

Pursuant to California Government Code section 54953(e), the Oakland Police & Fire Retirement System Board and Committee Members, as well as City staff, will participate via phone/video conference, and no physical teleconference locations are required.

Please see the agenda to participate in the meeting. For additional information, contact the Retirement Unit by calling (510) 238-7295.



**Retirement Unit**  
**150 Frank H. Ogawa Plaza**  
**Oakland, CA 94612**  
**AGENDA**

**AUDIT COMMITTEE MEMBERS**

**John C. Speakman**  
Chairperson

**R. Steve Wilkinson**  
Member

**Kevin Traylor**  
Member

*\*In the event a quorum of the Board participates in the Committee meeting, the meeting is noticed as a Special Meeting of the Board; however, no final Board action can be taken. In the event that the Audit Committee does not reach quorum, this meeting is noticed as an informational meeting between staff and the Chair of the Audit Committee.*

**REGULAR MEETING of the AUDIT / OPERATIONS COMMITTEE  
of the OAKLAND POLICE AND FIRE RETIREMENT SYSTEM ("PFRS")**

**WEDNESDAY, FEBRUARY 23, 2022**

**9:30 AM**

**TELE-CONFERENCE BOARD MEETING  
VIA ZOOM WEBINAR**

**OBSERVE**

- To observe the meeting by video conference, please click on this link: <https://us02web.zoom.us/j/82880493983> at the noticed meeting time.
- To listen to the meeting by phone, please call the numbers below at the noticed meeting time: Dial (for higher quality, dial a number based on your current location):
- iPhone one-tap: US: +16699006833, 82880493983# or +13462487799, 82880493983#
- US: +1 669 900 6833 or +1 346 248 7799 or +1 253 215 8782 or +1 301 715 8592 or +1 312 626 6799 or +1 929 205 6099
- International numbers available: <https://us02web.zoom.us/j/82880493983>
- Webinar ID: 828 8049 3983.  
If asked for a participant ID or code, press #.

**PUBLIC COMMENTS**

There are three ways to submit public comments.

- eComment. To send your comment directly to staff BEFORE the meeting starts, please email to [mvisaya@oaklandca.gov](mailto:mvisaya@oaklandca.gov) with "PFRS Board Meeting" in the subject line for the corresponding meeting. Please note that eComment submission **closes two (2) hours before posted meeting time.**

**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM  
REGULAR AUDIT COMMITTEE MEETING  
FEBRUARY 23, 2022**

- To comment by Zoom video conference, click the “Raise Your Hand” button to request to speak when Public Comment is being taken on an eligible agenda item at the beginning of the meeting. You will be permitted to speak during your turn, allowed to comment, and after the allotted time, re-muted. Instructions on how to “Raise Your Hand” is available at: [https://support.zoom.us/hc/en-us/articles/205566129 - Raise-Hand-In-Webinar](https://support.zoom.us/hc/en-us/articles/205566129-Raise-Hand-In-Webinar).
- To comment by phone, please call on one of the above listed phone numbers. You will be prompted to “Raise Your Hand” by pressing “\*9” to speak when Public Comment is taken. You will be permitted to speak during your turn, allowed to comment, and after the allotted time, re-muted. Please unmute yourself by pressing “\*6.”

If you have any questions, please email Maxine Visaya, Administrative Assistant II at [mvisaya@oaklandca.gov](mailto:mvisaya@oaklandca.gov)

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## ORDER OF BUSINESS

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- 1. Subject: Oakland Police and Fire Retirement System (“PFRS”) Audit Committee Meeting Minutes**  
**From: Staff of the PFRS Board**

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**Recommendation: APPROVE** the January 26, 2022 Audit Committee Meeting Minutes
- 2. Subject: Administrative Expenses Report**  
**From: Staff of the PFRS Board**

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**Recommendation: ACCEPT** informational report regarding PFRS administrative expenses as of December 31, 2021
- 3. Subject: PFRS Annual Report for Year Ended June 30, 2021**  
**From: Staff of the PFRS Board**

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**Recommendation: RECOMMEND BOARD APPROVAL** of printing and publication of the Annual Report of the Oakland Police & Fire Retirement System Year Ended June 30, 2021
- 4. REVIEW OF PENDING AUDIT COMMITTEE MEETING AGENDA ITEMS**
- 5. OPEN FORUM**
- 6. FUTURE SCHEDULING**
- 7. ADJOURNMENT**

**AN AUDIT/OPERATIONS COMMITTEE REGULAR MEETING** of the Oakland Police and Fire Retirement System (“PFRS”) was held on Wednesday, January 26, 2022 via Zoom Webinar.

- |                      |                       |   |
|----------------------|-----------------------|---|
| Committee Members    | ▪ John C. Speakman    | Chairperson                                   |
|                      | ▪ Kevin R. Traylor    | Member  |
|                      | ▪ R. Steven Wilkinson | Member  |
| Additional Attendees | ▪ David Jones         | PFRS Secretary & Plan Administrator (Excused) |
|                      | ▪ Téir Jenkins        | PFRS Staff Member                             |
|                      | ▪ Maxine Visaya       | PFRS Staff Member                             |
|                      | ▪ Jennifer Logue      | PFRS Legal Counsel                            |
|                      | ▪ Annie Louie         | Macias Gini & O’Connell LLP                   |

The meeting was called to order at 9:32 a.m. PST

1. **PFRS Audit Committee Meeting Minutes** – Chairperson Speakman made a motion to approve the November 17, 2021 Audit Committee minutes, second by Member Traylor. Motion passed.

[SPEAKMAN – Y / TRAYLOR – Y / WILKINSON – Y]  
(AYES: 3 / NOES: 0 / ABSTAIN: 0)

2. **Report of the Audit of PFRS Financial Statements for the Year Ending June 30, 2021** – Annie Louie from Macias, Gini, & O’Connell, LLP presented an informational report of the Audit of PFRS Financial Statements for the Year Ending June 30, 2021. Annie Louie noted it was a successful audit, again conducted entirely remotely. MGO has issued an unmodified opinion on the financial statements, which is the highest-level assurance that can be received, and did not identify any material weaknesses over internal controls. No deficiencies in the financial statements or reporting practices were found and there are no matters to report at this time. Staff Member Jenkins acknowledged the contribution of the Retirement Unit’s accounting team as the complexity of this project increases and thanked them for their hard work.

**MOTION:** Member Wilkinson made a motion to accept the informational report regarding the Audit of PFRS Financial Statements for the Year-Ended June 30, 2021 and forward to the Board, second by Member Traylor. Motion passed.

[SPEAKMAN – Y / TRAYLOR – Y / WILKINSON – Y]  
(AYES: 3 / NOES: 0 / ABSTAIN: 0)

3. **Administrative Expenses Report** – Staff Member Jenkins presented an informational report on PFRS’s administrative expenditures as of November 30, 2021. PFRS has an approved annual budget of approximately \$3.5 million and have expensed just over \$957,000 fiscal year-to-date. Membership consisted of 714 retired members, which included 436 Police Members and 278 Fire Members.

**MOTION:** Chairperson Speakman made a motion to accept the administrative expenses report as of November 30, 2021 and forward to the Board for approval, second by Member Traylor. Motion passed.

[SPEAKMAN – Y / TRAYLOR – Y / WILKINSON – Y]  
(AYES: 3 / NOES: 0 / ABSTAIN: 0)

4. **Resolution No. 8036** – Resolution approving request of Oakland Police and Fire Retirement System Trustee R. Steven Wilkinson to attend the 2022 CALAPRS General Assembly from March 5, 2022 through March 8, 2022 in San Diego, California and for reimbursement of registration fees and travel-related expenses in an amount not to exceed One Thousand Seven Hundred Dollars (\$1,700.00).

**MOTION:** Chairperson Speakman made a motion to recommend Board approval of Resolution No. 8036, second by Member Traylor. Motion passed.

[SPEAKMAN – Y / TRAYLOR – Y / WILKINSON – ABSTAIN]  
(AYES: 2 / NOES: 0 / ABSTAIN: 1)

5. **Review of Pending Audit Committee Meeting Agenda Items** – PFRS Staff Member Jenkins reported on the two (2) pending items on the Audit Committee Agenda. Item 1) the 2006 Management Audit remains ongoing due to COVID-19 restrictions in place; as we anticipate a return to the office we will turn our attention to this project now that we have concluded work on the current audit and annual report. Item 2) Monitoring & Updates regarding upcoming City Council Agendas with scheduled discussions of the 2026 Actuarial Funding Date is ongoing and PFRS Legal Counsel Logue had no updates to report.

