

2009 DEC -3 PM 5: 05

**CITY OF OAKLAND**  
**AGENDA REPORT**

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Department of Human Resources Management  
DATE: December 15, 2009

RE: **Informational Report on the Financial and Membership Status of the Police and Fire Retirement System (PFRS) as of September 30, 2009**

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**SUMMARY**

The purpose of this informational report is to summarize the current membership status and the performance of the Police and Fire Retirement System (PFRS) fund for the period ending September 30, 2009, including total investment return percentages. This report provides the most recent funding status data, meeting information, and key activities and actions taken by the PFRS Board since the last update as of December 31, 2007.

**FISCAL IMPACT**

This report is informational only. Based on the most recent Actuarial Study dated July 1 2009, the PFRS Fund is projected to be 44.4% funded. No contributions are due from the City to PFRS until July 1, 2011. The City's annual required contribution commencing July 1, 2011 is currently projected to be \$40 million.

A report detailing the current fund status and possible funding options is being prepared by the Department of Human Resources Management and the Finance and Management Agency and will be presented to the PFRS Board in January 2010 and to the City Council by March 2010.

**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.

**KEY ISSUES AND IMPACTS**

The Police and Fire Retirement System (PFRS) is a closed defined benefit plan, which was created pursuant to Article XXVI of the City Charter. Its purpose is to provide a sound and efficient retirement system to ensure payment and continuity of members' retirement benefits.

Item: \_\_\_\_\_  
Finance and Management Committee  
December 15, 2009

## 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	3.4%	-1.4	2.8
Actuarial Expected Rate of Return	8.0%	8.0%	8.0%
Excess Returns	-4.6%	-9.4	-5.2

- The past twelve months have been one of the most volatile times in U.S. financial market history. The PFRS Investments were down 22.2 percent in the 6 months ending March 31, 2009. In the following 6 months ending September 30, 2009, PFRS Investments rallied 33.7 percent for an overall 12-month return of 3.4%.
- The PFRS 12-month investment return of 3.4% was the top ranked investment return among the Mellon Total Public Fund Universe.
- During the latest 1-year and 3-year periods, the portfolio's overall rate of return was 3.4 percent and -1.4 percent respectively. These returns were less than the actuarial expected rate return of 8 percent.
- During the latest 5-year period, the portfolio's overall average yearly rate of return was 2.8 percent, 5.2 percent below the actuarial expected rate of return.

Item: \_\_\_\_\_  
Finance and Management Committee  
December 15, 2009

Total Portfolio Valuation and Funding Status

- Since the last PFRS report to Council, the fund decreased from a value of \$561.6 million as of December 31, 2007 to \$335.2 million as of September 30, 2009. This reduction of \$226.4 million is due to investment losses as well as approximately \$132 million in withdrawals for retiree benefit payments.
- 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, 2009 was performed by actuary, Bartel Associates. As of this report, the PFRS Funded Ratio (assets divided by present value of future benefits) is 44.4 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 City's annual required contribution to PFRS commencing July 1, 2011 is currently projected to be \$40 million.

**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)	888.1	566.0	322.1	63.7%	\$39 million
2009 (b)	782.5	347.2	435.3	44.4%	\$40 million

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

Item: \_\_\_\_\_  
 Finance and Management Committee  
 December 15, 2009

PFRS Board of Administration Key Activities and Actions (January 1, 2008-September 30, 2009)

- Changed large cap portfolio asset strategy from active to passive for large cap value, large cap core and large cap growth portfolios.
- Terminated Franklin Portfolio Management (Large Cap Growth; \$82 million) due to poor performance; transferred funds to Russell 1000 index fund and conducted a search for a new passive large cap core investment manager.
- Terminated Roxbury Capital Management (Small Cap Growth; \$8 million) due to poor performance; transferred funds to Russell 2000 growth fund and conducted a search for a new small cap growth investment manager
- Appointment of Mayoral Designate Board Member Joseph Yew Jr.
- Appointment of Mayoral Designate Board Member Walter Johnson
- Issued the 2008 Annual Report. Produced in-house, reducing cost to PFRS budget.
- Appointment of Jaime Godfrey to Bank representative board seat through 2013.
- Election of Robert Crawford to Police representative board seat through 2013.

Current PFRS Membership

The current PFRS membership is 1,185, which includes 1 active employee, 849 retirees and 335 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	James Cooper – Elected
Jaime Godfrey, Vice President – Appointed (Bank Rep)	John Speakman – Elected
Walter Johnson – Appointed (Community Rep)	Ken Bullock – Appointed (Insurance Rep)
Joe Yew – Appointed (Mayoral Rep)	

Staff Liaison

Yvonne S. Hudson, Staff Support and Retirement and Benefits Manager, Department of Human Resources Management

Tracy Chriss (Legal Advisor)  
Deputy City Attorney

Item: \_\_\_\_\_  
Finance and Management Committee  
December 15, 2009

## 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.

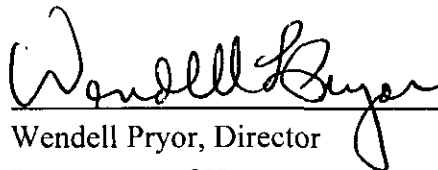
## RECOMMENDATION(S) AND RATIONALE

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

## ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the Council accept this informational report.

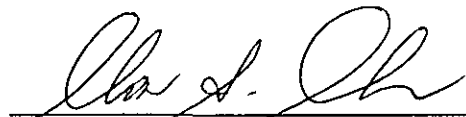
Respectfully submitted,



Wendell Pryor, Director  
Department of Human Resources 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

Item: \_\_\_\_\_  
Finance and Management Committee  
December 15, 2009