tier the -- there's a survivor benefit for retirees where the survivor can receive 50% -- receives 50% of the original member's benefit and this is a free JNS benefit means there's no reduction in the calculated benefit. So this same benefit action is available under tier 2 however, the member pays for the benefit through a reduction in their original benefit. And that reduction is based on the member's age at retirement and the spouse's age at retirement. And in calculating the salary averaging, now there's three years taken into account for that averaging versus one year under the prior tier. And the maximum benefit has been reduced from 75% of final average pay to 65% of average pay. There are also various differences in the cost-sharing arrangement under tier one and tier two. Under tier

one the employee pays 3/11 versus the city 8/11 cost sharing arrangement is 50-50 across the board. So there is no tier 2 UAL rate I just want to make a note of that right now, since there is no past service and no assets for tier 2. The rates we develop in this presentation aral normal cost tier 2 rates. And assets will need to be tracked separately for tier 1 and tier 2 so separate UALs can be developed going forward. So the plan provision in the cost-sharing are defined in the ordinances. And the assumptions are proposed by us the actuary at Cheiron and will be decided by the board and adopted. Most of the assumptions such as turnover, mortality and investment return can be the same for tier 1. The two exceptions where the assumptions will be different for now are the retirement rates and this duty-related death. We expect that the retirement behavior's going to be substantially different under tier 1 because of the drastically different cost structure. And the current plan under tier 1 for Federated employees for their active death benefits, there's no distinction right now between the cause of death whether it's duty-related or nonduty-related so we have to make an assumption about that now going forward. And given there's been no direct experience we have nothing to work on. The method that we use to develop these assumptions, the first thing we did was, we looked to CalPERS because there's such a depth of experience from them. What we looked at was CalPERS very close to the new tier 2 benefit formulas and we also used the the Federated historical so based on those two sets of information we used our actuarial judgment to formulate proposed retirement rates for tier 2. And once there's some actual experience from the plan, these retirement patterns can be studied more carefully and adjusted if necessary at that time. As far as the duty-related death benefit we're proposing an assumption that 1% of active members who die will have a cause of death that is job-related and this is also based on CalPERS miscellaneous members their assumption for that. So these are the current Federated retirement rates and then the proposed tier 2 retirement rates. And the proposed tier 2 benefit rates you can see that there's a bifurcation based on service and that break point with the 32.5 years of service is at a point when the member -- the point in the member's career where they reach their maximum benefit limb limit of 65%. You can see the rates are much lower than the current Federated rates due to the lower benefit structure and they peak out at 65 that's the first rate where there's an unreduced retirement benefit for tier 2 members . This slide is a comparison of the contribution rates for tier 1 and treer 2. And the tier 1 rates these come from the 2011 actuarial valuation. So the total contribution rate for tier 1 members is just a little over 50%. And that's made up of 20.5% normal cost, 70 basis points for the administrative expenses.

>> Bill Hallmark: This is Bill can you hear me?

>> Matt Loesch: Yes we can, Bill.

>> And then about 29% of pay for the SRBR and UAL. The member share of this cost is seven -- or 5.75% and the tier 1 rate is 44.45% . The tier 2 benefits produced a contribution rate -- benefits and assumptions produced a contribution rate of 13.36%. And I want to make a note that this is -- there are no assets so there's no UAL. And there's no SRBR because the SRBR is based on a percentage of assets. So the tier 2 rate is all normal cost. And the normal cost rates vary depending on the member's age whether they enter the plan. So during the first few years of implementation, this normal cost will fluctuate for the tier 2 membership until their population becomes more stable. Around their entry ages become more stable' and again it's going to depend this normal cost of the actual age of the members in tier 2. So the member rate for tier 2 is half the normal cost rate at 13.36%. And then the city rate for the tier 2 is also 6.68%. But the city will also have to pay close to 29% on tier 2 payroll for the tier 1 UAL and SRBR cost. And the reason for that is that these costs for tier 1 were developed back with the 2011 valuation. And those rates were developed using total projected payroll for the plan. And at that point there was no tier 2. So in this total projected payroll includes the assumption that new hires are coming into the plan. So that's the reason that you need to pay the 29% of the UALs on tier 1. Another way of looking at this whole slide is that the city will need to play separate normal cost rates for tier 1 and tier 2 based on the respective payrolls and then the city will pay the UAL rate and the SRBR rate on the entire payroll for this plan year.

>> Pete Constant: What about future years? Are you saying that's only for this first year?

>> For this first year and until there's -- we have new members coming into the plan, new tier 2 members and there's assets for them and there's actually unfunded liabilities for them. Then that's when we'll start separating the costs there. Because they have a different cost-sharing arrangement.

>> Arn Andrews: Since the question was asked I would just like to follow up on it. So are we saying for the remainder of 12-13 then the city in essence will be paying 79% of payroll? Is it 50.19 plus the 28.94? Are you saying within the 44.4528.94 that's related to the jawx for tier 2 ?

>> The 29% is based on tier 2 payroll only not tier 1 and the 44% is based on tier 1 payroll. So there's a total of 35.62% that's going to be based on tier 2 payroll and 44.45% on tier 1 payroll.

>> Arn Andrews: So then it's 86% for the city?

>> Edward Overton: No, it's not additive.

>> Matt Loesch: There's separate pools. There's the day there's one person in tier 2 that's tier 2 payroll it will be 35% of tier 2 payroll and since that person will not be part of tier 1 payroll it is going to be 41% of the tier 1 payroll.

>> Arn Andrews: Okay maybe it will become more self explanatory when we get to the arc amount. The city has already done the prefunding. The dollar amount is there. The next slide makes it appear that there doesn't have to be any adjustment to the prefunding. However, in order to track towards that you still have to do the contribution rates. Okay let's --

>> Matt Loesch: Let's see if it manifests a little bit more.

>> Okay. So the City's policy for contributing for the arc is the greater of the arc dollar amount, determined by the actual valuation, or the arc percentage, determined also with the valuation, but you're multiplying that percentage for the actual payroll throughout the year. And revisiting the 2011 valuation, the arc dollar amount was and is $103 million. The arc percentage for all members, back in the 2011 valuation was about $44.5%. So with the new tier 2, the recommendation is, the same ark dollar amount of $103 million. And then, or the greater of 44% of tier

1 payroll, plus 35.62% of tier 2 payroll. So you're just splitting the payroll into two groups and applying different percentages to those two payrolls.

>> Arn Andrews: I'm with you now.

>> So that 35 again, .62% is made up of the tier 2 normal cost and the 29% is the tier 1 UAL. So the 29% of the tier 2 payroll however, representing tier 1 UAL, those contributions should be allocated to tier 1 assets. And the only assets allocated to tier 2 for the city contribution should be this 6.68% which represents -- 6.68% of the tier 2 payroll which represents their normal cost and that would be adjusted for actual earnings. And this amount the 6.68% of payroll should equal the employee contribution rate of 6.68% with actual earnings. So that you maintain that 50-50 percent sharing between the two groups. So the decisions before you today are to adopt these tier 2 proposed assumptions. And again, they're all the same as the tier 1 assumptions except for the retirement rates and the active duty disability death percentage. And then to adopt the fiscal year contribution rates reflecting this implementation of tier 2.

>> Arn Andrews: I had one more.

>> Matt Loesch: L okay.

>> Arn Andrews: Going back to the commingling slide.

>> Matt Loesch: Which slide number is it?

>> Arn Andrews: Slide 4. I guess my question is, since we're talking about bifurcated contribution rates we're talking about different asset streams. My question is for retirement services. Does pension gold have the ability to track this from an accounting standpoint if we are going to commingle assets and make sure we track UALs correctly for the two different plans?

>> Donna Busse: Yes, we have been working with payroll on that for a while.

>> Arn Andrews: And so we're comfortable that if we commingle these the two assets together that we can affix a UAL to the two different tiers?

>> Donna Busse: Yes.

>> Arn Andrews: All right, I've got a yes. Is there a reason why we wouldn't have considered trying to not commingle it? Is commingling administratively the best way to go with the infrastructure we have?

>> Donna Busse: The way the tier 2 was constructed it's a tier within the current plan.

>> Arn Andrews: Right.

>> Donna Busse: So there's not a separate plan or pool of assets for it. It's just part of the same plan.

>> Matt Loesch: So they have to be pulled together.

>> Donna Busse: Yes.

>> Matt Loesch: And I presume we have done our testing, we've run tests to make sure it gets split out?

>> Donna Busse: We split out the cola now we have experience.

>> Arn Andrews: I was just making sure we have the infrastructure to do this. Okay.

>> Matt Loesch: Councilmember Constant.

>> Pete Constant: So I just want to make sure I completely understand this 29% number. Is this because we prefund our contributions? And that's how you're using it? Or --

>> The 29% is the UAL rate plus the SRBR rate that is paid from the tier 1 plan and the tier 1 past service. So the -- so basically, since the rates were developed based on the 2011 valuation using total payroll, to keep the plan whole, the new member, the city has to pay the unfunded on the new tier 2 payroll to keep the plan whole.

>> Pete Constant: Okay. But as we do our next valuation we won't have that type of breakdown.

>> Correct. You will not have -- well, go ahead.

>> Bill Hallmark: If I may, you will still have to pay the tier 1 UAL.

>> Matt Loesch: So the UAL the way I'm understanding it maybe if I say it out loud it will make sense to somebody else too. We assumed that these new tier 2 people would be going into tier 1 when we did our valuation there was no tier 2 and part way through the current year, a portion of those people will not be going into tier 1. And so that the UAL that would be attributed to them even though there isn't a UAL for a new person, would be attributed to them are going into a separate pool and so it's causing an effect on the UAL of tier 1. Is that right?

>> Bill Hallmark: Let me state it this way. When we do the valuation we calculate the dollar amount we need to collect on the UAL. And so if that dollar amount is $70 million, then we translate that into a percentage of pay to charge. The addition of the tier 2 does not change the fact that we still need to collect that $70 million. And so this is one method for making sure we still collect the $70 million. And fits with the way we did the valuation in 2011. 2012, we could apply the same method or a different method but we would still have to collect the tier 1 UAL payment.