6. **Open Forum** – No Report

7. **Future Scheduling** – The next regular Audit Committee meeting is tentatively scheduled to occur February 23,2022.

8. **Adjournment** – Chairperson Speakman made a motion to adjourn, second by Member Wilkinson. Motion passed.

[SPEAKMAN – Y / WILKINSON – Y / TRAYLOR – Y]  
(AYES: 3 / NOES: 0 / ABSTAIN: 0)

The meeting adjourned at 9:43 a.m. PST

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JOHN C. SPEAKMAN  
COMMITTEE CHAIRPERSON

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DATE

**Table 1**

**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**

**Administrative Budget Spent to Date (Preliminary)**

As of December 31, 2021

	Approved Budget					Percent Remaining
		December 2021	FYTD	Remaining		
<b>Internal Administrative Costs</b>						
PFRS Staff Salaries	\$ 1,212,000	\$ 86,996	\$ 533,191	\$ 678,809	56.0%	
Board Travel Expenditures	52,500	-	-	52,500	100.0%	
Staff Training	20,000	-	-	20,000	100.0%	
Staff Training - Tuition Reimbursement	7,500	-	-	7,500	100.0%	
Board Hospitality	3,600	-	-	3,600	100.0%	
Payroll Processing Fees	40,000	-	-	40,000	100.0%	
Miscellaneous Expenditures	40,000	655	4,575	35,425	88.6%	
Internal Service Fees (ISF)	88,000	-	49,501	38,499	43.7%	
Contract Services Contingency	50,000	-	-	50,000	100.0%	
<b>Internal Administrative Costs Subtotal :</b>	<b>\$ 1,513,600</b>	<b>\$ 87,650</b>	<b>\$ 587,267</b>	<b>\$ 926,333</b>	<b>61.2%</b>	
<b>Actuary and Accounting Services</b>						
Audit	\$ 49,000	\$ 14,004	\$ 42,504	\$ 6,496	13.3%	
Actuary	46,500	-	-	46,500	100.0%	
<b>Actuary and Accounting Subtotal:</b>	<b>\$ 95,500</b>	<b>\$ 14,004</b>	<b>\$ 42,504</b>	<b>\$ 52,996</b>	<b>55.5%</b>	
<b>Legal Services</b>						
City Attorney Salaries	\$ 188,000	\$ 15,080	\$ 59,004	\$ 128,996	68.6%	
Legal Contingency	150,000	-	-	150,000	100.0%	
<b>Legal Services Subtotal:</b>	<b>\$ 338,000</b>	<b>\$ 15,080</b>	<b>\$ 59,004</b>	<b>\$ 278,996</b>	<b>82.5%</b>	
<b>Investment Services</b>						
Money Manager Fees	\$ 1,353,000	\$ -	\$ 330,913	\$ 1,022,087	75.5%	
Custodial Fee	124,000	-	29,125	94,875	76.5%	
Investment Consultant	100,000	25,000	50,000	50,000	50.0%	
<b>Investment Subtotal:</b>	<b>\$ 1,577,000</b>	<b>\$ 25,000</b>	<b>\$ 410,038</b>	<b>\$ 1,166,962</b>	<b>74.0%</b>	
<b>Total Operating Budget</b>	<b>\$ 3,524,100</b>	<b>\$ 141,735</b>	<b>\$ 1,098,812</b>	<b>\$ 2,425,288</b>	<b>68.82%</b>	

Table 2

OAKLAND POLICE AND FIRE RETIREMENT SYSTEM

Cash in Treasury (Fund 7100) - Preliminary

As of December 31, 2021

	December 2021
<b>Beginning Cash as of 11/30/2021</b>	\$ 6,478,735
<b>Additions:</b>	
City Pension Contribution - December	\$ 3,651,667
Investment Draw	\$ 1,000,000
Misc. Receipts	5,076
<b>Total Additions:</b>	\$ 4,656,743
<b>Deductions:</b>	
Pension Payment (November Pension Paid on 12/1/2021)	(4,327,395)
Expenditures Paid	(181,569)
<b>Total Deductions</b>	\$ (4,508,964)
 <b>Ending Cash Balance as of 12/31/2021*</b>	 \$ 6,626,514

\* On 1/3/2022, December pension payment of appx \$4,299,800 will be made leaving a cash balance of \$2,327,000.

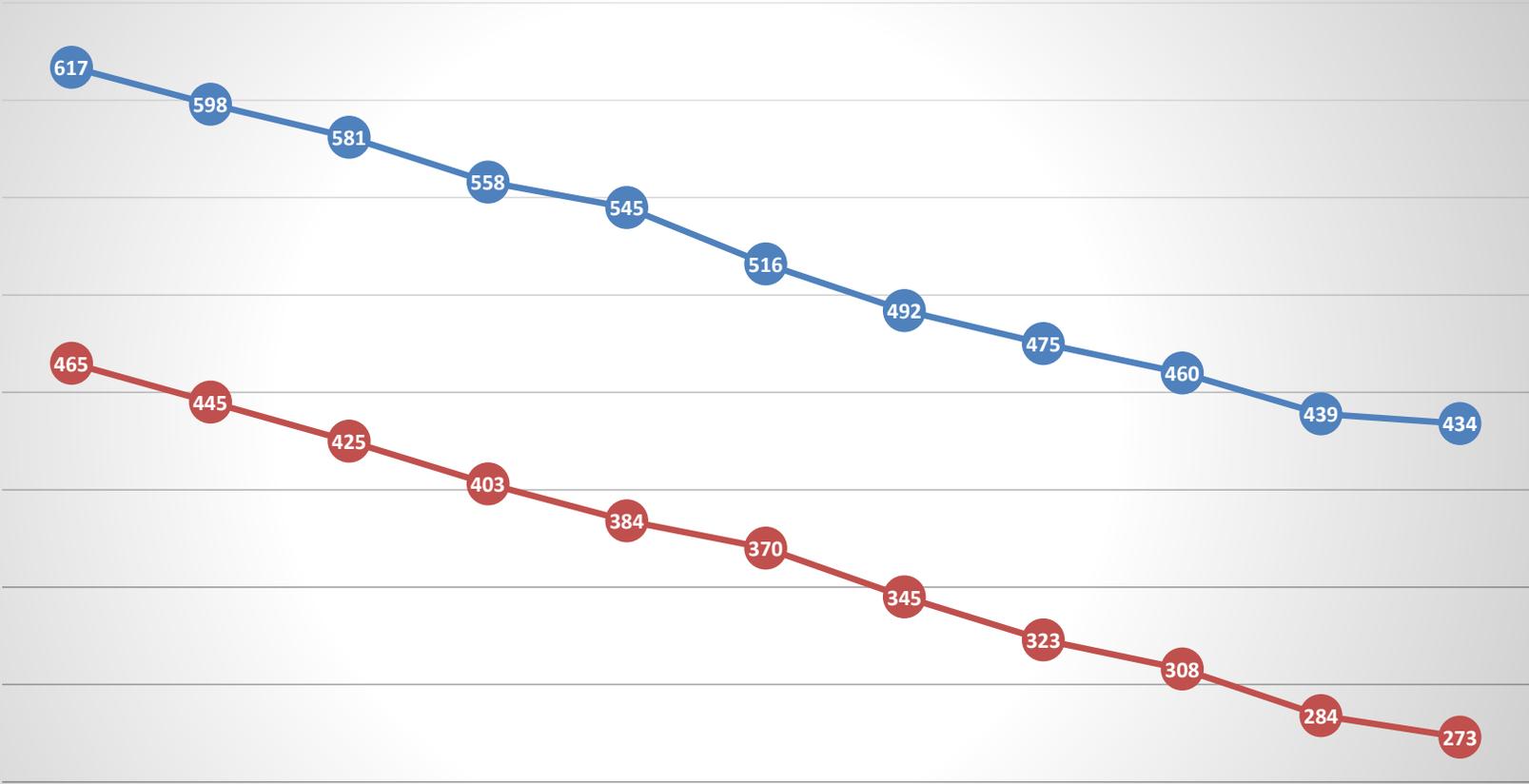
**Table 3**  
**CITY OF OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**

Census  
As of December 31, 2021

COMPOSITION	POLICE	FIRE	TOTAL
<b>Retired Member:</b>			
Retiree	306	176	482
Beneficiary	128	97	225
<b><i>Total Retired Members</i></b>	<b>434</b>	<b>273</b>	<b>707</b>
<b><i>Total Membership:</i></b>	<b>434</b>	<b>273</b>	<b>707</b>

