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>> Matt Loesch: Okay, good morning. Would I like to call to order the October meeting for the Federated city employees retirement system. Under orders of the day, I have a couple of items. Items 4.2, 4.3 A and B I would like to get a sunshine waiver or request a sunshine waiver for because they were not available at the time of distribution. Additionally as far as orders, I would like to have 4.1 and 4.2 open at the same time. Because they're related and discussion might be back and forth between the two of them. Are there any other orders of the day items?

>> Mollie Dent: I just had a question on 4.4. I think that's probably just a discussion maybe a presentation but I don't think that one met the post be requirement for the Brown Act either bought I don't think that was even agendized until later.

>> Matt Loesch: Trying my memory here.

>> Mollie Dent: I'm not sure.

>> Russell Crosby: I think in the original posting there was a less-clear version of that title. We're talking 4.3.

>> Matt Loesch: No 4.4.

>> Russell Crosby: Excuse me.

>> Mollie Dent: Was that in the original, kind of a presentation item not action?

>> Russell Crosby: Yes, no action and it was a presentation that trustees had requested some time ago.

>> Mollie Dent: Okay.

>> Matt Loesch: Nothing on are 4.4 Sunshine waivers or 4.2, 4.3A and B.

>> So moved.

>> Matt Loesch: Motion and second, all in favor, opposed, okay. So then that means we go to the consent calendar please, 1.1 through 1.8. I'll entertain a motion.

>> Edward Overton: I'd like to ask a quick question of Russ. On 1.7 A, do we need to do something about that? Seems a question in your memo to do something from the board.

>> Russell Richeda: This is the memo from Rick Doyle not my memo. My memo is 3.1.

>> Edward Overton: Excuse me.

>> Matt Loesch: No issues?

>> Edward Overton: No issues.

>> Matt Loesch: I'll sprain a motion.

>> Motion to sell.

>> Matt Loesch: Accept and approve correct?

>> Correct.

>> Matt Loesch: All the way down to 3.1. Update of status of board and trustee rules and regulations concerning proposed benefits changes including negotiations on benefits changes for active members and retirees. That is you Mr. Richeda.

>> Russell Richeda: You have a memo in your packet from me, hopefully a bit of background from the real memo which you directed me to repair. The topic of that is the responsibility and roles of events that pay be coming down the road.

>> Matt Loesch: Keep the microphone in front of you, sorry.

>> Russell Richeda: That may be coming down the road in the near future that might for example impact benefits under the plan. And so I wanted to set forth with a little more clarity what I thought the scope of the assignment was, and to give you a little bit of update on two sort of somewhat related developments in this general area, what's happened at Orange County and also CalPERS' publication. As I reviewed my list this morning in preparation for this meeting in the context of the memo which I've already about 75% done, the actual memo, I realize this is much more ambitious than my memo. My memo is already longer than I think you're going to be interested in reviewing. I'm going to probably throttle back on some of these questions and focus more directly on say a hypothetical version of the pending ballot measure that's being circulated and a few more questions on that lens rather than the hypothetical inquiries, for example, a constitutional matter that could arise, the whole kitchen sink, in an area that I already knew was complex and developed to be more complex than I initially thought. I sort of focused and hopefully in an appropriate way the issues I want to address and come back to you on. I at least wanted to come back to you this little overview on some of it, activities that are currently either recently have occurred in this area or at least pronouncements by other big players like Cal PERS in this area. So at this point, the real bottom line is just to say, these are the general areas I'm looking at. These are some of the background issues that are germane to the issues you've assigned and look forward to an actual more focused memo this month. So you don't have to do anything.

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

>> Arn Andrews: My only comment was you should probably tailor it to more specific of what might be a hypothetical situation that occurs in the city as opposed to a much broader synopsis. That's just my personal opinion.

>> Matt Loesch: Okay. Any other comments or thoughts or questions?

>> Russell Richeda: And that's what I've done so far in the memo.

>> Matt Loesch: So you say you're about 75% done with your work on the memo that would be delivered next month already, is that what you're saying?

>> Russell Richeda: Yes.

>> Matt Loesch: Any other comments or questions? Okay. Moving on to 3.2. Update on legal request for proposal.

>> Mollie Dent: Yes, our request for proposal has been posted. We have received a few requests for clarification. The deadline for request for clarification is tomorrow. So once that deadline is passed we'll post the answers to the requests on Monday. The proposals are due on the 4th of November and we are targeting trying to do the interviews, probably either early -- either Monday or Tuesday, the week of Thanksgiving. Or if we can get to them, the week before that. It depends on how many of them we can kind of sort out quickly, through the process of reviewing the written proposals. So at this point, it would be timely for this board to let the chair or self-select nominees for the interview panel. I don't --

>> Matt Loesch: We already did it last month.

>> Mollie Dent: Did you do it last month? All right. As soon as we get the proposals in I will send the proposals in to the members of the panel.

>> Matt Loesch: I think if I can get the minutes --

>> Mollie Dent: I will start checking availability too of dates probably soon after we get the proposals in.

>> Matt Loesch: Question I had, sorry, anybody else have questions on it? At the Police and Fire meeting you had mentioned were going to have separate panels from -- selection panels from between the two boards. I thought we had left it, we were open to the -- I just wanted to make sure my remembrance is correct, we were open to the idea of having to the extent that was reasonable having joint selection panels to make it efficient.

>> Mollie Dent: I think that you might conduct joint interviews but each -- you'll be voting separately.

>> Matt Loesch: That makes sense okay.

>> Mollie Dent: If we can get everybody together for joint or back to back interviews that would be great. That would be so very --

>> Matt Loesch: As many as to your own questions as well, we'll come up with our own questions.

>> Mollie Dent: Right. As I say once we get the responses in, I think we'll have a better -- hopefully we'll have an idea pretty quickly about how many candidates we really want to interview and then we'll go from there in terms of setting up the interviews.

>> Matt Loesch: Okay, any other comments or questions? Okay. 3.3. This is a discussion and action on review of retirement services department staffing. We have in our packet a similar packet that was presented to the Police and Fire board which is kind of a synopsis and current status of staffing in retirement services and their work list. Ms. Druyan had asked me to put an item like this on the board agenda for discussion. So if you have --

>> Lara Druyan: Yes it's just -- we've been understaffed, we're fully staffed for the most part on the administrative side and retirement services. We have all these vacant positions on the investment side and we've had these for some time. We've had departures and in talking to staff we've had trouble recruiting because we're not paying anywhere near market and there are data in what staff has put together that show this. We now have Cortex data that show us that our staff are not making what their peers are making in similarly situated plans. When I mean similarly situated I mean plans that aren't doing 60-40 plans that actually do real estate and private equity and the other things that we're trying to do. And of course this board has no able to affect that. My understanding is, that the City Manager is really the one who makes the decisions on things like pay. And I would like to suggest that we make a recommendation to the City Manager, and in a letter, that gets resolved. It makes me very uncomfortable as a fiduciary, having responsibility for plan performance having an understaffed team and I have no ability to change -- and I have no ability to change a salary or to provide incentives and that's fine but the City Manager who is not here, I understand people have had one on one meetings with her but this seems to be stalled.

>> I'm going to agree with you on this. I've looked at the -- first off you have two problems. One, you've got all these vacancies and the vacancies are probably created by, you can't compensate peep enough to stay. We've talked about this over and over again and we do need to get this resolved. Just looking at the pay ranges for the city, somewhere there's flexibility. I mean if you look at the top of the pay range, technically, someone could be paid a lot more than they're being paid today, is what I read out of that. So I think this is a huge priority for us.

>> Lara Druyan: I mean, it just makes me very uncomfortable. Because I feel like we're one resignation away from being in a spot where we can't run the plan. We have -- and I'll resign from a board where they're looking at the board and saying great, now the responsibility is on you. Because that's not what I signed up for. That's not I think what any of our roles are or what any of us signed up for but I won't speak for people.

>> We had a probably pointed meeting with the mayor a month, two months ago when we raised this issue.

>> Matt Loesch: We being whom?

>> It was a subset of board members I believe, Stuart, I was there, two or three people from Police and Fire. I think Councilmember Constant was there. And we've heard nothing back from --

>> Lara Druyan: I don't think this is in the mayor's purview. This is in the City Manager's purview. That is my understanding.

>> Sure, but I think the idea was the mayor would make it clear to the City Manager.

>> Lara Druyan: Well I'm suggesting we're closer to the plan than the mayor is at some level although the mayor's obviously funding this. I personally would like to send a letter to the City Manager from this group saying, you know, we're supposed to oversee the performance and we're understaffed and we're understaffed because we're underpaying.

>> Yes I think we do need to send an official request and have a response because it's causing a performance issue with the plan.

>> Lara Druyan: Absolutely. We're not in absolute return because we're understaffed. Our guy who did absolute return is gone because he got a job offer from a hedge fund that was infinitely better than what he is getting paid here.

>> Matt Loesch: The request is to send a letter to if City Manager requesting that pays be raised but obviously should be catered to doing this. Our recommendation is to do this.

>> Lara Druyan: Our recommendation should be specific and provide the data from Cortex and from other salary surveys because the data are ample and -- and you know tell you what you know how the staff are underpaid.

>> Matt Loesch: Right.

>> I didn't know the data to tell you, and the data is way out of range. If the City Manager would like to come and speak to the board, directly, I'd be okay asking the City Manager some direct questions as well, as to why they're holding back on these.

>> Lara Druyan: I just thought it would be great to get something that's a letter that's you know written from all of us. Because then there's not -- this was said, that was said. Because this has been out there for months now.

>> At least then we would definitely get a response. We would hope we would get a response.

>> But I would also -- it should not only come from us but also from Police and Fire.

>> Lara Druyan: I couldn't agree with you more. I think Police and Fire are similarly concerned.

>> Edward Overton: And it might be clarifying. You said you met with the mayor, Michael?

>> Michael Armstrong: Uh-huh.

>> Edward Overton: It might be helpful an clarifying for this same group to meet with the City Manager.

>> Lara Druyan: I believe some people have met with the City Manager.

>> Edward Overton: That wasn't said.

>> Lara Druyan: But were told something like I feel your pain and that was about it.

>> I hate to leave, put that other thing in front of this happening, and if she wants to respond to us, she can come here, and I would welcome that exchange.

>> Edward Overton: Good.

>> Matt Loesch: Mr. Andrews do you want anything to add?

>> Arn Andrews: No, I mean, clearly the vacancies have been there for a while. Clearly the consensus is the compensation is one of the reasons why the vacancies have occurred. To the extent that the administration is able to engage in the conversation, and I mean I know from an HR perspective if they ever create a new classification they do a salary survey to try to figure out what the appropriate salary range is for a new classification. So perhaps part of our request is to do a current salary survey for the current classification. And I think it appears as if the information will be readily available. And we take it from there.

>> Edward Overton: Part of the problem with that Arn is that our investment staff is forced into the classification structure that exists within the city. And what perhaps needs to happen is that some investment positions are created that are particular to the retirement fund. And then that salary survey would make sense.

>> Arn Andrews: I was going to say that's definitely a way to operationalize it. To go about that classification. If we go that route it will probably take a little more time.

>> Edward Overton: That's probably true.

>> Arn Andrews: I think one we should have a short term strategy and long term strategy.

>> Matt Loesch: Mr. Richeda.

>> Russell Richeda: Mollie, correct me if I'm wrong. The City Manager did appear on this precise issue to the Police & Fire Board two months ago and might have been three months ago, very in depth very comprehensive presentation, it showed a great awareness of the issues. But it also showed a great awareness in which the City

Manager has to operate and at least I didn't draw much of a conclusion that it -- that looked like things were going to be able to be achieved within the existing city structure any time soon. I could be wrong. But since the City Manager did appear before Police and Fire, it certainly seemed reasonable for this board to make the same request. She could meet in conjunction with the letter if that's the board wanted.

>> Matt Loesch: She could meet here or she could respond in writing, whatever would be her pleasure. Sounds like a letter could be drafted to the effect that was said here. It is stumbling blocks for filling these positions which is one of the stumbling blocks of being able to invest the way we want to. In that light we have data from public plans plus later on today we have the Cortex meeting dealing with some of the governance stuff of which they provided more national data and that information can be sent off to the City Manager for response. Whether she wants to meet here, in the next meeting or -- is that what you'd like?

>> Lara Druyan: I would -- that's certainly my -- I would like to see that done. I'd feel I'd sleep better at night knowing that we're actually trying to reach some closure on an issue that feels like an octopus at the moment.

>> And the fact that she met with Police and Fire and nothing's happened since that time and I think it was probably expressed as an urgent issue, I think we need to push it forward here and hopefully get an answer to that and push forward aggressively. It is really an important issue and hasn't moved forward.

>> Matt Loesch: To that effect, we could notify the Police and Fire board, they are having a meeting in two weeks, if they wanted to send a similar request, to ours, that is our pleasure.

>> It would good to have that come from potato boards and I think it's very urgent.

>> Matt Loesch: Okay. So sounds like it's the form of a motion.

>> Lara Druyan: So I move that we provide a -- we come up with a letter that this board approves to send to the City Manager.

>> Matt Loesch: Okay.

>> Lara Druyan: On the topic of the urgency of fixing retirement board compensation.

>> Matt Loesch: And you're noting --

>> Mollie Dent: My question is whether you want the draft to come back to the full board or whether the secretary is authorized to draft the letter and have the full board sign it. I don't know how happy you want to get it out.

>> Lara Druyan: I'm happy to authorize the secretary to do that.

>> Matt Loesch: The motion is the letter be written and the secretary to sign.

>> Lara Druyan: That is the motion.

>> Second.

>> Matt Loesch: Any further discussion or comment on the item? All those in favor? Opposed, okay. 4.1, I know everybody is chomping at the bit to get -- I apologize.

>> You are.

>> Matt Loesch: Actually I will step back one moment, I did overstep my bounds. I did skip over item 2, I did forget this, I apologize, I would request a moment of silence for those who passed away in the Federated system and are now passed. Thank you. Item 4.1 and 4.2 we are going to hear them concurrently or at least have them available for discussion. This is a discussion and action regarding preliminary June 30, 2011 valuation results and

impact on potential assumption changes, and 4.2, discussion on staff memo regarding the discount rate assumption. Just because I'm opening them at the same time doesn't me we have to discuss them if possible, but if you want to. We have from Cheiron Mr. Hallmark. Good morning.

>> Good morning. I'm going to go through the preliminary results of the June 30, 2011 valuation. But the primary purpose of this presentation is to inform the board of the cost impact of the potential assumption changes on those results.

>> Matt Loesch: One request, if you could pull the whole mic stabbed so it's closer to you.

>> That better?

>> Matt Loesch: That's much better, thank you.

