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

MINUTES

OCTOBER 19, 2011

Board Members Present:
Javier Romero, President*
Cindy Coffin, Vice President
Mario Ignacio, Chief Accounting Employee
Ronald O. Nichols, General Manager *
Barry Poole, Regular Member
Robert Rozanski, Retiree Member

Board Members Absent:
DWP Commissioner - Vacant

**Arrived after the meeting was called to order.*

Staff Present:
Sangeeta Bhatia, Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Monette Carranceja, Assistant Retirement Plan Manager
Julie Escudero, Utility Executive Secretary

Others Present:
Marie McTeague, Deputy City Attorney

Vice President Coffin called the meeting to order at 8:16 a.m.

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

Public Comments

No Public Comments were received.

1. Presentation by The Segal Company – Annual Actuarial Valuation of the Retirement Fund as of July 1, 2011

The Board acknowledged Paul Angelo and John Monroe of The Segal Company. Mr. Angelo presented the annual valuation summary. He reported the Department's required contribution will increase from 38.45% of pay to 41.82% due mainly to investment losses on an actuarial basis. He reported the Plan's portfolio earned 19.2% in 2010-2011 based on the market value of assets, but only earned 3.7% based on the actuarial value of assets which is lower than the actuarial assumed annual return of 7.75%. He noted the actuarial investment return was smaller as a result of the five-year smoothing policy adopted by the Board to mitigate big swings in the Department's required contribution. Consistent with the policy, the smoothing period still includes the impact of negative investment returns from 2008 and 2009, while most of the significant gains in 2010 and 2011 are being deferred to future years. He noted the increase was offset by minor actuarial gains including lower than anticipated salary increases and the change in the interest crediting rate from 8% to 7.75%.

Mr. Angelo also reported the funded ratio on an actuarial basis decreased from 81.5% in 2010 to 80.3%.

Mr. Nichols entered the meeting at 8:33 a.m.

Mr. Angelo spoke at length regarding the recognition of the deferred gains and losses resulting from the asset smoothing policy. He noted the total unrecognized return *(the difference between the market value and the market value after the deferral of gains and losses)* was approximately $121 million, but this loss would be reflected unevenly in the next few valuations, i.e. significant losses followed by significant gains. Barring any other significant actuarial gains or losses, this would result in big swings in the Department's required contributions. Consistent with actuarial best practices, Mr. Angelo reported Segal was recommending spreading the losses of $121 million into a single layer over the next four years (rather than five years) for a loss of approximately $30 million per year.

In response to points raised by Messrs. Nichols and Rozanski regarding the advisability of the Department paying a higher contribution now by smoothing the $121 million over four years rather than five years, especially in light of the current fiscal challenges, Mr. Angelo explained the four year smoothing would reduce the volatility for the Department's contribution by recognizing a set dollar amount rather than having a series of significant gains and losses if the standard smoothing process was followed. He added this is not a formal change in the Plan's smoothing policy because it does not change the underlying long-term policy; rather, it is more of an active management of that policy in reaction to the experience of significant losses followed by significant gains.

Ms. Higgins pointed out Staff's report provided an option for the Board to authorize Segal to study the impacts on the Department's required contribution of recognizing the $121 million loss evenly over four years. Ms. Bhatia also stated Staff could provide the Board with copies of last year's report prepared by Segal with respect to the smoothing policy as well as the discussion of the corridors.

Mr. Rozanski moved that the Board adopt the results of the actuarial study; seconded by Mr. Poole.

Ayes: Coffin, Ignacio, Nichols, Poole, and Rozanski
Nays: None
Absent: Romero

THE MOTION CARRIED.

Mr. Rozanski further moved that the Board recommend Segal move forward with a study to determine the impact to the Plan of smoothing the $121 million over four years; seconded by Mr. Nichols.
Ayes: Coffin, Ignacio, Nichols, Poole, and Rozanski
Nays: None
Absent: Romero

THE MOTION CARRIED.

The meeting recessed at 9:02 a.m. and reconvened at 9:11 a.m. with Mr. Romero in attendance.

Mr. Nichols asked to open the previous discussion of the additional study to better determine if it would be advantageous.

Mr. Angelo explained the only new quantitative information the additional study would provide would be the actual contribution rate pattern going forward assuming the market value earns 7.75%, and what the future expected contribution rate pattern would be if the $121 million was combined into a single layer over four years.