COMPOSITION	POLICE	FIRE	TOTAL
<b>Retired Member:</b>			
Service Retirement	290	137	427
Disability Retirement	133	124	257
Death Allowance	11	12	23
<b><i>Total Retired Members:</i></b>	<b>434</b>	<b>273</b>	<b>707</b>
<b><i>Total Membership as of December 31, 2021:</i></b>	<b>434</b>	<b>273</b>	<b>707</b>
<b><i>Total Membership as of June 30, 2021:</i></b>	<b>439</b>	<b>284</b>	<b>723</b>
<b><i>Annual Difference:</i></b>	<b>-5</b>	<b>-11</b>	<b>-16</b>

# Oakland Police and Fire Retirement System Pension Plan Membership Count As of December 31, 2021 (FY 2012 - FY 2022)

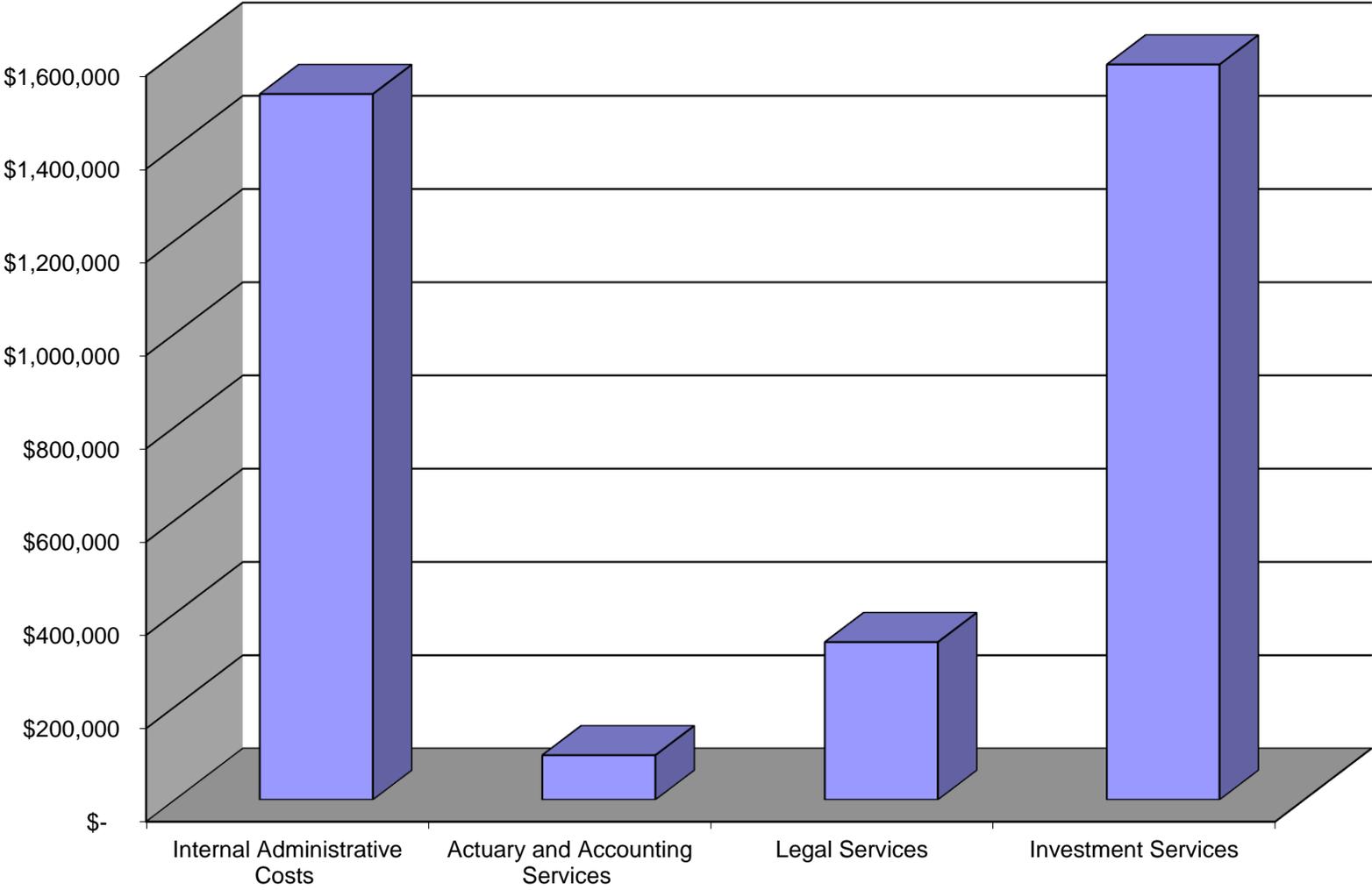


	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 FYTD
Police	617	598	581	558	545	516	492	475	460	439	434
Fire	465	445	425	403	384	370	345	323	308	284	273
Total	1082	1043	1006	961	929	886	837	798	768	723	707

