

CITY OF OAKLAND

COUNCIL AGENDA REPORT

2005 OCT 27 PM 12: 02

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: November 8, 2005
RE: **INFORMATIONAL REPORT ON THE POLICE AND FIRE
RETIREMENT SYSTEM (PFRS) AND OAKLAND MUNICIPAL
EMPLOYEES' RETIREMENT SYSTEM (OMERS)**

SUMMARY

The purpose of this report is to summarize the current membership status and the performance of the PFRS fund and the OMERS fund for the period ending June 30, 2005, including total return percentages. This report provides the most recent funding status data, meeting information, and key activities and actions taken by the respective Boards since January 2004.

FISCAL IMPACT

This report is informational only, there are no fiscal impacts and no action is requested.

BACKGROUND

Pursuant to Article XXVI of the Oakland City Charter, the Police and Fire Retirement Board has exclusive control of the administration and investment of the Police and Fire Retirement System fund. The Board is charged with the maintenance and operation of the System and is required to *formulate all Board rules and regulations*.

Similarly, Article XX of the Oakland City Charter provides that the Oakland Municipal Employees' Retirement System (OMERS) Board of Administration has exclusive control of the administration and investment of the OMERS fund.

KEY ISSUES AND IMPACTS

The Police and Fire Retirement System (PFRS) and Oakland Municipal Employees' Retirement System (OMERS) are closed defined benefit plans, which were created pursuant to Article XXVI and Article XX of the City Charter, respectively. Their purpose is to provide sound and efficient systems to ensure payment and continuity of members' retirement benefits. Each System has a governing board of seven members, which oversee the administration of the plan and the management of its investment portfolios.

Item: _____
Finance and Management Committee
November 8, 2005

PROGRAM DESCRIPTION

Police and Fire Retirement System (PFRS)

PFRS Investment Portfolio Performance

The current PFRS Investment Policy includes investments in the following asset classes:

- Domestic Equity (stocks)
- International Equity (stocks)
- Fixed Income (bonds)
- Real Estate

Table 1 below illustrates the 1-year, 3-year and 5-year portfolio performance relative to the actuarial expected rate of return.

	Total Returns %		
	1 Year	3 Year	5 Year
Total Fund	8.3%	8.8%	4.6%
Actuarial Expected Rate of Return	8.0%	8.0%	8.0%
Excess Returns	0.3%	0.8%	-3.4%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 8.3 percent and 8.8 percent respectively, compared to the actuarial expected rate return of 8 percent.
- During the latest 5-year period, the portfolio's overall average yearly rate of return was 4.6 percent, 3.4 percent below the actuarial expected rate of return. The fund's underperformance was due to the poor overall performance of equities, the economy, and poor money manager performance.

Total Portfolio Valuation and Funding Status

- As of June 30, 2005, the total PFRS portfolio aggregate value was \$639.9 million. During the past year, the portfolio decreased by \$6.7 million from the June 30 2004 value of \$646.6 million. This reduction in aggregate value includes the monthly withdrawals made for benefit

payments to annuitants, at a rate of approximately \$6.5 million per month or \$78 million per year.

- Article XXVI, Section 2602(b) of the City Charter requires that the PFRS plan be actuarially valued every three years. As of July 1, 2004, the latest actuarial report, the PFRS Funded Ratio is 69.8 percent.
- In March 1997, the City issued pension obligation bonds in the amount of \$417 million to pay the City's contributions to the System through June 2011. No contributions are due from the City to PFRS until July 1, 2011, at which time the contribution rate will be established based on the System's July 1, 2010 assets and liabilities. However, on October 1, 2005 the City made a voluntary contribution of \$17,709,888 to the System in an effort to reduce the City's future contribution rate.

PFRS Board of Administration Key Activities and Actions (January 2004-June 2005)

1. Terminated Investment Managers McCullough, Andrews & Cappiello due to poor performance.
2. Terminated Investment Managers MetLife-SSR Realty Advisors due to change in investment strategies.
3. Terminated Investment Managers Principal Global Investors due to poor performance.
4. Placed Investment Managers Brown Capital Management and Ariel Capital Management on the watch list due to poor performance.
5. Hired Pension Consulting Alliance (PCA) as the System's Investment Consultant, replacing Watson Wyatt.
6. William Hubartt was elected to PFRS Board.
7. PCA and EFI Actuaries conducted an Asset-Liability Study on the System, which projects PFRS future financial condition.
8. Hired six money management firms across the large cap, small cap and international asset classes. The firms hired are Barrow, Hanley, Mewhinney & Strauss, Inc., Franklin Portfolio Associates, NWQ Investment Management Company, LLC, Roxbury Capital Management, LLC, New Star Asset Management Limited and Hansberger Global Investors.
9. Hired Independent Fiduciary Services (IFS) to conduct a full management audit of the System.