>> We'll be back next month with a lot more detail about the gains and losses that go into the June 30th, 2011 and the final results of that. But given all the significant changes, since the prior valuation in the demographics and census data and so forth we wanted to make sure that the impact of the assumption changes was built on the new data instead of the old data. This slide summarizes the results of the June 30th, 2011 valuation, compared to the 2010 valuation. The 2010 valuations in the far right column and for that valuation we had a discount rate of 7.95. But the board had made a decision at that point to reduce the discount rate to 7.75 for the 2011 valuation. So the middle column shows you what it would be if we didn't change -- drop the discount rate or before we dropped the discount rate, so that you can see the impact of just the experience. And then the column on the left shows what the valuation results would be before making any additional assumption changes. So that's at 7.75. And you'll note here that the unfunded liability has increased slightly. Before making the discount rate change. And then the discount rate change added to the unfunded liability. The other thing I wanted to note particularly up here in the upper portion of the slide is that the market value of assets has increased so that it is now greater than the actuarial value of assets. In the last several years our actuarial value has been much greater than the market. So the returns you've been getting in the market are having an effect. We'll show an investment

loss here but that has to do with the actuarial value, not the market value. In the bottom part of the slide we show what has happened to contribution rates, and in particular, I want -- the very bottom line shows the city contribution amount as of the beginning of the year. From the prior valuation, that was about 87 million. Going to this year, before making any additional changes, that would drop to 82 million. Now, you will also note even though the dollar amount goes down, the percentage of contribution rate goes up substantially, due to the significantly reduced payroll that the city has. So the dollar amount goes down but the rate goes up. This is just showing our historical gains or losses. The gold bar shows the loss on the actuarial gains and losses and the gray shows the demographic or the liability gain or loss. You'll notice that the last two years we've had a liability gain. And prior to that we had a whole string of liability losses. We'll go through again next month more detail about that gain, but it is primarily being driven by the reduction in staff and the lower salaries. The investment loss you're seeing for 2011 again is just more recognition of the prior market losses. Somewhat offset by the market gains. I keep alluding to what's happened to the census data, and I think everyone is aware of the issues, and the changes going on. But here are the numbers. The active count has decreased by 14%. And then that is offset by an increase in the number of terminated vested and retirees. The retirees have increased by 12% so there's a fair amount of the people that -- fair amount of reduction in the active population was people retiring. Overall, the member payroll decreased 24%. It's a very substantial decrease. And the average pay for an active member decreased 11%. That also is very significant.

>> Matt Loesch: Just a quick question. I didn't do the math and I apologize I should have. The denominator to get the percentage of change does that -- is it different for --

>> 2010 column.

>> Matt Loesch: Is that different so for example talking about percentage of retirees versus whatever, it's just literally divided one square not next?

>> Yes.

>> Matt Loesch: Just wanted to make sure, thank you.

>> This slide shows the changes in the City's contribution rate, due to the experience. And the members contribution rate. But to go through this quickly I'm going to focus on the city dollar amounts. The contribution rate was 87 million. But recognizing that additional investment loss would add 6 million. The gains, due to the demographic experience, reduce the contribution amount by $16 million and the change in discount rate adds another $5 million to get us to $82 million. The -- from the prior valuation, we actually expected the contribution rate to -- contribution amount to go up significantly up to 105 million. That is because of anticipated, recognizing those investment losses, but we didn't have to recognize as much because we had market value gains. As well as the change in discount rate and the population continuing to grow and earn salary as we had projected. So we were actually expecting the contribution amount to go to 105 million from the 87. So that's a $23 million reduction from our expectation. First, I want to touch on the demographic assumption changes. We presented these back in May so I'm not going through them in detail. But the key changes had to do with the termination rates, and refund rates that accounted for more than half of the cost impact of the demographic changes. We also improved mortality rates, added to the cost and added administrative expenses to normal cost and added other changes. Increasing it $10 million due to the change, it also increases the members' contribution from 5 to 5.8%. That change, the assumption changes change both the liability and the normal cost. And so you can see, it's a 3% increase in the liability which translates to a 12% increase -- translates to a 10% increase in the UAL charge and then there's also a 12% increase in the normal cost.

>> Edward Overton: Bill, on the changes in the demographic assumptions, on page 7 you show that as 4.3, but on page 5 it's 2.1. Could you speak to that difference?

>> Okay, page 5 -- let me go back. So page 5, the 2.1% is the demographic experience. And that is actually -- there's a $16 million reduction due to the reductions in payroll and the reduction in count. With the payroll going down, you still have to pay the unfunded liability cost, although it's a little bit smaller and so it's a higher percentage of payroll. So that 2.1%, it is the increase in the rate due to just the reductions in payroll we've experienced and the reduction in members. Then on top of that, on page 7, what we're talking about is changing

our assumptions going forward. And the 4.3 has to do with the assumption -- the effect of changing the assumptions going forward. 2.1 has to do with the experience for the last year.

>> Edward Overton: Okay, thank you.

>> Moving on to the economic changes. The key changes we have proposed are a discount rate change, a wage inflation change and explicitly recognizing a charge for the SRBR. And in our report in May, we developed the potential ranges in the recommendations, subject to a discussion with the board on their risk reference. This is the big, complex chart to read through. This looks at all the combinations of changing the discount rate, or the investment return assumption and the wage inflation assumption. And so let me just start in the upper left corner at 6.75%. We'd see with a wage inflation assumption of 3.25, we'd see a 1% in the member rate, 11.9% in the city rate, and that translates to $27 million for the city. So that's how to read the chart. Now, what -- what I want to point out here, a couple of dynamics. First, the wage inflation assumption, as you go down any column, the impact on the city cost is very minor. Because there are two different dynamics going on here. You are projecting lower wages which produce lower liabilities. But when we amortize the unfunded liability, we do it as a level percentage of projected payroll. And because you have that payroll increasing more slowly, you pay a greater amount up front. And those two dynamics are canceling out on the City's contribution. So it is staying virtually identical. The member contribution rate is based on the benefits that are being paid, so changing the wage inflation assumption in that first column for example at 3.25 it has a 1% change on the member rate and at the bottom of that column, 4% it would be 1.7. So you can see the effect on the member rate of that assumption change. Now, going across the chart, the discount rate has an effect on both the member and the city, and it's a fairly significant effect. Ranging -- if you just use the top row, from a minus .3% in the far right to 11.9% of payroll, for a range of about $29 million in annual contribution for the city. The green box in the middle that we've highlighted was our recommendation. And we'll come back and add all these things up, but if you select something else, we would be picking the dollar amount out of the appropriate box here and add it to the other numbers to get our expected cost for the city. The last assumption we wanted to talk about is the SRBR. We suggested that the SRBR should be valued explicitly as an add-on to the normal cost ranging from .24% of the market value of assets to .55% of the market value of assets with the recommendation of .35. Now, normally the

normal cost is split between the members and the city. We understand however that the SRBR cost is supposed to be charged to the city. So we're reflecting it here as a cost to the city that range from four to $10 million depending on the assumption. So this chart shows the impact, if all of the recommended assumptions are adopted, it would increase the City's contribution rate by $29 million from 82 to $111 million. That's approximately 47, 48% of pay. The member contribution rate would go from 5 to 3.6% of pay. So pause for some discussion before we wrap up any decisions.

>> Matt Loesch: Any board comments or questions? Mr. Andrews -- I'm sorry, go ahead.

>> Edward Overton: My personal concern is that we not put that kind of burden on the city. And I would be more interested in or for persuaded in a discount rate of 7.5 versus 7.25, because we can't ignore the fiscal situation the city is in. This fund goes on in perpetuity. It is funded over a 30-year period. Things are going to change and there's no need to pile on to the City's fiscal woes.

>> Matt Loesch: Anything else?

>> Edward Overton: No, that's all.

>> Matt Loesch: Mr. Andrews.

>> Arn Andrews: Thanks. I'd like to dig into the City's burden a while. When I was reading the preliminary valuations I was thinking back to some other documents recently. And so the first thing that struck me was where you walked through you said we were anticipating 105 million but in reality it's going to be 82 if everything remains status quo. I wanted to make sure I understood that correctly. That because of the reduction in payroll there's a significant decrease in expectation, correct?

>> That's correct, it's also the investment returns.

>> Carmen Racy-Choy: Also the investment return assumptions, the actual return that was earned over the past fiscal year created a huge gain which only a fifth of that would be taken into account.

>> Arn Andrews: Right, the 20% that keeps negating the losses that are already in the pipeline.

>> Carmen Racy-Choy: Yes.

>> Arn Andrews: Okay. And then so I was thinking back to the five-year budget projections that Cheiron recently produced for the city, because when we talk about impact to the city, we're talking budgetarily. And so this document was based on the June of 2010 which had a payroll of something in excess of $300 million I think based on your --

>> Correct.

>> Arn Andrews: Your memo. And so if I understood the memo correctly here, I think budgetarily we were expecting 108 million for Federated for the --

>> Yeah, the memo showed costs as of the middle of the year.

>> Arn Andrews: Right.

>> And the 105 million I showed is a beginning of year contribution cost. So that's the difference between the 108 and the 105.

>> Arn Andrews: Okay so I'm apples to apples still that's what I wanted to make sure.

>> Yeah.

>> Arn Andrews: So then my thought process started going as I'm walking through your recommendations and I'm walking through the preliminary evaluations that A if we did nothing there's 23 million potentially in budgetary savings to the city not just in this year but my guess is if we reran the five year projections using what we know to be the current payroll base those savings would go on for the five year horizon.

>> That's correct. We'll have projections next month but I don't have them today.

>> Arn Andrews: Great. I just wanted to make sure I'm still thinking this through correctly. Okay. Now moving back now to the decision that's before us if we wanted to enact any of the recommended changes however the board decides to do it in whatever fashion there appears to be a budgetary cushion in terms of impact to the city. Because the city, based on the five year projections I believe, and maybe someone from the budget office you know could opine on this, is budgeting 108 million and at the end of the day, if we enacted every one of your recommendations, we're somewhere around 111 million. So budgetarily from the city's perspective it seems as if we have some room here in our discussions. Is that a correct --

>> Well, I think that's more of a question for the City's budget than actuarial question.

>> Arn Andrews: No I just meant am I interpreting all your numbers correctly from the Cheiron five year projection and the valuation that's before us?

>> Yes you are.

>> Russell Crosby: Could I raise a concern that perhaps the lawyers could address for the board members and the board to be shopping into a number backing into a budget number rather than looking at the individual assumptions stand alone, rather than shop for a final number? That seems to hedge toward San Diego and issues --

>> Arn Andrews: And I think before the attorneys peek I can speak for myself. I'm not shopping for a number. I just want to understand the data correctly. The data does represent in almost every other slide dollar to the city. So I think it's a relevant conversation. It appears to be in our presentation so I just wanted to make sure I understood it correctly. I'm not shopping for a number. I'm just trying to understand the data before me.

>> Mollie Dent: So I'll address it very briefly. I think that it, because there's a range of options available to the board, and even Cheiron has laid out the -- their reasonable range I guess of 7.25 to 7.75 and staff has a different opinion on the options available to the board. I think that the board can look at the impact on all of the stakeholders and the city is a stakeholder. It can look at the impact on the employee stakeholders and there is information in here about impact on employee stakeholder and city stakeholder. The assumptions don't affect the stakeholders the same but all of that is within the fiduciary responsibility of the board not particularly aiming at a number but how their decision is going to impact the stakeholders.

>> Carmen Racy-Choy: Just a minor correction, Cheiron presented the numbers to be 6.75 to 7.75 and staff is very supportive of that range and our recommendation is well within the range at 7% and only 25 basis points off the middle of the range. I think we're very much supportive of their position.

>> Mollie Dent: You're correct I'm sorry. I was thinking of actually their report last year was for a range of 7.25 to 7.75.

>> Matt Loesch: Mr. Richeda do you have something more to add?

>> Russell Richeda: Just a few more points in these somewhat abstract points. But number 1 under the relevant provisions of the California constitution that apply to you under the guise of the California pension protection act, you know, your exclusive -- you have fiduciary duties enumerated in the traditional way, exclusive benefit to system participants of the constitutional provision also references minimizing employer contributions but then goes on to say that priority has to being given to participants. I don't think that helps you that much but does show you that even in the constitution's view of fiduciary duty you can consider stakeholder impacts. There is listing of

priority of those impacts. Just because the top priority is participants, I don't think that helps you tremendously because there are short term interests of participants and long term interests of participants. That goes into the question of the goose and killing the goose. There is at least some appellate case law, not California Supreme Court case law arising out of San Diego city about five years ago indicating that it was appropriate, indicating I wouldn't want to push this too hard, I think it is still out there even if it's out there in a lonely status, that you can consider layoffs. The factual context of that case is totally dissimilar to this, but it's the first announcement I've seen by any California court saying that it's legitimate for you to consider that element, layoffs. But remember: Even in that court formulation, there was no indication of priorities. They did not consider how much emphasis you should appropriately weigh to that factor. And I at least think though can you weigh it and consider it, it is far less of an important factor in the context of your fiduciary duties than long term interest of the participants in the sound management and fiscal financial management of the system.

>> Matt Loesch: Okay. Mr. Andrews finish his thread of questions.

>> Arn Andrews: I was just going to say no, I'm done let's talk about demographic and economic assumptions.

>> I just my one comment, Ed, I respectfully disagree. I think the appropriate way to set assumptions is to set assumptions based on the financial principles they're based on. You start there and you send that message out. And that is absolutely the right way to do this. And anything else is just hiding something that's not realistic. Because we should be setting these based on what we believe are the most realistic, long term assumptions or short-term assumptions depending on what's being used for the plan. And that's it.

>> Arn Andrews: And I think historically we have done that. I think there is even a memo from Carmen indicating the great strides that have been made by the board to try to align with reality. Personally I'm on record on several occasions voting in favor of assumption changes to move it in line with reality. But I think just the way this presentation was set up the context of it was acknowledging it was on to another component. I just wanted to understand that component before we started determining what the appropriate assumptions are either on a demographic basis or on an economic basis for the plan.

>> Edward Overton: I just wanted to comment on Stuart's comments. What the actuary has presented to us is a range of reasonableness. There is no pinpoint on punto number that is totally correct.

>> That, I agree with.

>> Edward Overton: And where I am is in that range of reasonableness. I think the board has flexibility. I think this is the board's decision. It's not staff's decision. I appreciate the work that staff has done. I appreciate the work that the actuary has done. But as Mr. Richeda said, we have a dual interest here. And so that's my comments were going in that direction. Not ignoring what's out there factually.

>> Stuart Odell: And I agree with you. There's a range of reasonableness. But we should come to our decision based on financial principles and not based on, I'm worried this is going to bankrupt the city so I'm going to pick the lower range. I'd much rather see -- or pick the higher range. I'd much rather see us pick the range based on the financial principles rather than other factors.

>> Edward Overton: I think the fact that it's within the range of financial reasonableness does base it on financial principles. If I would come out and say let's do 8, that's outside of anything that's reasonable so I'm sure the actuary has based their assumptions on reasonableness as well as the staff. And so I don't have a problem picking something in that range.

>> When did the GASB disclosures on liabilities for the city come into effect? Does anyone know that? And what discount rates were assumed?

>> Russell Richeda: They haven't been finalized, haven't been adopted yet.

>> But it is going to occur soon?

>> We're expecting GASB to issue final statements next June. And then, the -- if they keep the same effective date, I believe for you, it would be the 12-13 fiscal year.

>> Matt Loesch: Does anyone have any comments or questions on the presences? I'll make a couple. First of all we had a lengthy discussion often this on Monday in your absence, discussed heartily. I'm glad it finally got presented by Cheiron, that was one of my reflections that I thought was interesting, this is not a report, this is a presentation on assumed estimations. And first of all, on page 5, when I was really looking through it and pondering it, you know, this is not a bad-news slide, this is a great-news slide. And I'm tired of everything being doom and gloom around here and that's actually a great news slide. Because of the great performance in the last couple of years, instead of the bill going to the city next year as we presented it before and your projections of being 105 million, nothing else changes, it goes down to 82. That's a great-news point and it has not been focused on by barely anybody. That's looking at what's happened in the past. I think that's great. Okay? So we can pause and say you know, and have a good news an actual smile about something for once. That doesn't happen around here very much. And especially around retirement stuff. The things are, okay, we still need to make some adjustments but that's a good thing. And it's not acknowledged and I don't like that it's not acknowledged. Or the fact that you know we're projecting right now to go down to that 7.75 already for next year, we're continuing to reduce, that was in the plan.

>> Arn Andrews: Expedited.