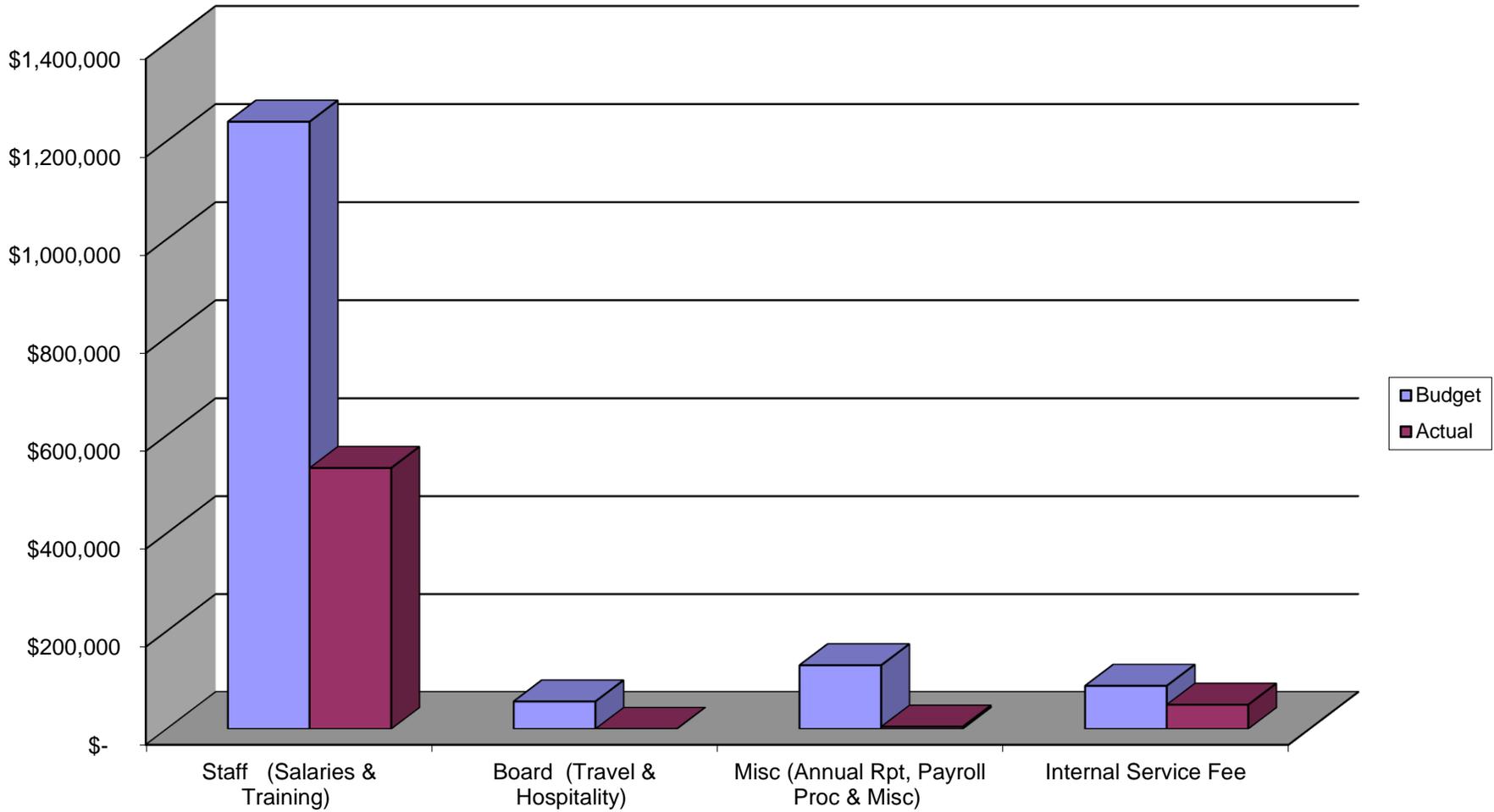
OAKLAND POLICE AND FIRE RETIREMENT SYSTEM

Approved Budget

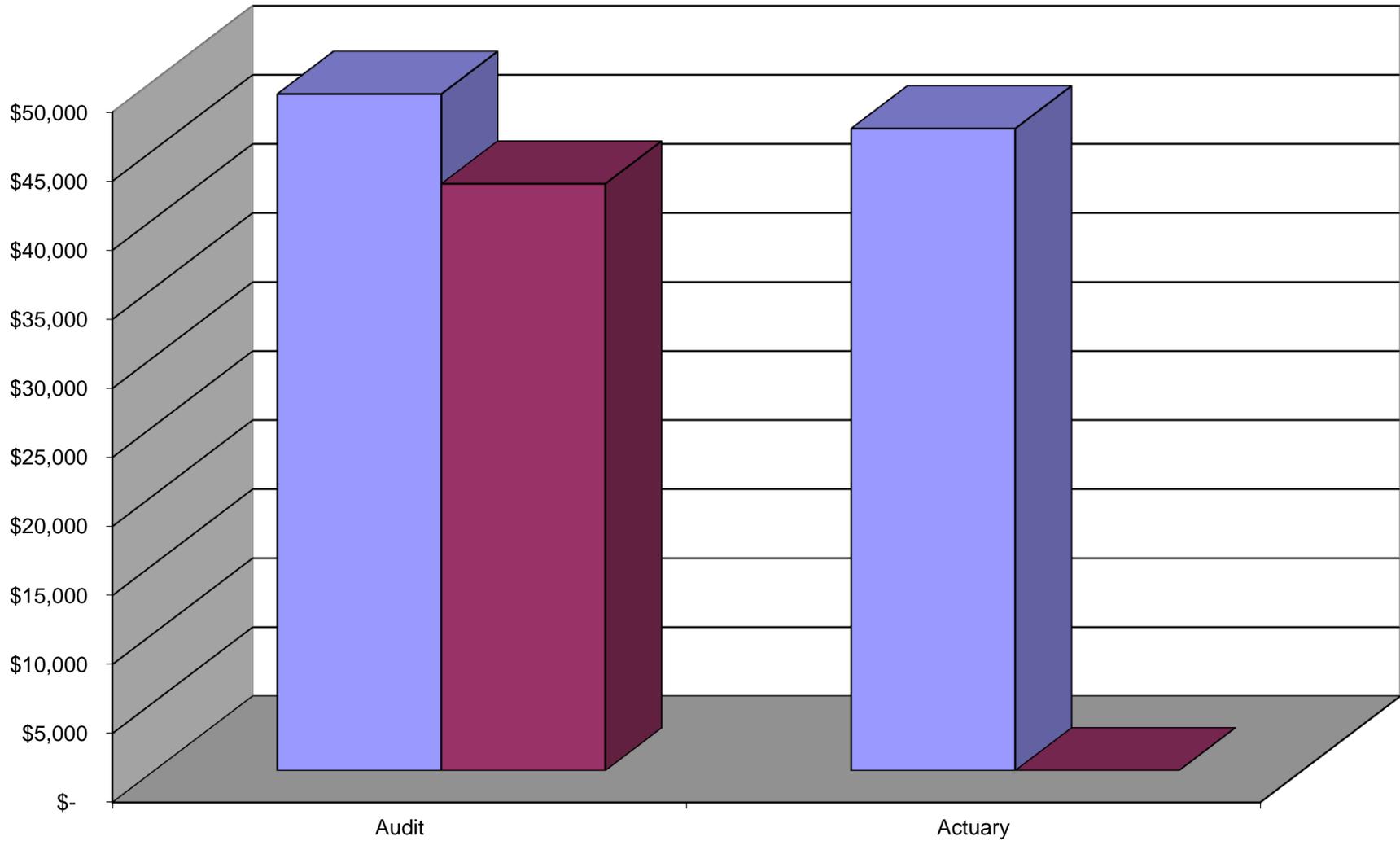
FY 2021-2022



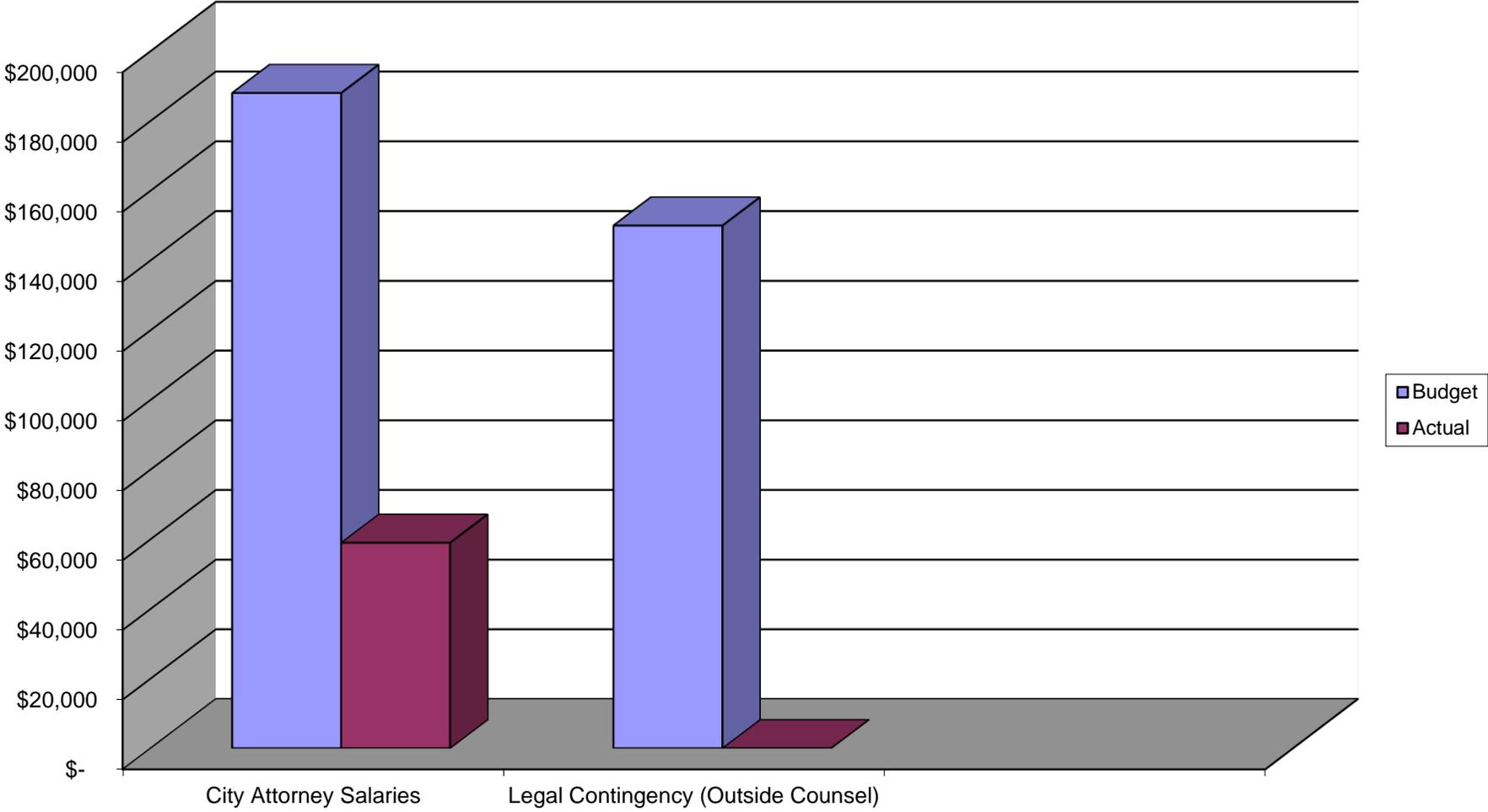
**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**  
**Budget vs Actual as of December 31, 2021**  
**Internal Administrative Costs**



