



# Memorandum

**TO:** CITY COUNCIL

**FROM:** Mayor Chuck Reed  
Councilmember Pete Constant  
Councilmember Ash Kalra  
Councilmember Sam Liccardo  
Councilmember Rose Herrera

**SUBJECT: FIDUCIARY GOVERNANCE  
MODELS OF THE CITY'S  
RETIREMENT PLANS**

**DATE:** June 18, 2009

Approved *Ash Kalra* AD *Sam Liccardo* Date *6-19-09*  
*Rose Herrera* *Pete Constant*  
*Chuck Reed*

## RECOMMENDATION

That the City Council receive the Cortex report on governance models and return in 90 days with final recommendations after conducting additional outreach.

## BACKGROUND

The drastic drop in pension values of over \$1 billion have resulted in early projections that the City of San José will need to dramatically increase pension contributions. Pension contributions represent a sizable portion of the City's budget and are projected to grow considerably in the five-year forecast. The City's pension plans are established by the City Charter. The City makes payments to the two pension funds, and those payments are adjusted based on the performance of each pension fund to ensure that we are able to meet our obligations to our employees and retirees. It is in the best interests of the City, taxpayers, employees and retirees that our retirement system be structured so that the retirement system is well managed utilizing best practice standards.

The City retained Cortex Applied Research to review the fiduciary governance models of the City's two retirement plans: the Federated Employees Retirement system, and the Police and Fire Department Retirement Plans. Cortex has identified significant problems in the governance models that need to be addressed such as the need for expertise on the retirement boards to oversee the retirement system and governance models ensure the retirement board members will be free of significant conflicts of interest. These problems can undermine the long-term health and success of the retirement systems. Given the importance of the two retirement systems to employees, retirees, taxpayers, and the impact the retirement systems will have on our financial forecast, we should continue to move forward on an improved governance model for the retirement system as soon as possible.

CITY COUNCIL

06-23-09

**Subject: Fiduciary Governance Models of the City's Retirement Plans**

Page 2

Active employees who are future beneficiaries of the plan, current retirees and members of the two boards were interviewed in preparation of the report. However, there are multiple stakeholders in our public retirement plans beyond these groups; there are also taxpayers that have not had an opportunity to provide input into the Cortex recommendations. The next 90 days should be used as an opportunity to review the Cortex recommendations, and conduct additional outreach and educational sessions with stakeholders including taxpayers, active employees, organized labor, retirees, and business leaders. Additional comments should be forwarded to the City Council and factored into the final recommendations.