

**SPECIAL MEETING OF THE RETIREMENT BOARD OF ADMINISTRATION  
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

**MINUTES**

**APRIL 7, 2010**

**Board Members Present:**

Javier Romero, President  
Cindy Coffin, Vice President  
Barry Poole, Board Member  
Michael Moore, Retiree Member  
S. David Freeman, Interim General Manager

**Board Members Absent:**

Appointed DWP Commissioner - Vacant  
Jeff Peltola, Chief Financial Officer

**Others Present:**

Neil Rue, Pension Consulting Alliance, Inc.  
Michael Wilkinson, Deputy City Attorney

**Staff Present:**

Sangeeta Bhatia, Retirement Plan Manager  
Jeremy Wolfson, Chief Investment Officer  
Mary Higgins, Asst. Retirement Plan Manager  
Julie Escudero, Utility Executive Secretary

President Romero called the meeting to order at 10:11 a.m. following the Pledge of Allegiance.

Ms. Bhatia indicated a quorum of the Board was present.

**Public Comments**

No public comments were received.

*(Mr. Freeman left the room at 10:12 a.m.)*

Mr. Romero called for approval of Consent Items 1 and 2

**1. Request for Approval of Minutes**

- a) **February 24, 2010, Regular Board Meeting**
- b) **March 10, 2010, Regular Board Meeting**

**2. Termination from Rolls**

**Termination from March 2010 Retirement Roll**  
**Termination of Roxie A. Buck from March 2010 Survivorship Roll**  
**Termination of Richard Lazado from March 2010 Family Death Benefit**  
**Termination of Chelsea Moser from March 2010 Family Death Benefit Roll**

Mr. Moore requested Item 1a, page 5, be amended to read as follows:

*"Mr. Moore expressed his concern that **short term** interest rates could rise and result in higher payments if lower **long term** interest rates were not locked in at this time."*

*With no further discussion, Mr. Moore moved for approval of Consent Items 1 (as amended) and Item 2; seconded by Ms. Coffin, and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, and Moore*  
*Nays: None*

Mr. Romero called for approval of Read and File Items 3 through 10.

3. **Report of Payment Authorizations for February 2010**
4. **Notice of Deaths for February 2010**
5. **a) Summary of Investment Returns as of February 28, 2010**  
**b) Market Value of Investments by Fund and Month as of February 28, 2010**  
**c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of February 28, 2010**
6. **Report on Status of Insurance as of March 11, 2010**
7. **Report of Organization Changes at Fred Alger Management Inc.**
8. **Report of Organization Changes at T. Rowe Price Trust Company**
9. **Report of Organization Changes at JP Morgan Asset Management**
10. **Report of Organization Changes at Capital Dynamics**

*Ms. Coffin moved for approval of Items 3 through 10; seconded by Mr. Moore and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, and Moore*  
*Nays: None*

**11. Presentation by BlackRock Asset Management - Annual Performance Review as of December 31, 2009**

Mr. Romero acknowledged Susan Harrison, Corin Frost, and Debbie Jelilian from BlackRock.

Ms. Harrison briefly outlined the company's outlook.

Ms. Jelilian reported BlackRock's focus is to closely align with the Russell 1000 index and, since inception the portfolio has been within one basis point of its benchmark. She stated the Russell 1000 changes its methodology annually and BlackRock expected to receive the details sometime in June.

Ms. Jelilian noted BlackRock completed its merger with Barclays Global Investors and, as a result, she will be relocating to the San Francisco office to assume the role of Chief Operating Officer in June 2010. Mr. Corin Frost will take over as the Plan's portfolio manager.

*(Mr. Freeman returned at 10:24 a.m.)*

Ms. Jelilian added the investment objectives will remain the same.

**12. Presentation by T. Rowe Price Investment Services**

Mr. Romero acknowledged John Plowright and John Linehan from T. Rowe Price.

Mr. Plowright announced that Bill Nolan, Portfolio Specialist, has joined the firm.

Mr. Linehan reviewed the company's investment philosophy and process. He explained their goal is to outperform the market, and he indicated they had outperformed the market on a three-year and five-year basis by approximately 260 basis points, and 210 basis points, respectively.

He reviewed the portfolio characteristics and performance, and briefly discussed the potential issues and catalysts for 2010 and added he believed the outlook for 2010 is optimistic.

**13. Presentation by MFS Investment Management – Annual Performance Review as of December 31, 2009**

Mr. Romero acknowledged Carolyn Lucey, Kate Mead, and Ryan Kelly from MFS Investment Management.

Ms. Lucey provided an overview of the Plan's portfolio performance and noted the portfolio outperformed the Russell 1000 value index as of December 31, 2009.