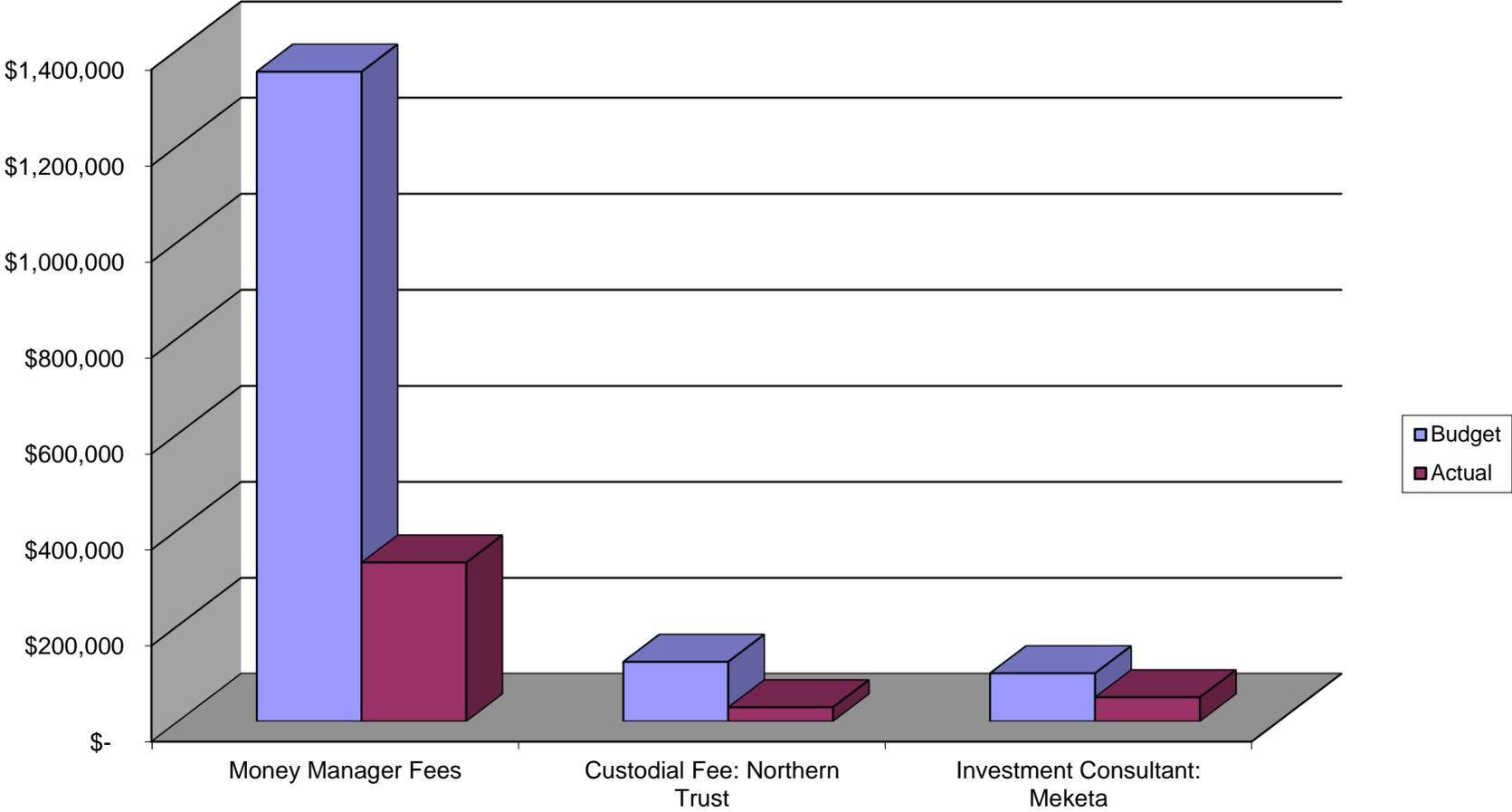
OAKLAND POLICE AND FIRE RETIREMENT SYSTEM  
Budget vs. Actual as of December 31, 2021  
Actuary and Accounting Services



OAKLAND POLICE AND FIRE RETIREMENT SYSTEM  
Budget vs. Actual as of December 31, 2021  
Legal Services



**OAKLAND POLICE AND FIRE RETIREMENT SYSTEM**  
**Budget vs. Actual as of December 31, 2021**  
**Investment Services**





# AGENDA REPORT

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**TO:** Oakland Police and Fire Retirement System Board (PFRS)      **FROM:** David F. Jones  
Plan Administrator & Secretary

**SUBJECT:** Approve Printing & Distribution of PFRS Annual Report for the Fiscal Year Ended June 30, 2021      **DATE:** February 23, 2022

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## RECOMMENDATION

The PFRS Annual Report for the Fiscal Year ended June 30, 2021 has been completed and is submitted here for the Board approval for Printing and Distribution.

Respectfully submitted,

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David F. Jones  
Plan Administrator & Secretary  
Oakland Police & Fire Retirement Systems

CITY OF OAKLAND

# POLICE & FIRE RETIREMENT SYSTEM



Photo: Greg Linhares, City of Oakland

**ANNUAL REPORT**  
Fiscal Year Ended June 30, 2021



City of Oakland



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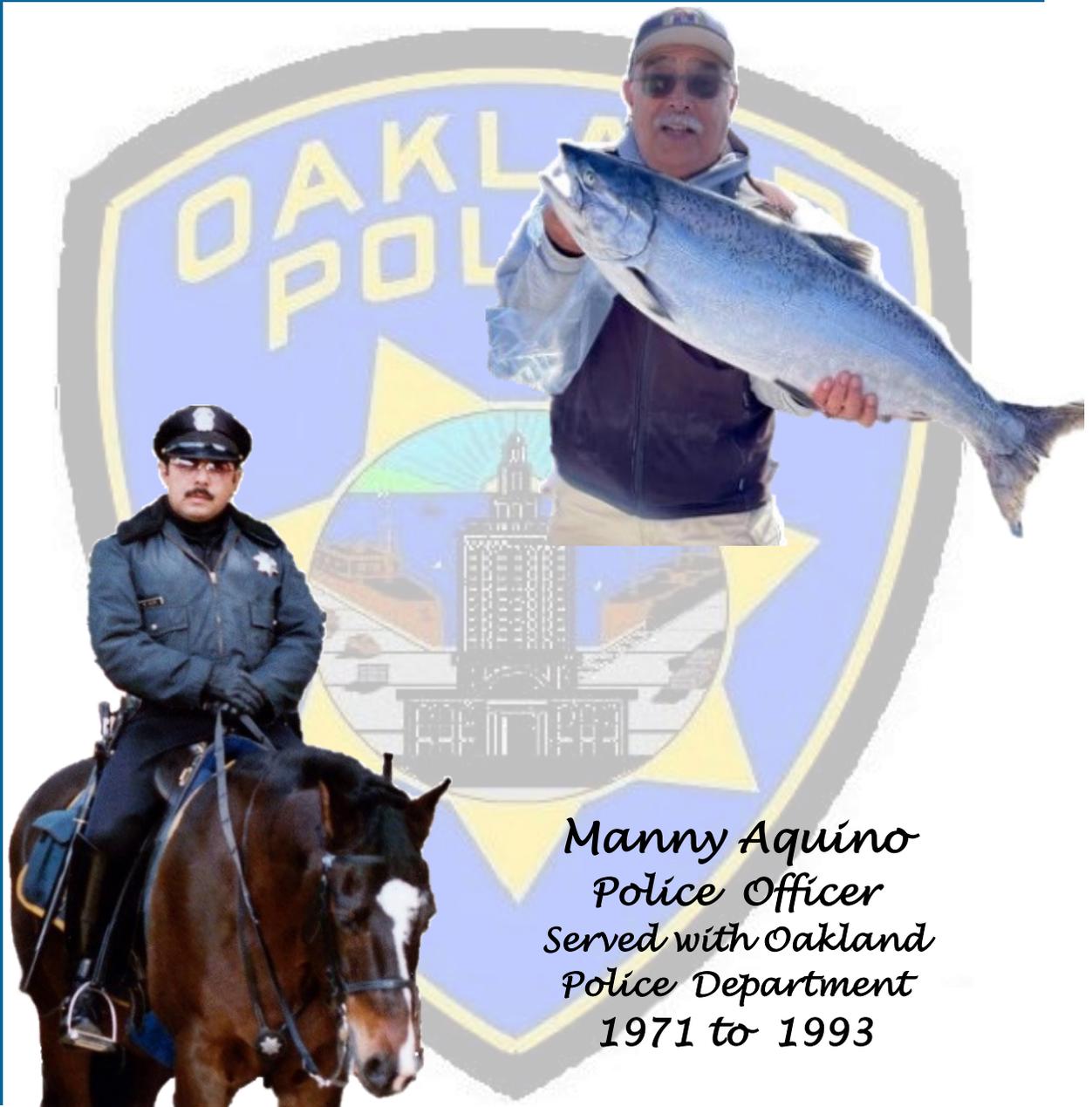
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### **Production Credits**