>> Pete Constant: So I understand that. I'm just thinking that in future valuations, I would expect we would receive two dollar amounts. One dollar amount that's attributable to tier 1 and one that's attributable to tier 2. I don't want this looking in five years like tier 1 has this huge contribution towards unfunded liability when hopefully there isn't any as we go forward, or it's minimal because, if we're going to have that number up higher in the chart, up on line 4, will be the percentage attributed to any unfunded liability for the new plan.

>> Matt Loesch: So it's not like there's a different way of doing the valuation. Essentially what Bill is saying is we need to collect the $70 million and this is a way to represent how that $70 million still comes into the plan. We could completely separate it and let's say the 70 million for tier 1 we just represent it with different numbers in different columns.

>> Pete Constant: I think it musties the water in five years from now ten years from now People are looking at it and attributing a tier 2 rate on tier 1 at that point tier 2 doesn't have a UAL at all or it's a completely different number. Because when I look at other, the other plans that I've looked at I've never seen a cross-tier number like this in their things. You have this plan has this rates and this, the next one, the next one, the next one. So I just think it would be cleaner and easier for everyone involved understanding that we have a transition period where we've already done a valuation and people are going to be coming in, in a mixed way during that year. But going forward, I think it would be better to have a clean line between the two plans.

>> Well, and basically what would happen then is you have that $70 million that Bill's talking about divided buy shrinking declining payroll. So the tier 1 percentage UAL will be increasing you'll see that increasing then there would be no tier 2 amount associated with it. Correct me if I'm wrong Bill on that one.

>> Bill Hallmark: I couldn't quite hear that. Could you say that again?

>> I said that based on the $70 million for the UAL, going forward, we could just develop the rate based on the tier 1 payroll which is going to be a declining payroll. So the rate will just be higher phenomenon tier 1's UAL.

>> Bill Hallmark: I -- yeah, we can do that. It would be difficult to project that going forward. And could cause us to change the amortization method. Another approach is, that we just come up with the dollar amount of this in contribution. And leave it there and not convert it to a percent of pay.

>> Matt Loesch: So one of the dilemmas here is we're converting something to a percept of pay which the devisor is the one that's calling causing a problem. The total amount coming into the plan. Mr. Constant.

>> Pete Constant: And my other question somewhat related is at what point will the board be making a determination on how they will be amortizing any future unfunded liabilities related to tier 2? So right now, you have -- can I deal with both plans I don't remember one of the plans has a layered amortization approach, the other one's different. At one point it was opened, at one point it was closed. So just wondering when the board plans to have a discussion on that hopefully before there are any unfunded liabilities.

>> Matt Loesch: In our schedule in our packet we have a schedule for the valuations for next fiscal year for setting the rates, and we have a line setting assumptions I'm summing that's changing as a result of each other and how they affect each other. Comments or questions from the board? Anything? Mr. Leiderman.

>> Harvey Leiderman: Thank you, Mr. Chairman. I have one question of the actuaries. That is, it's tied into the last discussion. Since the prior valuations have always assumed that tier 1 would be perpetual, and open enrollment essentially, is there anything about closing tier 1 and having all new members go into a separate tier? With its own UAL calculation? Is there anything that creates additional UAL for tier 1?

>> I'm going to defer to Bill on that one.

>> Harvey Leiderman: Me too.

>> Bill Hallmark: Just the closing of the tier does not create any additional UAL. Under -- if tier 1 was a separate plan from tier 2 which it's not, the current GASB standards would restrict how you could amortize that UAL. The

new GASB standards will not restrict how can you amortize that UAL. Even in that case. But since tier 1 and tier 2 are part of the same plan, I don't believe those restrictions apply. Now, many years down the road, in tier 1, is winding down, there are other issues to monitor in terms of how the assets get into tier 1.

>> Matt Loesch: Okay.

>> Arn Andrews: Suggest a follow-up on that. The fact that tier 1 will have a diminishing population going forward, it will never have an increasing population, that will only occur on tier 2 you're saying there is no affect on the diminishing population in tier 1 in relation to the UAL?

>> Bill Hallmark: The UAL is what it is.

>> Arn Andrews: Right but it's going to be spread over a smaller universe?

>> Bill Hallmark: It's going to be spread over a smaller payroll. So if we look at the UAL contribution as a rate of pay, it's going to go up but the dollar amount of it is not. It's still the same city that's paying it.

>> Arn Andrews: Right, the dollar amount will be what it will be but for the remainder of the individuals in tier 1 it will be a contribution based on a contribution percentage basis.

>> Bill Hallmark: If we develop a contribution based on a percent of pay that percent of pay will grow larger. The dollar amount is still following the same schedule we had before. Which does increase with our expected payroll growth assumption.

>> Matt Loesch: Okay. Any other comments or questions from the board? Okay. So sounds like we need to set some contribution rates as one of the actions that we need to do. First we need to accept, adopt their proposed tier 2 assumptions. And this is -- again, sounds like this is going to be an -- we're going to talk about this beginning in November starting for the new fiscal year. So this is setting the rates for effective October 1st is

when the new tier is effective for any new employees correct? September 30th. Effective September 30th any new employees this will be the contribution rate for the city on their behalf and then the employees on their before.

>> Donna Busse: Bill, this is just the pension side right? Is there any work being done on the OPEB side?

>> Bill Hallmark: On the OPEB side, the only change is, the new high-deductible plan, that includes and that doesn't have any effect on contribution rates for 12-13.

>> Matt Loesch: So the OPEB contribution rates are the same for the remainder of this fiscal year is what you're saying?

>> Bill Hallmark: Yes.

>> Donna Busse: For the tier 2.

>> Bill Hallmark: Yes for all tiers.

>> Donna Busse: But the tier 2 don't retire until age 65. Wouldn't that affect the medical rates?

>> Bill Hallmark: It's all aggregated together. But now, there is no -- as far as I read the municipal code there's no division in the medical rates for tier 2.

>> Donna Busse: Okay.

>> Matt Loesch: Okay. Mr. Constant one more before we adopt it?

>> Pete Constant: One more comment on this 29%. The reason I think it would be also very important in the future to keep them completely separate is under the new tier, employees are responsible for 50% of the unfunded liability. And when we're all gone and other people are sitting here and other people are on the council and the fights begin, if we still have a tier 2 number sitting there on unfunded liability you could see people trying to push that over to the new employees. So just for clarification.

>> Matt Loesch: Okay. So I'll entertain a motion on adopting the assumptions that are presented here by Cheiron. Diswo move approval.

>> Lara Druyan: Second.

>> Matt Loesch: Comments or questions on the assumptions? Seeing none all those in favor? Opposed. An adoption of fiscal year 12-13 contribution rates for tier 2 and let's just be clear what they are. Trying to read those into the record, that way they're clear and they're listed on page -- sorry, page 7. So on page 7 of this presentation has the rates. I'm not going to actually read the numbers. So on page 7 of the presentation by Cheiron has the rates for the employer and the employee for tier 2 employees. That will be my motion that those will be the rates going forward as of September 30th. Do I have a second?

>> Edward Overton: Second.

>> Matt Loesch: Comments or questions? Offers, opposed, okay. All those in actuaries and the lawyers about comments or questions to the language of tier 2 things. And that some of which, even the actuary said look, to set these rates we don't need to have these things resolved but in future years we probably should. Going on, Councilmember Constant's comment about in future years when someone else has to deal with this, one of the things that's a huge aggravation to us is having to resolve issues that could have been resolved at the time or clarified at the time. I would like to implore the administration and the council while you still have the people the lawyers whoever else was crafting this language to clarify any of these things so that the code can get fixed so that yes in future years this will be an issue but if we can clarify it now if we can continue to get those things

resolved so that it's not three years out, what did we do why did they do this so we can get rid of those ambiguities, because even the lawyer representing the city at the time said the board can kind of decide. As much as we can get rid of the board can decide stuff plan documents as to what's intended it will alleviate many of these discussions that we constantly have to butt heads about because what our understanding and remembrance is, it's not a motion I'm imploring both to the city council and the administration resolve the issues to whatever extent we can so the board just doesn't have to decide. If that's something you could do I would appreciate that.

>> Alex Gurza: Mr. Chair, thank you very much for those comments. Absolutely that is our plan. As you as a board see issues that need to be clarified once we start hiring employees into that, we would want to hear those issues. We are stating a list that may need clarification and we certainly understand your point doing that sooner rather than later while people who worked on it are still here .

>> Matt Loesch: Okay. So we're done with 3.6. We're back to 3.5. This is a discussion, we had to come back because there were some questions on 3.5. This is the discussion and action on the higher Class pay retirement contribution adjustment letter from Cheiron, dated August 13, 2012. I can't remember who was the questioner. Go ahead Bill.

>> Bill Hallmark: Did you want to review it quickly or --

>> Matt Loesch: Please.

>> Bill Hallmark: Or just any questions.

>> Matt Loesch: A quick synopsis.

>> Bill Hallmark: A quick overview. As we understand it, there is higher class pay for some individuals over a period of about 11 years was reported as pensionable pay when it should not have been. And that resulted in some overpayments of member contributions and city contributions. So number contributions have been refunded

to them. As we understand it. Or reduced from their current contribution. And the city had requested a refund of the city contributions over that same period. Counsel had written a letter back in June suggesting that that would not be appropriate. And we essentially agreed with the opinion from counsel that the city should not get a refund of those contributions. In fact, the City's contribution rate is reset with each valuation respecting the status of the UAL at that valuation and at that point it would reflect a reduction for any of the additional contributions. And so in the end, if you tried to reconstruct it, and refunded contributions to the city, it would just add to their UAL contribution rate now. But it has already been yawfg their UAL contribution rate over the last 11 or 12 years.

>> Matt Loesch: Okay. Are there questions from the board? It sounds like it's just an accept thing. It says discussion and action. I don't know if it's anything we just actually need to do.

>> Arn Andrews: One question. So counsel had opined that mechanism would not be through the prefunding and it sounds like Cheiron is saying now the city they would have already been adjusted for this through the either increase or decrease in the UAL. But on the employee side, it sounds like you're saying that not only should the employees get their overpayments back but they should also get the interest back. And do you --

>> Bill Hallmark: Well, what we said was that the employee account within the retirement plan should be adjusted for the interest coded into that account.

