

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

MINUTES

May 12, 2010

Board Members Present:

Javier Romero, President
Cindy Coffin, Vice President
Barry Poole, Board Member
Michael Moore, Retiree Member
Jeff Peltola, Chief Financial Officer
Austin Beutner, Interim General Manager

Board Members Absent:

Lee Kanon Alpert, Commissioner

Staff Present:

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

Others Present:

Eric White, Pension Consulting Alliance
David Sancewich, Pension Consulting Alliance
Pete Echeverria, Chief Asst. City Attorney
Alan Manning, Asst. City Attorney
Michael Wilkinson, Deputy City Attorney

President Romero called the meeting to order at 10:00 a.m. following the Pledge of Allegiance.

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

Public Comments

Mr. Romero read a letter addressed to the Board from Mrs. Rickey Gamore, dated May 3, 2010, expressing her appreciation to Benefits Specialist David Stielow and the Retirement Office Staff for their assistance.

1. Request for Approval of Minutes for the April 7, 2010 Special Meeting

Mr. Moore moved for approval of the Minutes of the April 7, 2010, Special Meeting; seconded by Ms. Coffin, and carried after the following vote:

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

Nays: None

Mr. Romero called for approval of Consent Items 2 through 4:

2. Report on Organizational Changes at CB Richard Ellis Investors

3. Report on Organizational Changes at MFS Investment Management

4. Update from City Ethics Commission – New Ethics Commission Brochure

Ms. Coffin moved for approval of Consent Items 2 through 4; seconded by Mr. Moore, and carried after the following vote:

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

5. Discussion of Consent to Increase the Maximum Size of the Advisory Board for Landmark Equity Partners Fund XIV

(Mr. Beutner joined the meeting at 10:04 a.m.)

Mr. Wolfson reported this item was a request from Landmark Equity Partners Fund XIV, a secondary fund-of-funds in the Plan's private equity portfolio, to increase the size of their advisory board from seven members to nine members in view of new investments that were brought into the funds.

Mr. Moore moved for approval to increase the maximum size of the Advisory Board for Landmark Equity Partners Fund XIV; seconded by Ms. Coffin, and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Peltola, and Beutner
Nays: None

6. Ratification of the Board's Action to Approve the Experience Study and the Associated Actuarial Assumptions

Ms. Bhatia reported The Segal Company had presented the actuarial experience study for the three-year period ending June 30, 2009, at the Special Meeting of the Retirement Board held on April 7, 2010. At that time, the Board Members present approved all of the actuarial recommendations with the exception of the assumed investment rate of return. The Segal Company had recommended lowering the previous rate of 8% to 7.75%; however, after much discussion, the Board chose a lower rate of 7.5%.

Mr. Peltola, who was unable to attend the April 7 meeting, said the Department will always make its annual contribution commitment, but he questioned the advisability of going from 8% to 7.5% as opposed to the recommended 7.75%.

Mr. Beutner commented that based on the report by The Segal Company, he believed it would be advisable for the Board to adopt the 7.75 % investment rate of return and consider looking at it again in 12 to 18 months as opposed to three years. When Ms. Bhatia pointed out the Plan recommends an experience study be conducted every three to five years, Mr. Beutner explained he was referring to more frequent reviews of the assets and not to the experience study. He stated he would be comfortable with the 7.75% rate and reviewing the investment return assumption again in two years.

Mr. Moore expressed his concern that deviating from the recommendation of the actuary would set a precedent, and he asked the City Attorney to describe the Board's authority with respect to setting the assumptions. Alan Manning clarified that the Retirement Board has the plenary authority with regard to hiring an actuary and adopting the actuarial assumptions. He added the Board's primary responsibility was to the Plan members and their beneficiaries and also to minimizing contributions. He emphasized the Board's decision with respect to employer contributions was final and could not be challenged as long as the Board acted in a reasonable manner.

Mr. Moore moved to revise the resolution to read the Board approve all of the actuary's assumptions including the 7.75% Investment Return Assumption as originally recommended by the Actuary, and not the 7.5% rate suggested by the Board on April 28, 2010; seconded by Mr. Peltola, and carried after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Peltola, and Beutner

Nays: None

7. Discussion of the Interest Crediting Rate Applied to the Following Member Accounts

a) Regular Contributions

b) Additional Contributions

Under Public Comments, Mr. John Hill, DWP Accountant, expressed his concern that if the interest crediting rate changed as a result of the 7.75% investment return assumption, he would no longer receive the 8% interest rate on his additional contributions that was in effect at the time he signed up and which he understood to be guaranteed.