-Layout: Maxine Visaya, Retirement Systems, City of Oakland  
-Print Production: City of Oakland Copy Services

# SECTION 1

# INTRODUCTION



*Manny Aquino  
Police Officer  
Served with Oakland  
Police Department  
1971 to 1993*

# LETTERS OF TRANSMITTAL

CITY OF OAKLAND



150 FRANK H. OGAWA PLAZA, SUITE 3349 · OAKLAND, CALIFORNIA 94612-2021

Finance Department  
Treasury Bureau  
Retirement Unit

(510) 238-3307  
FAX (510) 238-7129  
CA RELAY 711

February 23, 2022

Oakland City Council  
1 Frank H. Ogawa Plaza  
Oakland, CA 94612

Honorable Mayor Schaaf and Members of the City Council:

I am pleased to present the annual report of the Oakland Police and Fire Retirement System for the fiscal year ended June 30, 2021. Provided in this report are the Plan's Financial Information, Investment Performance, and Actuarial Valuation and Statistical Information for the corresponding year.

The members of the Board express their appreciation to the Mayor and City Council, City Administrator, City Attorney, the various City Agencies and Departments and the members of their staff for their cooperation and assistance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Walter L. Johnson, Sr." with a stylized flourish at the end.

Walter L. Johnson, Sr., President  
Oakland Police and Fire Retirement System

# LETTERS OF TRANSMITTAL

CITY OF OAKLAND



150 FRANK H. OGAWA PLAZA, SUITE 3349 · OAKLAND, CALIFORNIA 94612-2021

Finance Department  
Treasury Bureau  
Retirement Unit

(510) 238-3307  
FAX (510) 238-7129  
CA RELAY 711

February 23, 2022

Oakland Police and Fire Retirement Board  
150 Frank H. Ogawa Plaza, Suite 3349  
Oakland CA 94612

Board of Trustees:

I am pleased to present the Annual Report of the Oakland Police and Fire Retirement System for the fiscal year ended June 30, 2021.

## ACCOUNTING SYSTEM

The accompanying financial statements have been prepared in compliance with the City Charter and in accordance with the accounting and reporting requirements of the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA).

The method for recording additions and deductions is on an accrual basis. Additions are taken into account when earned, regardless of the date of the collection, and deductions are recorded when the corresponding liabilities are incurred instead of when payment is made. Amortization of bond premiums and discounts are over the life of the investment security and actuarial reserves are funded via the entry age normal cost method.

## ADDITIONS

Additions to the plan include all income received into the Plan for the fiscal year. Pension Plan's sources of income include items such as contributions and investment income. Total additions for the fiscal year ended June 30, 2021 were \$133,840,217.

# LETTERS OF TRANSMITTAL

This amount includes a net investment income of \$90,191,309. Net investment income includes appreciation or depreciation in fair value of investments, interest income and dividend income less investment expenses during the fiscal year. In addition, the City contributed \$43,648,000 during the fiscal year. As of June 30, 2021, all the System's members are retired.

## DEDUCTIONS

Total deductions from the plan in the fiscal year ended June 30, 2021 were \$54,282,032. This amount includes deductions of \$52,697,378 for pension payments to members and qualified beneficiaries.

## RESERVES AND FUNDING

The Police and Fire Retirement System most recent actuarial study values the Plan as of June 30, 2020. Details regarding this actuarial study can be found in Section 4 of this annual report.

As of the most recent actuary study dated June 30, 2020, the System's Unfunded Actuarial Liability is approximately \$225,547,000, and the System had a Funded Ratio of 63.5 percent on a Market Value of Assets (MVA) basis. During fiscal year 2021, the City of Oakland contributed \$43,648,000 to the System. The next required City contribution is projected to be approximately \$43,820,000 in fiscal year 2021.

## INVESTMENTS

The Police and Fire Retirement System Investment Policy is used as a guideline for all investment activities. The Investment Policy includes an asset allocation plan. The plan consists of six asset classes: Domestic Equity, International Equity, Fixed Income Instruments, Credit, Covered Calls, and Crisis Risk Offset (CRO). In addition, the Policy also allocates among the different investment management styles.

Total investment income resulted in a net gain of \$90,191,309 in fiscal year 2021. The actual money-weighted annual investment return for fiscal year 2021 was 24.4%. GASB requires that investments be reported at fair value. The appreciation (depreciation) in fair value of investments held by PFRS is recorded as an increase (decrease) in investment income based on the valuation of investments at year-end.

# LETTERS OF TRANSMITTAL

The historical annualized money-weighted rates of return on the portfolios are as follows:

Total Returns %			
	1 Year	3 Year	5 Year
Total Fund	24.4%	10.2%	11.4%

## ACKNOWLEDGEMENTS

The compilation of this report reflects the combined efforts of the Retirement System Administration Staff, the Board of Trustees, and various professional consultants. Its intent is to provide complete and reliable information to the beneficiaries of the Plan, to serve as a basis for making management decisions, and to ensure compliance with legal provisions affecting the administration of the Plan.

Respectfully submitted,



David F. Jones  
Plan Administrator

# MEMBERS OF THE BOARD OF ADMINISTRATION



Jaime T. Godfrey  
**Vice President**  
**Bank Representative**



Walter L. Johnson, Sr.  
**President**  
**Community Representative**



John C. Speakman  
**Fire Department Representative**



R. Steven Wilkinson  
**Insurance Representative**

**Plan Administrator**  
David Jones  
*Treasury Administrator*

**Legal Advisor, City of Oakland**  
Jennifer Logue  
*Supervising Attorney*



Kevin R. Traylor  
**Alternating Fire/Police Department Representative**



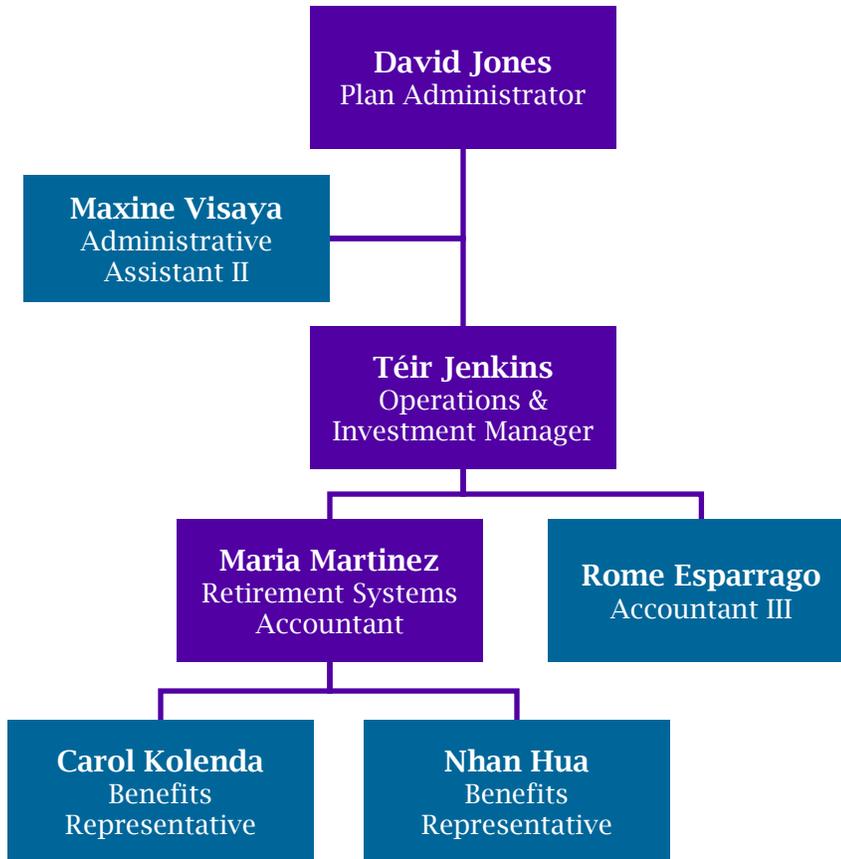
Robert Nichelini  
**Police Representative**



Erin Roseman  
**Mayoral Designate**

# ADMINISTRATIVE STAFF

## Retirement Unit



### PROFESSIONAL SERVICES

Over the past year the Board of Administration has engaged the following consultants to assist in making investments and in developing a sound retirement plan:

<b>Actuary</b>	Cheiron, Inc.
<b>Auditors</b>	Macias Gini & O’Connell LLP
<b>Custodial Service</b>	The Northern Trust Company
<b>Investment Consultant</b>	Meketa Investment Group

A complete list of Investment Professionals is included on page 53 of this Annual Report.