Mr. Nichols moved that the Board rescind the authorization for the additional study inasmuch as the Board has sufficient information and was provided with the necessary guidance to make a decision; seconded by Mr. Rozanski.

Ayes: Coffin, Ignacio, Nichols, Poole, Romero, and Rozanski
Nays: None

THE MOTION CARRIED.

Mr. Poole asked the continued discussion on the determination of the smoothing be placed on a future agenda.

2. Presentation by The Segal Company – Educational Session on Retirement Valuations and Assumptions

Paul Angelo of The Segal Company explained this item was an educational session on the effects of aligning the actuarial valuation assumptions and the assumptions used to calculate optional benefits and lump sum purchases.

He explained the interest rate and mortality assumptions currently established in the Plan are inconsistent with the assumptions in the actuarial valuation. He stated the interest rate in the valuations was reduced from 8% to 7.75% but was not changed for the optional benefit calculations. He also stated the mortality assumption used in the valuation is based on the 2000 table, while the mortality assumption in the Plan is still based on 1983 statistics.

Mr. Angelo explained having a different interest rate of 8% instead of 7.75% for the optional forms of payment results in a slightly larger benefit payment to the member, whereas the longer mortality table results in a slightly smaller benefit. He said they tend to offset each other but create a mismatch for the optional benefit payments when converting a contribution balance into an annuity when a member retires.

Mr. Angelo noted that the factors used to develop and calculate optional benefit payments are typically not included in most pension plans governing documents; however, those factors are included in the Water and Power Employees Retirement Plan. He stated The Segal Company's recommendation was to change the factors. Ms. Bhatia explained a Plan amendment is required to change the factors. She stated an amendment had already been adopted to align the payouts to retirees, and it would require another amendment to align not only the mortality tables but also the interest rate used to calculate annuities.

Mr. Romero mentioned a lengthy discussion regarding the mortality tables took place several years ago, and the Board took no action at that time because Labor representatives believed changing the mortality tables was a meet and confer item since it could affect the potential benefits to members. He stated that discussion has yet to take place. Because this item was not agendized for action at this meeting, Mr. Romero asked that it be brought back at the next meeting to provide direction to Staff on how to proceed.

3. Presentation by The Segal Company – Reciprocity Report

Ms. Higgins provided background on this item to review the impact of the Reciprocity Program on the Plan. She reported Staff held a series of meetings with the other parties in the City who would be affected by changing the program. The group's objective was to create a new reciprocity program that would not involve a loss to either plan in either direction. The group jointly developed a design plan with the help from The Segal Company, and representatives from Segal were in attendance to present their findings of the impact of two possible designs.

Before presenting the findings, Paul Angelo of The Segal Company acknowledged the invaluable assistance of Staff, and Mary Higgins in particular.

Mr. Angelo briefly reviewed the current process which results in a liability to DWP when an employee transfers over from the Los Angeles City Employees Retirement System (LACERS). This is because the employer's contributions remain with LACERS and only the member's contributions are transferred.

Mr. Angelo reported the study explored the CalPERS style program, which is generally used for public sector systems in California; and the "Money Follows the Member" style, which is somewhat similar to DWP's current practice. He explained how both programs work, and he described the impact of both programs on the employer contribution rate for DWP and LACERS when employees transfer into or out of either system. He noted the CalPERS style has the smallest impact because no assets change hands. He also noted the Money Follows the Member program has less of a cost impact than the current plan, but more impact than the CalPERS style.

The consensus of the Board was to change to the CalPERS style program.

Ms. Higgins noted the next steps would be for the Board President to send a letter to the General Manager and/or the President of the DWP Board of Commissioners recommending the Department pursue that change; and/or for the Board President to send a letter to the Mayor and/or the City Council recommending the City also pursue the change.

Because this item was not agendized for action at this meeting, Mr. Romero asked that it be brought back for action at the next meeting.

With no further business, the meeting adjourned at 10:26 a.m.

Javier Romero	1/11/12	Sangeeta Bhatia	1/11/12
Javier Romero Board President	Date	Sangeeta Bhatia Retirement Plan Manager	Date

Julie Escudero	1·11·12
Julie Escudero Utility Executive Secretary	Date