Ms. Mead reviewed portfolio performance for 2009 and covered risk management, portfolio characteristics, and sector weights.

Regarding health care reform and its impact on the market, Ms. Mead explained the difficulty of determining the actual impact without having all the legislative details.

**14. Discussion of the "Analysis of Actuarial Experience During the Period July 1, 2006 through June 30, 2009" as Prepared and Presented by the Segal Company**

Ms. Bhatia introduced Paul Angelo and John Monroe of The Segal Company who were in attendance to present the experience study of the assumptions included in the annual actuarial valuation and which are used to determine the Department's contribution rate. The study focused on assumptions for the investment rate of return, mortality tables uses, and the rates of retirement.

Mr. Angelo explained the actual investment returns, benefit payments, and the demographics are compared to what was assumed in order to determine the annual gains and losses and, ultimately, the Department's contribution rates for the next year. He said the recent experience was less favorable than originally assumed. As a result, Segal recommended the following changes to the assumptions resulting in a higher contribution rate now and to avoid a pattern of cost increases in the future:

|                    | <u>Current Previous Assumption</u>                                                                              | <u>Proposed Recommended Analysis</u> |
|--------------------|-----------------------------------------------------------------------------------------------------------------|--------------------------------------|
| Inflation:         | 3.75%                                                                                                           | 3.5%                                 |
| Investment Return: | 8%                                                                                                              | 7.75%                                |
| Salaries:          | Increase the real "across-the-board" assumption from 0.5% to 0.75% to keep the average wage assumption at 4.25% |                                      |

Mr. Angelo added they extended the retirement age from 65 years to 70 years and included a margin for future mortality improvements.

Mr. Freeman said he believed 7.5% was a more prudent number to use for the assumed investment rate of return rather than 7.75%. He stated the duty of the Board Members is to protect the retirees, and he believed it would be reasonable for the Department to contribute more now based on a lower assumption than risk being underfunded by paying less based on the higher assumption.

Mr. Angelo said the 7.75%, when evaluated consistently by their model, would leave the Plan, to a large extent, with the same, albeit slightly lower, confidence level.

Neil Rue from Pension Consulting Alliance, Inc. (PCA) stated The Segal Company has done a diligent job in coming up with their assumptions, although PCA's assumptions were more consistent with 7.5%.

Extensive discussion ensued regarding the 7.75% recommended assumption versus 7.5%.

Mr. Moore asked Paul Angelo to comment on the self correcting aspect each year of the assumed rate of return. Mr. Angelo responded they reset the employer's contribution rate annually based on the most recent experience, and every three years they review the assumptions, and all of the self-correcting mechanisms are still in place. Mr. Moore asked how much of the unfunded liability issue regarding reciprocity was picked up on their last actuarial study based on the demographics. Mr. Angelo confirmed that the several hundred employees who contributed more to the unfunded liability will add to the cost.

Ms. Higgins mentioned that after the experience study is adopted, The Segal Company will come back to discuss asset smoothing, and the Board will be able to see more exactly what effect the experience study will have on the five-year smoothing and employer contributions.

Mr. Freeman asked what would happen to the contributions if the Plan earned 7.5% and had assumed 8%. Mr. Angelo said he would provide that information.

Ms. Bhatia asked Segal to provide back up information and the impact of changing the investment return assumption from 7.75% to 7.5%. Mr. Angelo said going with 7.5% would increase the unfunded liability and the funding ratio would immediately drop as a result rather than show up as experience over time. He added that even though they recommended 7.75%, changing to 7.5% would still be within the actuarial standard of practice and the Plan would be in compliance with the standard of practice, in particular, ASOP 27 (*Actuarial Standards of Practice*) involving investment returns.

*Mr. Freeman moved that the Board adopt the recommendations made by The Segal Company with the exception of changing the investment rate of return to 7.5% from Segal's recommended 7.75%. Seconded by Mr. Moore with an amendment to modify the minus risk adjustment to .89% so the rate of return balances out to 7.5%. The motion was carried after the following vote:*

*Ayes: Romero, Coffin, Poole, Moore, and Freeman  
Nays: None*

*(The Board recessed at 12:12 p.m. and reconvened at 12:19 p.m.)*

## **15. Discussion of the Reciprocity Study Presented by The Segal Company**

Mr. Romero stated he requested this item to address the adverse impact on the Plan now that the cost of reciprocity is no longer neutral, as it was originally intended, as a result of an increase in the number of City employees transferring to DWP. He turned the item over to Paul Angelo and John Monroe of The Segal Company.

Mr. Angelo explained they developed three sample calculations to illustrate the impact of the reciprocity program. This particular study was to make a general determination if the transfers-in result in a loss or not. They had not quantified the total impact of the entire historical data, but he indicated they could perform another study if requested.