Ms. Bhatia stated this item was brought before the Board to discuss the impact that adopting the recommended change in the actuarial assumptions, in particular the investment return assumption, will have on the member accounts for regular and additional contributions. She explained that historically, the actuary recommended crediting the member accounts with the same interest rate as the investment return assumption. She stated a Plan amendment was needed to change the interest rate for member accounts, and direction from the Board was required to proceed with the Plan amendment process.

Ms. Bhatia explained the difference between regular mandatory and additional voluntary contributions, and the manner in which the interest rate was credited. For the benefit of Mr. Beutner, she also described the additional contribution program.

Mr. Beutner asked if the interest rate for these accounts was guaranteed. Ms. Bhatia stated the "interest rate" was defined in the Plan and it had been at 8% for quite some time, but because it was tied to the investment return assumption, that rate was not guaranteed forever, but only for the period during which the investment return assumption was effective.

Mr. Poole asked about the history of the voluntary contribution program, whether it was created through a meet and confer process, and under whose jurisdiction it fell. Ms. Bhatia replied the voluntary contribution program was established as part of the original Plan. She stated the Plan provides that member accounts (both Regular Contribution and the Additional Contribution Program) be credited with the regular interest rate, and any change to the interest rate required a Plan amendment. She added that any change to benefits would likely require a meet and confer process.

Mr. Moore asked if an employee could withdraw all of his/her funds at the time of his/her retirement or would the funds be disbursed as an annuity. Ms. Bhatia said the contributions are currently distributed as an annuity depending on the balance in the account; however, through the Labor Relations Department, DWP is considering the possibility of expanding distribution options and making a complete withdrawal available.

There was discussion as to whether the investment rate change could be handled separately for the Regular Contribution and the Additional Contribution Accounts. Mr. Poole requested information on whether a change to the interest rate of the Additional Contribution Program require a meet and confer process.

(Public Comments – Out of Order)

Mr. Hill expressed his appreciation to the Retirement Board and staff for their conscientious efforts for a due diligence discussion of this item prior to making a final decision.

8. Discussion of History and Procedure to Amend the Reciprocity Program between the Water and Power Employees' Retirement Plan and the Los Angeles City Employees' Retirement System (LACERS)

Ms. Higgins reported that the Board had asked staff to provide basic background on the reciprocity program, how it might be changed, and the methods by which it could be changed.

She explained the original arrangement was established to provide portability of pension benefits between civilian members of the City workforce, and it has remained substantially the same since it was adopted 30 years ago, with the following exception. Originally, employee contributions were assessed at the end of each year, and if one system did not receive as many contributions as it would have if transferring employees had always been in the new system, it would bill the other system for the difference. Ms. Higgins noted that provision was removed because the billings were very low, especially when compared to the assets.

She stated that in reviewing the history of the Plan and the design forms, staff determined the following design changes could be made to the reciprocity program to affect funding and/or amount of liability. For example, employer contributions could be transferred between the systems, and the amount of time eligible for transfer could be limited; or a different reciprocity style, similar to that used by the Public Employees' Retirement System (PERS) could be adopted. PERS-style reciprocity has each system maintain liability for an employee's service credit, although contributions do not change hands, and the highest salary in either system is used and time in either system is used for eligibility purposes.

Discussion ensued.

Under Public Comments, Mr. Romero acknowledged Jack Humphreville, from the Greater Wilshire Neighborhood Council and president of the DWP Advocacy Committee, who commented that he believed the current situation with the City is unacceptable.

Mr. Poole moved that the Water and Power Employees' Retirement Plan amend the portion of the Plan entitled "Reciprocal Arrangement Between the Plan and the City Employees' Retirement System" to suspend its provisions for all persons not yet transferred from the City to DWP, 2) that the Staff be instructed to present to the Board a proposal to change the design of the reciprocal agreement for all transferees, subsequent to this date, so that each plan retains liability for the service accrued under it as outlined in Option 2 on page 8.3 of the Staff's report (included in the agenda package and titled "Discussion of History and Procedure to Amend the Reciprocity Program Between the Water and Power Employees' Retirement Plan and the Los Angeles City Employees' Retirement System), and 3) that Staff request The Segal Company to expedite the cost study so as to determine the extent to which the Board must take further action and when it should do so.