>> Matt Loesch: Yeah it was expedited. We had originally projected to do in five years and we moved it down to three years in the ramp down. That's the good news. The I thing that I disliked about your presence is specifically last meeting in May I had specifically asked for a breakdown of how these demographic changes going forward, what they would cost. It's not in your presentation. It's a lump sum of $10 million. I was pretty clear, I even looked back at the transcript to ensure that I did in fact ask for it, and it's not there. So that does that mean I change your terminal rate, or affect your terminal rate assumption? I don't know. But this is one of the things that we talked about in the last couple of years. I don't want to make decisions of cost that are being added to the plan without knowledge of specifically which item instead of a clump of a lot of things. I specifically looked back there are 17

items that are recommended in your report back in May of things you recommended change and I -- you asked did I clump them together and I said sure but we need the impact of which one's more which one's less so we can really understand what's going on and it's not here. Just a $10 million number. So I could just blatantly ignore the fact that my request was ignored or I could push and say look, I really -- your report, your full details in your report mentioned at the bottom of slide 6 all the details of what you're recommending to change are there but not what it costs except for the lump sum of whatever slide it is on the next slide. Slide 7.

>> Yes. You did request that breakdown in the last board meeting. And we began preparation of that. But we were advised during that process that that breakdown was no longer necessary. So we did not provide it in the final presentation.

>> Carmen Racy-Choy: The perspective is that we weren't really on demographics assumptions, we're not in a position to really offer a range. Meaning the adjustments need to be made in a lot of situation based on the professional standards and the professional opinion of the actuary. And the actuary conveyed that this would be a significant undertaking to actually break it down one at a time. Given the fact that really the board is not in a position to step in, into the demographic components and say this is appropriate and not appropriate, basically, staff conveyed the message that conveying the total number on the simplified representation, simplify the work involved, and from the perspective that, really, the debate on demographic assumption is not -- there is very little basis to tell the actuary, you shouldn't make the changes proposed. Actually --

>> Matt Loesch: So my request for particular data is not relevant? That's basically what's being said? And if he goes in -- he has to put all these elements into whatever spreadsheet or computer program calculates these right? And they come out with a number. He has to put them all in to get this $10 million assumption.

>> Carmen Racy-Choy: The order in which you run the assumptions become very important. And if you change the order the materiality of every single component when you have 17 becomes basically wrong. Meaning what I'm conveying is if you have that many things you're changing, I could show you that the impact of a specific item is $5 million. But if I change the order, it becomes $1. The -- so that ultimately getting to that fine point, I mean it

gives you the sense that you know what's happening but in reality, begin the fact that the interrelationship and the order dictates the magnitude, we thought that that information, if anything, would not convey -- it would not convey the right information, and it was probably splitting it up is a bit difficult.

>> Matt Loesch: I'm not satisfied, unfortunately. And this is one of the things that went back to a decision we'd made a few years back where we said this assumption should be changed and then later on a couple of years later that assumption change cost $5 million. I'm using numbers off the top of my head. I was dissatisfied because making that assumption change at that time was problematic. Again here we're just giving a clump of a large things, whether we have purview to change what those assumptions are I think it's in our purview to know which ones cost what to know what things those are affecting and how they're done. He obviously put them into some order to get to $10 million and they obviously same came to some kind of calculation as a result of that order. If that's presented to me this is how this is done, if we tweak something it screws up all the numbers or modifies it. But you're asking me to go on blind faith again and I won't do that.

>> Arn Andrews: And I'm actually going to agree with the chair. Whether or not a number is a decision point for us, I think as board members, it helps our educational process, understanding the magnitude of all these different variables. I mean actuarial science is a very difficult science. The chair mentioned in the report alone there were 17 different recommendations. Whether as board members we have any right to opine on those recommendations I think it helps us comprehend and understand and appreciate the different magnitude of the different variables. And do I know in the past several of the board members have consistently asked for more data, not necessarily so we can have any decisions on the data but just to help us comprehend and appreciate the entirety of the job before us as fiduciaries. So I'm going to have to agree with the chair that if we ask for something, while I appreciate behind the scenes administratively it may or may not make sense, it might be that we're trying to educate ourselves and I think that's always in everyone's best interests. So I believe if a board member asks some in the future and if a decision is going to be made not to do that I think it would be appropriate to give that person a phone call so we can understand why or why not we might get the information we asked for.

>> Matt Loesch: And I think it was not just my -- yes I was the one that originated the motion on this matter, but it was the board's decision based on the vote that this is what they wanted. They could have said, no, Matt, you're crazy, we should not have -- we'll make this simple. It didn't happen that way, and the fact that it comes back without this information -- please, this is not a stall tactic on my mind. I don't want to push off a decision until November just because we can. But the reality is you're asking me to make the decision on blind faith. And I'm just talking about the demographic changes and that's why I'm breaking it down into two different clumps, and it's dissatisfying to me that things were specifically asked for and things were said, no you don't need to supply it that way, supply it a different way. So I'm not really exactly sure how I'm going to keep moving through on this demographic issue. So if anybody else wants to opine for a minute, that's fine.

>> Lara Druyan: I think you make a fair point.

>> Straight forward a list of this is the 17 items, the percentage change and the dollar impact.

>> What's involved for each one is we do a separate valuation run making one change at a time. And so to break it down as 17 is 17 valuation runs. What we did here to get to ten is we just put them all in the final valuation run and just run it once and compare that to where we started. So 17 is significantly more work. But we could certainly group, you know, there's a balance. We could certainly group them into significant categories, if that would serve your needs, or you know if you want we can run all 17.

>> Matt Loesch: One of the previous things I had mentioned in May and again I had to reread the entire transcript to make sure I wasn't losing my mind. Some of your recommendations were no change, right?

>> Right.

>> Matt Loesch: Some were no change. I didn't figure out how many were to actually change something but there were 17 recommendations made by you in May and some of them were no change. Now again to help

educate us is it literally to plug a number in -- what does it mean you have to change something and rerun the valuation? What does that mean to you? What is the impact?

>> The impact is, we have to change the coding of the program, to reflect the assumption change. We run it, we have to verify that that coding was reflected and properly reflected in it. And then go through the calculations of what the impact is on the cities and members contribution amounts.

>> Could you help us understand what the hours of effort would be involved in that, just in ballpark just so we understand the scale of what we're asking for?

>> It's probably -- it is probably two to three hours per run.

>> Matt Loesch: Of your work or of it working while you're doing something else?

>> Well, of the person coding it and then the review of both the output and the calculation of the impact on the rate. So it's -- that may be a little bit high if we do all of them in a row. But some of that work was already done and so we have a start on it.

>> Matt Loesch: Okay. Because my assumption is based on what you have shown us in the past. You put whatever engine you have on the screen and make the changes. Great that's not to the penny and I understand that's more forgiving guiding us as to general trends and that's fine.

>> Yeah, and that's also the changes in that model are primarily the investment return changes which go into that final calculation.

>> Matt Loesch: Okay.

>> Arn Andrews: Just in the interim of the six sub-bullets on slide 6 can you give me some sense of order of magnitude which ones impact greater than other? We've have a bucket of 10 million and we've got six sub-bullets.

>> The most significant are the first two. Those are kind of interwoven. This is one case for sure it would depend on which one we valued first which would be most significant. The combined effect is we're assuming a lot fewer members who have long service or are chose to retirement, when they terminate, take a refund. And when those people take a refund it's a gain to the system. They just take a refund of their contribution and it is usually much smaller than their benefit. The combination of reducing the probability of them actually terminating employment and reducing for those who terminate employment, the probability that they would take their account balance instead of their full benefit, has the most significant effect. I think that was, from our prior runs, that is was far and away the largest impact. The administrative expense assumption was 70 basis points on the rate, and so that's just a flat impact. The mortality rates I don't remember exactly where the estimate was, but that impact was, as I recall, less than half the impact of the first two items.

>> Arn Andrews: Short of the quantifying discussion we just had, that information was very illuminating. Going forward, that type of context, I know for PowerPoints we all get in the habit of just trying to make them very succinct. Actuarial science is not succinct. So going forward that type of context is very helpful.

>> I'd also point out that in this year's audit we were contacted by the auditing firm's actuary and they had a question about termination and refund rates in last year's valuation, and we told them that we had made a recommendation of a change, and they were satisfied with that.

>> Arn Andrews: Additional good context.

>> Matt Loesch: It's also about moving forward, I am talking about the demographic stuff briefly. My personal belief generally around demographics changes is many along with what Ms. Racy-Choy said, they are what they are on past experiences so you implement them immediately. You don't delay about them, because they're as a

result of what happened in the past right? Or what the existing status of the system is. The economic stuff that's projected going forward, in my mind we can haggle a little bit about how that whole thing shakes up. To blow up about the fact to stomp my feet that I wasn't given the information I asked for is a little bit immature but I want to are specific about the stuff I asked for. I don't want it to be a practice but knowing generally what these things were, so what your thoughts are about moving forward, I'm not sticking my feet in the sand saying I'm not willing to discuss this because I didn't get what I wanted. That's not really my mode here but what are your thoughts?

>> Edward Overton: I think it's clear are to me that if a request from the board is going to be ignored one of two things have to happen. Either the staff calls the chair and informs -- discusses with him why those things are not relevant and the amount of work that's involved, and/or the actuary -- actuaries themselves, up front, are in your report, address the fact that this was discussed so that it's not as if you just ignored it and not provided the information. I think what Matt said earlier, what Carmen said earlier, they are what they are. So I don't see that there's a need to hold up going forward because that was not provided. But I do think it's important to create trust and confidence between our professional staff and our consultants and the board.

>> Lara Druyan: I agree.

>> Matt Loesch: So if we were to take the two chunks, essentially they are the demographic assumptions and the economic assumptions. Would you like to march through the board decisions before we talk about the economic decisions?

>> I just put up the board decision for you. We just broke it up into the categories we thought you would consider the decisions. The demographic assumption changes and the wage inflation assumption and the investment return assumption and the SRBR assumptions, each separately. We're showing the range up there as well as the recommendations.

>> Matt Loesch: Okay.

>> Mollie Dent: I wanted to make one comment on the slide about the SRBR assumption. And it's not something that I --

>> Matt Loesch: Do you know what slide that is? I'm sorry.

>> Mollie Dent: Yeah, I will -- it's slide 10 and it's a footnote about understanding that the members don't pay for SRBR. I'm not aware of anything specifically in the code. We can go back and look about the members not paying for SRBR. Normally, members do pay a share of normal cost. So the two statements in the footnote are a little bit inconsistent about SRBR. But I -- that's the only comment. It's not about the rate itself.

>> Carmen Racy-Choy: My interpretation, I've read obviously sections of the Muni code and it specifically stated that the employees pay for pension benefits. Not SRBR benefits. Not other benefits.

>> Mollie Dent: I'll go back and look. But it seems to me when you make a normal cost it may become a pension benefit that's kinds of -- I'd be glad to take a look. I think Mr. Richeda can provide a opinion on that.

>> Matt Loesch: Say again?

>> We would absolutely defer to your comments on that. This was based on conversations with staff about how to proceed.

>> Mollie Dent: Certainly it's been historically since the SRBR hadn't been a funded benefit the members haven't paid for it.

>> Arn Andrews: I think if the discussion is complete on the demographic assumptions and everybody appreciates the other conversation that happened in the context of that, I'd make a motion to approve the demographic assumptions for the actuarial valuation.

>> Matt Loesch: Just note the page so everybody is -- I apologize for -- just trying to get the transcript clear so when we reference back when we're on the stand, what the heck's going on here.

>> Arn Andrews: Right so if I note --

>> Matt Loesch: Is it page 6?

>> Arn Andrews: Page 6 is just key ones, I don't know if it's all of them.

>> I think it lists all the areas where the assumptions are and the references to the full report that has all of them spelled out.

>> Arn Andrews: Did that work?

>> Mollie Dent: I think for tracking purposes it would be a good idea to have the assumption changes listed. We've had this problem in the past of trying to decipher what assumption changes were at some point in the past when you're looking back. So I personally think it's a good idea to have a real record of what assumptions you're keeping and what assumptions you're changing.

>> Carmen Racy-Choy: That's available in the experience study in more detail. So this is not the only documentation on what the changes are. There's a very thick document.

>> Lara Druyan: I've seen the experience study, I have it.

>> Matt Loesch: How do we reference it? I get what you're trying to do. I appreciate what Ms. Dent is trying to refer to that we should elicit what changes are being made and from what to what, is that what you're saying Ms. Dent?

>> Mollie Dent: I think in the actual valuation, all of the assumptions should be part of the valuation and they will be. So I think when the valuation comes out, that can somehow be earmarked to indicate which ones of those assumptions are carryovers and which ones are new assumptions with this valuation. That's really all I'm suggesting.

>> Matt Loesch: I think if you would be sure to call that out, these assumptions were approved by the board at this date and which were changed from what to what.

>> We will in the valuation report, yes.

>> Matt Loesch: That meet what you're trying to get at Mr. Andrews?

>> Arn Andrews: I'm not sure.

>> Matt Loesch: With your motion.

>> Arn Andrews: I just want to make sure whatever we move forward with, with a motion is appropriate, both from Mollie's standpoint -- I mean I can allude to slide 6 and reference the full details of the 512 report.

>> Matt Loesch: Okay. We're approving these things so he can comment back with estimates and valuation report next month, that's the idea.

>> Arn Andrews: All right. I make a motion to approve the recommended demographic assumption changes of slide 6 on this presentation noting that slide 6 also references the experience report dated 5/12/2011.

>> Second.

>> Matt Loesch: Any further discussion or comments?

>> Russell Richeda: Probably needless clarification on the motion, but the board is adopting the recommended demographic assumption changes that were contained on the May 12, 2011 report, correct?

>> Matt Loesch: I believe that's what's intended. Any further discussions or comments? All in favor? Opposed?

>> Russell Crosby: Second was? I'm sorry?

>> Mollie Dent: Marty.

>> Matt Loesch: Now to the fun. The economic assumptions. One of the key things to me that's included in the demographic assumptions that was noted that we've been trailing gross net gross net, how are we doing our assumed rate of return, scout rate, always been noted gross net, it's referenced in Ms. Racy-Choy's memo, we have just voted to include 70 bips to account for our cost. Right?

>> To account for administrative expenses.

>> Matt Loesch: I apologize. That's just one of the things I wanted to note, something rectifying an issue that's been going on for a while. And that was a good thing in my mind. It's been something that's been dealt with for a while. But now around these assumptions the discount rate wage inflation SRBR what are your thoughts, how would you like to proceed?

>> Arn Andrews: I just want to tag on to the last piece of your comment. Because when we talked a while back about how we were going to think about taking admin expenses and SRBR expenses and operationalize them through the contribution rate, I thought that was going to make the whole conversation of net gross a lot cleaner because now we're only left with investment expenses. That takes me to your memo, where now investment expenses are anticipated to go from 33 to 95 basis points and so --

>> Carmen Racy-Choy: And so why is that?

>> Arn Andrews: Yeah, could you just speak to that a little bit?