>> Arn Andrews: Right.

>> Bill Hallmark: So that the account did not -- is not affected 50 overpayment.

>> Arn Andrews: Right. So the accounts have to have both the overpayment and the interest associated with the overpayment come out, and so I guess do you have any thoughts on a mechanism to -- I mean the overpayment part we can probably get back to employees through a payroll adjustment on the interest, do you see a mechanism for getting interest back to the employees?

>> Veronica Niebla: Well, the interest would still be in the account. They haven't received it. Only when they get a return on contributions do they get the interest paid out to them.

>> Arn Andrews: What Cheiron seems to be saying is the interest cannot reside in the account.

>> Veronica Niebla: It needs to go back to the general reserve which is where it came from. Active employee contributions go back to the employee reference and then semi annual basis they receive interest for the money sitting in the employee reserve and that interest comes from the general reserve but if there are makes the most amount of sense to return the interest portion back to the general reserve.

>> Arn Andrews: Will I guess that's what I'm asking Cheiron because when I read this I got the sense that the interest has to leave the plan altogether.

>> Bill Hallmark: We are not opining on what needs to come out of the plan because that's more I think of a legal question. What we are opining on is the employee account within the plan should be adjusted so that as if the additional contribution had never been credited to it.

>> Arn Andrews: I guess I'm still confused. If the interest associated with the overpayment was accumulating and it's leaving the employee account, are we saying that the interest would then just reside with the plan as opposed to being refunded somehow to the employee, the same way we would refund the overpayment?

>> Veronica Niebla: Because the interest is coming from the plan, it doesn't need to go out of the plan.

>> Arn Andrews: But the interest came from moneys that should never have been in the plan. Overpayments by employees. And so I guess what aim asking counsel is, the same way we made the determination that those overpayment moneys should be returned to the employee, would the interest associated with that principal that was returned need to be returned back to the employee?

>> Harvey Leiderman: If I may Mr. Chairman, there's a difference, I think there's a confusion here. There's a difference between accounting entries and actual dollars being refunded back to a member. So the actual refund of dollars is coming from the city to the members, not out of -- no money is coming out of the retirement plan. So from and accounting standpoint, though, adjustments have to be made on the books of the retirement plan. And that's all that Ms. Niebla is talking about. There will be an adjustment from the employees accounts back to the generality reserve of the plan. But the actual dollars that will go back to the member for their overpayments are given back to them by the city, and whether there's still an open issue as to whether or not the city will credit them with interest are or not for the amount of time that money was deducted from their salaries. But there is no actual dollars flowing out of the plan back to the members. Just an accounting adjustment on the books of the system.

>> If that helps.

>> Matt Loesch: Does that satisfy your needs?

>> Arn Andrews: Yep.

>> Matt Loesch: Other comments or questions of the board? I don't see a direct action. What we need to do is accept the --

>> Veronica Niebla: I would add that Police and Fire board made the same recommendation. Because adjustments are occurring on more regular basis we have a higher class of pay, there is also the FLSA issue. What I do remember the board do is develop some sort of contribution offset policy, some way to document how corrections will be made. Harvey Leiderman sent over a draft from one of his other go-forward basis.

>> Lara Druyan: That would be great.

>> Matt Loesch: Sounds like a good idea.

>> Arn Andrews: I think with a payroll of our size it can be anticipated there will be more of these so having a policy is a good thing.

>> Lara Druyan: Absolutely.

>> Matt Loesch: We'll look forward to seeing it and act on it then. Item 3.7, update on electronic board payments.

>> Donna Busse: The update on electronic board pacts is not a good firm. The firm we approved to hire was bought out by another firm. We got to the point where there was a draft in their hands and now they are not signing anything until their legal approves the contract. And we just found out about it on the day it happened. We had -- we were talking to our client-service person one day, the next day he was gone. So we're really in flux about what we want to do on a go-forward basis with this company. Because we don't even know you know what their plans are for this -- for sire. So we're looking into options. Also we still don't have a new contact person at sire to talk to about some of our issues. We're also going back and looking at the other candidates as well and we'll come back when we know more.

>> Matt Loesch: We're about 12 months out from when we saw it. A lot of technology has changed. I don't want to go throw the net back out into the waters but a lot of stuff has changed especially on this mobile technology in the last six months. I know city council has changed a lot of things. Are you guys still considering other options or is it kind of dead in the water at this point?

>> Pete Constant: I don't even know to be honest with you.

>> Donna Busse: We are in communication with the clerks office, we do have something possibly in the works.

>> Matt Loesch: By October we could get an update of what direction you would recommend to us? One month?

>> Donna Busse: Possibly, depends on whether we get information from sire again.

>> Matt Loesch: It would I would like a recommendation from the staff as to what direction you would like to go whether it's to wait, troll again, go to number 2 open the list.

>> Is it for the sole purpose for distribution of the board packets? That seems like that's a pretty simple solution to solve.

>> Donna Busse: It's not just distribution. TTYs way we compile the packets, being able to store so people can search on it. There was a board-voting component, there was a mobile component for the trustees to be able to put notes and things on their electronic packets. It's our ability to control the confidential information able to take it on and off the site.

>> Okay.

>> Matt Loesch: It's not as simple as creating a drop box so everybody can look at the folders. The bigger problem is the protected information, the hipaa information for the disabilities we would see pollute anything that's pro try pry try that we could agenda construction things the tools that would make staff's life easier as far as putting agenda together and posting the material. It was a full package that was sought and was there. Mr. Leiderman.

>> Harvey Leiderman: If I may Mr. Chairman I would recommend that the board notify sire that the board is in fact going back out to the market and not simply let them hold us, you know, forever, as if we were a captive client.

>> Matt Loesch: Okay.

>> Harvey Leiderman: Seems to me that we ought to let them know that we are in fact, if they're walking away we're walking away and we're going to go forward with the next best and greatest thing and if they would like to compete for that business we would like them to show up on a timely basis and tell us whether they're in or out.

>> Matt Loesch: That's fine with me.

>> Harvey Leiderman: I know the board has been waiting for this for an awful long time and I'd like to see it move forward, and not be held hostage by whoever bought sire out.

>> Matt Loesch: Okay so why don't we make our request A it can come back to staff to wait but also if your money is there is no viable option we can notify sire we're no longer interested and we're going out to the market again and do that before the next board meeting so we don't have to wait.

>> Edward Overton: Was there a viable number 2?

>> Donna Busse: There is. We're actually we're going to -- we're talking to -- we're probably going to get a demo with them at the beginning of October.

>> Edward Overton: You're going to get a what?

>> Donna Busse: A demonstration. They were the ones that presented like number 2 on our list. We understood their capabilities were know more robust than we originally thought so we're going to get a demo.

>> Edward Overton: Sounds like the way to go.

>> Matt Loesch: Sounds like the direction of the board is go to another option and tell sire no thank you. Item 3.8. This is going to be a standing -- you have it just the org chart as the handout for it. The whole reason for this is I wanted to give Ms. Busse an opportunity in her active role to reach out to the board to talk about staffing

issues so we can support her as much as we can during this time and I was trying to think of a way that we have a monthly standing item that she could bring items up to the board and have it clear that it's about staffing and the organization itself, if we need to provide her with mechanism and also to update as staff changes. So that we could see adds or subtractions or the shift of staff around in roles and responsibilities during this transition period. So this is the mechanism that I'm going to have in every agenda until the staffing and the organization becomes a little more stable. So it, the really is the request from Ms. Busse is if there is any adds, key if there is any subtractions from the staffing and also major organizational rearrangements.

>> Donna Busse: No major, we are interviewing a couple of vacancies right now and we're pretty close to making a decision. The benefits division manager and the vacant analyst here. On the investment side I'm working with Heidi to maybe get some temp help in until -- because that process to get to the IOs is going to be after the CEO, after the CIO and then the RIOs are going to come after that. Working with Heidi to get some temp generic analyst help to help with the analyst function.

>> Matt Loesch: Were there any IO leaves?

>> Donna Busse: We had one IO leave, Max left. An additional vacancy that wasn't there last month.

>> Matt Loesch: The I guess if we could add onto this for next month, if there's somehow note or add any adds or subtractions from last month so we could just be clear. Really this is meant to be a simple vehicle for the conversation as opposed to creating memos every month so this is a breathing document that -- especially, also if roles are changing from existing staff that now this person is overseeing this group or this person has moved to that group that's important to us as well so we know who's responsible.

>> Donna Busse: This is important but not reflected here, I asked Heidi to oversee and be in charge of and direct the work of the investment staff. She's reporting to me. So I'll make that change.

>> Matt Loesch: Those kind of things are important, who's the lead who's moving around who's changing spobts responsibilities are there any needs that we could provide support from the board at this level at this time?

>> Donna Busse: At this time, no.

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

>> Arn Andrews: Just for those of us that don't participate on the personnel matters. I believe the CIO position was posted and is closed. Do we know --

>> Matt Loesch: There will be an update on the agenda item. There will be an update on that, yes.

>> Arn Andrews: And the director position?

>> Matt Loesch: There will be an update on that as well. The ad hoc committee there will be an update on that kind of stuff. Okay. That's a note and file. Since there's no action. We've done 4.1 A and B. I've asked for 4.2 to go behind the committee stuff because we're talking about the committee structure so moving to item 4.3, discussion and action regarding the memo from Debra Figone city manager, regarding annual required contribution projections and prefunding analysis dated September 5, 2012. So we have a memo from the City Manager requesting information from the board, perhaps mr. Gur da would you like to come forward and give a synopsis of what's requested? Obviously we can read. But it is meaty.

