

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

MEETING – May 16, 2007

Present:

Eugene Canzano	Chairperson
Mike Moore	Audit Committee Member

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Michael R. Wilkinson	Deputy City Attorney
Irene Colón Gonzalez	Recording Secretary

Chairman Canzano called the Audit Committee Meeting to order at 8:36 am.

Ms. Bhatia indicated a quorum of the Audit Committee was present.

1. Approval of Audit Committee Minutes of April 18, 2007

Mr. Moore moved adoption of the above item 1 on consent. Seconded by Chairperson Canzano and carried unanimously after the following vote:

Ayes: Canzano, Moore
Nays: None

There were no public comments.

2. Presentation of proposals for actuarial consultants

a) Buck Consultants

Mr. Kai Peterson, Mr. Paul Obedencio and Mark Dundee from Buck Consultants approached the Board table. Chairman Canzano recognized the representatives from Buck Consultants (Buck).

Mr. Peterson thanked the Committee for the opportunity to present. He stated Harold Loeb, the fourth member of their Los Angeles-based team, had a personal commitment and could not be present.

Mr. Peterson stated that Buck is an HR consulting firm, but at the core they are an actuarial consulting firm and have been in business over ninety years. He stated that they were founded in 1916 and their first client was the City of New York and noted they have been in the public sector business since inception with 2,700 client relationships

across the spectrum. Mr. Peterson reported in 2005 they joined ACS who are a global business process and information technology outsourcing solutions company, noting they have been in business twenty years and are already a Fortune 500 company. Mr. Moore requested an explanation on their outsourcing methods. Mr. Peterson responded ACS would take over the functional area of an organization, like HR outsourcing, and engage in all of those functions or they might lift out of a department an organization like finance and take the people and take over the operation. Mr. Moore stated that he noted that at one time they were part of Mellon Bank and asked Buck Consultants to explain. Mr. Dundee explained that Buck was independent for almost 90 years and Mellon was one of their largest clients. He continued that Buck made the decision that the best way for them to grow was to partner with someone and, after reviewing several bids, Mellon Bank was selected. Mr. Dundee continued that about two years ago, Mellon decided to diversify and spin off certain assets because they had just sold the Bank of New York and they sold them to ACS. He stated that Buck still ran as an independent entity.

Mr. Peterson proceeded to give an overview of their firm's approach and qualifications.

In response to Mr. Moore's questions regarding co-sourcing with pension plans, Mr. Peterson gave as an example, Buck would provide a system, but the organization would operate it.

Mr. Moore observed that the tools Mr. Peterson spoke about in their presentation looked like tools that would primarily benefit either the management of an organization or a union that was representing the employees of the company. He asked how these tools would be useful to the Board who are not management or union, but an entity that is responsible for overseeing the fund itself, adding this Board does not negotiate benefits for the employees. Mr. Peterson replied that he thought it could be useful from a standpoint of validating any proposals or designs that the Board wanted a greater understanding of.

Chairman Canzano inquired when they last did work for LACERA. Mr. Peterson replied it was in the late 90s.

Chairman Canzano asked if they ever attended any of the *International Foundation* conferences. Mr. Peterson stated he was unsure.

In summary, Mr. Peterson directed the Committee to page 25 of their presentation package and noted the page shows some of the qualities that make them stand out from the rest. He added that Buck Consultants has strength in the public sector, but they also have private sector strength. Mr. Peterson noted there were solutions that they learn in the private sector that they can also apply in the public sector. Mr. Peterson again pointed out that they have a suite of tools that can be used to solve problems and stated they strive for excellence in terms of their quality. He pointed out that it was not just about technical solutions, although they do have a very strong peer review process within their organization noting they have a group in New York that is dedicated to peer review and they combine that with their local peer review to ensure technical quality. Mr. Peterson stated it was also about communicating effectively and

understanding the broader business issues and solving them. He indicated that they feel they have not really done their job if they have not helped to solve a problem and helped their client understand it and communicated effectively. He added that this is part of their commitment to excellence to their clients. Mr. Peterson stated they value their long-standing relationships with clients and noted they have many long-standing clients in their firm. He concluded that they are located in Los Angeles and they have been here for a number of years and are committed to this city and the clients here.

