

CITY OF OAKLAND
AGENDA REPORT

OFFICE OF THE CITY CLERK
OAKLAND
2008 MAY -1 PM 2:45

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: May 13, 2008

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, 2007, 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, 2007.

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.

Article XX of the Oakland City Charter similarly 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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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	6.4%	7.8%
Actuarial Expected Rate of Return	8.0%	8.0%
Excess Returns	-1.6%	-0.2%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 6.4 percent and 7.8 percent respectively. These returns were less than the actuarial expected rate of return of 8 percent.

Total Portfolio Valuation and Funding Status

As of December 31, 2007, the total PFRS investment portfolio value was \$557.9 million. During the past six months, the portfolio decreased by \$78.2 million from the June, 30 2007 value of \$636.1 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. The latest actuarial valuation as of July 1, 2007 was performed by a newly hired actuary, Bartel Associates. The PFRS Board approved changes in the methodologies and assumptions from the previous valuation. Most significantly, the

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mortality assumptions and the post retirement benefit increase assumptions were modified. Also, the actuarial asset methodology was changed from market value to a smoothed market value. This was intended to facilitate the City's budget process by smoothing contribution rates. As of July 1, 2007, the latest actuarial report, the PFRS Funded Ratio (assets divided by present value of future benefits) is 63.7 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.
- The actuarial projection presumes that when contributions resume in the 2011/12 fiscal year, they will be 24 percent of the payroll for all Police and Fire employees who are covered either by the PFRS system or by CalPERS. This is a lower contribution rate than was projected in the July 1, 1996 valuation. Based on a 24 percent of payroll contribution rate, PFRS contribution requirement for the 2011/12 fiscal year are projected to be \$39 million and is projected to increase thereafter as payroll increases.

Table 2
 Schedule of Funding Progress
 Police and Fire Retirement System
 (\$millions)

Valuation date July 1	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Status	Annual Required City Contribution Amount Starting July 1, 2011
2003 (a)	890.6	615.1	275.5	69.1%	\$44 million
2004 (a)	890.3	621.6	268.6	69.8%	\$40 million
2005 (a)	883.6	614.9	268.7	69.6%	\$37 million
2007 (b)	900.7	589.1	332.1	63.7%	\$39 million

(a) Actuary valuation studies by Milliman Actuaries
 (b) Actuary valuation study performed by Bartel Associates

- Table 3 shows the PFRS benefit payments projected over the next 30 years. The City Charter mandates that PFRS salaries increase according to the active police and fire salaries. Under the current actuary assumption, adopted by the PFRS Board, salaries are projected to increase 4.75% per year. Although the membership is expected to decrease every year, salaries are not expected to begin decreasing continuously until fiscal year 2020.

Fiscal Year	PFRS Members	Annual Payments (\$millions)
2008	1,331	\$75.3
2009	1,300	74.9
2010	1,266	75.7
2011	1,229	76.5
2012	1,190	77.2
2013	1,150	77.6
2014	1,108	77.9
2015	1,066	78.1
2016	1,023	78.0
2017	980	77.9
2018	937	77.6
2019	894	77.2
2020	852	76.6
2021	811	76.0
2022	771	75.2
2023	732	74.3
2024	693	73.3
2025	655	72.2
2026	618	70.9
2027	582	69.4
2028	546	67.7
2029	511	65.8
2030	476	63.7
2031	442	61.3
2032	408	58.7
2033	375	55.9
2034	342	52.9
2035	310	49.7
2036	279	46.3
2037	249	42.8

Source: Actuary's Report as of July 1, 2007

PFRS Board of Administration Key Activities and Actions (July 1-December 31, 2007)

- Plan received a settlement of \$7,057 from the WorldCom lawsuit.
- The PFRS Board contracted with BNY Global Transition Management, Credit Suisse Securities, Russell Implementation Services, Inc. for transition management services.
- The PFRS Board hired and funded Alta Alliance Bank to manage \$1.5 million.
- Finalized transition of the Plan's overall asset allocation from 50% equities and 50% bonds to 70% equities and 30% bonds.
- James Cooper elected to the Board by the membership to the rotating Police/Fire seat as the Police representative on September 1, 2007 for a three-year term.
- Hired Bartel Associates as the Plan's new Actuary.

Current PFRS Membership

The current PFRS membership is 1,255, which includes 3 active employees, 900 retirees and 352 beneficiaries.

Meetings

The PFRS Board holds its regular meetings on the last Wednesday of each month.

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PFRS Board Members

Robert (Bob) P. Crawford, President – Elected	James Cooper – Elected
Jaime Godfrey, Vice President – Appointed (Bank Rep)	John Speakman – Elected
Vacant – Appointed (Community Rep)	Ken Bullock – Appointed (Insurance Rep)
Deborah Edgerly – Appointed (Mayoral Rep)	

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

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	4.4%	6.7%
Actuarial Expected Rate of Return	8.0%	8.0%
Excess Returns	-3.6%	-1.3%

- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 4.4 percent and 6.7 percent respectively. These returns were less than the actuarial expected rate of return of 8 percent.

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Total Portfolio Valuation and Funding Status

- As of December 31, 2007, the total OMERS portfolio aggregate value was \$9.3 million.
- Article XX Section 2013 of the City Charter requires that the OMERS plan be actuarially valued at least every three years. The OMERS Board hired a new Actuary, Bartel Associate, who conducted an actuarial study as of July 1, 2007. The OMERS Board has not yet approved the July 1, 2007 actuarial report, however, the funded status as of July 1, 2007 will reflect the Plan as fully funded. The previous actuarial report as of July 1, 2005, reported the OMERS Funded Ratio as 201 percent.

OMERS Board of Administration Key Activities and Actions (July 1-December 31, 2007)

- OMERS Retirees received a 3 percent Cost of Living Adjustment (COLA).
- Board member William Russell re-elected to the OMERS Board through 2012.
- Hired Bartel Associates as the Plan's new Actuary

Current OMERS Membership

The current OMERS membership is 64, including 31 retirees, 22 beneficiaries, and 11 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 – Ex-Officio (City Treasurer)
William Russell, Vice President – Elected	Courtney Ruby – Ex-Officio (City Auditor)
Henry Cotton – Appointed (Insurance Rep)	Vacant (since 1998) – 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

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

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DISABILITY AND SENIOR CITIZEN ACCESS

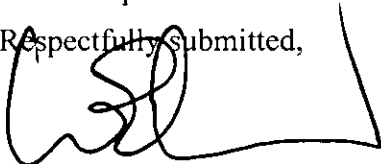
There are no disability or senior citizen access issues associated with this report.

RECOMMENDATION(S) AND RATIONALE

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

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the Council accept this informational report.

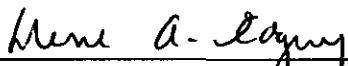
Respectfully submitted,


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
CITY COUNCIL FINANCE AND MANAGEMENT COMMITTEE



Office of the City Administrator

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