### BOARD MEETING INFORMATION

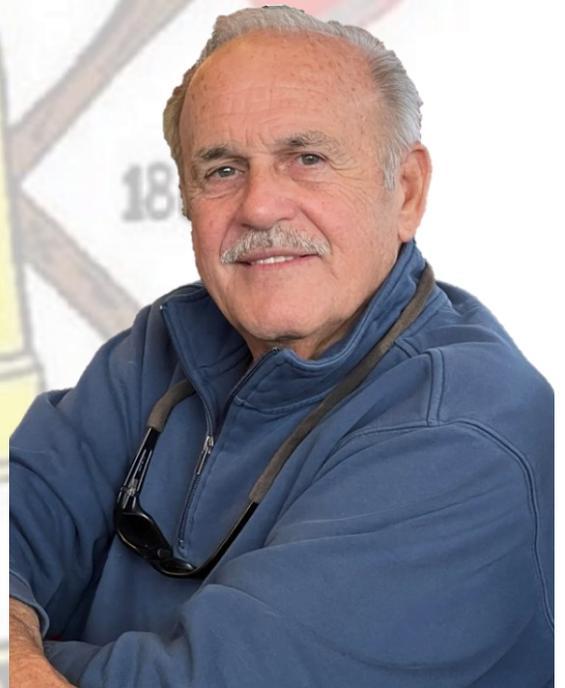
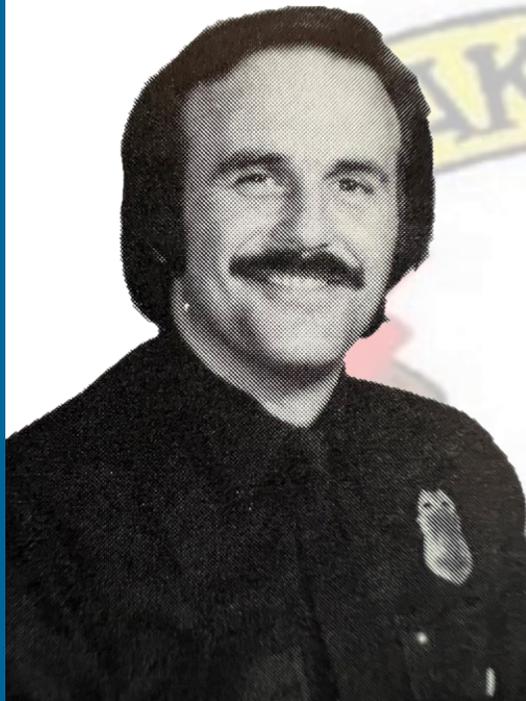
<b>On-Site Meeting Location</b>	1 Frank H. Ogawa Plaza, Oakland, CA 94612
<b>Virtual Meeting</b>	Zoom Webinar
<b>Date</b>	Last Wednesday of each month

For more information, visit our website at [www.oaklandca.gov](http://www.oaklandca.gov).

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# SECTION 2

# FINANCIAL



*Robert Bramante*  
*Lieutenant of Fire*  
*Served with Oakland Fire Department*  
*1968 to 1997*

# Independent Auditor's Report

For Years Ended June 30, 2021 and 2020



Certified  
Public  
Accountants

## Independent Auditor's Report

Board of Administration  
Oakland Police and Fire Retirement System  
Oakland, California

We have audited the accompanying financial statements of the Oakland Police and Fire Retirement System (System), a pension trust fund of the City of Oakland, California (City), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2021 and 2020, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP  
2121 N. California Boulevard, Suite 750  
Walnut Creek, CA 94596

[www.mgocpa.com](http://www.mgocpa.com)

# Independent Auditor's Report

For Years Ended June 30, 2021 and 2020

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios, the schedule of employer contributions, and the schedule of investment returns as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The introduction section, investment section, and actuarial section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
December 8, 2021

# Management's Discussion & Analysis

## (Unaudited)

As management of the Oakland Police and Fire Retirement System (System), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the years ended June 30, 2021 and 2020. We encourage readers to consider the information presented here in conjunction with the System's financial statements that follow this section. These discussions and analyses are presented in the following sections:

- Organizational Overview and Highlights
- Financial Statement Overview
- Financial Analysis: 2021 vs. 2020
- Financial Analysis: 2020 vs. 2019
- Requests for Additional Information

### ORGANIZATIONAL OVERVIEW AND HIGHLIGHTS

The City of Oakland City Charter established the System and provides for its funding. Accordingly, the System is an integral part of the City of Oakland (City) and its operations have been reported as a Pension Trust Fund in the City's basic financial statements. The System is a closed, single employer, defined benefit pension plan that provides retirement, disability and survivor benefits for eligible sworn safety employees of the City. The System serves the City's sworn employees hired prior to July 1, 1976 who have not transferred to the California Public Employees' Retirement System (CalPERS). The System is governed by a board of seven trustees: the Mayor or his/her designate, three Mayoral appointees approved by the City Council, an elected active or retired member of the Police Department, an elected active or retired member from the Fire Department, and an elected member position which alternates between the Police Department and Fire Department membership. Trustees receive no compensation.

The System has been funded by periodic employee and City contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by the City Charter, unless the Board and the City have agreed to other funding options. In accordance with the City Charter, active members hired after July 1, 1951, and prior to July 1, 1976, contribute a percentage of their earned salaries based upon entry age as determined by consulting actuaries. During the years ended June 30, 2021 and 2020, the employee contribution rate was 0% for both years. There are no active participants in the Plan as of June 30, 2021 and 2020.

# Management's Discussion & Analysis

## (Unaudited)

In July 2012, the City deposited \$210 million in pension obligation bond proceeds into the System and entered into a funding agreement with the System Board, which suspended contributions until the fiscal year beginning July 1, 2017.

As of June 30, 2021, the total pension liability of \$578.6 million less the fiduciary net position of \$458.5 million results in a net pension liability of approximately \$120.0 million. The fiduciary net position as a percentage of the total pension liability is 79.3 %.

As of June 30, 2020, the total pension liability of \$604.0 million less the fiduciary net position of \$379.0 million results in a net pension liability of approximately \$225.0 million. The fiduciary net position as a percentage of the total pension liability is 62.7%.

The System membership at June 30, 2021 is 723, which includes 490 retirees and 233 beneficiaries. The System membership at June 30, 2020 is 768. The following are the significant assumptions used to compute contribution requirements in the July 1, 2020 Actuarial Valuation Report:

- Select and ultimate rates, equal to 5.29% single equivalent investment rate of return
- 2.75% inflation rate, U.S.
- 2.85% inflation rate, Bay Area
- 3.25% long-term post-retirement benefit increases

City contributions are based on spreading costs as a level percentage of the City's total uniform payroll to July 1, 2026. The System uses the entry age normal cost method for its disclosure and reporting. During fiscal years 2021 and 2020, the City contributions were \$43.6 million and \$43.4 million to the System. The next required City contribution is projected to be approximately \$43.8 million in fiscal year 2022.

### FINANCIAL STATEMENT OVERVIEW

This annual financial report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include *Statements of Fiduciary Net Position*; *Statements of Changes in Fiduciary Net Position*; and the *Notes to the Basic Financial Statements*.

# Management's Discussion & Analysis

## (Unaudited)

The *Statements of Fiduciary Net Position* and the *Statements of Changes in Fiduciary Net Position* report information to assist readers in determining whether the System's finances as a whole have improved or deteriorated as a result of the year's activities. These statements report the net position of the System and the activities that caused the changes in the net position during the year, respectively.

The *Statements of Fiduciary Net Position* present information on all System assets and liabilities, with the difference between the two reported as net position restricted for pensions. Over time, increases or decreases in net position restricted for pensions may serve as a useful indicator of whether the financial condition of the System is improving or deteriorating.

While the *Statements of Fiduciary Net Position* provide information about the nature and amount of resources and obligations at year-end, the *Statements of Changes in Fiduciary Net Position* present the results of the System's activities during the fiscal year and information on the change in the net position restricted for pensions during the fiscal year. The *Statements of Changes in Fiduciary Net Position* measure the results of the System's investment performance as well as its additions from contributions and investment income and deductions for payment of benefits and administrative expenses. The *Statements of Changes in Fiduciary Net Position* can be viewed as indicators of the System's progress on the set goals of fully funding all current and past service costs and possessing sufficient additional resources to pay for current refunds of contributions and administrative and investment expenses.