>> Carmen Racy-Choy: Sure. So as you know, staff adopted the asset allocation adopted by the board fairly quickly through -- on the equity side we implemented a lot of mandates that should be active passively. The intent was simply that whenever staff can get around to it, that we would fill these active mandates. So when you are looking at the current investment cost, I guess the first question is, is this an appropriate basis for the future. That was kind of the initial question. What we've tried to address, we've tried to point out to the board that there are various elements which are currently not included in current cost. If you look at the financials. But to the extent that the board continues to adopt this asset allocation should be included in the analysis from an actuarial perspective. And so, as I pointed out, the issue of a significant portion of the equity mandates currently being implemented passively, where in fact the structure and the asset liability study suggested active mandates should be used with one element, and the cost of that was 15 basis points, and that goes over and above the current investment management costs which are approximately 33 basis points. The additional components is obviously the long term asset mix has an allocation of absolutely investment strategies of 5%. Currently we have not implemented that allocation, so we've estimated that that would add an additional 20 basis points. In addition private debt was the next component, we've fundamentally given the mandate to three private debt managers. However, most of the money has not been called yet. And since the fees are based on basically what has been funded as opposed to what's been committed, this means that we can expect when the managers fully fund an additional 15 basis points. The additional items, also infrastructure, the plan has a 2% allocation to infrastructure as part of the real asset component. Currently we are getting exposure to that segment through a passive swap, and that's not very costly. However, the moment you start investing, with a manager the cost significantly increases. So we've lumped together the infrastructure component is expected to be about 4 bips. We've lumped with the infrastructure an additional 8 basis points. And that's for an additional amount of carried interest on private equity and Real Estate. The performance of those two asset segments currently, in general, is relatively poor, and so we're not paying much carried interest. And we definitely hope to be able to turn

these two segments around. We hope the economy will contribute to that. And so we've decided to add a small cushion for that component.

>> Arn Andrews: So to the extent that we maintain this asset allocation and the asset allocation runs efficiently, we can anticipate 95 basis points embedded in cost. And so I guess my next question goes to our outside members. Is this a reasonable cost basis for our asset allocation?

>> Probably.

>> Arn Andrews: Okay.

>> On your privates, typically you have a hurdle rate on those. I'm not sure why you would be putting a carried interest rate if you've got a hurdle on there. Generally you're probably getting your 8% which is your assumptions. So I probably wouldn't include the carried interest on that stuff.

>> Carmen Racy-Choy: But the carried interest is on an annual basis, not on a 30-year basis. If it's on a 30-year basis like the actuarial assumption, I would totally agree with that statement. When it's on a yearly basis, you end up paying a lot more often, and it's not necessarily in line. And really the extent we included an additional 8 bips. We don't think it's huge but definitely the fact that it's not on the same basis and the horizon that we're currently considering, makes an impact.

>> Stuart Odell: Overall the way these assumptions are set is not generally how we would go about doing this. We would set expected rate of returns net of management fees and that's where you start. And I think these assumptions would include that and would I not be sitting there trying to add active management feeds on top of it. You know, if they're not capable of hiring managers, that can generate returns net of fees, they're in excess of those assumptions and they shouldn't be hiring active managers at all. And so that's how we set these. We do not sit around and try and add, jeez, hedge funds, an additional 50, 60. It's just not how it's done. So --

>> Arn Andrews: So for us going forward because we're about to start a discussion on an appropriate rate.

>> Stuart Odell: So can we start with the rate and not worry about the fees?

>> Arn Andrews: That's one of my questions. And then the next question is, since 95 basis points on the surface appears to be quite a bit of a haircut, is there a way to alter this dynamic so we're closer to the rate we set?

>> Stuart Odell: Again, my focus would be expected rate of returns are net of fees. And that's your starting point. And I would not get into this this is 30, this is 20, this is 15. The margin of error is so great on these expected rate of return suggestions that sitting there trying to get to 12 bips and 15 bips and adding that on is just silly.

>> Arn Andrews: So when I focus on expected rate of return I should keep my thought process focused here --

>> Stuart Odell: You should assume that the staff can generate net returns that equal those numbers. That's what you're hiring them for, that's what they're being paid for.

>> Arn Andrews: Good, that helps me.

>> Russell Crosby: If I make one comment though, in our environment one of the things that happens is that particularly with the press and unions and public in general, they look at other plans and say oh well but X plan is using an assumption of Y amount. And almost invariably that's a gross number. So we've tried get down to net numbers, like what you're talking about, but it's a constant problem of then comparability to other plans outside of San José, that they're doing it on a gross base, we're doing I.T. on a net basis. So even further we look like we're you know doing something strange and why are your numbers so low? Well, because we're appropriately netting everything out. That's going to give us a much lower return number than somebody who doesn't do that. As well I understand what you're saying is the better way to do it and we would prefer to go there. We end up with this problem of constantly trying to explain why are we so different from everybody else? As long as everybody

understands that and can explain that to all the various constituencies, I don't think we have a problem with embedding it in the return rather than specifically recognizing it, that's what we were trying to address, as a contrast to the rest of the plans that we are dealing with and what we are trying to do here.

>> Stuart Odell: That's a fair comment. Just it's easier for us as a group to work on the net returns of the asset class and focus there.

>> Russell Crosby: We agree 100%.

>> Stuart Odell: That's how we look at the world.

>> Russell Crosby: As long as trustees can help explain that in the greater environment and when questions come well we've netted investment expenses out and we've explicitly recognized them in that net return assumption. We certainly don't have a problem going forward that way.

>> And you may have to really label it net of fees to make it clear it's different from other plans.

>> Russell Crosby: We have.

>> Okay.

>> Russell Crosby: It's still caused us untold confusion. Okay?

>> Matt Loesch: So moving forward. Do you want to -- I mean here's the choice. We could even on their chart, which of course is on page 9 which is on slides -- you're kind of picking the area you want to fall into. Or do you want to talk about the discount rate in and of itself, the wage rate in and of itself, the SRBR, it manifests its way out, are you satisfied to make this decision now? Do you want to make the decision in a month? To kind of come to a conclusion today or push through?

>> Stuart Odell: From the wage inflation, we have Cheiron here. Do we have some discussion on that one?

>> Matt Loesch: Absolutely.

>> Stuart Odell: That one probably is a little bit easier for us to grapple with first.

>> Matt Loesch: All right. Mr. hallmark would you like to talk about the wage inflation in your recommendation?

>> Sure, let me -- I actually have the presentation from May here, let me --

>> Matt Loesch: Just reference, this is the same presentation you gave on the presentation that was in May. This is the May board meeting. I don't know when the report was actually created. But it was presented at the May board meeting.

>> So this was our discussion of the wage inflation assumption from that report. And there's actually more details and tables on the report itself but this was from the presentation. We look at national average wages, published by the Social Security administration. The average was 2.9% over the last ten years, 4.2 over the last 20. So there's definitely been a downward trend in that. For Federated members, the pattern was actually fairly similar, with 2.7% growth over the last five years. The -- that gives you the historical context. Looking forward, you have to assess what you think it is likely to take place over the long term going forward. So there's kind of a short term focus the next couple of years, where everyone's looking at the current status of the City's budget and what might be expected. But we're trying to look much longer than that. And so we're trying to get a long term perspective on it. I think the Social Security administration assumes in their long term projections for all workers something close to 4% in there. In there, mid intermediate assumptions. So our recommendation was somewhere between 3.25 and 4, recognizing kind of short term issues as well as a projection for long term issues for the public sector. We kind of came on balance to 3.5.

>> Is the 3.84% over the last 19 years, has that been impacted by the salary reductions over the past several years?

>> No, this study was through June 30th, 2010. So it doesn't have this last year of reductions.

>> Thank you.

>> Matt Loesch: Does the five years or is that still at 2010 stock?

>> That's in May before we had data for this year. So all of this is through June 30th, 2010.

>> Matt Loesch: Do you have an idea what that 10% reduction, some folks have two year commitment on that 10% down. I mean that's the base from going forward, it's not like it's 10% temporary and it bounces back up. It's 10% down and that's the base from which it would grow if it does after that. Others have implemented contracts which I don't know --

>> Right, I guess what we're looking at here is setting an assumption for what that new lower base will grow at in the future.

>> Matt Loesch: That 2.7 that's --

>> So you know we're looking at a period of history that doesn't include that 10% drop but I'm not sure how much weight you would put on that in setting the assumption going forward.

>> Matt Loesch: So I would imagine that 2.7 in the last five years would be much smaller just based on what you put on there.

>> It absolutely would.

>> Matt Loesch: Doesn't necessarily affect the 30 years but just putting an asterisk beside it. Mr. Armstrong.

>> Michael Armstrong: Just for clarification, are these real or nominal increases?

>> This is nominal. This is a nominal base level of wage increase, so on top of this there is a merit component that is set based on years of service. So newly hired would get a higher piece on that. This is theoretically if you had a stable population each year, what the total payroll would grow by.

>> Michael Armstrong: Okay, so there's sort of an implicit inflation forecast?

>> There's an implicit inflation assumption in here, yes.

>> Which is -- what would that amount to?

>> We specifically did not develop an explicit price inflation assumption but typically you'd see wage inflation range from 50 to 150 basis points above price inflation.

>> So can you explain why the range is 3.25 to 4? Why isn't it 3 to 4?

>> Well, there's definitely some subjectivity involved in where you exactly draw the line. But it does reflect an implicit margin above what we think price inflation would be in the long term. So if you looked at just the Social Security assumptions their long term price inflation assumptions is 2.75. And with a 50 basis point on that it would be 3.25. You could argue their inflation is too high which would allow you to reduce that rate.

>> So that's how you built your assumption? You started with Social Security and added 50?

>> Well, we looked at a variety of different factors. I was using that as an illustration of how you might end up at the 3.25.

>> It's higher than what we use. Higher than what we're seeing.

>> Arn Andrews: May I ask what you use?

>> 3.

>> Carmen Racy-Choy: What horizon is that over?

>> Long term. Same actuarial assumptions. We see higher outside the U.S. certainly but we don't see long term wage inflation being significant.

>> Lara Druyan: I don't have your expertise of expertise but I don't read that anywhere, right, that 3.5 is the right number even in the private sector much less the public sector which is getting eviscerated.

>> In our situation where we're coming off a base that's been depressed by an across the board cut that would lead one to push their estimate for future growth up a little bit. Would that be a correct way to think about it?

>> That's one interpretation of what may happen and in fact that's what Social Security's suggesting that actually in the short term, they were suggesting that as the economy rebounds. They'd expect higher wage growth and then ultimately declined down to 4%. I think that has to be tempered with where you think long term public sector wages are going to go.

>> But our wages went down.

>> Yes, that's certainly a possibility especially with a 10% adjustment down. If revenues came back and the economy came back, you could see higher wage growth in the short tell.

>> Arn Andrews: I have a hypothetical question. If the current ballot language as it's adopted were to pass, next year you'd be faced with a situation where you are trying to figure out wage inflation with language that says as long as there is a UAAL there will be no inflation. Would you set it to zero? I'm just curious, it is a hypothetical question. There is language out there that will have an impact on this assumption going forward. I'm just curious what your thoughts would be on that.

>> I don't know. We haven't analyzed that. I haven't seen that language or analyzed it at all. So we would certainly take into account something like that.

>> Arn Andrews: You would, so you would factor it in. Okay, that was my main question, okay.

>> Matt Loesch: So it seems like we have trying to shepherd towards an answer if we could. We have a range that's been presented by the actuary of 3.75 to 4, some folks seeing even 3.5 recommendation, even 3.25 a little high. How do we wants to come down on id? Do we want to come down on it today? Do we want to seek more information? Think about it for a month? Make a decision?

>> From my perspective if we have to stay within the range of the actuary's recommendation, I'd be more comfortable at the lower end of the range than the upper end, simply because I don't have a lot of confidence with how the actuary came up with the range. So I think my guess on what I think wages will do over the next ten to 20 years in this region of the country is probably as good as theirs. And I'm guessing 4% is on the upper end of where we would ever be any time soon.

>> Mollie Dent: So in terms of whether or not you have to use the actuary's range, you -- you would want the actuary to address whether or not they think a 3% bottom would also be a reasonable range, I think. I think that's

the way that it would need to be brought up with the actuaries. And of course, you can ask for more information and data and analysis by them. You don't have to adopt this.

>> Stuart Odell: I don't know what more data they're going to do. Sounds like it's loosely based on some third party assumptions of what wage inflation will look like in the United States. And I'm just -- the Social Security administration's ability to project that, I don't put a lot of faith in.

>> Lara Druyan: Would you be comfortable at 3.25, since it's at the low end of their range but sill in their range?

>> Stuart Odell: Yes, again I don't have a strong view on this because I can't put some financial background behind it. It's really -- this one is really a guess on that end. But you know, having been at Intel a long time I know what the wages are like and I know what Intel projects going forward and so I'm using that as somewhat of my basis of how I see the world. That may or may not be reflective of the workers of the City of San José. But I kind of think it might be. So that's where I am on this.

>> Matt Loesch: Mr. Ham mark would you like to give some feedback just to that point alone? I mean does that impact your thoughts?

>> Well, there are a lot of different ways to look at this. And I know working with private sector companies, projecting the wage -- their wage growth they usually have a lower number. But when you look at it at a macroeconomic scale I think we've seen higher wage growth both in the past and I think we would project going forward. If you have the full report, from May, page 7 has the historical year by year annual growth in average salary for Federated members. And for the year ending June 30th, 2010 it was a minus .51%, but immediately prior to that it was 3 and a half for about four or five years. There was one low year, but that was right after a 7.5% increase. So you look historically at those numbers and how they line up with the historical data for inflation and so forth, and I think we get nervous about pushing that number down too low because it projects lower benefits. And so I think, you know, none of us knows for sure what's going to happen over the next ten or 20

years in terms of wages. And so we're making an estimate based on both the historical experience and the current measures in the economic environment.

>> Matt Loesch: And to set the floor a bit we're at 3.89 right now correct?

>> 3.83.

>> Matt Loesch: 3.83.

>> Stuart Odell: You just talked about looking back but you didn't even describe the City's problems today. That's the --

>> I agree.

>> Stuart Odell: Is the city going to be able to give out 4% raises for the next 30 years to its employees?

>> Well, it's not in the next five for sure. But what happens after that I think depends on how the economy moves, and the resulting revenues to the city.

>> Matt Loesch: So again, I guess try to shepherd to a decision, maybe, the recommendation is 3.5. Seems like Mr. Odell would be more comfortable below 3.5, toward 3.25. Seems like that's the range we're talking about, nobody has talked about above 3.5 at the table. So we're at the range now, we are narrowing the range from 3.25 to 3.5. Is there an inkling as how you would like to step, would you like to step in a measured fashion, do a portion now and a portion over a period of time to a lower amount?

>> Just for clarification on page 9 I'm trying to gauge what the actual impact of choosing different wage inflation rates is. And if I read this correctly it is --

>> Lara Druyan: It is de minimus.

>> -- it's de minimus. So in the scheme of things this is not the key driver.

>> Matt Loesch: That's why I said let's get the easy one off first.

>> Lara Druyan: It is de minimus. But from an intellectual honesty standpoint I'm with Stuart, I would sort of like to do a number that we all believe in.

>> Arn Andrews: As a board member, I always try to stay away from the purview of the ranges provided by the actuary. I do agree with the conversation, though. That we should definitely be at the lower end of the range and next year when we're here again I hope you appreciate we would like a little more robust conversation and especially if there are outside forces that could have constraint on wage inflation going forward just specific to the city. I would make a motion to adopt a 3.25 assumption for the wage inflation.

>> Matt Loesch: Okay. There's a motion. Is there a second?

>> Lara Druyan: Second.

>> Matt Loesch: Okay, Druyan on the second.

>> Russell Richeda: I was hoping you could ask Mr. Hallmark, since he's recommending 3.4, ask him either number one, whether he does not recommend 3.25, or in other words does he have any problem with 3.25, that was certainly within his range but it wasn't his recommendation and I think it's helpful for you to know that.

>> Matt Loesch: Agree.

>> We have no problem with 3.25.

>> Matt Loesch: Further discussion on the wage inflation? Let's piece it together, otherwise --

>> Arn Andrews: My motion is to lower the wage inflation assumption from the current 3.83 to 3.25.