>> Alex Gurza: Yes, I think the request can really be broken down into two really separate pieces. One is a request for the board to provide the administration with an analysis of the prefunding. For several years now the city has been making its contribution up front in one lump sum as you know. And clearly we understand that there's a budgetary savings to us on doing that. Where we pay the money up front and it's less than if we had paid it over the 26 pay periods. The question that really we would like the board to provide us information is, what have been the pros and cons from the retirement fund perspective of receiving all of that -- those correction up

front as compared to if we hadn't done that. Are there any things that you know about or through whatever consultant you would like us to have a look at that, that could provider us with insight. And the reason we're asking for it is that because it is an annual decision that we make whether to prefund it. And that would be helpful to us, as we decide that for the coming year. So that's one aspect of it. The other aspect of our request is really asking for the valuation information and the contribution rate information, as really as early as possible. We understand that going through the valuation process is one of the most important things that do you. And what we're asking in the C category is if at all possible is to have the rates for both OPEB and pension by January of 2013. And we understand on a separate item now you have sort of a time line of when those rates would be put into place. And then, on A really, what A is, is there any information that the board could provide us on what we might anticipate the rates to be in 2013? Sort of a preview of what we might want to start planning for, for the 2013 rates. We know that we have the projections that were done last year that show what the rates were anticipated to be five -- you know over a five-year period so really the request is, is there anything else that you could provide us earlier, before the full valuations are done.

>> Matt Loesch: Okay, thanks. So the different categories, the one is on the prefunding, that's something that Mr. Andrews has brought up in the past about is prefunding an advantage? His request was, is it an advantage to the fund overall as opposed to getting them in 26 chungs, getting it all at once? And we have some experience doing that now for a few years. Have we seen now any kind of benefit from that? Mr. Hallmark are you still on the phone?

>> Bill Hallmark: Yes, I am.

>> Matt Loesch: Would you like to opine on what you think? My guess is our question would be to you of how would we actuarially be able to figure that out and we could also look at the accounting end to see if there is any way to try to track that or report back plus or minus or anything.

>> Bill Hallmark: Yeah. There are a couple of issues. First, just straight on the prefunding, it's designed to be mutual over a long period of time to the fund. So your prefunding amount is discounted to the expected rate of

return from -- through the beginning of the year. So as long as our expected rate of return is kind of the meeting achieved over the time period, there should be no impact to the fund positive or negative. If we look at the last four years or any specific year, whatever it ends up in that year being a positive or negative to the fund, has to do with what the returns were at different points within the year. So if the investment markets up in the first part of the year we have that prefunding in there then that free funding gets advantage of very hot investment markets. Whereas if we get it an payroll by payroll basis, we only have a small amount advantage to the up market. And conversely if the market went down at the beginning of the year we're talking about the more even payroll by payroll number did not . So yes, that's how the general effect goes. I think tier 2 raises a different complication in that the cost for tier 2 are supposed to be split 50-50 between the city and the members. And the prefunding may create a problem for maintaining that 50-50 split in cost since the members cannot prefund.

>> Donna Busse: Bill am I correct, I think Cheiron actually did a presentation to the board I believe it was in October of 2011 it was an analysis of the prefunding. Do you recall?

>> Bill Hallmark: Yeah, I --

>> Arn Andrews: And I believe that's the attachment in the memo. And so to me, when I first started bringing this up about a year or two ago, it was less about an actuarial discussion and more about an investment return discussion. Because we're making a decision to dollar-cost average once a year versus 26 times a year. And so for me I was curious if there's a way and it might be more of a Meketa question if they can back date what the effect would have been for the last three years, since we've been prefunding doing it one time a year versus 26 iterations .

>> Matt Loesch: We have beginning of July as opposed to getting that split into 26 pieces.

>> Arn Andrews: Because over the life of a plan over a 20, 30, 40, 50 year period a single dollar cost averaging entry may need to work well. But the problem is we're taking market entry risk if we only do it one time a year .

>> Matt Loesch: For a portion of the assets. For a large portion of the assets.

>> Arn Andrews: For a large portion. That's what my thought process was, it was more along those lines. Have we done anything that alters our investment yield on a year to year basis by doing a single market entry and is there a way to back-date that data to try to come to an educated conclusion if it has?

>> Matt Loesch: During these four years if we would have done it over 26 this is what we would have gotten.

>> Arn Andrews: And I realize that asset evaluations are going to change, there are going to be variability. I guess the question of Meketa if they could do it without expense and administrative nightmare, is there any way to try and see what, dollar cost averaging once or 26 pay periods have done. It is even for them to do budgetarily they come before us and as a board we make a decision either yes or no to allow them to do that. I'm just wondering if is there any way to capture data towns if we should be saying yes or no to them.

>> Stuart Odell: The chasing is straightforward. I don't think it gets us to a better place looking back four years and trying to extrapolate that going forward and saying dollar cost averaging. Would I focus on the very long term which is we have an expected ROA of 7.75% or so. That's what we expect to earn on our assets. All things being equal I'd rather earn that 7.75 right at the beginning of the year rather than averaging it over time. Quite honestly, if the city would like to bring dollar cost average it, then go stick it in a cash account for 52 weeks and have it come out a little at a time. The city isn't paying you interest on those 26 payments. If they were -- maybe they are paying a little bit of interest, I guess we do discount it back.

>> Arn Andrews: They do, that's where the discount rate goes.

>> Stuart Odell: My sense is at the beginning of the year if you believe in your long term expected ROA on your assets, the other investment related piece to this is the planning of how you invest this money. And particularly given the amount that we have in alternatives, I think that the more that the investment team can plan ahead, for

cash flows, and the larger those cash flows are in single periods, is a benefit. That's one that they ought to take into consideration.

>> Matt Loesch: Comment?

>> Alex Gurza: Mr. Chair, Mr. Hallmark mentioned something we would appreciate understanding more, the tier 2 and the 50-50 split how that might affect the decision to prefund, if it's possible that you provide us more information on it, we would really appreciate it.

>> Matt Loesch: Did you hear that Mr. Hallmark?

>> Bill Hallmark: No, I couldn't hear that at all.

>> Matt Loesch: The information you brought about tier 2 the city is requesting more information about and maybe in our evaluation assumption setting and that information can come back as further developed as to what you think the implications are of prefunding tier 2 dollars.

>> Bill Hallmark: Y, we'll bring more back on it and we haven't developed an official recommendation yet. But the issue is just, if the city puts their money in at the beginning of the year the members put it in throughout the year, how do you make sure the end, that the numbers that the city have each contributed, the same amount to the plan. So if they have the same share of the UAL. And you're going to get different investment earning from the beginning of the year contribution than you are on the payroll by payroll contribution. So there's a slight disconnect there and it's a question of how tightly you hold that 50-50 slice.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: I don't see how that's really any different than the 3/11, 8/11. It's still a split. And there's a true up at the end whatever it is makes a difference.

>> Bill Hallmark: It's just that any difference goes into that, ton tier 1, or tier 2, any difference goes into the UAL. And the city is paying the UAL on tier 1 but not on tier 2.

>> Matt Loesch: So if there's a negative difference let's say in tier 2, the city put the money in early, all their money in early and there was a positive consequence and should they pay-d and then the employees did not -- they paid over the year and there's a negative consequence, and the UAL is generated as a result of the employees paying over this longer pay period, then it's going to be split. The city would not see any benefit they would end up picking up the UAL because the employees are paying over the whole year, as truly being 50-50. I think his point is the contributions are coming at the same pace, at the same time. To maintain absolutely as mobling 50-50 so one group after the other is not receiving a benefit. It's going to be further developed in future mentions, we should make sure it's perfectly clear. Nothing to say about current contributions because there's nothing for the UAL.

>> Arn Andrews: My question for the board is, do you think it would be useful to have additional data when we look at the prefunding or to Mr. Odell's point should we think for us the more important perspective is having the money up front? The city has its history of paying its full arc. It's Nye nice to have the money deployable at the beginning of the year. It's an issue I'm interested in but I'm not necessarily saying we have to have the data. I want to have a discussion about relevance of the data tactical distribution as Mr. Odell was saying. So I'm not sure the flavor of the rest of the board --

>> Matt Loesch: What we could do since we didn't ask Meketa, we did at one point ask them to look at it. Maybe we could have them come back next month if there's anything materially different from their presentation because they did present on it at some point. We didn't query them on this at all.

>> Arn Andrews: No and I guess my question is, is it of interest to the board? Is it something you want to utilize Meketa to talk about or even think about or is it something that isn't relevant to the rest of the board?

>> Martin Dirks: I think the difference is if you are going to deploy it different if it comes in biweekly or alternatives, would it be easier as a chunk.

>> Arn Andrews: And that's the tactical issue Mr. Odell was saying.

>> Stuart Odell: If it comes in every two weeks, realistically they'll probably use it to Fay current retirees. They're not going to use it to invest.

>> Arn Andrews: It will be a cash flow instrument.

>> Stuart Odell: From that perspective you'd have to look at whether it's advantageous to them because then they don't have to sell other assets to meet those cash flows, perhaps and that might be a positive in any case.

>> Arn Andrews: Right.

>> Matt Loesch: Mr. Leiderman.

>> Harvey Leiderman: To get a full comparative transaction costs over the period of the year. As well.

>> Arn Andrews: That's the point. 26 periods a year, it's probably going to be a cash flow vehicle, as opposed to the asset mix, in it's entirety, which means then we're cleating during -- liquidating dure the year for cash flow . And to the extent it -- they're not reinvesting it, they should be having cash come back.

>> Matt Loesch: Ms. Druyan.

>> Lara Druyan: If we would have Meketa do something I would be happy to look at the last four year period but I think it would benefit us to look over a longer period of time as well. Even though it's not going to be apples to apples but I'd like to think the last four years are somewhat unusual.

>> Matt Loesch: Okay. So to respond to the request of the city, I think we asked for them to analyze and come back with a recommendation how to do it or what their thoughts are about it next month. So we can have them chime in, Cheiron can see if there's any other implications that they wrote like to respond and staff as well. Because then our investment staff could look at the issue of market timing and so forth from their perspective. Sound fair? Okay. On the other items as far as there's one item as far as anticipated rates based on the current valuation. Mr. Hallmark would you like to weigh in if there's any changes materially to the rates that were set in the past valuation of 2011 that you would -- we would need to provide guidance to the city, for anticipated rate changes?