Mr. Freeman asked if a copy of the reciprocity agreement was available. Ms. Higgins said the agreement was part of the Administrative Code and the Retirement Plan, and Ms. Bhatia stated Staff would provide the Board with pertinent information from those documents.

Mr. Angelo reviewed the three samples used in their study and noted the more service an employee had at the time of transfer, the greater the cost to the Plan.

*(Mr. Freeman left the meeting at 12:29 p.m.)*

Mr. Angelo explained employee contributions are not intended to cover the entire liability. The immediate Department match of 110% offsets the loss but their study showed it is still always a loss and just a question of how much.

Mr. Moore asked if an update to the number of transfers to DWP, over the study's three-year period, was available. Ms. Bhatia said as of June 30, 2009, through December 2009, an additional 274 employees had transferred. Ms. Higgins added unaudited data indicated that over the past six years over 1,100 people have transferred into DWP's system from LACERS.

Ms. Higgins asked the Segal representatives to comment on the \$500 million estimate developed by the Department as a rough approximation of the cost of the reciprocity program on the unfunded liability for both the health fund and the retirement fund. Mr. Angelo explained their methodology used a spreadsheet developed by the Department and calculated the average contribution on a per capita basis; however, it did not take into account the demographics of the long service and short service employees.

Mr. Moore asked how quickly Segal could conduct an additional, more comprehensive study. Mr. Monroe said they could provide a report within a couple of months upon receiving additional data from Staff. Ms. Higgins said Staff had already pulled data through 2009 and would audit that information and provide it to the actuaries as quickly as possible. Mr. Moore said he believed sufficient information was available to proceed with Ms. Higgins' approach and to develop the history, provide supporting documentation, and options available to the Board both prospectively and retroactively.

Ms. Higgins said the fee quote previously provided by Segal for this type of study was not to exceed \$30,000. She indicated Staff would bring a resolution to the Board at the next meeting for approval to proceed with the additional expenditure.

*Mr. Moore moved that the Board proceed with the additional study; seconded by Ms. Coffin. Mr. Wilkinson added that would be subject to Staff coming back with a resolution at the next meeting.*

*Ayes: Romero, Coffin, Poole, and Moore  
Nays: None*

## **16. Discussion of Performance of Pyramis Global Advisors Trust Company**

Mr. Wolfson provided background on this item which recommends Pyramis Global Advisors Trust Company be placed on watch status for six to twelve months, for failing to meet the Plan's short-term performance criteria.

*Mr. Moore moved to approve Resolution No. 10-79 to place Pyramis Global Advisors Trust Company International Developed Equity Market Account on watch status; seconded by Ms. Coffin and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, and Moore*

*Nays: None*

**17. Recommendation to Adopt the Plan Amendment Relative to Incorporation of Required Provisions to Retain Tax Qualified Status**

Ms. Higgins reported the DWP Board of Commissioners approved the Plan amendment to incorporate legislation required for the Plan to retain its tax qualified status and approval of Resolution No. 10-80 was the final action required to implement the Plan amendment.

*Mr. Moore moved to approve Resolution No. 10-80 recommending amendments to the Water and Power Employees' Retirement Plan to incorporate required legislative and regulatory provisions; seconded by Ms. Coffin and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, and Moore*

*Nays: None*

**18. Discussion of the Retirement Office Budget for Fiscal Year 2010-2011**

Ms. Bhatia reported the Retirement Office budget for FY 2010-11 was originally presented to the Board on March 10, 2010, at which time the Board requested additional information prior to making a decision. The requested information provided at this time included justification for certain items plus a current estimate for the fiscal year ending June 30, 2010.

She stated the attached revised administrative expense budget included estimated expenses for 2009-10 which consisted of actual and accrued expenses. She stated the three major contributors to the variance between the 2009-10 budget and the estimated actuals of 2009-10 were 1) salaries (mainly due to delays in filling previously approved positions); 2) professional services (primarily due to schedule changes for the completed installation of the new computer system); and 3) investment fees. She noted the proposed salary expense for 2010-11 is the same amount as in the 2009-10 budget. She further noted some expense items will be removed in the future once projects are completed, and some might be added as amounts come due in the next fiscal year; however, the total administrative expenses for 2010-11 reflected a decrease overall of \$150,000.

Ms. Bhatia explained the salary figure included funding for two Clerk Typist positions which Staff did not expect to fill prior to July 1, 2010. Mr. Moore asked about the sub-authority for the Senior Utility Accountant position. Ms. Bhatia explained when an employee has been out on disability for one year, that vacant position can be frozen and then filled as a sub-authority. In this case, the Senior Utility Accountant position would be filled with an Investment Officer position which was more closely aligned to the objectives of the position.