Mr. Moore noted on page five of their presentation materials they gave a breakdown of the revenue Buck receives from various services and asked if this was just from Buck, not from ACS. Mr. Peterson replied this was from Buck and noted the greater part of that was from actuarial work as opposed to other administrative support. Mr. Moore asked what percentage of their retirement business are public entities versus private companies. Mr. Peterson responded that in terms of numbers of clients they have more private sector clients than public sector clients, but in terms of the revenue breakdown it was hard to determine because they have some very large public systems – twenty of the State systems who tend to generate more revenue than their middle market, private sector clients. He informed Mr. Moore that he could bring this information back to the Committee.

Mr. Moore indicated Mr. Peterson just recently joined the firm and asked where he was before he came to Buck. Mr. Peterson replied that he was the western region Retirement Practice Leader for The Segal Company.

Chairperson Canzano asked the number of their clients in which they are the actuary for both the plan and the plan's sponsor. Mr. Peterson responded he did not believe there were any.

Chairman Canzano stated EFI had submitted an RFP, but had voluntarily withdrawn and noted they are going to be doing a study for WPERP through their asset allocation study that is being done. He inquired if Buck had ever worked with EFI. Mr. Peterson stated he had never worked directly with them, but was familiar with their work.

Chairman Canzano stated that while looking through their appendix, he noted the dollar volume of the plans and the number of employees and stated WPERP has a very rich plan and if one looks at the ratio of dollars to employees, the Plan has \$7.2 billion with 17,000 members. Besides the fact that the Plan pays very good benefits, he asked if there was anything Mr. Peterson noted about why they would have such a large ratio in terms of the total assets to participants. Mr. Dundee replied that for a lot of their public retirement system plans, they cover not only the school systems but the patrols, the judges, and the Fire and Police so predominantly it is based with the school system employees who are generally lower paid than judges, patrolmen, etc. So on a participant basis, one might see a lower ratio even though there may be more participants because their benefits are largely less upon retirement. Mr. Peterson added that the Plan has the assets because they have been funding to a benefit level that is over 90% funded and if you are funding towards a richer benefit, you are going to have a higher ratio.

Mr. Moore stated that they had indicated earlier in their presentation that Buck has been very involved in the defined benefit versus defined contribution and asked them to speak to this. Mr. Peterson replied that he could think of two state systems where they have done studies to help them understand the issues of defined benefit versus defined contribution. He stated they looked at their current systems and looked at some alternatives and what the implications were from a funding standpoint and a cost standpoint, understanding the political dynamics and the social implications. Mr. Peterson added there are a lot of factors that come into play and noted another state has asked them to educate certain members of their legislature about the issues – not so much taking a position, but just helping them understand defined benefit versus defined contribution, and the things they need to take into account as they consider legislation. Mr. Canzano noted he found it interesting that Buck does educate because the cost savings that many of these states thought they were going to get by going to defined contributions has actually gone the other way – their costs have gone up because they are not funding their plan. Mr. Peterson replied that ultimately their job is to give objective advice and help the client understand, under a range of situations, what might be more or less expensive.

Ms. Bhatia stated currently there was an RFP out by the Department of Water and Power, who is the Plan sponsor. She continued that if Buck Consultants were to apply and be hired by the Department as well as by the Plan, there may be an issue regarding conflict of interest. Ms. Bhatia stated there was a requirement of disclosing any potential conflicts of interest. She stated that by looking at Buck's list of clients, it is possible that some of these may be employee organizations as opposed to a State, who would be the Plan Sponsor. Ms. Bhatia asked how Buck would handle any potential conflicts of interest. Mr. Dundee responded that before Buck accepts anyone as a client, they make sure there is no conflict of interest between the activities that they are providing for any other system. He stated this would be thoroughly checked out and they would have discussions with the us to see if there was something on our plate that would affect those relationships as well. Mr. Dundee stated if there was a potential conflict of interest, such as the Board of Commissioners wanting to use Buck and the Retirement Board wanting to use Buck, Buck would step up and state there was potential for conflict of interest. He stressed that they would work with the Retirement Board to make sure that we feel Buck is up front and there is nothing being hidden.