Current PFRS Membership

The current PFRS membership is 1,354, which includes 3 active employees, 1001 retirees and 350 beneficiaries.

Meetings

The PFRS Board holds its Regular Meetings on the last Wednesday of each month.

PFRS Board Members

Robert (Bob) P. Crawford, President – Elected
Jaime Godfrey, Vice President – Appointed (Bank Rep)
Ken Brooks – Appointed (Community Rep)
Deborah Edgerly – Appointed (Mayoral Rep)

William Hubartt – Elected
John Speakman – Elected
Vacant – Appointed (Insurance Rep)

Staff Liaison

Yvonne S. Hudson, Staff Support and
Retirement and Benefits Manager, Office of Personnel Resource Management
Finance and Management Agency

Barbara Parker (Legal Advisor)
Chief Assistant City Attorney

Oakland Municipal Employees' Retirement System (OMERS)

OMERS Investment Portfolio Performance

The current OMERS Investment Policy includes investment in the following asset classes:

- Domestic Equity (stocks)
- Fixed Income (bonds)

Table 2 below illustrates the 1-year, 3-year and 5-year portfolio performance relative to the actuarial expected rate of return.

	Total Return %		
	1 Year	3 Year	5 Year
Total Fund	21.03%	14.14%	8.39%
Actuarial Expected Rate of Return	8.00%	8.00%	8.00%
Excess Returns	13.03%	6.14%	0.39%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 21.03 percent and 14.14 percent respectively, compared to the actuarial expected rate of return of 8 percent.
- During the latest 5-year period, the portfolio's overall average yearly rate of return was 8.39 percent, exceeding the actuarial expected rate of return of 8 percent.

Total Portfolio Valuation and Funding Status

- As of June 30, 2005, the total OMERS portfolio aggregate value was \$10.2 million. During the latest year, the portfolio increased by \$0.5 million from the June 30, 2004 value of \$ 9.7 million despite the transfer of \$1.4 million to the California Public Employees’ Retirement System (CalPERS) for the transfer of the last active OMERS member to the CalPERS in July 2004.
- Article XX Section 2013 of the City Charter requires that the OMERS plan be actuarially valuated every three years. As of January 1, 2005, the latest actuarial report, the OMERS Funded Ratio is 179 percent.

OMERS Board of Administration Key Activities and Actions (January 2004-June 2005)

1. Investment Consultant Gray & Company terminated contract with OMERS due to closure of its local office.
2. Member Deborah Edgerly appointed as City Administrator and resigned from the OMERS Board. William Noland Director, Finance and Management Agency, joined OMERS Board, replacing Deborah Edgerly.
3. Retirees and beneficiaries were granted a one-time increase of \$75 per month (retirees) and \$37.50 per month (beneficiaries).
4. Last active OMERS member was transferred to CalPERS during the 2004 CalPERS contract amendment process. System made a \$1.4 million payment to CalPERS for the transferred member.
5. Issued a Request for Information for an Investment Consultant to replace Gray & Company.

Current OMERS Membership

The current OMERS membership is 89, including 38 retirees, 35 beneficiaries, 1 Qualified Domestic Relations Order (QDRO) recipient, and 15 Alameda County Health Department transferees.

Meetings

The OMERS Board holds its Regular Meetings on the last Thursday of every other month.

OMERS Board Members

Carl Gilmore, President – Appointed (Bank Rep)	William E. Noland – Appointed (City Treasurer)
William Russell, Vice President – Elected	Roland Smith – Appointed (City Auditor)
Henry Cotton – Appointed (Insurance Rep)	Vacant – Elected
Erling Horn – Elected	

Staff Liaison

Yvonne S. Hudson, Staff Support and Retirement and Benefits Manager, Office of Personnel Resource Management
Finance and Management Agency

Tracy Chriss (Legal Advisor)
Deputy City Attorney

SUSTAINABLE OPPORTUNITIES

None.

DISABILITY AND SENIOR ACCESS

None

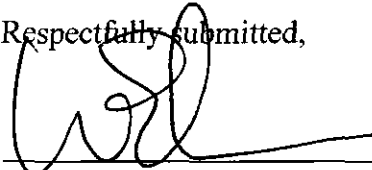
RECOMMENDATION AND RATIONALE

None

ACTION REQUESTED BY THE CITY COUNCIL

Staff requests that the Council accept this informational report.

Respectfully submitted,



William E. Noland, Director

Finance and Management Agency

Reviewed by:
Marcia Meyers, Director of Personnel
Office of Personnel Resource Management

Prepared by:
Yvonne S. Hudson, Manager
Retirement and Benefits

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:


OFFICE OF THE CITY ADMINISTRATOR