>> Bill Hallmark: There are a number of things we can attempt to take into account but we would not be able to take into account everything that's happened until we complete the valuation. So the things we could take into account easily would be the admission of tier 2 and then we could make an estimate of the, based on the investment returns for the year. But I think the projections would continue to be based on the successive data an projections from the prior valuations. So I'm not sure that that gives a whole lot more accurate projection for budgeting purposes, than what we have right now. Because some of those things are mitigating in opposite directions.

>> Matt Loesch: Questions from the board?

>> Arn Andrews: Knowing that we missed our investment objective, what is the magnitude of that relative to the other components of the valuation?

>> Bill Hallmark: The investment returns are the most significant. But we are submitting those over five years.

>> Arn Andrews: So --

>> Bill Hallmark: That's 20% of it this year but also we'll be recognizing some prior pieces.

>> Arn Andrews: Right.

>> Bill Hallmark: And those prior pieces were already built into our prior projections.

>> Arn Andrews: Right so if you did try to do an interim valuation, utilizing what we know is currently going to be an investment loss the other aspects of the experience study in terms of magnitude, they might offset it a little but probably not significantly, is that a fair statement or no?

>> Bill Hallmark: Well, we don't know how much the chaibl at this point in time (inaudible) we have seen larger changes in the census data in the last couple of years than are normal. But I would generally agree with your assessment with the caution that we're not certain at this point what's happening on the census baseline.

>> Matt Loesch: So I guess to be responsive to the request, and to what degree -- so if we ask Cheiron, to what degree does anything, do you know of that would have changed your projections, we can come back it's 5% move, possibly because the valuations are not done. I don't know what we could ask Cheiron to do to provide guidance to other than our budget our projections from last year is what we're going to until we do the valuation are what they're going to have to stand for a few months until we get the actual valuation period done.

>> Alex Gurza: We do understand the challenge. And if the board recommends that we continue to use the projections that were developed based on the 2011 data we certainly understand. Because one of the things we don't want to do is have our request delay the work that Cheiron is engaged in the next valuation. So you know we're really open to your thoughts on that.

>> Matt Loesch: Okay. I mean I think it sounds like potentially the investment losses of last year might be offset relatively evenly from potential census changes is what it sounds like I'm hearing from Mr. Hallmark. But again without the analysis done which is what we'll do in the valuation to provide real guidance, it sounds like standing pat with the results from last year, is that the consensus of the board, what we're hearing?

>> Edward Overton: Yes. If you develop contribution rates for the plan, all things being equal, those contribution rates really shouldn't change. Now to the extent that there are actuarial gains, actuarial losses, Cheiron should be able to update that projection each year moving out three or four years.

>> Matt Loesch: It looks like the budget office is trying to get us to hint our hand budget wise and sounds like this time we can't even show them half the cards as far as what we think without the valuation --

>> Edward Overton: Or the deck, is it really going to be the same?

>> Matt Loesch: We'll be playing with a different deck in a few months. As aggressively as we can get those valuations done. And I guess if I could have -- open up item 4.4 which is the add I kind of put in, in response to that. Discussion and action on the pension and OPEB valuation process and time line. I asked Cheiron to put together what is their projected time line of data coming in, data coming to the board, decision points and what if anything those time lines are responsive to the request. But also, timely as far as away we can do if anything to be aggressive about our schedule. Anything you would like to highlight there Mr. Hallmark?

>> Bill Hallmark: I think the key highlights are that we would be coming back to the November board meeting with the preliminary retention valuation results and the assumptions. And then, we wouldn't be back till the January board meeting with the OPEB valuation report. We would be back in December with the final pension. And part of the process, we have two separate teams. With us that works on pension and one that works on OPEB. And the OPEB part, the first part results on developing the new claims based on the new premiums and the new health plan which adds a whole 'nother step not involved in the pension. And that's why I'm thinking it's longer to get the OPEB results than the pension results.

>> Matt Loesch: Okay. I had kind of a wild thought in doing this agenda stuff and our previous conversation around the retiree health care issues that have been presented. The -- from what I understand the majority of the Federated bargaining units are in negotiations presently on the topic of retiree health care and kind of along the

lines of item 4.7. If there's anything we could do to provide the accurate current year data, not that there's going to be a massive swing one way or the other to try to imply there's going to be a change of data, but doing anything around the OPEB schedule to get that even in front of the pension schedule with the idea that the bargaining parties is a way to kind of our part of providing what we think is true data to the bargaining parties. To potentially help the negotiations. Not to -- one way or the other, just here's the data so they can be negotiating on that current data. Is there anything on your end Mr. Hallmark that would help move that schedule? Could it be bumped up and if so, how much?

>> Bill Hallmark: I think on the OPEB side, we have a very tight schedule for our team. The things that you can do, you can beef up the presentation of the OPEB assumptions, around that it's clear what we expect the new low cost health plan to be whether it's going to be a minor effect or an effect and any other changes to the claims or premium cost. So those are the things that are likely to have the largest effect on the OPEB contribution rates from valuation to valuation. And we can in November but we won't be able to have final numbers until January.

>> Matt Loesch: So regardless of moving the discussions forward for OPEB numbers cannot come back before the first of the year?

>> Bill Hallmark: Yeah, I don't believe they can. (inaudible) as much as we, but yeah, given the additional analysis we've started the OPEB claims analysis now, but given the additional analysis and all the pieces that go into it then working through the holidays, it will be difficult for us to get any of these things done earlier.

>> Matt Loesch: Okay. Any thoughts from the board members? On the schedule? Any input? Seeing none. Lfg Mr. Chair, first I'd like to thank the board for the time line. It's very, very helpful for us to see when we can expect the board to be hearing these issues and the time line. And the ultimate date of January does really meet the needs from a budgetary perspective that we asked from the memo so that would work. Mr. Chair to your point about the OPEB valuation and that it would be helpful to have it earlier, that's absolutely the case, as we'll talk about in another item later. We have begun negotiations with eight of the bargaining units in Federated on the topic of retiree health care and one of the first things that I told them is that we don't have new data yet because

clearly it's on everyone's mind, the city and employees, that the full arc next year for retiree health care is more than 30% of payroll. And that's what I said earlier. We are fully aware of that challenge. But one of the things that as Mr. Hallmark indicated is we don't know exactly what the impact will be of the lower-cost plan. You know KEU6R7B8G9SDZ we did have our consulting actuary give us a sense of magnitude but not until your actuary does that do we know from an employee perspective and the city perspective how will that affect that, what we're expecting to be over 30% of payroll? We know it will be less all things being equal in the valuation. You know but we really want to know how much less. How much -- what will that 30-odd percent end up being. So the earlier that Cheiron can do its work we certainly would appreciate it.

>> Matt Loesch: Okay. Any other comments or questions on it? So it's not really an acceptance of the schedule because we aren't really accepting the schedule but it's kind of a presentation we should be seeing. We start hitting the stuff pretty hard in late October and November as far as assumptions and discussions on valuations. Okay and then let's try to plow through these next three real quick and then we'll grab something quick to eat before going on to the next items.

>> Alex Gurza: Malaysia, on discussion on the other items, the board is going to do some prefunding you have as I understand it?

>> Matt Loesch: Conversation next month, anything we can do around providing any analysis that's useful on the prefunding.

>> Alex Gurza: Thank you, we appreciate that.

>> Matt Loesch: So on 4.5, discussion and action on the system expenses for June 2012 and July 2012. They were e-mailed to us but they also were placed on the desk as hard copies here. Any comments or questions from the board? Otherwise I'll entertain a motion. On 4.5.

>> Edward Overton: Move approval.

>> Arn Andrews: Second.

>> Matt Loesch: Any comments or questions on the expense reports that are listed?

>> Arn Andrews: Just for the final closing June statement it appeared as if we were under budget in every category. So kudos to staff.

>> Lara Druyan: Wasn't that also due to the fact we're missing four staff members?

>> Part of it.

>> Lara Druyan: Not that staff isn't doing a great job but you know I would expect that.

>> Matt Loesch: Any other comments or questions? All those in favor? Opposed? Okay. Item 4.6. Discussion and action regarding the revisions of the disability retirement hearing process, this is procedure number 220.2.

>> Donna Busse: And I apologize the heading on my subject of my memo is wrong. So we have all these board procedures that were adopted many years ago. And one of them is, that the disability committee that hears the committee and makes recommendation to the full board is -- should consist of the director and the two deputies. Over the years that's morphed into one director and one deputy and now there's just me. So we need modify the policy to allow some flexibility for the director to appoint people that they see fit on the staff to be part of this disability committee. Because A, we don't have anybody else right now. And then B, when the new director comes in the new director might not want to be on the committee. He may want to designate the operations people to do it. So we just wanted to make the policy flexible to allow the director to designate the committee.

>> Matt Loesch: Okay. Any thoughts on what the policy being proposed?

>> Arn Andrews: My only question was, you know, all of us participate in the hearings that make their way to us. And we all realize the complexity of them. And so can you give me a sense of the experience of who may or may not be able to be designated out of your staff to hear these? Because I don't -- there's a learning curve involved if they have never been exposed so I don't know if you have any thoughts on that.

>> Donna Busse: Right, obviously it didn't make any sense when the deputy changed over to the CIO to have the CIO participate in it. To i'm thinking the benefits manager and the operation deputy or me acting director right now.

>> Arn Andrews: Right and do those individuals have any previous experience sitting in on these hearings? Ing.

>> Donna Busse: Yes.

>> Arn Andrews: They do.

>> Donna Busse: The divisions manager the benefits manager sits in they are the ones that put all the disability packets together.

>> Edward Overton: We need to make sure we maintain some objectivity because if you dip too far down into the benefits group you have the people who are calculating the benefits and managing the case now deciding on it.

>> Donna Busse: I don't think it will go down to the analyst level I hope.

