

**A Review of the Governance Models of
Police & Fire Department Retirement Plan
&
Federated City Employees' Retirement System**

Presented by:
Cortex Applied Research Inc.
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Background and Purpose

- The City retirement systems have grown in size and importance and now significantly affect thousands of employees and every taxpayer.
- The retirement boards are required to deal with increasingly complex issues and need considerable expertise to effectively oversee the investment programs, benefit delivery, and administration.
- Determining the most appropriate governance model is critical to the success of the systems and is an important task of the City.
- The City retained Cortex to identify potential changes to the governance models that would best protect the interests of *all* stakeholders.

Scope of the Review

- The scope of the review was limited to the governance models of the City retirement systems including:
 - Composition of the retirement boards
 - Necessary authority of the boards and of the City
 - Necessary skills and experience of board members
- Primary consideration throughout the project:
 - Which governance model best supports effective & efficient delivery of promised benefits & prudent investment of fund assets?

Excluded from the Scope

The scope of the Review did not include:

- A review of benefit design or benefit levels.
- A review or assessment of any specific actions or decisions of the City, the retirement boards, or any board member; i.e. it was not an investigation of any type.

Our Findings

- We found that the governance of the City retirement systems could be improved for the benefit of all stakeholders if:
 - The level of relevant expertise on the boards could be enhanced; and
 - Conflicts of interest on the boards could be reduced.
- Above changes would support more effective investment & administrative decisions and greater focus on the best interests of beneficiaries; and ultimately serve the interests of all stakeholders including the members and taxpayers.

Current Board Structure All Members Appointed by City Council

2 members recommended by active
members

1 member recommended by retired
members

2 Council members recommended
by the Mayor

1 Civil Service Rep. recommended
by Civil Service Commission

~~~~~Plus~~~~~

1 Public member recommended by  
Federated Board (Federated only)

Or

1 City Administration member  
recommended by City Manager  
(P&F only)

## Recommended Structure for Each City Retirement Board

2 members selected by  
active members

1 member selected by  
retired members

4 members selected by  
City Council

# The Recommended Governance Model

Cortex recommendations keep much of current model:

- Maintains two existing & separate retirement boards
- The size of each board continues to be 7
- Active members continue to have input on the appointment of 2 members of each board
- Retired members continue to have input on the appointment of 1 member of each board

# Key Recommended Enhancements

1. Active and retired members to be able to elect individuals directly to the retirement boards without City Council approval
2. Active and retired members to have the option of electing individuals to the retirement boards who are not active or retired members
3. City to appoint 4 members (a majority) of each retirement board who would be required to be independent of the City and have relevant *expertise*
4. If above conditions are in place, the retirement boards should be granted broader authority to administer the retirement systems including the authority to hire their own staff.
5. Governing legislation should discourage investments that would specifically benefit the City.

# Examples of Individuals with Relevant Expertise

- Senior executives of insurance or banks with asset/liability management experience.
- Senior executives or professionals with audit, accounting, legal, actuarial, investment, or risk management backgrounds.
- Academics in fields of finance, actuarial science, law, or accounting.
- Senior executives in financial services or benefit delivery organizations with technology, operational, or custody backgrounds.

# Questions or Comments

For more information visit:

<http://dev.san Joseca.gov/RetirementBoardGovernance.asp>

Send your comments to:

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