

## **RETIREMENT COMMITTEE MINUTES**

### **MEETING OF SEPTEMBER 14, 2010**

Chairman Warren called the meeting to order at 1:05 p.m. in the Council Chambers.

#### **ROLL CALL**

Chairman Edwin Warren: present  
Don Campbell: present  
Gary Langston: present  
Jeanette Hurt: absent

#### **OTHERS PRESENT**

Dale Flynn, Finance Director/Trustee  
Phyllis A. Kraft, City Clerk, Trustee  
Javier E. Villarreal, Recording Secretary  
Barthus J. Prien and Tiao-Tiao Hsu of  
Priem Associates, Inc.

Chairman Ed Warren opened the meeting at 1:05 p.m. with the first item on agenda to review Minutes of May 19, 2010 regular meeting.

Mr. Ed Warren asked about the motion to change the interest assumption from 7.75% to 7.50% for the actuarial valuation of the pension plan as of June 30, 2010.

Ms. Flynn replied that the City Manager said that for now is not good idea to change the interest assumption because of the current unfavorable State economy and the U.S. economy in general.

Mr. Ed Warren questioned whether the motion should be presented to City Council for its review

Ms. Phyllis A. Kraft stated that this meeting Minutes once approved at this time will be available to City Council for review.

Mr. Prien commented that a change in the future long term interest rates from 7.75% to 7.50% has been projected in the last actuarial valuation for consideration. The increase in City's contribution is approximately 2% of covered compensation. Mr. Warren added that most government plans are considering to shift the cost to be paid by employees.

After a brief discussion, a motion was made by Mr. Don Campbell and seconded by Mr. Gary Langston to approve the Minutes of May 19, 2010 regular meeting as presented. *Motion passed unanimously.*

Chairman Ed Warren opened the subject to review the financial transactions of the pension trust fund for the fiscal year from July 1, 2009 to June 30, 2010.

Mr. Prien referred to a report issued July 15, 2010 of financial transactions for the fiscal year ended June 30, 2010.

He reported the investment return for the fiscal year ended June 30, 2010 was 8.19% compared to Dow Jones Industrial Index of 15.71%, Nasdaq 14.94%, and S&P500 12.12% for the same period. Mr. Prien added that the pension trust fund had 17% of the portfolio in cash or cash equivalent which is much higher than the current investment policy of 5%. He observed that had 5% of the pension trust fund been in cash equivalent during the year, the net investment return of 8.19% would have been at least 11.5%.

Mr. Ed Warren pointed out that at the last meeting on May 19, 2010, a recommendation of \$800,000 was made to be invested by two of the managers, Wedgewood and Kayne Anderson, which reduced the cash portion of the trust. Mr. Prien also referred to a table in the report showing the cash percentage changed from 21.9% as of June 30, 2009 to 17.0%.

Ms. Hsu reported that there is another pending action to move 370,000 to be invested in two of the managers, Kayne Anderson and Anchor, which has just been approved by Trustees.

Mr. Prien reported that the historical return of the pension trust has been 4.42% over 14 years, with 5 out of 14 years showing negative returns. Investment fees of 1.02% of the average fund were more than 0.85% experienced in the year ended June 30, 2009.

He further reported that 21.5% of the trust fund is invested in bonds with Great West Life which provided a net investment return of 3.53%.

Mr. Ed Warren inquired about the total investment fee expenses of \$76,296 for Stifel Nicolaus and \$74,853 for Morgan Stanley Smith Barney, but the difference is small relative to the size of funds managed. Ms. Hsu answered this question later at the meeting that the above fees for Morgan Stanley Smith Barney reflected the combined total of two managers over different period of time during the year. Last December a number of the managed accounts had been changed from Morgan Stanley Smith Barney's office in Laguna Hills to the current advisory firm Stifel Nicolaus.

Discussions continued with Mr. Don Campbell, Mr. Gary Langston and also Mr. Ed Warren reporting some changes made in City of Bakersfield and Kern County in light of cost savings, mostly in the direction of shifting additional pension costs to the employees or proposing new tiered system where new employees are offered less pension benefits.

Mr. Don Campbell asked if the Social Security retirement age may be pushed back for younger work force. Mr. Prien answered that a few years from now, the current Social Security retirement age of 66 will increase soon to age 67 and perhaps to age 70 in future years.

Mr. Don Campbell made a comment about a lady saying that she was scared because she interpreted our plan as a supplemental to Social Security and that is not the case; our pension plan is completely independent from Social Security. He also mentioned that our plan is conservative in the way it is calculate. Mr. Prien said that even the plan is conservative; the total benefits of the plan are good.

At this time, a motion was made by Mr. Gary Langston and seconded by Mr. Don Campbell to accept the financial report as presented. *Motion passed unanimously.*

Next, Chairman Ed Warren discussed the investment policy. He said that the City has an investment policy that allows certain kind of investments and also prohibited other types of investments; about a year ago this issued had come out; he believes it was brought up by David Couch to the City Manager. There were some discussions about this matter. At the end Mr. Ed Warren said that regarding the investment policy, it will be in status quo pending further directions from the City Manager.

Next item on agenda was Committee membership. Chairman Ed Warren stated that the decisions were made in the last meeting, however, it has not been implemented and he referred to the City staff. He noted that there is a vacancy when the police joining CalPERS and he also mention that Ms. Jeanette Hurt has not attended meetings this year. He suggested that a CCF member should be appointed instead of Safety and because he or she will be representing a group, the residency is not an issue.

Mr. Don Campbell suggested that a City Council member should be on the Retirement Committee.

Mr. Ed Warren requested that Finance Director, Ms. Dale Flynn, provide a brief report on cost for public safety employees of the City to CalPERS, from inception to date; Mr. Prien said that City's audit report as of June 30, 2009 has a page referring to CalPERS. Ms. Dale Flynn then provided a copy of the audit report for review by Chairman Ed Warren.

Ms. Hsu reported the status of current actuarial valuation which should be ready for review at the next Committee meeting. Active census data for the fiscal year ended June 30, 2010 has not yet been provided by the City.

**ADJOURNMENT**

There being no further business, by motion passed the meeting was adjourned at 2.35 p.m.



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Javier E. Villarreal,  
Recording Secretary