>> Matt Loesch: I think we need to be clear that it doesn't be explicit in it. One I my concerns, if the director wants to opt out, I think that's one of the things that we're delegating some authority creating the disability committee that them just opt-out of it I'm a little leery about that. Personally I'd like to have the director, acting or not, be required to. And if they want to, you know, have just -- have additional people on it whether it's the benefits

manager and the deputy in charge that's fine. Have it three as opposed to just two I'd be fine with that but I think I'd like to have the director as required as opposed to there because most people because the disabilities of challenging and emotional and complex, would want to opt out of it because they're hard but I don't think we as trustees can't just opt out because it's not fun. Right now the current deal is the current structure is this is one of our responsibilities and I think if we're going to be delegating part of that disability to them I think the director should be required that's my opinion but I'd like to hear from the rest of the board if they think differently.

>> Edward Overton: I agree with that.

>> Martin Dirks: It is a very important decision so I agree. How many disability cases do we hear a year come before you?

>> Donna Busse: Maybe one oa month.

>> Matt Loesch: The issue on disability is very different on the Federated side other than the Police and Fire. The volume is much greater. That is a topic for a different discussion. The question is if it is one oa month, how many have we seen? We've seen two since January. I think we've seen two additional ones that have been put on concerned and not pulled off by 9 for a hearing. 74 or five have actually been through the board process at all in 2012. That doesn't mean that some aren't stopping at the committee level and not proceeding forward on their own will.

>> Edward Overton: Would there be any interest on the board of suspending the disability process until staffing is available?

>> Matt Loesch: Personally I like the recommendations, it is a good vetting process, it is not it's just one to one level screening. It's fine with me that it proceeds. If we have staff capacity. At the Federated level.

>> Edward Overton: That's the issue, staff capacity over the next six months to a year is going to be dmiched I'm just saying that --

>> Donna Busse: The fact you're not having that many cases come up is they are getting stopped at the committee level or they pull it because it looks like they're going to get a denial and they got to come back for more information. We're saving you guys a lot of time.

>> Edward Overton: I understand that and I agree with it it's just that we're in a particularly touchy situation now with staffing.

>> Donna Busse: I think it's just as hard for staff to bring it to the board or go back and bring it back again. I think it's time well spent for us staff. Because otherwise we would just be preparing the cases for staff and repreparing them again.

>> Edward Overton: How is it for Police and Fire yment.

>> Donna Busse: They don't have a committee.

>> Edward Overton: Does they are looking to have a disability committee maybe made up of some of their board members. For that exact reason because things are coming and now things are getting continued and things are getting deferred at the board level.

>> Matt Loesch: So I'm hearing from staff now that they have the capacity to ham the current level of disability if it changes over the next period and you think we need to use that avenue as a way to query us about changing our process, if the staff level is not able to handle the disability level in the Federated site. Does that meet your needs Mr. Overton?

>> Edward Overton: Yes, I'm just thinking in terms of the existing staff. The fact that we have so many vacancies. The fact that management is down like for what I say, six eight months whatever the time period before we get a director in here. We just not have a hearing committee. But if there's consensus that the staff would prefer to keep it going, the board would keep it going, I'm okay with that.

>> Matt Loesch: Okay. So anything other than the changes that have been recommended here about not having -- ensuring that it does not go down to the NS level and that the director is required to participate?

>> Donna Busse: I won't say one designee,.

>> Martin Dirks: I think we had one or two disability cases that we've lost on appeal. I mean is there sort of some level or type of person that we it behooves us to have on this -- on the for a disability review? Are we disposing ourselves?

>> Harvey Leiderman: If I may, Mr. Chairman, this is a screening committee, it's got to come before the board. You can decide to treat recommended grants on the consent calendar, they can get pulled, you don't get that many. But as a screening process I think it's fair, it's fair to the member to get some early feedback on difficulties they may have or additional information that they should be providing before it goes to the full board for review. And then you have a full board hearing based upon the medical evidence. So from a procedural standpoint I think this is perfectly fine. It may not be -- if you had a greater velocity of applicants on a monthly basis I would make some recommendations about a more formalized process. But given that you only get one or two a month, I don't -- I think this is satisfactory under the circumstances. And doesn't raise any problems for appeal. The due process is still guaranteed.

>> Matt Loesch: Okay. Any other comments or questions? Okay. I'll entertain a motion then.

>> Arn Andrews: Motion to approve staff's recommendation to change the disability retirement hearing procedure under 2020.2 with the revisions woe discussed, that will be clear that the director is still anticipated to be there, and that it would not go below to an analyst level.

>> Matt Loesch: Second?

>> Second.

>> Matt Loesch: Comments or questions? All those in favor? Opposed, none. Item 4.7. Discussion and action regarding the request from the city administration to have the board's actuary attend a meeting with bargaining units and city representatives to provide an overview of the 2011 OPEB valuation and answer questions. You have in your packet a memo from Mr. Gurza who is present here. Want to summarize?

>> Alex Gurza: Yes, thank you. This is actually a joint request on behalf of the city administration and eight of our bargaining units. And I think this morning's conversation about the retiree health care challenge fits right into this. We, the city sent an invitation to eight of the bargaining units to engage in what we call coalition bargaining. Coalition bargaining is where we sit at one table with multiple bargaining units. It's voluntary and what I want to let the board know is that all eight accepted our invitation. To sit down.and talk about this challenge of retiree health care the fact that based on last year's valuation there is an $800 million unfunded liability that's shared 50-50 between the city and employees. That it's 14% funded and paying the arc is over 50% of payroll. We had our last meeting last week and what we did is handed out the most recent information we had, the cine OPEB's valuation and the powerPoint they presented so they would have the most recent information we had. We started having discussions about questions that some of them had about the actual valuation. So what I suggested to them is that we come before you and ask Cheiron to attend one of our bargain sessions. So that Cheiron could make a presentation, an overview, based on last year's valuation, we understand it's still not updated and give them an opportunity to ask questions about the numbers and how it works. That's our joint request that you authorize Cheiron to attend one of our meetings as an information at session only.

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

>> Arn Andrews: Just my initial thoughts and this goes back to some of the conversations we had and guidance from counsel when were talking about the ballot measure and what is our role as fiduciaries in that discussion. And I think one of the things it was clear is it is within our purview to help provide education to all our stakeholders. Personally I'm comfortable utilizing Cheiron to help discussions within our stakeholders that are within our plan.

>> Matt Loesch: Other not?

>> Does the cost come from the plan?

>> Matt Loesch: That's part of the plan. Whether we say that the city would pay for Cheiron's service at that meeting, that is what the board would request or demand here.

>> Alex Gurza: I did put in the memo that if there is an issue of paying the costs to please let us know. I've notified the bargaining units that there could be an issue of the cost. We certainly don't want that to be an issue in having the meeting and if there is a cost that the board does not want to incur we and the bargaining units will talk about how that gets paid. But it will not be an issue if the board prefers that the board does not have that expense.

>> Arn Andrews: And I will defer to our counsel if this is considered as a reasonable expense in our role as fiduciary to engage stakeholders.

>> Harvey Leiderman: Well, I think we should entrees the opportunity. I think we should all consider frankly that you know, we should be delighted that we're being asked to provide educational information in advance of the parties taking action, rather than you know after they take action. And then we have to throw cold water on something. So I think it's a terrific idea. And a very good idea. It's very difficult to try to say that this is a plan

expense. Because it's a voluntary, I mean I think if Cheiron came here and made a presentation to the board to inform the board on making decisions that it has to make, that would be a different thing. So respectfully, I mean I think it's part of the general work possibly. It goes beyond, let's put it this way. It goes beyond what we have written in the Cheiron contract, that's part of their retainer on behalf of the board. So I think -- I would say all things considered it probably falls more on the side that the plan should not pay for it, than should pay for it. I won't have a lot of heartburn if the board decides that it's within the broad panoply of the work that Cheiron does for the system. But it does go beyond the terms of their contract with the board.

>> Matt Loesch: Okay. Other questions or comments from the board? Everybody is so verbose today.

>> Donna Busse: It is a big agenda.

>> Matt Loesch: Yes. Again I think it's a great idea that Cheiron participates. Again I see the gray area that Mr. Leiderman is alluding to as to whether it should be a plan expense or not. I think if that's the case, I would lead towards not paying for it because they may be encouraged that even a telephone presentation at a we use those frequently to save costs as well if that's something you would entertain. You know, I know you talked to, you said in the letter even if you plan when they're coming in 98s to share cost or reduce the cost I think it's a great idea that they participate, fine in my opinion because there's a gray area let's not get close to it and request that the city or however that manifests not be paid for by the plan. I'll make that motion. That Cheiron -- nobody is chiming in. That it's affirmative it's okay that Cheiron participates in that meeting and that the request be that the plan not pick up the cost for that to participate.

>> Lara Druyan: Second.

>> Matt Loesch: Other comments or questions?

>> Edward Overton: I don't have a problem paying for it.

>> Matt Loesch: Okay.

>> Edward Overton: Just for the record, I think that if we're talking about employee contributions, if we're talking about city contributions, those are elements that we would be concerned with. And if Cheiron can help develop those in a way that is beneficial to the city and to the members I think we're well within our authority to go ahead and pick that up.

>> Matt Loesch: Are you offering a substitute motion or are you just commenting?

>> Edward Overton: I'm just commenting.

>> Matt Loesch: You're welcome to.

>> Edward Overton: You know, did you get a second to your motion?

>> Matt Loesch: I did, Ms. Druyan.

>> Edward Overton: Okay then let's vote on your motion.

>> Or would you propose splitting the cost?

>> Matt Loesch: Again if you are offering a substitute motion --

>> Edward Overton: Actuality motion?

>> Matt Loesch: Are you offering a substitute motion?

>> No, I'm asking Mr. Overton a question.

>> Edward Overton: You know like I said I think it's a legitimate cost to the plan. And in due deference to what Harvey has said, we're talking about the future of contributions, the future income of the plan based on its members and its sponsor.

>> Matt Loesch: Okay.

>> Edward Overton: And it would be the same as if we asked Cheiron to cost out benefit proposals. Except we're getting ahead of the benefit proposal by having them actually participate in the discussion of benefit alternatives.

>> Matt Loesch: I don't think it's benefit alternatives. It is answering questions on the report previously provided. You're alluding, that's not what the request was.