>> Matt Loesch: That wax seconded by Druyan. All those in favor? Opposed, okay, the chair's going to call a ten-minute recess just for a break's sake. [Recess]

>> Matt Loesch: I'd like to call back to order the Federated city employees retirement system. We're at the continued ant rivetting stage of actuary day, days of many takes of fun. The discount rate, everybody's dragging their feet trying to get to and the SRBR. Why don't we start with the SRBR cost and we can continue to avoid the conversation on the discount rate. So if you would like to go into that Mr. hallmark just to be clear. On page 10 you have a change of contribution rates. As a result of the SRBR stuff.

>> So the SRBR, whenever actual investment returns are greater to the expected returns, 10% is transferred to SRBR. We ran a stochastic analysis running the figures that staff presented us and calculated an average transfer over a period of time given those assumptions and the volatility. We found that there are a great many times when nothing is transferred. Or a small amount is transferred. And then there are times when a very significant amount of transferred. So the bottom of our range was developed as the point where half the transfers were below that and half were above that. The top of the range was calculated as the average amount transferred, reflecting that there are in some very positive economic scenarios large transfers. So that gave us a range for establishing a direct cost for the SRBR. In the past, there has been no direct cost associated with it unless it was implicitly embedded in the investment return assumption which, if you embed it in the investment return assumption changes the yardstick or the benchmark for when the SRBR applies. So to remove that circularity, we think it's important to pull it out, and we came to this approach. The impact ranges from 4 to $10 million this year, but as you should note, the assumption is tied to the market value of assets. So that impact as you project forward will vary depending on the market value of assets.

>> Matt Loesch: Comments or questions on the SRBR on the ranges that are presented and the recommendation?

>> Arn Andrews: I would just comment, when we have this discussion I agree with the concept of how this is being presented in the sense that we feel it should be factored in as a cost. My only concern is, I don't know if the timing of this conversation is good right now. I mean the SRBR is currently delayed till December. There could be another decision delaying it. I would hate to embed something in cost that would not necessarily be a cost. I'm curious what the other board members think in terms much timing. I completely agree with the way it's been operationalized and as long as it's an SRBR I feel this is the way it should be handled.

>> Matt Loesch: We have been transfer the money.

>> Russell Crosby: Transfers have been happening. Regardless if there's a payout, moneys have been transferred out to a separate SRBR. It's still going on, still a drain on the system even though the payout isn't happening.

>> Mollie Dent: Yes, as long as it continues to exist in terms of the transfer, there are proposals on the table to discontinue it but there's not been a decision to discontinue it at this point. So I think the transfer --

>> Matt Loesch: The legacy of it --

>> Mollie Dent: I think that the transfer would normally happen in November or December of this year, for last year. Because you did have a good gain last year.

>> Matt Loesch: The fund, that account keeps getting bigger and bigger. So the payout if there is one eventually would -- we would have to come up with a way to deal with that payout, whether it's paid out in full or paid out in part. Do you have anything you want to say, Ms. Niebla?

>> No, I was just going to add that the transfers are still happening. That's not stopped by the current city council policy, it's really just the distribution. So the accumulation is still continuing to happen, and what Cheiron is pointing out, it is going to continue to happen and will be an issue.

>> Arn Andrews: That's good clarity. Even though it's held in abeyance it's still being transferred.

>> Stuart Odell: Are the separated assets invested?

>> No, they're all invested, commingled.

>> Stuart Odell: They are pooled.

>> Matt Loesch: Just accounted for separately.

>> Stuart Odell: Not leaving them in cash or something, although that might not be a bad place.

>> However the SRBR isn't impacted by negative returns the way the overall plan is.

>> Russell Crosby: Yes, it's a one-way transfer.

>> Stuart Odell: The amount that's transferred is one way.

>> Matt Loesch: It can only go up.

>> Carmen Racy-Choy: And if the plan moves you have to -- it increases the amount transferred.

>> That kind of leverages the portfolio a little bit.

>> Carmen Racy-Choy: Yes on the down side.

>> Matt Loesch: And just for clarity sake, in addition, there is talk about proposals to cancel it, it has been on hold for a while. What would be the impact -- we're not negotiating on behalf of the retirees -- by we, I'm pointing to myself -- people who are negotiating, bargaining parties are negotiating for active members. And that's where it comes to the legal thing. If they -- if the actives give up the SRBR per se how does that affect the retirees and whether we would still have to maintain the SRBR account for them and then have payouts for them?

>> Mollie Dent: Our office did a public memo on sort of whether or not there was a vested benefit so I could dredge that up but we did a public memo on that and my --

>> Matt Loesch: And the answer is summarize yes or no, depends?

>> Mollie Dent: The answer was that it differed for different groups of people and I don't have that memo with me. But there is some problem with it, with considering it a vested benefit, because normally you look at whether there's any security to the benefit in terms of security of it actually being paid. And obviously the way in which the decisions have been -- this is not always paid. In fact it wasn't paid for the first many years that the SRBR was paid, there wasn't payment out of the fund. Recently there have been payments out of the fund. I can dredge my memo up.

>> Matt Loesch: The only reason I'm asking, we're talking about embedding that cost in there, and if we're -- let's say that all the bargaining units on the federated decide they are going to abolish the SRBR and not have it anymore what does that do to this rate as we're discussing in here? That's the only reason I'm bringing that up. What does it do, anything? Nothing?

>> Well I think that would completely depend on the details of that proposal, okay? And we haven't analyzed that.

>> Matt Loesch: Okay.

>> Carmen Racy-Choy: But fundamentally let's say there is agreement to abolish SRBR, which means there is no payment for the retirees or the active, then clearly the actuary would have to remove the cost for the appropriate category.

>> Matt Loesch: The issue whether the retirees agree that you know it's vested or not, I'm not going to get in that game. Mr. Gurza you said you wanted to talk on this item.

>> Alex Gurza: Good morning, Alex Gurza deputy City Manager.

>> Matt Loesch: It is on.

>> Alex Gurza: It is on? Back in May I think this was discussed as far as the experience study, and one thing from the city administration standpoint, if the SRBR continues we fully support that it be funded. We are very surprised however of the change between putting the cost completely on the city side. We do think that's a legal issue that needs to be looked at before deciding. It made sense to us in May to consider this was a benefit split in the same way that the normal cost was split so we ask that that be reviewed.

>> Matt Loesch: Is that clear, the request of the city? So what are the thoughts on this? We could certainly set the rate and figure out how it's divvied up. Obviously it would just mean how it would get counted on your ledger, right? In yes, exactly. The assumption would be the same, it's just whether we take 3/11 of it and charge it to the member rate or not.

>> Edward Overton: From the standpoint of the way I understand this and please someone correct me if I'm wrong, the SRBR comes out of excess earnings. Not the discount on normal cost. And therefore, if those benefits were not being taken out of excess earnings, the value would accrue to the city. And from that standpoint, it does represent a cost to the city. Not the members. And so like I said, this is the way I'm looking at it, if Carmen or Bill if that's wrong let me know.

>> I guess our position is, that's entirely a legal interpretation of how the cost should be split.

>> Mollie Dent: I think that is correct, that that was staff's interpretation, given a background of the way the benefit was originally negotiated. I think your recollection is correct, too. Because the benefit is paid out of excess earnings, it has always been expensed to the city side. And historically that's certainly true, so and that was perhaps part of the understanding at the time the benefit was negotiated but that's what we need to go back and look at, whether or not if you're going to start now, expensing it as a normal cost, is it right to continue to do it all on the city side?

>> Matt Loesch: Okay. I think it's clear that we want clarification as to how it would get delineated. Is there any clarity or thoughts around the range? It seems like because it hasn't been charged before we have no historical real precedent except how we've been paying it out and experienced. Are there thoughts around the .35% of MVA that any thoughts of that? On the recommendation?

>> Edward Overton: I have a hard time figuring out that the SRBR cost is .32% of payroll. That seems to be a high number.

>> It's .25% of the market value of assets.

>> Edward Overton: Okay.

>> Matt Loesch: Any further comments? We are fishing in an area we haven't had to fish in before. I doubt that private funds have SRBRs to provide outside guidance.

>> Stuart Odell: Right.

>> Matt Loesch: I'd be inclined to accept the actuary's recommendation on this and seek clarity for how it should be dispensed, as far as cost. From the attorney's. And I'll put that in if form of a motion. Is there to that?

>> Lara Druyan: Second.

>> Matt Loesch: Further discussion on that? The motion is to set the contribution rates for the SRBR at a cost of .35% of market value of assets.

>> Stuart Odell: Can I just ask -- make one comment?

>> Matt Loesch: Absolutely.

>> Stuart Odell: When would this assumption be revisited again?

>> With the next experience study.

>> Stuart Odell: So two years?

>> Carmen Racy-Choy: But it can be revisited if you wish earlier.

>> Stuart Odell: Right.

>> Matt Loesch: We could have a discussion on it every year just to see how it's tracking if you like. We can make that note and request, to pull it aside, so it is something new and we don't really know -- it's up to you.

>> Stuart Odell: It would be pretty easy to calculate it if the city actually decides to pay it, we'll know exactly what the number is. I'm not sure we'll have any new data in a year that will tell you anything different. But I just wanted to know when the next time they revisit the assumption.

>> Matt Loesch: Everything will be revisited within two years. Okay, so that's a motion, we have a second. Any further discussion or comment? No? All in favor? Aye? Opposed, none. Okay, since we have nothing else, a little levity around the actuarial stuff is okay. Investment return assumption. Mr. Hallmark would you like to revisit summarize again or would you like us to just continue on our discussion?

>> I don't know how much we need to revisit. I guess when we did the initial analysis this was our distribution of returns. Based on the capital market assumptions at the time. 50th percentile was 7.42. We used that as the basis for our recommendation. We tend to prefer to be slightly below the 50th percentile or have a slightly greater than 50% probability of meeting the return. But here, if we're looking at, you know, just rounding-down the 7.42 to 7.25, as our recommendation. If you're above the 50th percentile you're indicating that there's less than a 50-50 chance of meeting the assumption over the long term.

>> Matt Loesch: Okay, discussion.

>> Edward Overton: As I indicated earlier on, my preference is for a discount rate of 7.5 and I would not support anything below that. That's right around the 50th percentile. We have a new asset allocation, we have new investment professionals as members of the board. We have an investment staff in the retirement office. I don't think to continue to lower the discount rate is appropriate for this fund. And it does have a tremendous impact on the contributions on the part of the city. So my minimum is 7.5.

>> Matt Loesch: Okay. Any other discussion points or thoughts?

>> Edward Overton: And I might add that if we need to tweak the asset allocation, if the investment committee or the staff needs to tweak the asset allocation, to move that above the 50th percentile then that's something I think should be done.

>> Matt Loesch: Okay.

>> Lara Druyan: Just to be clear Ed that is decreasing. Right now it is at 7.75, so we would be decreasing it to 7.5.

>> Edward Overton: Correct.

>> Matt Loesch: Mr. Odell, do you have something you want to add?

>> Stuart Odell: The 7 -- was it 7.42 or something -- (inaudible) -- just to be clear, seven -- and you got to 6.75 by taking your management fees out is that --

>> Carmen Racy-Choy: The 7.42 was actually based, this is from the may presentation so this was based on basically if I'm not mistaken staff's model --

>> It was at that time.

>> Carmen Racy-Choy: And also the prior year's capital assumptions and the growth of investment return so you would need to reduce it appropriately. We've provided a memo, actually it's item 4.2 which I can go through if you like, based on the current capital market assumptions that the investment committee discussed.

>> Stuart Odell: Right.

>> Carmen Racy-Choy: The median gross return is actually 7.65. I can go through my memo in more detail if you like.

>> Stuart Odell: Just so I'm cheer. The new assumptions that the board approved instead of 50th percentile being 7.42 you're suggesting it should be 7.65?

>> Carmen Racy-Choy: That's correct.

>> Arn Andrews: That was going to be my question. I just wanted someone from the investment committee to speak to the appendix a that you just referenced with the capital market assumptions to make sure what was reflected here was what the investment committee has looked at and thought were appropriate and those are reflected in that slide.

>> Stuart Odell: But my only concern is I don't know that the investment committee on these returns assumed these were gross of fees.

>> That's right. I thought they were net.

>> Stuart Odell: And I'm not going to support a set of assumptions -- I'm okay with these assumptions assuming these are our net returns to the asset class, net of fees. But using gross --

>> Lara Druyan: Yeah, I never expect to see gross returns for absolute return at 6.5 right?

>> Stuart Odell: That's going to give you a net of --

>> Lara Druyan: 5.5 or 4.5.

>> Carmen Racy-Choy: It is not just ours, the Harvard management company whose numbers were shown as well as APC capital market assumption everything was grow. So we're very much within the range of sort of peers. And all of the numbers were gross. This is something that we should have mentioned so I agree, it's a -- should have been clearer. But we're not doing any -- anything different from --

>> Stuart Odell: Okay well then is Harvard adding an alpha return to their assumptions on top of that?

>> Carmen Racy-Choy: Probably that's part of --

>> Stuart Odell: This is getting into -- they're moving into one place. I'm trying to keep it really simple. Which is focus on returns net of fees for asset class. And do all your assumptions that way. So you're not adding things in and taking them out. It's going to really confuse it for people and I know you're going to have to explain it to other public plans and things like that. But I think things -- life is much simpler if we are making long term forward projections. The level of inaccuracy is so large that us sitting there trying to take out another 50 bips here, 25 there, and making assumptions about active management and all of that, I think is -- is not a good way for us to focus. I would focus on the asset classes, the standard deviations and the correlations between them on a net basis and build your assumptions. And so that suggests to me you're at a 7.42 or a 7.65 net return, expected return.

>> Carmen Racy-Choy: So you believe, for example, absolute return is going to make 6.50 net, there is approximately --

>> Stuart Odell: I do.

>> Carmen Racy-Choy: -- 4 percentage points of fees if you assume a standard 2 and 20 --

>> Stuart Odell: Yes, I do, very strongly.

>> Carmen Racy-Choy: Add a little bit of legal fees?

>> Lara Druyan: If not, we're paying too much in fee, and it's nothing someone would do, because why are you taking the risk?

>> Carmen Racy-Choy: Are you on the fund of funds?

>> Stuart Odell: Regardless of how you are investing. Yes, I think if you don't think you can generate a 6.5% net in hedge funds over the long run, yeah, I think you shouldn't be investing in them, probably.

>> Lara Druyan: I totally agree with that.

>> Stuart Odell: What are the actual returns for the last 20 years? Better than equities?

>> Carmen Racy-Choy: I mean the actual returns it was a 60-40 plan --

>> Stuart Odell: Just hedge funds actual returns for the last 20 years?

>> Carmen Racy-Choy: Well I think a lot of the data is since 1994. If you are invested in hedge fund of funds the return is probably in the order of, might compute of 2 to 6% gross.

>> Stuart Odell: Okay.

>> Carmen Racy-Choy: I agree if you do a direct program that you can push the envelope and generate additional return.

>> Stuart Odell: So again, I'm -- maybe we have to go back and revisit our capital market assumptions because I definitely thought these were our net-net returns for the asset class. And not a gross return that you were going to then take another 200 basis points off or 100 basis points off.

>> Lara Druyan: Or 300 with a hedge fund funds, right?

>> Arn Andrews: Just for my own clarification I was hoping that people could speak to this table, the fact that these are net of funds -- the fact that these are gross and you thought these were net numbers, in your mind these numbers should be higher, that 7.42 or 7.65 whichever it is going to be higher.

>> Stuart Odell: No, I think the net expected return range, 7.5% is probably in my range.