In response to Mr. Moore's question, Ms. Bhatia confirmed that the Department of Water and Power had an RFP out to find their own actuarial firm. Mr. Peterson stated that they had bid on that RFP. He stated because this RFP focused on Retiree medical services, it was not clear to them if they were two sides of the same type of project or if they were totally separate and unrelated. Mr. Canzano stated the Board was very concerned regarding any conflict of interest and they would want to avoid this. Mr. Dundee and Mr. Peterson agreed that they also want this and Mr. Peterson stated if that was the case, they would work within their own organization to come up with a solution. Mr. Wilkinson stated, with respect to the City Attorney's Office, there is no automatic structural disqualification in having the same actuary for both the Plan and the Plan Sponsor. He added that the issue the Committee is raising here are issues of

appearances and perceptions of being somehow “on both sides of the fence” which he feels is appropriate for the Committee to discuss. Ms. Bhatia clarified that this is regarding timely disclosure which could be managed. She asked Buck if their fees were negotiable. Mr. Peterson replied that, based on the information they had, Buck put together what they feel is their best estimate on the fees, but stated, “everything is negotiable” and added they always welcome those types of discussions. Ms. Bhatia advised Buck there was also an expectation on the insurance requirements, noting that there were some exceptions raised on their Request for Proposal. Mr. Peterson replied that they would do everything they can to work through that. Mr. Moore inquired, if in their exceptions, does there appear to be significant problems that might not be worked out. Mr. Dundee referenced page 2.7 of the Committee package and stated they referred this to their Risk Manager and they did say that Buck had all of the required coverages, but did take exception to one area in the Indemnity Clause that they did say was significant but felt it could be negotiated and indicated that they would go back to the Committee if there were any issues.

b) The Segal Company

Mr. Dave Bergersen, Actuarial Manager; Dirk Adamson, Actuarial Associate; and Andy Yeung, Associate Actuary from The Segal Company approached the Board table. Chairman Canzano recognized the representatives from The Segal Company.

Mr. Bergersen thanked the Committee and stated that Mr. Paul Angelo is not present due to a scheduling conflict. He noted that he wished the Committee to meet the rest of the “team.” Mr. Bergersen noted that as the Actuarial Manager, he oversees the production of over 200 annual valuations a year in their San Francisco Office as well as the public sector services that are delivered for the western region. He stated when WPERP first became a client he was the supervising actuary, but subsequently this has been taken over by Mr. Andy Yeung. Mr. Dirk Adamson stated he had recently joined The Segal Company but has seventeen years of prior experience in public sector valuations and he had previously worked with Mr. Bergerson, Mr. Yeung and Mr. Angelo. Mr. Yeung stated he has been working behind the scenes for the last three years since the 2003 valuation and added he was the second principal actuary assigned to WPERP’s account. He added he is also the supervising actuary and reviews the numbers presented by Mr. Angelo and stated he has worked with Mr. Bergerson, Mr. Adamson and Mr. Angelo for over twenty years. Mr. Yeung stated they had 3 other accounts in the City of Los Angeles, in addition to the Department of Water and Power. He stated that the function of an actuary was very unique to a plan such as WPERP as a defined benefit plan, not a defined contribution plan noting the difference is that in a defined contribution plan you already know how much contribution either the department or the employees will each have to put into the plan. Mr. Yeung noted that a plan such as WPERP must rely on their actuary to predict many years from now how much of a benefit its members will be drawing from the Plan and as the Plan’s actuary they want to make sure they can certify to the Board every year that the contribution rate requirements that they provide in the report will allow the fund to be funded on a sound, actuarial basis and want the assumptions and methods that they have in their reports to be fair and sound from both the perspective of the trustees of the Board, the

employees, as well as from the Department of Water and Power. He then asked Mr. Mr. Bergersen to talk about The Segal Company's commitment to the public sector.

Mr. Bergersen stated The Segal Company has been independently owned since its inception in 1939 and felt that this was critical in delivering services to clients. He added they work together with over one thousand employees and recognize the importance of working together to understand the public sector market. Mr. Bergersen informed the Board they have an annual meeting where all the actuaries get together and talk about issues that affect all the markets and have breakout sessions that deal specifically with the public sector. He stated that in California, they have a team of over twenty actuaries who deal specifically with California defined benefit plans and noted that Paul Angelo is a speaker at many of these public sector and actuarial forums in the State and throughout the country. He added an important component to being able to deliver quality service is the level of the quality review process. Mr. Bergersen and Mr. Yeung proceeded to give a more detailed look at The Segal Company's approach. Mr. Yeung stated, among others, they are the actuary for the Department of Water and Power, LACERS and the Fire and Police Pension Plan.