>> Alex Gurza: That's a good point. One of the requests was this is simply an education session on the valuation, the assumptions within it, at this point it is a foundational discussion. One question came up well could Cheiron give us alternatives. That is the point where I said I didn't know whether the board would want it to do down that road or not. There is a information session. It would be a question at this point do you want your actuary to be providing their ideas or thoughts on alternatives and at this point again that is not the request.

>> Matt Loesch: Okay, so since no one's offering a substitute motion, the current motion is yes Cheiron can participate but no the plan cannot pay for it, it can be voted up or down and if we need to we can vote on something else, okay? That's the current motion and it has been seconded. Any further comments or questions? All those in favor? Aye, nos so it's unanimous.

>> Alex Gurza: Appreciate it.

>> Matt Loesch: We're going to call a rest for say 15 minutes and then we will reconvene in closed session.

>> Edward Overton: Are we done with this -- [Recess]

>> Matt Loesch: I'd like to reconvene, coming back into session while people are getting water. There are no report out on actions on 3.1, 3.2 or 3.3. At this time I would like to go to items 5.1 starting with the committee reports. The first one up is the policy committee that is sitting here, still hanging out for a bit, I think it's going to be going away here very shortly, hopefully even today, but we'll see. 5.2, investment committee, we've had a lot of conversation about what's going on at the investment committee, but a brief update from the committee chair.

>> Lara Druyan: We have had a lot of discussion because this is post our CIO resigning, about really prioritizing and narrowing the focus of the staff since we are so limited on the staff we have, and we also knew our director of retirement systems was leaving. We went over the performance with Meketa and we went into closed session on two investments that the investment committee approved and recommended to the broader board.

>> Matt Loesch: Okay. So on -- oh sorry I did miss 5.2A which is the minutes so it's note and file on the minutes there from the August 8th meeting. And our acting director notified me -- I'm going to jump back to item 2 -- that I missed item 2, the death notifications. So 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. Item 5.3 the audit committee. I'm going to get an update from the audit committee. I know you had initial conversations. Can you give us an update, please?

>> Yes, Sean Bill from the Police and Fire audit committee, and I met with Veronica, and we talked about a wide range of issues. I think the key next step is to have the full committee --

>> The audit committee getting together. And we were planning on the agenda having the focus of all the assignments that have been assigned to the audit committee going over the audit committee charter that was adopted by this board that Cortex drafted, and I also received some documentation from our general auditors on the roles of an audit committee, so more of a general view of the role the governance policy on the committee and

then an outstanding Items or project list would be the first agenda and I believe we're trying to schedule something for the next two weeks.

>> The next two weeks.

>> Matt Loesch: It will happen before the next meeting, perfect, okay. On the ad hoc governance committee, I'm the chair of that. Item A and B discussion and action on the report outline for research plan by Cortex. So the update was, there was one meeting on August 31st and it was really to discuss what was the next phase for Cortex's work for the overall governance plan. So the result of that conversation, Sean Kaldor of the Police & Fire board is the chair of their committee, and so we did a little prework with Cortex, said come up what what you think the plan would be for a new or revised governance study for Cortex phase 2 from the Cortex phase 1 is what brought the outside investment professionals onto the boards. Cortex phase 2 is, is there a future structure better or more enhanced for the plans in general. And so what we -- at that meeting we decided that the -- to have Cortex prepare and do research on best practices of plan structure in general. And not come with a necessarily an opinion as to what would be a recommended structure. Because they -- the -- this is a joint meeting between the Police and Fire governance meeting and ours to -- if we are going to have a recommendation, we just want Cortex to gather the research and provide some data about what plans are doing so that then the governance committee can get together and deal with that research and then form an opinion thereafter as opposed to Cortex providing an opinion as to what the structure ought to be moving forward. So all kind of encapsulated here as to breakdown. I believe you should have got e-mails from someone in Cortex about being interviewed for that. We'd highly encourage -- we'd like to have everybody on both boards participate in that discussion. So if you can arrange to have a phone interview with someone from Cortex, they sent you an e-mail so they should give you a number to contact back. So instead of meeting at their convenience, they are in Canada, so they are a couple hours ahead, so those of you who want to schedule it early in the morning, it is pretty convenient to schedule things around much of what you would want to do. And they are pretty good about gathering good, consistent questions and reporting back to the full committee. So that's my report-out on what happened at the committee. And I don't necessarily think there's a need to discuss or have an approval on that because I think the committee -- this is what we would like to do and have Cortex do. Any comments or questions on that? Okay. On

the ad hoc personnel committee, the last official meeting was on August 15th, so again I'm the chair of that committee. So as far as an update, what I would like to do is give you kind of an update as to what we've gotten -- I have a weekly call on Fridays for ten minutes or so with the search firm for the CEO CIO and the investment officers. So just a point of reference here. As of Friday last week for the CEO search, 31 candidates have applied, 13 of whom meet minimum qualifications. And the alliance has sent a book of nine qualified candidates to the city for additional checks and as a reference. For the CIO search, 129 applicants have applied, about 90 of whom meet the minimum qualifications. And a book -- a progress book of 18 candidates have been forwarded to the city for review. On the investment officer, 49 candidates have applied, 37 of whom meet minimum qualifications, and no book has been provided at this time to the city yet of, I believe that's going to be pretty imminent.

>> Ed Overton: Is the city reviewing the investment officer recruitment?

>> Matt Loesch: Presently I don't believe any analysis has been done on either of the two books that have been provided to the city, these are just candidates. The question is one of the things I would like to seek in item B of this 5.5 is discussion and action regarding the scope. Because right now we have not authorized the committee to participate in reviewing any of these books, reviewing them just to see what kind of skills if they are even in the wheelhouse of any of our interests whatsoever. So I thought it appropriate to keep that on here, this item on here, so to discuss should we have someone or the entire group, the personnel committee or some other group of the board, look at these books just to see what are the qualifications of folks that are coming through alliance, just to make sure we're even in the ballpark of reasonableness. Pending the discussions with the city about trying to have what the actual hiring process might be and the participation of the boards. So I wanted to put that out there. If you wanted my opinion, I'd be glad to provide it, what I think we ought to do. But I thought we ought to hear what the board's opinion was about how we should participate looking at these books or even participate going forward.

>> Arn Andrews: I think I'd like to hear your opinion first you're the most engaged in the process.

>> Matt Loesch: I think we ought to have at least a person of whatever competency look at the CEO book and the CIO book and kind of look at what level of quality of candidates are we looking at, are we in the ballpark? And then to know whether the committee needs to do something else around alliance and their work and push them to look for particular skills or not, so otherwise, even while we're trying to deal with the City's iteration and our communication with them, whether it would have someone from the investment committee or even the whole investment committee look at that book, I think we probably ought to have someone of the investment skillset look at the CIO candidates and just kind of see what's going on and have someone else or not --

>> Lara Druyan: Will they make that available electronically? Or is it something we have to look at physically? Because actually that affects at least me and my ability to do that.

>> Matt Loesch: I believe that's a physical book and I believe it's a couple floors up that I could even grab today if we needed to. Because I didn't communicate with the person who has them and asked, where are they physically located so I could grab them swiftly if I needed to. So I wanted the board to be able to make a decision if they wanted to. That's my opinion. I'd like to hear what you guys think we ought to do.

>> Arn Andrews: I think having that to review the book is good. MQ has always cast a wide net and there can be a lot of dispersion from a lot of folks that have just met the MQs so I think it would be important for the investment committee or members of the investment committee to get a sense of what's come through that filter.

>> Matt Loesch: For example we're even below minimum qualifications. 90 people on the CIO have met minimum quals. They have a book of 18 of those 90. Same thing with the CEO, 13 have met minimum quals, 9 have made the first book as far as coming over. So --

>> Lara Druyan: I mean I think we'd have to do pending the ICE's schedule but maybe there's a way to do it before or after the ICE or something where we can do it where we're not making a couple of trips down just to look at a book, which I don't think makes a lot of sense time wise.

>> Matt Loesch: I'm wondering if we can ask if you can physically take the book with you. I'm sure there's a confidentiality thing that we would need to agree not to share the information but that would be kind of typical.

>> Lara Druyan: Of course.

>> Matt Loesch: Even if they could mail it to your house I think that would be reasonable.

>> Stuart Odell: I'm sort of struggling with what is it we're egoing to get out of it of looking at this? We've given a salary range and that's all we're permitted to deal with, right? So presumably these candidates met the minimum qualifications. They know what the salary range is. Are we looking at this now to say, do we think any of these candidates could do the job? Is that the concept here?

>> Matt Loesch: I don't know.

>> Stuart Odell: Sort of the best of what we can get if we're only going to pay $140,000, this is the pool, right? Whatever.

>> Matt Loesch: Right. I think the reason why I'm suggesting that we at least look to see who alliance has provided is it is to just give us a sanity check. Is Alliance doing kind of what we want are they providing candidates that are in the qualification range that we're interested in? Just period. Otherwise we need to push for a different kind of search. Because we gave them also the position description as well. The CIO position was crafted by a couple of folks on the investment committees of both sides. The CEO position description was generated through some iterations through the board -- through the personnel committees as well so we help craft those personnel descriptions. And this is my opinion. If you think we should just hold off until the formal process is created. That's why I wanted to bring -- the committee is not authorized to do anything and the city has rightfully asked us what do you want do and I'm saying we can't do anything until the board tells us we can do something and I'm not going to jump in there and take responsibility for something that the board doesn't want us doing. So that's why I kind of need some guidance here as to what the board is really thinking.

>> Arn Andrews: I mean just from the city''s perspective, when I participate in recruitments I think it's always good to just glean what you can from what has been winnowed down and it's not even necessarily to reject it or to pass judgment on it. It's just to get a sense on how the recruitment is proceeding and what is you know the cohort that you got with this recruitment. You know, and it -- I usually find it to be pretty illuminating one way or the other, you know, because even recruitments change month by month you know for whatever reason there's differences in the composition of who's employed versus not employed. So I've seen the exact same recruitment happen within six months and have an entirely different candidate pool just because of vagaries in the market. So I always think it is wise to peruse them and see you know what's happening them at this point in time for the recruitment that we're currently experiencing.