In response to a question by Mr. Moore, Ms. Bhatia provided the background for the requested Principal Clerk Utility (PCU) positions and the impact of having to freeze three positions to hire the PCUs and the adverse impacts of not being able to fill the three frozen positions. With respect to the two permanent Clerk Typist positions, Ms. Bhatia stated these positions are for the document imaging (scanning) system which is a separate but related project to the computer system project. She stated the scanning will be an on-going project and it is expected

to take at least six months to scan all of the back files. She added some work is currently being performed by temporary personnel, but due to the on-going nature of the task, the confidentiality of the information, and the training involved, Staff believes it would be cost-effective and prudent to utilize permanent employees. Ms. Bhatia noted some changes in the workload might occur after the new system is implemented, in which case Staff could adjust the organization chart and determine whether to fill future vacancies.

*Ms. Coffin moved that the proposed budget for Fiscal Year 2010-2011 be approved; seconded by Mr. Moore, and carried after the following vote:*

*Ayes: Romero, Coffin, Poole, and Moore*

*Nays: None*

Ms. Bhatia verified the motion approved Resolution No. 10-74 to adopt the proposed budget and the proposed Annual Personnel Resolution for Fiscal Year 2010-2011. Mr. Moore added it should be made clear that the changes Staff made now brought the budget in line with last year's budget which had been suggested by the General Manager.

## **19. Discussion of Update on Governance Issues**

Mr. Romero asked Mike Wilkinson if the City Attorney's Office had the information that, at the March 10 Board meeting, they assured would be provided today. Mr. Wilkinson reported that Pete Echeverria, Chief Assistant City Attorney, was still working on the report regarding the authority of the Board; therefore, he had nothing additional to provide at this time.

Mr. Moore stated his concern was this issue began with the budget and the relatively few differences between the Retirement Board and the DWP Board. He said it was much bigger and broader than that, and now that it has taken shape and moved to the City Attorney to finally resolve, he was fearful the focus would be just on the narrower issue. He stated he is much more concerned of the broader governance issues the Board has been dealing with, including the potential for the DWP Board to override any decision the Retirement Board has made, for example, the decision regarding the 7.5% investment return assumption.

He referred to the Westley decision and the curtailing of pension board authority and expressed he did not believe the Westley case was applicable here because the Retirement Board had not exceeded its authority and no laws had been ignored. He expressed concern that if the DWP Commissioners could challenge the Retirement Board's budget decision, they could potentially challenge the decision with respect to the assumed rate of return. He emphasized this issue should be looked at in terms of that bigger picture and did not want the determination to be made just based on the narrower issue. He stated he wanted to make sure, even if it delayed the City Attorney's decision, that this was looked at fully because, ultimately, some major issues or confrontations might flow from this.

Mr. Wilkinson responded that, with respect to the assumed rate of return, that decision rests with the Retirement Board and not the DWP Board. Mr. Wilkinson said he would pass Mr. Moore's concern along to his immediate boss and to Mr. Echeverria.

Mr. Poole said the Retirement Board had the outside attorney's decision, and the City Attorney was not the ultimate decider. Mr. Moore agreed that this could ultimately be decided by a court but, as a board, the Retirement Board had to live with the City Attorney's opinion.

Mr. Romero asked Mr. Wilkinson if the Board could expect something at the next meeting, and Mr. Wilkinson said he was hopeful but it was out of his control, although he would do his best.

Mr. Wilkinson introduced Deputy City Attorneys Jim Napier and Maureen McTeague who will be joining the Retirement Board team.

**20. Pension Consulting Alliance, Inc.'s Response to Press Articles Regarding Public Fund Investment Activities**

No discussion took place.

**21. Retirement Plan Manager's Comment**

Ms. Bhatia reported the transition plan is underway and funds have been successfully transitioned to Western Asset Management Company (WAMCO), the Plan's Global Inflation Linked Securities manager, and the transition of the other two funds was also in progress. Ms. Bhatia reported in connection with the approval of the Plan amendments with respect to IRC provision, Staff was working with the Plan's tax counsel, Ice Miller, and has begun auditing members' accounts back to 1996 as required by the provision. As a result, some member allowances will need adjustments.

**22. Future Agenda Items**

No future agenda items were requested.


There being no further business at this time, the meeting adjourned at 1:18 p.m.

  
\_\_\_\_\_  
Javier Romero  
Board President

5/12/10  
Date

  
\_\_\_\_\_  
Sangeeta Bhatia  
Retirement Plan Manager

5/12/10  
Date

  
\_\_\_\_\_  
Julie Escudero  
Utility Executive Secretary

5.12.10  
Date