>> Lara Druyan: But Arn, as I understand you, you're referring to this above here, which is --

>> Arn Andrews: Because this matrix drives these numbers and I sound like you're saying you think these numbers because they're on a gross basis are deflated. Which makes me think you think they should be higher if it's going to be a gross basis?

>> Lara Druyan: Correct.

>> Arn Andrews: Which that table is saying gross which makes me think on your mind these numbers should be higher if these numbers are higher.

>> Stuart Odell: Correct.

>> Arn Andrews: Which was the point I was getting to.

>> Lara Druyan: Yes.

>> Matt Loesch: I'm certainly entertained by this discussion.

>> Lara Druyan: We're not aiming to be entertaining.

>> Matt Loesch: We have an audience.

>> Arn Andrews: The discussion while I always appreciate getting the probability analysis, I don't know that I actually have a probability analysis in front of me that I I'm going to use for this discussion. I'd like to see that

again based on the input from our investment committee members and rectifying what the appropriate returns are in appendix A to come to what people think is an appropriate percentile number. And so for today's discussion, while I appreciate the work it's probably not going to be relevant to me today.

>> Russell Crosby: Well I think Cheiron came at this problem from a different angle. You don't necessarily have that kind of analysis with all your other clients. And other staff doing those probabilities for you. How did you achieve -- how did you come up with your recommendation of --

>> Well, typically when we're setting an assumption for a fund we want to make sure that the capital market assumptions we use are consistent with what their investment advisor is using. And we don't want to present to the board widely diverging assumptions or even, for the most -- if they are widely diverging, we may need to. But if they're close, we typically use and borrow the capital market assumptions from the investment consultant. And so that's what we did here. And we borrowed the standard deviation and the expected return for the portfolio. We have a model to calculate that from the individual asset classes. And so we came up, based on the capital market assumptions that were available in May, with this 7.42 and the spread, based on those assumptions. Now, we, in our analysis, we assume that any active management fees are offset by additional returns you expect to get from those active managers. And so this is our assessment of a passive portfolio's returns. And that's the basis positive our assumption.

>> Arn Andrews: And I think I have to clarify what I meant. I have two documents before me, I have one which are recommendations from our actuary and we appear to have an additional recommendation from retirement services, that is actually outside of the range of the actuary. And so for my own personal thought process today, I'm going to be -- sorry, not outside but different.

>> Carmen Racy-Choy: It is actually well within the range.

>> Arn Andrews: It's different, sorry.

>> Carmen Racy-Choy: The actuary recommended 6.75 to 7.75, and their recommendation went to the middle of that kind of range of reasonableness, and staff is at 7%, well within the range.

>> Arn Andrews: Right, but I meant below the actuary. And so for my thought process today, I think I'm going to stick more towards his presentation than this presentation.

>> Matt Loesch: Mr. Constant.

>> Pete Constant: I just wanted to make sure the board is aware that the city council passed fiscal reform guidelines that were passed by the City Manager, and Alex Gurza is here if we have any deeper questions, but the council did pass as part of the fiscal reform guidelines that they would like to see the rate of return selected that had at least a 50% likelihood of occurrence. And when we had that discussion, we were talking in terms of net returns. So I just wanted to make sure you guys are aware, that is what the council had quite a lengthy discussion on, in the context of all of our fiscal reforms, that the council did approve that as one of our fiscal reform principles.

>> Stuart Odell: From my perspective, once we do go to select the rate, I would be looking at that 50th percentile number. Whatever comes out of the numbers, it's going to be, you know at least my recommendation would be, yeah, that's where you set it. So I think that's consistent. It's just agreement that the net numbers, and I think some people thought they were gross and others thought they were net. And that's really where you're going to go from 7.62 or sorry, 7.65 to 7. Is because you're recommending 7. Right?

>> Carmen Racy-Choy: Yes.

>> Stuart Odell: And the original is 7.65 or the new numbers at the 50th percentile. That's 65 basis points. More or less is the fees.

>> Carmen Racy-Choy: Right.

>> Stuart Odell: Okay so I think we're clear.

>> Matt Loesch: Again the scene from which we came and where we are, two years ago we were a place of 8.25 with administrative fees on top of it. We were needing to earn north of 9 that was the discussion at the time, and in a matter of two years with the decision we made today we've gotten let's say we change nothing of what we did and we continue on the path of what we decided, decisions at this moment today that we'll be going to 7.75 net with administrative fees including, right? That swing is incredible in the span of two years. And I think my perspective in doing these changes is, again, if we've set a target and we should be moving towards it, so if we come with a consensus target, whether it happens instantaneously, next year, or we have a path through a year or two that that's where we are going, I think that is the mode, whether it is -- you know, Ed has the perspective you can't go below 7.5, or whether you think it's 6.5, or whatever, my perspective is we are already on a path going towards a more conservative track. Again, it's a path. In my mind, it is not a massive jump. In the past two years we have made large decisions that have been a big swing from where we were two years ago to where we are today. Even just the decisions including on administrative fees. So I just wanted to kind of put the picture for what's gone on the last couple of years. It's not minor. What does that mean? How do I come down? I'm interested to see what the numbers would be, with everybody understanding, what the numbers pencil out to be. And if it's in the 7.65 range what does it mean and hear back and have the actuary get a chance to pump that through and get their range from that. So in essence, my personal opinion is that as of right now we're going to 7.75. We're already lowering it based on our current decisions we made to date. If we decide that the next year after that we need to lower it some more I'd be comfortable with that. But to say to go to 7.25 next year based on what I hear today I'm a little hesitant to go that quickly in a year, to make that switch for June 30, 2011. That's my personal perspective, to say that I have a floor or ceiling or floor like Mr. Overton, I don't know if it's 7.50, that might be the range in a year where I'd be comfortable.

>> Arn Andrews: I think the chair's sentiments are valid. I mean we have been moving in the ride direction. We have been incrementalist in nature as we're doing this. I'm still inclined to be incrementalist in whichever direction that is. I'd be willing to discuss this topic again in November with an updated correlation matrix and expected rates

of return to rerun the expected distribution whether it's on a gross basis or a net basis, just so we're clear what that is and I can see what that is. And I'd be happy to entertain that conversation again today, I mean in November. Currently in November I don't know if I'm comfortable having that conversation with the ambiguity around the probabilities. But I would be willing to entertain that conversation again in November.

>> Matt Loesch: What are your thoughts?

>> Stuart Odell: So you know my comfort range is 7 to 7.75. And, you know, I can really appreciate where Carmen's going with future expected returns being much lower. It's certainly where we are at Intel and others are heading that direction. The incremental approach I guess I understand a little bit regarding the impact. So I could support even a recommendation today that took us to a 7.65 net if we wanted to for now, if you wanted a direction. That's something I could support. I could also support a 7.42 net and probably down even as far as the actuary's opinion of a 7.25 net, going all the way to Carmen's 7 net, you might be right. But it's definitely, you're going to be, I think, an outlier a little bit out there at the end of the day relative to your peers. It's going to look a little bit lower than we generally are seeing out there. Maybe everyone else is wrong but that's kind of my comfort level right now on this. I think 8 is probably a little high. We use 8 at Intel. I support 8 but I have a much higher allocation to growth assets. So that's what supports it.

>> Matt Loesch: From my right, any thoughts?

>> I'm curious about how this conversation has gone with Police and Fire.

>> Russell Crosby: Hasn't happened. You're a month ahead of them.

>> Mollie Dent: Way ahead. They don't have their experience study yet, I think.

>> Russell Crosby: They're going to see their stuff next month.

>> Carmen Racy-Choy: The odds are, it will be very comparable. You have the same actuary and the same staff. And the same capital market assumption.

>> Russell Crosby: Same allocations essentially.

>> I think I fall in the same ballpark as other folks. I can see where you don't want to shock a system and I can understand an incremental approach. I just know the basis for that.

>> Matt Loesch: And my thought around incremental was not the five-year plan that was put forth before, it is much more quick, something this year, something next year, and then you know, then we got to see how we're doing, kind of the way we adjusted to the last time. So right now we're at 7.95. Scheduled to go to 7.75. Is that too high?

>> Lara Druyan: I mean probably, based on this discussion, that's probably too high.

>> Matt Loesch: So if it was set at 7.65 as Mr. Odell had alluded to, is that more reasonable to be able to support?

>> Net, you're talking net?

>> Matt Loesch: My world is net now.

>> Lara Druyan: All of our worlds should be net.

>> Stuart Odell: I mean whether it's 7.65 or 7.60 we round in 25 basis points. You're basically at 8 at this point, so is the question do you go to 7.75 or 7.50, it doesn't sound like there's enough support right now to take you all the way to 7 at least in a single step. So you know, I would support either. I'm probably a little more inclined to be

at the 7.5 rather than 7.75. I feel like you know the numbers, if these net numbers are what we believe in, then we probably are closer to 7.5 to 7.75.

>> Matt Loesch: If there was a motion to change the discount rate to 7.5 effective June 30th, 2011 would there be a second?

>> Lara Druyan: I second.

>> Matt Loesch: I asked the hypothetical question. I move the investment return be moved to 7.5 for June 30, 2011. Ms. Druyan you still second that?

>> Lara Druyan: I do.

>> Russell Richeda: That's just to be clear, net.

>> Lara Druyan: Yes.

>> Matt Loesch: Further discussion and I'm not talking about incrementing beyond that, I'm just mentioning the 7.75, talking about incrementing. No further discussion.

>> Russell Richeda: And again I think just ask the actuary even though that's not what he recommended. It's within the range that he discussed and therefore does he have any problems with it, or can he support it?

>> We can certainly support 7.5. It's well within the range we recommended.

>> Matt Loesch: Motion and second, all those in favor? Opposed, none. I don't think we need another break we're going to keep moving here more fun with actuaries. 4.3. Discussion and action regarding the City's request for clarification on the 2010-11 Federated city contribution rate from the 2009 valuation. We have a memo from

Alex Gurza October 13th, 2011, Mr. Gurza did you want to sit up here and to address your memo in particular? You can sit or stand, it makes no difference.

>> Alex Gurza: (inaudible).

>> Matt Loesch: Fine with me, if it's all right with the board.

>> Alex Gurza: Thank you, Alex Gurza, deputy City Manager, with me is John Bartel, Bartel and associates, the City's actuary. I know you have a very difficult task of setting realistic assumptions. This particular item that's before you and my memo in particular is a request for the board to clarify an item that actually goes back to before many of you were actually on the board. And it does relate to the previous actions to lower the discount rate. So as you may know the discount rate was 8.25 and the board took action to lower it to 7.75. I was at some of these meetings and I have to confess I'm not an actuary so I can tell you at least what the city administration understood it at the time and go through a little bit of history at least from our perspective. I also wanted to mention that Sharon Erickson the City Auditor is here who also had been at the meetings and tracking the issue. So during a long discussion about the lower, very similar to the discussion that you just had, there was discussion of lowering it from 8.25 to 7.75. Similar discussion about taking it in steps and how quickly do you take it down. There was a motion made by one member of the board to phase it in, phase down, phase the reduction in over a five-year period. Now, clearly, different people may have different, in their heads what it meant to do that in the five-year period. Some board members may have had a certain idea, I can tell you the city administration had a certain perspective of what that meant. I can tell you from a nonactuary and city administration what I thought might happen from going from 8.25 to 7.75 in a five-year period you would step down the discount rate, in other words go take it divide it by five, whatever you wanted to do, so by the fifth year you would be at 7.75. And in the years leading up to that, the annual required contribution as calculated by the actual would be based on whatever discount rate was in that particular year. So when you got to the fifth year, it was at 7.75, that would be the annual required contribution. And by the way I do want to say one thing. Cheiron was not the actuary at the time this discussion was held. It was GRS, although Cheiron came in afterwards when it was changed. So let me tell you that was at least what we had thought. Subsequent to that action and that board action, we became

aware that what happened was, the actuary actually took it down immediately to 7.75. So not over five years, but immediately, lowered it. Yet set the arc or at least what the city paid, in the annual contribution, not at 7.75 but in sort of 1/5 of the way. Again, I can tell you from the city administration standpoint, we did not fully understand the implications of that action the board took. And the implications that we later learned is this: That because the actuary lowered it to 7.75, but yet, what the amount the city paid was not at 7.75, that that was creating a net pension obligation. The gap between what we would have paid if it was 7.75 and the other amount. And that, when it came up later, was a significant concern to the city because we did not -- do not want to create a net pension obligation. It's very important to the city that when the board sets the rate sends us the bill so the speak the annual contribution we pay it. And so the board subsequently changed the action. And again, one might ask whether that was a clarification or an actual change. To not do it that way and I think Cheiron was then involved in that discussion, by clarifying that it was coming down, the actual discount rate was not going immediately down as you talked about it, it was 7.95 this year. So Cheiron has issued a letter now saying here is your net pension obligation for what happened in 10-11 and it's approximately $8 million. And so what we're asking here today is for clarification as to whether what the board did subsequent was correcting the initial action, or whether or not there really is a net pension obligation that was created by the board's action? Because what we would have at least -- would have been very helpful to the city administration is if when that action took place if we would have gotten a letter and said, here's what we did and if you pay this lower amount by the way you're creating a net pension obligation but if you are paying a higher amount then you won't be. I can tell you at the time the city paid the annual retirement contribution we would have had a discussion of what to pay. We bring you this issue again understanding that you weren't all here with the overall city's interest of not having a net pension obligation, we brought this before the city council actually Tuesday of this week. To make sure that A, they were aware of it, and we have, even as difficult as this City's budget situation is, we have set aside the funds, in the event that it is determined that yes, that was a net pension obligation, to pay it so that we don't have that net pension obligation on the City's books. So I know this is my layperson's explanation of the issue. I know there's a lot of history going back and looking at transcripts and all that but that is a fundamental issue that we're bringing before you today.

>> Matt Loesch: Being present at the conversations, and on the board at the time, and both times when it was the decision was made to change the discount rate, and also, dealing with the switch from what was assumed to

what actually happened, I think the intention and the discussion of the board at the time was exactly what you had understood it to be. That we were stepping down from 8.25 to 7.75. And when Cheiron came in to look at how we -- when you did your valuation, your initial valuation it was noted that this is different. And what was going on, what was the decision. And then I don't know what the legal term is, as far as whether we were correcting it, or creating whatever, but the intention of the board members, the trustees at the time, I can't remember if you were on the board yet Mr. Andrews or not.

>> Arn Andrews: I was.

>> Matt Loesch: Was that we were stepping down as if we were stepping down incrementally all in and providing you the arc. That was the understanding with this trustee. I don't know if Mr. Andrews had the similar understanding. We can opine.

>> Arn Andrews: I think it was the February or January meeting when the decision was made to go from 8.25 to 7.75. We had a subsequent meeting when Cheiron was basically walking through their analysis and compare and contrast of the GRS data. And during that compare and contrast that's when it surfaced that it had been reduced on a contribution rate basis instead of an assumption return basis. And I actually went back and looked at the November 10th video because I was trying to remember myself. And it was clear in the conversations I believe at the time it was board member constant who kind of stated, wow, I didn't realize that. At which point there was concurrence by quite a few people. We didn't either. And then it was around the same time that Cheiron had presented a sequence of four ways to rectify it. You know, one way was, I believe it was option number 2 which is the one we eventually went with which is to say, let's go up to 7.95. At the time I believe it was board member Perkins that said what was the 33 million, it was a negative number on the valuation. The 33 million was the explained as the timing difference when GRS did their timing methodology. Let's move to option 2, I think the question was asked, would that get rid of an NPO option going forward? And I believe the answer was yes. I think we all agreed with a way to alleviate what had become a problem from an NPO basis, net pension obligation basis. I'm trying to understand myself how there then appears to be an $8 million obligation, I was under the impression myself that it would not be recurring.

