

CITY OF OAKLAND
AGENDA REPORT

2007 MAY 22 PM 3:39

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: May 22, 2007

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 December 31, 2006, including total investment return percentages. This report provides the most recent funding status data, meeting information, and key activities and actions taken by the respective Boards since July 1, 2006.

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 System (PFRS) 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 retirement systems to ensure payment and continuity of members' retirement benefits.

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Finance and Management Committee
May 22, 2007

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 and 3-year portfolio performance relative to the actuarial expected rate of return.

	Total Returns %	
	1 Year	3 Year
Total Fund	11.3%	8.8%
Actuarial Expected Rate of Return	8.0%	8.0%
Excess Returns	3.3%	0.8%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 11.3 percent and 8.8 percent respectively, exceeding the actuarial expected rate return of 8 percent.

Total Portfolio Valuation and Funding Status

As of December 31, 2006, the total PFRS investment portfolio value was \$601.9 million. During the past six months, the portfolio increased by \$12.5 million from the June, 30 2006 value of \$589.4 million.

- Article XXVI, Section 2602(b) of the City Charter requires that the PFRS plan be actuarially valued at intervals not to exceed three years. As of July 1, 2005, the latest actuarial report, the PFRS Funded Ratio is 69.6 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.
- In FY 2006, PFRS management discovered that there had been an overpayment of holiday pay to the Fire retirees and beneficiaries. The System is recovering three years of overpayments from the retirees through a reduction of individual retirement benefit payments. The recovery will occur over a 20-month period commencing August 1, 2006. The estimated total of the three years of Fire holiday overpayment is \$665,078.

PFRS Board of Administration Key Activities and Actions (July 1, 2006-December 31, 2006)

1. In July, Ken Bullock was appointed by the Mayor to the PFRS Board for a five-year term ending in August 2011. Mr. Bullock filled the vacant Insurance Representative position.
2. PFRS funded new investment manager Delaware Investments. Delaware Investments replaced investment manager Rhumblin Advisors who was terminated because of a change in investment strategy.
3. At the recommendation of the City Attorney's Office, the PFRS Board hired Schiffrin, Barroway, Topaz & Kessler, LLP to perform securities litigation monitoring.
4. The PFRS Board hired Russell, State Street, Bank of New York, and Credit Suisse for transition management services.
5. PFRS Ballot Measure - Measure M was passed during the November 2006 General Election. The passage of Measure M modified Article XXVI of the Charter to allow the Board to invest in non-dividend paying stocks and to switch the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard.

Current PFRS Membership

The current PFRS membership is 1,296, which includes 3 active employees, 941 retirees and 352 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
Ken Bullock – 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 and 3-year portfolio performance relative to the actuarial expected rate of return.

	Total Return %	
	1 Year	3 Year
Total Fund	10.2%	10.1%
Actuarial Expected Rate of Return	8.0%	8.0%
Excess Returns	2.2%	2.1%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 10.2 percent and 10.1 percent respectively, exceeding the actuarial expected rate of return of 8 percent.

Total Portfolio Valuation and Funding Status

- As of December 31, 2006, the total OMERS portfolio aggregate value was \$10.1 million.
- Article XX Section 2013 of the City Charter requires that the OMERS plan be actuarially valued at least every three years. As of July 1, 2005, the latest actuarial report, the OMERS Funded Ratio is 201 percent.

OMERS Board of Administration Key Activities and Actions (July 1, 2006-December 31, 2006)

1. The OMERS Board shifted the asset allocation structure from 60% equities and 40% bonds to 70% equities and 30% bonds.
2. Board Members Carl Gilmore and Henry Cotten were reappointed by the Mayor for five-year terms ending in July 2011.
3. The City Attorney's Office hired Schiffrin, Barroway, Topaz & Kessler, LLP to perform securities litigation monitoring for OMERS.

Current OMERS Membership

The current OMERS membership is 78, including 36 retirees, 30 beneficiaries, and 12 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) term ended December 31, 2006.
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

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Tracy Chriss (Legal Advisor)
Deputy City Attorney

SUSTAINABLE OPPORTUNITIES

There are no economic, environmental or social equity opportunities represented in this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no disability or senior citizen access issues associated with this report.

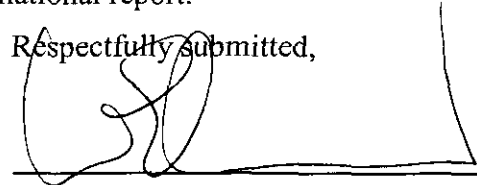
RECOMMENDATION(S) AND RATIONALE

Staff recommends that the Council accept this informational report pursuant to the Oakland City Charter and the Police and Fire Retirement the Oakland Municipal Employees' Retirement Systems.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the Council accept this informational report.

Respectfully submitted,

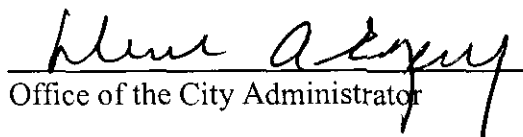


William E. Noland, Agency Director
Finance and Management Agency

Reviewed by: Marcia Meyers, Director
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

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Finance and Management Committee
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