>> Matt Loesch: One of the thing the consultant kind of did allude to they were first of all shocked at the amazing number of people who applied for the CIO position, because the salary range is generally explicitly there. And you know they were kind of surprised at the quality of the candidates and their pedigrees that they were coming in. They were pleasantly surprised. And that's kind of the general feedback verbally that we're getting as well. And it's the pleasure of the board. It's either wait for a formal process to be created between the city and the board as to how to do this, do an iterative step here to see if we're in the right track while we're still working on the process. What do you think?

>> Edward Overton: What's the time line for creating a formal process?

>> Lara Druyan: I think that's dependent on the back and forth with the city.

>> Matt Loesch: I would have hoped it would have been done about two months ago but we're dealing with issues that have been around for decades right, Ed? So I guess I was a little optimistic and naive, but to the extent we can get to a better more formal process quickly, it could alleviate itself soon. I don't know. The ordinance to talk about this stuff is going to council next Tuesday. If the ordinance is -- I mean, there's a letter drafted by me on our behalf that's listed here on item D, kind of addressing the initial draft of the ordinance saying,

we can't support the drafting as it is. If you make these changes we can support this ordinance. So if they come back and make those changes, then we support that ordinance, we can get into closed session, have these discussions about candidates, we've got -- they've fulfilled our request and we can move forward quickly. I mean that stuff goes to the city council I believe next Tuesday. The -- a potential revised ordinance.

>> Edward Overton: Well, I would at least wait for that.

>> Matt Loesch: Wait for that to even look at the books?

>> Edward Overton: Yes.

>> Matt Loesch: Okay.

>> Well, I mean, I think it would be helpful to have -- to get some sense as to the quality and depth of the book. I mean, if we look at it and go oh my goodness this is not what we had in mind at all, if we don't do something quickly, then we're going to be -- how long is the process going to take? I mean, getting an initial read, I don't see the down side.

>> Matt Loesch: Okay. Other thoughts?

>> Was the book created, did alliance give a specific salary limit to those candidates, and they said, yes, I'd be good with that, or --

>> Matt Loesch: I'd have to look at exactly how the book is prepared. I've not seen the book.

>> Lara Druyan: That's the direction we were very explicit in giving. That we didn't want a bunch of candidates who would be surprised by a salary structure and declare themselves out of it. So if that's happened I don't know

because I don't talk to alliance. But that was extremely clear guidance to them. If that hasn't been followed, that is out of line of what was very explicitly requested.

>> I don't think the salary range was in the actual brochure.

>> Lara Druyan: No, but they were to socialize that early to get them out of the pool. I actually agree with Ed. My feeling, on the one hand I hate that it's taking so long, but I don't know what the relationship is with the city with regard to hiring or how some of these how the ordinance will work or the ability to vet candidates. I find it hard to get excited about vetting candidates or you know looking at the pool when I don't really know frankly what our role is. That's just me.

>> I'm fine with waiting.

>> Lara Druyan: I mean I'm happy to do it if that's the will of the board. But I think we have another bridge to cross before it's -- our engagement is desired.

>> Matt Loesch: Anyone care to make a motion about revising the authorization of the board, of the committee?

>> Lara Druyan: I move that we wait --

>> Edward Overton: Why do we need to revise it?

>> Matt Loesch: Because right now the committee is not authorized to do anything but set up this process, which is get alliance on board and have them start doing the search. They've not been authorized to vet, clear, review, anything. The committee -- the authorization for the personnel committee has been -- was very tightly constructed, and I brought it up every month so that we can loosen those reins depending on the communication and setup of the city. Because whether that ad hoc personnel -- it's an ad hoc committee. It's not a full on committee that's Brown Acted and everything. We want it it to be specific in the constraints of what it can and

cannot do. If we wanted to loosen those reins a bit so they could -- members of the ad hoc personnel committee could for example review the CEO book or recommend that one of the investment -- investment committee folks take a look at the CIO books, we can't do that right now. So we need to change the authorization a bit. Which either we do it now, or we wait until next -- in October when we next -- the board next meets again to change the authority.

>> Edward Overton: Okay, I move we change the authority.

>> Matt Loesch: Okay, to what? To what level can they go, that's why --

>> Edward Overton: View the books. You know, there has to be some comfort level on the part of everybody. But certainly the ad hoc personnel committee can make an initial review of the books.

>> Matt Loesch: Okay.

>> Edward Overton: And maybe cull it down or prioritize them or put them in rank order or something of that nature.

>> Matt Loesch: I don't know if I want to do any ranking, personally. I think it's more of a review of, are they meeting our expectations. I think if they start especially if they start an individual, as opposed to everybody on the committee reviewing it, it's mostly my initial feeling is we look and see if we get the quality of candidate that we're hoping for, hoping in the process here we develop a formal process with the city by which the whole process will move forward, of setting up interviews, who's on the interviews, and so forth.

>> Arn Andrews: I think the earlier point is well taken. Until we know what our actual engagement going to be in the process, it's hard to think we are in the process. I mean, our inclination as fiduciaries is, we want to be engaged in it and review the book. But the reality is until we know the outcome of a proposed ordinance we don't

know what our engagement is going to be. We know we should have one. We know -- we feel we have a fiduciary obligation to have a role, but we don't have a mechanism yet to give us that.

>> Lara Druyan: So maybe the idea then is to say if the ordinance passes, then the committee has the ability to review the candidates to assess the quality of the pool. Would that work?

>> Matt Loesch: If the ordinance passes, with the --

>> Arn Andrews: Right.

>> Lara Druyan: I'm sorry with the appropriate --

>> Arn Andrews: Recommended changes.

>> Lara Druyan: Right.

>> Matt Loesch: Realistically, I'll second it so we keep talking. Because realistically I'm saying that next month we could come together and start saying -- because I think they'd be prepared to do initial interviews in the next few weeks.

>> Edward Overton: That was the point of my saying let's go ahead.

>> Matt Loesch: In participating in interviews?

>> Edward Overton: Well, let's go ahead with reviewing and ranking, at least. Because otherwise, you're going to have to wait to come back for additional authority till the October meeting.

>> Matt Loesch: Okay.

>> Edward Overton: And the train may have already left the station by then.

>> Matt Loesch: We change the authority of the committee so that -- okay.

>> Lara Druyan: I suggest it's conditional.

>> Matt Loesch: Okay, but it was just to review the book. So how about this. I'll offer a substitute motion just so we can -- that the ad hoc personnel committee has the authority to participate in the review of the present books, pending a passing of an ordinance that is -- that meets the needs of our letter dated September 6th. And participating in a -- I'm going to say providing a -- the leniency to participate in an interview process -- in an initial interview process, initial screening, interview screening process for recommendation of the full board. I'm trying not to limit it, but I'm also trying to provide some kind of guidance as to what the hope is. Can I get a second on that even just for discussion?

>> Second.

>> Matt Loesch: Are we missing something on that? So all the things are hinging on Tuesday. If Tuesday is successful and if the ordinance is successfully passed within a realm that is reasonable and meets our requests, then we can review the book. And then preventing -- depending on the quality of the book, we can set up some screening interviews to start calling some of the candidates.

>> Edward Overton: Yes, now today is Thursday.

>> Matt Loesch: It is.

>> Edward Overton: So isn't the ordinance draft already out? I mean it has to be, of sunshine it has to be posted or whatever they do.

>> Matt Loesch: Um -- I think sometimes these drafts have been posted as late as Friday.

>> Edward Overton: Okay.

>> Matt Loesch: So I'm hoping that -- yeah. Again, sometimes the things are posted and we can -- yes. Hopefully it will be posted by now, but I don't think it is. I'll have to look.

>> Edward Overton: All right.

>> Matt Loesch: Any other comments or questions? Thoughts? Okay. All those in favor? Aye. Opposed? You get the -- okay. So that takes us through item C discussion and action on the city proposed ordinance, again we have in our packet -- I should have opened these all up at the same time -- a draft ordinance that was listed here, we have requested that it be modified. I don't believe we've seen an updated version of this to see if it has in fact been modified. So I guess time will tell whether Tuesday is successful per the September 6th letter. Any comments or questions on the letter being sent, or content of the letter, or anything like that?

>> Edward Overton: Now I'd like to congratulate the chair and the chair of the Police and Fire board. I thought it was very well done.

>> Matt Loesch: Thank you. Okay. So both those will be note and file. The one remaining item is item 4.2, that I pulled back before we got in there which was the discussion and action on the Federated board committee structure including consolidation and transititon from ad hoc to formal, where appropriate. Okay. So in item 4.2 you have a list of committees and the full board and who the assignments are. Just to keep this thing moving, since we're all kind of wearing thin, I would propose that -- one thing I would propose right now as final change is make the ad hoc governance committee a formal committee, standing committee, and I believe we have an approved policy already from Cortex on that. And that their charter is within that policy. That's my opinion, I think the ad hoc personnel committee is still too shaky right now to see how we would want to scope that

differently. And I think having it month to month right now is kind of so we can keep making the boards fully aware of what's going on. I think the investment committee is what it is. I think they're hitting their stride and getting things done with staff and why shake that up now. The one thing that's not listed here is one that's perpetually listed on our atenda, the policy committee. I say we put that in its untimely death, and let -- Mr. Overton has served so well in its chair capacity, it's not listed currently, but. So I guess I would make a motion my motion will be this, to abolish, put in abeyance the policy committee which hasn't met in probably years and make the governance committee a standing formal Brown Acted committee. Second?

>> Edward Overton: Why does it have to be Brown Acted?

>> Matt Loesch: I believe all committees are Brown Acted. Once a standing committee it's made Brown Acted.

>> Arn Andrews: Second.

>> Matt Loesch: Any comments or questions on those? So the only real thing about -- I was hoping that the ad hoc personnel committee, I was hoping we would get close to making that a standing committee but I don't think we're qute there yet, we need to work on the authority of that will be and what it looks like. That makes sense, or no? Okay, not hearing otherwise, all those in favor? Aye, opposed. Okay. So education and training we have papers from CalAprs, trustees, Meketa, research all note and file, future agenda items? Public and retirees comments? We're adjourned.