>> Mollie Dent: I think you asked about from a legal standpoint. From a legal standpoint, the city paid the contribution rate that was in the rate resolution. The city paid the prefund amount that the board had set. So from the legal standpoint in terms of how the city paid when it paid, it paid exactly what the board told it to pay. Now, when the issue came up, in November, it was my understanding that what the board was trying to do in November of 2010 was to basically rectify the situation and to clarify what had been done in the past. So I have sort of a consistent recollection with Mr. Andrews that that was the understanding. But the actuary was here too, so maybe they can describe how they understood what was discussed in November and now --

>> Russell Crosby: Well, before we ask the actuary I think it's important to get on the record some additional information about those meetings. And if you go back to the minutes, of the January 2010 meeting, well before the board approved what the board did, staff in several occasions, and those minutes are quite detailed and they were quite detailed for a reason. Because some of us figured, years later there's going to be a lot of questions about this. It was very clear, clearly stated by me, clearly stated by Carmen, that the board's action would generate a liability on the City's books. A net pension obligation. That's clear in the minutes in January and clear certainly from the tapes. But the minutes themselves, the official record that was approved by the board, reflects that in there. Then in March, was where the board actually approved that action, and again, staff went on record both in the tapes and in the minutes, to say this will create a net pension obligation for the city. Very clearly stated. The board went ahead, did the action, and in attempting to fix a number of things in November, one of which was the large layoffs that had occurred after the valuation, another one was this recollection that okay, the way you've done it to this point is creating a net pension obligation for the city. How do we fix this on a go-forward basis so that this doesn't happen in the future? What happened for that year happened for that year. But we tried to fix on a go-forward basis the problems that were occurring with the city generating that pension obligation. So Carmen maybe you can give us deeper --

>> Carmen Racy-Choy: More context?

>> Russell Crosby: Yes.

>> Carmen Racy-Choy: Outside the board I had discussions with the board actuary at the time, Gabriel Rotor Smith. Representing GRS was Leslie Thompson, and I basically asked that other than the phase-in of the contribution rate, which is basically what Leslie, in her presentation, she is phasing in the contribution rate of the decision to move to 7.75. Understanding that that would create an NPO I basically asked for a simple step down reduction. And as Leslie Thompson's opinion that this was contrary with actuarial standards. She was not willing to discuss it or consider it at the board meeting. So everything that GRS has put forward in writing is very clear. This is the January 14, 2010 presentation, on page 2 she's clearly stating that the board requested me to provide the following info, and she lists multiple bullets, one bullet, and I'm quoting the phase-in of the retirement plan contribution rate to 7.75. Later on page 6 when she provided the number she provided a table of a phase-in contribution rate and she put at the top, this is produced using 7.75. She also provided evaluation for that produced using 7.75. All of these documents, in addition to our verbal comments at the board meeting, were available to the board, and the board's actuary never recommended a phase-in of the discount rate, either verbally or in writing. So I understand that there was obviously a -- maybe the communication did not work and wasn't very effective. But ultimately, for that year, we have no written or verbal-backed support for the fact that what was being phased in was the discount rate. Now, clearly in the year that followed since a lot of board members indicated that we thought we were phasing in the discount rate, Cheiron says you know we have absolutely no problem with phasing in the discount rate and that's a better way to do it at that point in time and starting from that valuation we basically started with the rate of 7.95 was adopted and the decision to move to 7.75 was made clear. That was a decision that was made for that valuation, that would impact -- I think there's a one-year lag between the valuations and the time it impacts the city. So which fundamentally brings us back to the fact that the decision for the specific year in question was not undone. It was simply starting from the next valuation, where the decision was undone.

>> Matt Loesch: I'm just trying to -- I mean it's been memory-jogging stuff. Very clearly when we deal with the retiree health care phase-in contribution we talk very clearly that we're phasing in the contributions. I just -- I'm not saying your recollection or your documents are wrong. I don't remember those conversations being that clear to me. I guess I wish I would. And we have audiotapes?

>> Russell Crosby: Uh-huh.

>> Matt Loesch: I apologize, that was very clear for me on the health care stuff. We greed phase-in the contributions. The discount rate is the blended rate. Gosh, I wish I would have remembered that way.

>> John Bartel, president of Bartel associates. What was kind of interesting to me was, I'm going to make a statement that sounds like I'm giving a legal opinion. I want to be very clear I'm not an attorney. But in California the retirement system sets the underlying assumptions. And so if the board action was to phase in the discount rate and the actuary chose not to do that, the question you might want to ask is, gee, did the actuary really have the authority to not do that, without coming back and explaining that to the system board? So one of the -- one of the things you may want to think about is, should you really consider the contribution going to the city as the arc for that particular year. So it really results in no net OPEB obligation.

>> Matt Loesch: Ms. Racy-Choy.

>> Carmen Racy-Choy: How could -- ultimately if the topic of phasing in the discount was never presented to the board, how could the board have adopted a phase-in of the discount rate?

>> All I'm doing is looking at the language of what the board adopted. And the way I read that language it doesn't phase in the contribution. It phases in the discount rate. My interpretation of phasing in the discount rate, and it sounds like that's what GRS was, too, would be to use one discount rate, one year, phase down over time, and what I thought I heard you say was, GRS said that was not a standard of practice.

>> Carmen Racy-Choy: Well, she said phasing down, this was outside of the board meeting just to be clear.

>> I understand.

>> Carmen Racy-Choy: She said phasing down discount rate was in her opinion outside the actuarial standards of practice.

>> No, I understand that. What I'm asking is, in California can the actuary take an action that was not -- where they really were not directed to take that action from the board? I've always thought, in California, the retirement system board really directs the actuary and, if the actuary believes they're doing something that is outside of standard of practice, it's their job to raise their hand and say, we're doing this at the direction of the board, not part of standard of practice, rather than changing what the board's direction was.

>> Carmen Racy-Choy: Well, the board's direction was to accept this report. And this report says we are not phasing in the discount rate. We are going to 7.75 and we're phasing in the contribution rate. And this is same report from which the City's contribution was taken, and the valuation suggests the same.

>> What we're really talking about is two different things. I'm saying in the board's original resolution it doesn't say to do what was there. They accepted the report. The board may or may not have really understood the detail of that. It's clear to me the city didn't understand the detail of that. And so it seems like an easy solution, to just say let's consider the amount, the contribution made by the city as the annual contribution.

>> The only issue of doing that if you do that there is no valuation that exists that would result in a contribution rate of 2318. The only valuation that exists that is represented in the financial statement, that's presented in the bond disclosures has all been at the 7.75% discount rate. So we run into a larger issue for the plan as far as not having a valid valuation for their financial statements and likewise for the city.

>> Two ways I think you can deal with that probably relatively easy and relatively inexpensively. One would be to have Cheiron produce a letter report, that would confirm the calculations as prepared. The sort of phase in amount. Presumably they would be able to do that. I wouldn't put words in Cheiron's mouth. That would be option number 1. Option number 2 would be to have GRS produce a revised report. I think either one of those would --

and that revised report doesn't really have to be a full report. It would really just be a letter saying, here's, at the direction of the board, here are the numbers.

>> I guess I would invite -- we have Macias, Gini & O'Connell here, to let us know whether or not that would be a acceptable practice or not. And then I would ask Cheiron whether or not they would even be willing to do that or not.

>> (inaudible) (inaudible) letter to determine what that rate would be.

>> Russell Richeda: Revised letter from whom?

>> The actuary.

>> Matt Loesch: Not the present actuary, the charter at the time?

>> It's really (inaudible).

>> Russell Crosby: It will be very difficult to get GRS to do anything. First of all we don't have a contract with them. We don't have any relationship with them for at least I think going on two years now. And toward the end in the transfer of data and backup materials to Cheiron, there were a number of issues between Cheiron and GRS to try to get the material out of GRS. So if anybody's going to do anything it needs to be Cheiron and not attempting to get GRS to open their books again. That just isn't going to work.

>> In addition, the sub-schedule for SRBR schedules would also have to be revised and so would the financial statements.

>> Carmen Racy-Choy: And so would the City's bond disclosure, that stated that the arc was in excess of 25%, and the city contributed I believe 23 and change, 23.18. So there's a significant amount of information that would have to be corrected.

>> Matt Loesch: Does anybody want to think about that?

>> We would obviously need to review this in more detail than me thinking about it here at this meeting. But the easiest thing would be, if the 23.18 would qualify as an arc based essentially on the 2009 valuation results. I don't think it would, because to qualify as an arc it would have to be a 30-year amortization is the maximum amortization period and that's what they used at 7.75. So we would have to rerun the valuation at a different discount rate. And develop an arc. We could use that technique to make sure we did one that matched up to 23.18. But it will also change, then, the amortization schedules which were at that time 30 years, with then experience after that date at 20 years. And so one of the effects is the change in discount rate from 8.25 to 7.75. The impact of that change is currently being amortized over 30 years, with the resulting -- the following year's increase in discount rate from 7.75 to 7.95 being amortized at 20 years. We rerun it you would only get part of the change from 8.25 down to whatever discount rate we go. Amortized it at 30 years and then you would have a different amortization of 20 years. There were additional changes that would effect not only the '09 results but the 2010 results.

>> Russell Crosby: In summary it seems like you're saying yes you could change the '09 results which drove the 10-11 contribution rates but what it's going to do is cause a pop up in current contribution rates. It's likely to offset --

>> Yeah, there would be some -- I don't have that quantified, but there would be because of the change in amortizations, unless we revisited how we did the amortizations in the 2010 report and the methods there, if there would be an impact on those rates.

>> Russell Crosby: So what you saved last year you are liable to pay more in next year to compensate for the facts.

>> Yeah, you're going to get some shifting to have the amortizations work.

>> Russell Crosby: There's no free lunch, come on.

>> In addition would this impact our OPEB valuations?

>> We could leave the OPEB valuations the way they are but you would have different discount rates as the basis for OPEB valuations.

>> Russell Crosby: You factor it from the --

>> Arn Andrews: Can we start from the beginning a little bit? I understand Alex's letter from the administration and I understand the context of the conversation we've been having in terms of the board meetings. But the letter you provided seems to be talking about it in a different way. So I think I'd like to understand what you're actually talking about when you talk about the MPO. If you go to page 2 of your letter just starting on what is actually the first paragraph, you're talking if differences between bargaining units and employees, and it just seems to be slightly different than the conversation we've been having. So can I understand a little more what Cheiron is saying?

>> That is a whole separate issue that came up after GRS developed their valuation is, with an arc based on a seven.75 interest rate and a contribution of 25.75% for the city, the city went through bargaining. And certain bargain ugh units greed pay a portion of what would have been the City's contribution. And typically when we're developing an arc there's the total contribution and then we subtract what the members pay and the remainder is the arc. So this paragraph is talking about how we made the adjustment to the 25.75 for those bargaining units who agreed to pay an additional amount during that period which then reduced the dollar amount of the arc for the

city for that year. We are starting with the 25.75 which was the arc calculated by GRS in their valuation report based on a 7.75 interest rate.

>> Arn Andrews: Okay and one other document I dug up when I was trying to understand this, was the prefunding memo from the retirement administration to the board. And in there there's a sentence I just wanted some help with. It says the equivalent discounted total employee contribution is based on a beginning of the year payment assumption and 24.55. That was another percentage that I'd never seen before so it caught my attention.

>> Carmen Racy-Choy: That's -- I don't have the letter in front of me, but I'm assuming that's the 25, which typically the actuary's report generates the arc at mid year.

>> Arn Andrews: Right.

>> Carmen Racy-Choy: And I think now Cheiron would ask them to generate the number at the beginning of the year. So typically you would discount the arc number from the valuation for half a year's worth of discount. And that's the discount that the city receives.

>> Arn Andrews: Okay.

>> Mollie Dent: So I did want to -- I'm glad you clarified, your letter does raise an additional issue so that there is a separate -- separate amount associated with the -- with the city not prefunding the entire amount that it was going to prefund. And instead shifting some of that to the employee. So there is a separate discussion there. I wanted to ask one question about your letter, and the difference between it and Mr. Gurza's letter. They came in a little bit late. His comment about using actual pensionable payroll, is your contribution based on actual pensionable payroll?

>> Yes, the arc at that point was based on the percent of pay applied to actual payroll and the exhibit attached to the letter shows that actual payroll.

>> Mollie Dent: So your $8 million calculation at the bottom is a combination of the two factors, the factor brought up in Mr. Gurza's letter and the additional factor brought up on page 2?

>> Yes.

>> Arn Andrews: Once again do we have an order of magnitude?

>> For what?

>> Arn Andrews: Decomposing the 8 million for the different topics we're discussing.

>> We don't think of it that way. I think we walk through what the 25.75% would have been. And then adjusting that for the different payrolls. And so we're -- I guess I didn't pull that number explicitly into the letter. On the exhibit there was about 109 million of the 275 million in payroll that was subject to the lower rate. And you can approximate the cost there. So you know, it wasn't exactly half the rate because part of the first few payrolls were still at 25.75. But that will give you a rough idea. That payroll's contribution was 16 million at the reduced rate.

>> Matt Loesch: To shepherd again to a different decision. I guess I'd like to go around the horn to staff, Cheiron and the city. What is your ideal solution to this? What would be the simplest, strayed forward solution to what is presented here, on this issue? I'll ask Cheiron the same question, city the same question.

>> Carmen Racy-Choy: Ultimately from staff's perspective there is a significant amount of work that would have to be re-done, the actuarial valuations. And part of the benefit that is being seeked which is not to pay $8 million approximately, we know that the contributions for the last year and the current fiscal year would probably be

increased by some amount. So the benefit wouldn't even be fully realized. We're happy to implement whatever decision the board clearly --

>> Matt Loesch: What is your -- I'm not trying -- I'm trying to be serious. What is your idea why an 8 million contribution be maids would that be your opinion the simplest way to resolve it?

>> Carmen Racy-Choy: The board currently has the discretion to set the contribution lower than the arc. This is something the city is aware of. The city has not requested that the board not set the contribution below the arc. If this is something that they wish to happen, they can address to the retirement board a letter explaining their rationale and I'm sure the board will do so in the future. So I think clarifying what the issue is, because the reality is, the city has paid the contribution that the board has required. So from staff's perspective we don't see the issue. If, however, the city feels that they must pay the arc, then the issue is that needs to be communicated to the retirement board, so that staff can make sure that's taken into account in the future.

>> From an accounting point of view, right now the system's financial statements are held at a standstill. Originally I had prepared the financial statements with the intent of the city booking a net pension obligation, which means that there would be a long term liability. With a long term liability, the plan doesn't report that amount in their financial statement. So right now, we've got financial statements that have been prepared with a long term liability booked on the city side. That means they don't pay it right now, they book it and we figure out a way to -- in a future date pay it. If the city decides that they would like to pay tonight a short term, like Mr. Gurza has pointed out that the city has the funds set aside then what will happen is if the city books and essentially pays the $8 million, the plan would also need to book the receivable for the $8 million and I'll need to go back and correct our financial statement before they can be audited and completed.

>> So you know I think there are three basic approaches. The first approach is you can leave things as they are with an NPO of $8 million. There won't be anything added to that given the board's policies going forward. And if GASB makes the changes they've considered, then they've proposed, then there will be no such thing as an NPO as soon as those statements are implemented. So that's option one. Option 2 is, the city contributes the $8 million

and there is no NPO then. And as Veronica indicated that would adjust the financial statements and affect our valuation this year. And there are probably a couple ways to deal with getting the receivable or recharacterizing a contribution that has already been made this year as a payment of that receivable. And then the third approach is to go back and reconstruct the 2009 valuation in such a way that the contribution that was made satisfies the arc. You know, and we can help accomplish any of those approaches.