The motion was seconded by Mike Moore and carried after the following vote:

Ayes: Moore, Poole, Coffin, Romero, and Peltola
Nays: Beutner

Mr. Beutner explained his vote was based on not having complete information on whether the Board was allowed to suspend the program. He added he could vote to look into a suspension and to understand the implications, but could not, in good conscious, vote for suspension without having more information.

Ms. Higgins stated Staff will work with the City Attorney's Office regarding the meet and confer aspect of this item, and will provide further information to the Board.

9. Discussion of Temporary Policy Exception for the International Developed Markets Equity Mandates

Mr. Wolfson provided background for this item which recommended the Board provide a temporary exception to the Plan's investment policy and to allow its international developed markets equity managers to purchase securities within the emerging markets index ahead of the planned index reconstitution.

Mr. Moore moved for approval of the Temporary Policy Exception for the International Developed Markets Equity Mandates; seconded by Ms. Coffin, and carried unanimously after the following vote:

Ayes: Romero, Coffin, Poole, Moore, Peltola, and Beutner
Nays: None

10. Discussion of Update on Governance Issues

Mr. Romero acknowledged Pete Echeverria, Chief Assistant City Attorney, who was joined by Fred Merkin, contract counsel for the City Attorney's Office.

Mr. Echeverria apologized for the amount of time it has taken for the City Attorney's Office to provide its opinion regarding the authority of the Retirement Board. He distributed to the Board copies of the City Attorney's finding, which concluded that the Board of Water and Power Commissioners had the discretion to create and fund positions for the Retirement Office; however, this discretion was not unfettered.

Board Members stated there had been no time to review the report and asked that the item be brought back to answer questions and requested that Mr. Echeverria come back for further discussion.

This item was deferred so the Board Members could review the City Attorney's report and discuss it at the next meeting.

- 11. a) Summary of Investment Returns as of March 31, 2010**
- b) Market Value of Investments by Fund and Month as of March 31, 2010**
- c) Market Value of the Retirement, Death, and Disability Funds and Retiree Health Care Fund as of March 31, 2010**

This item was for reference only and included no discussion.

12. Retirement Plan Manager's Comments

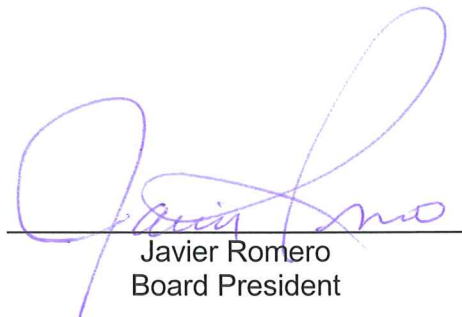
Ms. Bhatia reported the system component pertaining to the retirement, disability and death benefits was received and parallel testing was in progress. She stated the next component was expected to be received by the end of May, followed by the retiree payroll module. She also reported that Labor Relations was completing final steps regarding the meet and confer process pertaining to the changes in the additional annuity distribution options. She stated the Plan amendment process would follow as required. She stated that at the next meeting, PCA will provide its post-transition review of the new core fixed income and large and small cap managers. She reported the three Board approved positions from the previous fiscal year had yet to be included in the Department's Annual Personnel Resolution. Mr. Peltola stated he would follow-up to have those positions included.

Ms. Bhatia stated the next Board Meeting was scheduled for May 26, 2010.

14. Future Agenda Items

There were no future agenda items requested at this time.

There being no further business, the meeting adjourned at 11:40 a.m.



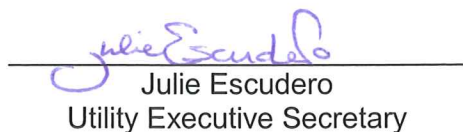
Javier Romero
Board President

6/23/10
Date



Sangeeta Bhatia
Retirement Plan Manager

6/23/10
Date



Julie Escudero
Utility Executive Secretary

6.23.10
Date