Mr. Bergersen informed the Board that while reviewing prior Board Meeting minutes, he noted that the issue of "conflict of interest" was raised regarding The Segal Company. He stated their company is based on the foundation that they can provide unbiased information and noted an issue came up with providing services to the Department of Water and Power participants but not the Retirement Plan. Mr. Bergersen passed out to the Board a letter that discussed the first time they were asked by the Department to do an assignment for them in 2001. He stated they were given the permission to do the work by the Plan Manager at the time who first wanted to get authorization from the Board. Mr. Bergersen also passed out a copy of the minutes from January 16, 2002, which speaks to that authorization. He stated it was clear that the Board gave them permission and felt it was important for them to keep a clear and ongoing communication to make sure before they take on any assignments that may be perceived as a conflict, they get the approval of the Board and he wanted to address this today.

Mr. Moore asked, should the Board say that any firm that is hired under the present RFP process work for this Board only, not the Sponsor or anyone else that has an interest in this Board's activities, would The Segal Company be willing to accept a contract on that basis. Mr. Bergersen stated they do not have the authorization to answer that question adding that this was a company-wide issue that would have to involve other members. He stated that, fundamental to their company, the advice they give is unbiased. Mr. Moore commented that by asking the Board to "bless" the activities that they are about to engage in, they felt that the Board had the "call" on that. Mr. Bergersen replied that though it was a good idea to do the work, it was more cost efficient for the groups that are dealing with it since they have the data, but he noted their position then and their position now is that this is not something that they would do without authorization. He stated the reason he wanted to explore other options is that it is fundamental to the core of what they do, they do it for other systems, and it would be hard for them to say across the board that they wouldn't do this work for other systems.

Mr. Moore replied the reason for the sensitivity on this issue is, similar to accountants in the same situation, there was evidence of accountants accepting other business and they seemingly let that sway their accounting judgments to the detriment of those that they were advising. Mr. Bergensen responded that DWP is their client and they would go to the Board for approval of any work the Board feels would jeopardize their relationship.

Mr. Moore noted that Segal engages in both actuarial work and broader human resources consulting. He then inquired what percentage of Segal's business is actuarial versus other consulting. Mr. Yeung stated that a large portion is actuarial, and as far as the Retirement and Health portion, he would have to research this and get back to the Board. Mr. Moore inquired what percentage of Segal's actuarial business is public plans versus private plans. Mr. Yeung responded that the firm has a client base of 400 clients, and 85 of them are public clients, therefore one quarter of the business would be in public sector.

Ms. Bhatia reported that DWP currently has an RFP out. She inquired what steps would Segal take to ensure the Retirement Board was informed of any potential or perceived conflicts of interest. Mr. Bergensen responded that Segal would work with the Board to try and find a system that would work. He stated the largest portion of the ongoing work in the contract is the Retiree Health valuation that Segal has been involved with for a number of years. He expressed he could not speculate on whether or not that is perceived as part of the conflict of interest. Mr. Bergensen suggested doing it on an item by item basis and specifically request permission from the Board. He explained that in almost all of their 75 cases the request usually comes from an individual and that individual represents labor or management and then Segal goes to the Board for approval.

Ms. Bhatia inquired if the fees quoted were negotiable. Mr. Bergensen responded that the fees quoted are fixed and the firm feels they are very competitive.

Ms. Bhatia noted that on Segal's response there are certain exceptions concerning insurance provisions. However, compliance is expected with the Department's insurance requirements. Mr. Bergensen stated that Segal has a current contract with the Department and he was unsure if there were any changes to the insurance requirements. Ms. Bhatia clarified that no changes had been proposed; however, Segal raised exceptions to the insurance requirements in their response to the RFP. Mr. Bergensen responded that he was not authorized to deal with the terms of the contract and he was unaware of any changes.

Mr. Canzano inquired as to the number of Segal clients in which they are the actuary for the Plan sponsor and for the Plan itself. Mr. Yeung reported that they have a total of 12 California based clients, and there are 4 in which the firm has a contract with the employer as well as the retirement Board.

The Audit Committee decided to forward all information regarding Buck Consultants and The Segal Company without a recommendation to the full Retirement Board for

discussion. The Committee will also recommend dealing with the conflict of interest perception issue either in the contract or by establishing a board policy to that affect. Mr. Blunk suggested working on a proposed contract revision regarding conflicts of interest with the City Attorney's Office.

The Audit Committee adjourned at 10:05 am.

_____ EUGENE CANZANO Chairperson	_____ Date	_____ SANGEETA BHATIA Secretary	_____ Date
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_____ IRENE COLÓN-GONZALEZ Recording Secretary	_____ Date
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