>> Matt Loesch: Got it. Mr. Gurza.

>> Alex Gurza: Thank you for the option. Option number 1 from the City's perspective is not viable. The city does not want to have a net pension obligation. If you look at Cheiron's letter when you see on the pension side we want that to be zero. We think option number 2 is one option where the city pays because that was our intent at the time to pay what we thought we were supposed to pay so there wouldn't be an NPO. In terms of the third option I really think that what we would like to know, and I know it's difficult because this board is different than the board at the time is what was the board's intent at the time. If the board's intent at the time was for us to have paid the arc at the 25.something rate to avoid the NPO then that answers our questions. That was the board's intent. We wish we would have been clearer on that. That moves to us paying it. If that wasn't the board's intent, it was we heard two board members say that they didn't understand that that was occurring, that maybe there's more work to do. So really the fundamental question is, at the time the board made this action, what was the intent?

>> Russell Richeda: Which can't be determined. Because we have this turnover and we have some static history that may or may not be helpful and you've heard Mr. Cross by and Ms. Racy-Choy described it. My recollection is as Unified School District heard the board members described it.

>> Russell Crosby: Have you reviewed the board minutes?

>> Russell Richeda: No I haven't.

>> Russell Crosby: Your memory is two years later.

>> Russell Richeda: The best this board can do is use historical documents to perhaps reconstruct based on those documents what the board's intent was. And --

>> Stuart Odell: I think you can figure it out.

>> Mollie Dent: I did look at the November -- when we revisited this in November 2010 I looked at that. I didn't go back at the original --

>> Russell Crosby: Look at January of 2010 and March of 2010.

>> Mollie Dent: I kind of -- I don't think it would necessarily match up exactly if you went back and redid the 2009 valuation, using a -- using a different discount rate. I mean I think that's what you're talking about doing. I don't think you are saying it would necessarily match up to zero net pension, are you?

>> Well, no, not if we simply took a phase in of the discount rate and redid the calculations with all other assumptions the same. It would not necessarily match.

>> Matt Loesch: Mr. Odell, you had something to say?

>> Stuart Odell: No, I'll hold on.

>> Edward Overton: I haven't reviewed the minutes either because I really was not aware that there was a necessity to do so. But it makes no sense in my mind to phase in a discount rate unless you phase in the impact on the contributions, and have those contributions for any particular year generate the arc for that particular year. And so in terms of intent, I mean, that's what I would support.

>> Arn Andrews: And I'll just add one more thing. I believe that January meeting was probably my first meeting so I'm not going to even pretend to think that I can describe that meeting. The November meeting I do think the intent was that we thought we were rectifying the situation. And so while we may not be able to rewrite history I will say that I've noticed in the last year or two as I've become a little more seasoned as a board member that there's been a couple of occasions where there's miscommunication between the board and staff, there appears to be miscommunication between staff and the administration, we have recollections and apparently minutes that are clear the number was 25.75, you know and yet we're presenting prepayment data to the administration without maybe a full discussion of what that means. It just seems there's a couple of times here where it could have either been made clearer to the administration what they were paying for --

>> Carmen Racy-Choy: I think the issue of the NPO to be perfectly honest was made clear in every single meeting. At the January one and at later meetings by myself, Veronica Niebla, Russell Crosby. At every single meeting a member said this has an impact on the city, it generates liability, or we said it generates an NPO in Russell's case. I specifically commented that the city and the NGO its auditors should review this because it has a significant impact on their books. Verbally, the comments from staff fell on deaf ears. In addition, I feel they were very complimentary to GRS's statements. Meaning that I can understand that the verbal statements may not have been understood but the actuary is conveying at the beginning of her work what her understanding of the board's request was. And in her understanding was correct her understanding should have been corrected on the spot. There is written evidence, verbal evidence both of them basically convey the same message. It's difficult for us to really -- to understand how we could have communicated better. Not only did we make verbal comments, not only did the written material reflect it, our financial statements reflected the fact that the city paid the arc. And our contribution to the City's does not pay the arc and our contribution to the City's bond disclosures conveyed that the city did not pay the arc as well. And that was --

>> Arn Andrews: And in that disclosure though I think it then went on after the November meeting to say they thought the issue was rectified.

>> Carmen Racy-Choy: On a go-forward basis which it was. This is paid on the final bond disclosure that's online. So the issue has been communicated on a very consistent basis through both verbal and written documentation. I don't know how we could have communicated it better but I'm open for suggestions and recommendations.

>> I do have a suggestion for the future. It's easy to go backwards, in the fiduciary if this were to happen again, a very clear memo to the city that this is an action the board took, here's what it means, by the way if you choose to pay this lower amount it's going to create an NPO. At the time that the city is making the contribution, that would have been information that I can tell you for absolute certainly I would have raised with the City Manager and the city council to make that decision, at the time, not subsequent financial statements or whatever is being referred to at the time but at the time that would have been helpful. I do want to mention that although there are certain statements that it was very clear at the time and it's not very difficult we can go back and listen to the tapes and all that. But in November 2010 when the board revisited the issue the board was told that what GRS actually did, didn't become clear until Cheiron took over. And that is on the tape. That it wasn't clear. There might have been Ms. Racy-Choy may have been clear but I think that what board members said wasn't clear. There was a lack of clarity on all parts about what the action was. And again, I want to state that the City's interest is in insuring it pays the arc and does not create a net pension obligation. That is our interest. However, at the end of the day, if the board's intent at the time was to phase in the reduction in the contribution rather than the discount rate, then that does create an NPO and we'll have to deal with that. It's just what we're raising is we don't know if that actually was the intent and it may be very difficult to reconstruct, we understand that.

>> Matt Loesch: I have two questions to the city. What are the consequences of the city of having the NPO and the reasons why you don't want to do it, have it, and 2, what is the consequence of making a contribution of the 8 million. There's two items.

>> Alex Gurza: I'll answer the second one first and defer to Sharon Erickson, our City Auditor. Clearly $8 million is significant amount of funds. But it is very important to the city that we pay our annual required contribution. So what the city council's action on Tuesday was to set aside the $8 million. If it's determined by the board that we

should have paid that in order to not have an NPO we will pay that fund the money is set aside. If it is determined that that wasn't the board's intent and we don't have an NPO then that money the council is setting it aside to deal with next year's budget shortfall. So there is a plan, a contingency either way.

>> Matt Loesch: So beside the city just being short, are there any other consequences to the contribution? I know we will talk about the NPO with Ms. Erickson. People getting laid off, where is the money coming from?

>> Alex Gurza: The money was allocated through the annual report process. Where we -- there was additional funding would -- could be allocated to set aside. So I don't want anybody to think that somebody is going to get laid off to in order to pay that money. If we had to pay it, what happens is there is $8 million that the City Council will have to balance next year's budget. So again that's where the money would go. It would go in our future deficit reserve. If we don't have to pay it but again our overall interest is to ensure that we pay the annual contribution and that we don't have a net pension obligation so I won't defer to Sharon Erickson on the facts of the NPO.

>> Sharon Erickson: Sharon Erickson, City Auditor. So if the city were to recognize an $8 million net pension obligation we would also have to disclose that we paid 86% of the Federated arc. Which the city is not willing to do. It's my understanding the city believed that it was paying the entire annual required contribution, back when it made the payment July of 2010. And let me just say it's very difficult for all of the auditors and accountants involved for a bill to come through you know in September-October of the following year that we didn't pay a full amount back in July of 2010. So that's something that we need to correct on a go-forward basis.

>> Carmen Racy-Choy: I just want to be clear that the city paid the contribution that was required by the board. The city has not expressed to the board that they wished that the board set the contribution at the arc. So the board currently has the discretion to set the contribution below the arc.

>> Sharon Erickson: We went back and reviewed the City Manager's letters to the board and they are not exactly clear. But it was certainly the City's intention, it was my reading of those, and from the fact that the city

had always disclosed that it had paid the entire arc. That when the City Manager asked for the required contribution, that we were talking about the same number. We were talking about the arc. That apparently was -- I think a lot of people have been talking past each other in this conversation. Clearly on a go forward basis I think we have all learned a lot from this so that it will not happen again. Our problem is cleaning up what has happened, where the city did believe it had paid the arc, and was just informed that it only paid 86% of the arc.

>> Carmen Racy-Choy: I just want to be clear on the fact that Mr. Michael Moehle in the past had gone through the past contributions. The city in various years did not pay the full arc. This is not just a recent history. I just want to be clear on that. There is no known -- staff is not aware that the city is requiring the board to contribute the full arc.

>> Sharon Erickson: I'm sorry, that's not correct. The city except for two years in the 1990s when they were phasing in reciprocity where it was a difference of like $1 million, the city has always paid the annual required contribution, as the bill was submitted from the boards. So that is what we've disclosed in the CAFRs going all the way back.

>> Carmen Racy-Choy: Can you show me something coming to the boards that state that you wish the board to set the contribution at the arc?

>> Sharon Erickson: I don't believe it said the annual contribution it said the required contribution. The city wanted to prepay the required contribution. Because we didn't use the word annual. That was always the City's understanding.

>> Carmen Racy-Choy: Just to fix the issue on a go-forward basis, if the city would like to pay the arc, they can simply express that desire to the board, and the board will take it into consideration.

>> Sharon Erickson: We will absolutely make sure that the letter next year includes the word annual in front of required contribution but let me stress again that has always been the City's intention.

>> Matt Loesch: Ms. Niebla.

>> I would only add that I did reach out to city administration about the NPO amount that was due. I actually contacted the finance director to get approval to calculate the NPO because the cost I didn't feel should be born by the plan. So I reached out earlier to try and get authorization do you want this prepared by our actuary you know after some e-mails back and forth said yes sent it out to Cheiron, got the calculation going. So I wanted to just kind of clarify that the bill didn't come in September. There was some outreach on retirement services staff part, to get this out you know to get this process going. The only thing would I add, as well, is that the use of annual required contribution is going to become even in the next couple of years, I think we'll have to readdress whether or not that will always be the clarifying piece. Now that we're going to move to a liability-driven the arc is going to go away in a sense.

>> I know this is a difficult situation again, I have to say that I'm not -- Miss Racy-Choy is asking us to use certain words. We're asking you, the trustees, to make sure we're aware of what the city needs to pay. You know on an annual basis where we pay and whether we use the word annual we definitely want to make the payment. We don't want to create a net pension obligation. We look to you to tell us what we should be asking for. We really assume that what we get is what we should be paying to you, and if it's something different, we defer to the board and your expertise on that.

>> Stuart Odell: I don't think it's a problem on a go-forward basis. My suggestion is, the city pay the 8 million because you're either going to pay right now or you're going to pay it when we've just lowered your discount rate to 7.5 so guess what your contribution is going to go up anyway by I don't know, what was it 5 million or something it's going up by?

>> Alex Gurza: We clearly understand that we understand you know Mr. Crosby is kind ever a no free lunch, we certainly understand that and if that's what it takes to resolve the issue then like I indicated you know the city council has made these contingent plans.

>> Stuart Odell: And my point is you're going to pay that 8 million anyway. And if it's whether you pay it tomorrow or next year, you're going to pay it.

>> Alex Gurza: Understood.

>> Stuart Odell: Because the contribution is going to go up.

>> Arn Andrews: And I'm just going to touch on communication for one second. In the dialogue that just happened. The inference is that unless the city asks to pay the arc, the board is at its leisure to do whatever it wants. As a board member why would we ever accept an NPO? Our inclination is to get every dollar that's owed to us. If you have said in the past it's acceptable and NPOs have been created I can't imagine that the board would ever want to do that, unless it's bell fully communicated to us.

>> Russell Crosby: You need to go back to the minutes of the January and March meetings, 2010, abundantly clear, several board members indicating this will create a obligation for the city. If you don't understand if you do this it will create a liability, I don't know what we're supposed to do by way of communication. Read the minutes before making any further comments on communication. You need to read the minutes of that meeting and then tell me it's unclear what the staff said. We made sure that those minutes were much more fulsome than normal minutes for these meetings because of exactly an anticipation of this problem some years down the road, somebody's going to say oh, well I didn't understand. The minutes are clear. The tapes are clear. The bond disclosures for two years are clear. The annual reports are clear. Over and over and over again. We have said that the board's action that day creates a liability for the city.

>> Arn Andrews: And so going forward must be even clearer.

>> Russell Crosby: We fixed this going forward, this can't happen going forward. In the following year in the following valuation. But the valuation that was created at that moment in time is the valuation.

>> Arn Andrews: I just wanted to clarify that as a board member, I just didn't like the reference that I'd be willing to accept anything other than the moneys that are due to the trust.

>> Russell Crosby: But you did, the board did.

>> Carmen Racy-Choy: The board that day did just that despite staff warning.

>> Russell Crosby: A councilmember made a motion that caused this cascading effect, and we were clear that this would be the effect.

>> Arn Andrews: And I think the board since November has been communicating that they wanted to rectify that situation.

>> Russell Crosby: They did.

>> Arn Andrews: I'm hoping we have. It seems like we keep taking a lot of bites at this apple.

>> Matt Loesch: Hopefully clarifying motion. I makes the motion that the city make a consideration of 8 million 46 dollars as noted by Cheiron, is that the motion that would clarify that matter?

>> Stuart Odell: Second that.

>> Matt Loesch: That's my motion. Any further comment or discussion on it? All those in favor? Aye, opposed, none.

>> Alex Gurza: Thank you for taking an inordinate amount of time on this issue and we look forward to working with you in the future to improve any communication to make sure we're all on the same page.

>> Matt Loesch: Super, okay. The rest of this should be a little less arduous. 4.4 is the impact analysis of the prefunding of San José Federated pension plan and OPEB plans. We have in our packet item 4.4 which is a brief memo from Cheiron. With the same title. Is there any expedited rather than having present something, we can read, are there comments or questions from the board on this particular memo? Otherwise we can note and file it.

>> Arn Andrews: I have one comment or question. I actually didn't see any analysis. I'm wondering, did you actually run how the moneys would have come in on a biweekly basis with the returns that the market had at the time or it just seemed like a comment. You know you're saying, in summary we believe allowing the city to prefund its arc contribution is cost-neutral. I just didn't see any analysis. Maybe it's behind the scenes. So could you --

>> No, we didn't run a historical analysis. The question really is on a go-forward basis what's the impact. And that completely depends on the timing on a daily or monthly basis of investment returns versus contributions. And what we're saying here is we expect that to balance out over time.

>> Arn Andrews: Okay, that's -- I thought we were asking for a historic, now that we have four years of prefunding, what would it have looked like dollar cost averaging one time a year vs. dollar cost averaging every two weeks so this is a go-forward comment not necessarily --

>> Right.

>> Arn Andrews: Okay.

>> Matt Loesch: Any further comment or question? Well, move to note and file. 5.1 is nothing 5.2 A are the minutes of the ad hoc alternative investment committee. Can I get a motion on the minutes, please?

>> Lara Druyan: Move to approve.

>> Arn Andrews: Second.

>> Matt Loesch: Any comments or questions? All in favor, opposed. 5.3. Meeting is this afternoon. Hence the hustle. 5.4, next board meeting, disability hearings, so the next disability hearings will be on November board meeting. 6.1, 6.3, note and file. The education and research.

>> Edward Overton: Excuse me. On the disability meeting next month do we have any indication of how many disabilities we're going to have? Okay, not too bad.

>> Matt Loesch: Okay so future agenda items? Seeing none, public retiree comments, we have none. Move adjournment on the pension. How about we take a quick five-minute recess because we do have to hustle. There is a 1:00 meeting for the governance committee on the Police and Fire and us. If people want to grab something to eat because we have to deal with the OPEB stuff. Quick five-minute recess. [Recess]