The *Notes to the Basic Financial Statements* and *Required Supplementary Information* provide explanations and other information that is helpful to a full understanding of the data provided in the financial statements. The *Notes to the Basic Financial Statements* and *Required Supplementary Information* are found starting on page 24 and page 47, respectively.

# Management's Discussion & Analysis (Unaudited)

## FINANCIAL ANALYSIS 2021 vs. 2020

Table 1 summarizes net position restricted for pensions as of June 30, 2021 and 2020:

<b>Table 1</b>				
<b>Statements of Fiduciary Net Position</b>				
<b>As of June 30, 2021 and 2020</b>				
	<b>June 30</b>		<b>Change</b>	
	<b>2021</b>	<b>2020</b>	<b>Amount</b>	<b>Percentage</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,323,835	\$ 6,345,777	\$ (21,942)	-0.3%
Receivables	2,469,425	8,099,428	(5,630,003)	-69.5%
Investments	<u>503,773,621</u>	<u>404,700,887</u>	<u>99,072,734</u>	24.5%
Total Assets	<u>512,566,881</u>	<u>419,146,092</u>	<u>93,420,789</u>	22.3%
<b>Liabilities</b>				
Accounts payable	1,110	8,161	(7,051)	-86.4%
Benefits payable	4,294,620	4,431,728	(137,108)	-3.1%
Investments payable	422,993	13,548,872	(13,125,879)	-96.9%
Investment management fees payable	361,228	278,835	82,393	29.5%
Securities lending liabilities	<u>48,954,055</u>	<u>21,903,806</u>	<u>27,050,249</u>	123.5%
Total liabilities	<u>54,034,006</u>	<u>40,171,402</u>	<u>13,862,604</u>	34.5%
<b>Net Position</b>				
Restricted for pensions	<u>\$ 458,532,875</u>	<u>\$ 378,974,690</u>	<u>\$ 79,558,185</u>	21.0%

Net position restricted for pensions increased \$79.6 million from June 30, 2020 to June 30, 2021. The main sources of this increase were City contribution of \$43.6 million and net investment income of \$90.2 million were more than offset by benefit payments of \$52.7 million. The remaining fluctuations in receivables and investments payable are primarily due to investment trading at year-end, where the outstanding balances represent investments either sold or purchased, but not yet settled.

# Management's Discussion & Analysis

## (Unaudited)

Table 2 summarizes changes in net position restricted for pensions for the years ended June 30, 2021 and 2020.

Table 2 Statements of Changes in Fiduciary Net Position For the Years Ended June 30, 2021 and 2020				
	June 30		Change	
	2021	2020	Amount	Percentage
<b>Additions</b>				
Contributions	\$ 43,648,000	\$ 43,409,000	\$ 239,000	0.6%
Net investment income	90,191,309	6,996,833	83,194,476	1189.0%
Other additions	908	132	776	587.9%
Total additions	133,840,217	50,405,965	83,434,252	165.5%
<b>Deductions</b>				
Benefits to members and beneficiaries	52,697,378	54,619,079	(1,921,701)	-3.5%
Administrative expenses	1,584,654	1,522,910	61,744	4.1%
Total deductions	54,282,032	56,141,989	(1,859,957)	-3.3%
Changes in net position	79,558,185	(5,736,024)	85,294,209	1487.0%
<b>Net position restricted for pensions</b>				
Beginning of year	378,974,690	384,710,714	(5,736,024)	-1.5%
End of year	<u>\$ 458,532,875</u>	<u>\$ 378,974,690</u>	<u>\$ 79,558,185</u>	21.0%

During fiscal year 2021, the City of Oakland contributed \$43.6 million to the System. In addition, the System's net investment income for the year ended June 30, 2021 was \$90.1 million, mainly due to net appreciation in fair value of the investment portfolio. The time-weighted annual return for the year ended June 30, 2021 was 24.2%, compared to a benchmark return of 22.3% and an actuarial expected rate of return of 5.29 %.

# Management's Discussion & Analysis

## (Unaudited)

### FINANCIAL ANALYSIS 2020 vs. 2019

Table 3 summarizes net position restricted for pensions as of June 30, 2020 and 2019.

<b>Table 3</b>				
<b>Statements of Fiduciary Net Position</b>				
<b>As of June 30, 2020 and 2019</b>				
	<b>June 30</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>Percentage</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,345,777	\$ 6,484,343	\$ (138,566)	-2.1%
Receivables	8,099,428	4,427,785	3,671,643	82.9%
Investments	404,700,887	420,244,755	(15,543,868)	-3.7%
Total Assets	<u>419,146,092</u>	<u>431,156,883</u>	<u>(12,010,791)</u>	-2.8%
<b>Liabilities</b>				
Accounts payable	8,161	15,871	(7,710)	-48.6%
Benefits payable	4,431,728	4,596,563	(164,835)	-3.6%
Investments payable	13,548,872	7,464,071	6,084,801	81.5%
Investment management fees payable	278,835	351,847	(73,012)	-20.8%
Securities lending liabilities	21,903,806	34,017,817	(12,114,011)	-35.6%
Total liabilities	<u>40,171,402</u>	<u>46,446,169</u>	<u>(6,274,767)</u>	-13.5%
<b>Net Position</b>				
Restricted for pensions	<u>\$ 378,974,690</u>	<u>\$ 384,710,714</u>	<u>\$ (5,736,024)</u>	-1.5%

Net position restricted for pensions decreased \$5.7 million from June 30, 2019 to June 30, 2020. The main sources of this decrease were from benefit payments of \$54.6 million offset by contribution of \$43.4 million and net investment income of \$7.0 million. The remaining fluctuations in receivables and investments payable are primarily due to investment trading at year-end, where the outstanding balances represent investments either sold or purchased, but not yet settled.

# Management's Discussion & Analysis (Unaudited)

Table 4 summarizes changes in net position restricted for pensions for the years ended June 30, 2020 and 2019.

<b>Table 4 Statements of Changes in Fiduciary Net Position For the Years Ended June 30, 2020 and 2019</b>				
	<b>June 30</b>		<b>Change</b>	
	<b>2020</b>	<b>2019</b>	<b>Amount</b>	<b>Percentage</b>
<b>Additions</b>				
Contributions	\$ 43,409,000	\$ 44,821,000	\$ (1,412,000)	-3.2%
Net investment income	6,996,833	21,551,868	(14,555,035)	-67.5%
Other additions	132	19,949	(19,817)	-99.3%
Total additions	<u>50,405,965</u>	<u>66,392,817</u>	<u>(15,986,852)</u>	-24.1%
<b>Deductions</b>				
Benefits to members and beneficiaries	54,619,079	56,212,013	(1,592,934)	-2.8%
Administrative expenses	<u>1,522,910</u>	<u>1,446,361</u>	<u>76,549</u>	5.3%
Total deductions	<u>56,141,989</u>	<u>57,658,374</u>	<u>(1,516,385)</u>	-2.6%
Changes in net position	(5,736,024)	8,734,443	(14,470,467)	-165.7%
<b>Net position restricted for pensions</b>				
Beginning of year	<u>384,710,714</u>	<u>375,976,271</u>	<u>8,734,443</u>	2.3%
End of year	<u>\$ 378,974,690</u>	<u>\$ 384,710,714</u>	<u>\$ (5,736,024)</u>	-1.5%

During fiscal year 2020, the City of Oakland contributed \$43.4 million to the System. In addition, the System's net investment income for the year ended June 30, 2020 was \$7.0 million, mainly due to net appreciation in fair value of the investment portfolio as a result of robust returns on investments. The time-weighted annual return for the year ended June 30, 2020 was 2.3%, compared to a benchmark return of 4.6% and an actuarial expected rate of return of 5.37%.

# Management's Discussion & Analysis (Unaudited)

## REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the System's finances and to account for the money that the System receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

**Retirement System  
City of Oakland  
150 Frank H Ogawa Plaza, Suite 3349  
Oakland, CA 94612**

# Financial Statements

## Oakland Police and Fire Retirement System Statements of Fiduciary Net Position June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and Cash Equivalents	\$ 6,323,835	\$ 6,345,777
Receivables:		
Interest Receivable	758,877	720,730
Dividends Receivable	271,634	122,028
Investments Receivable	1,228,684	7,005,167
Retired Members and Beneficiaries	103,688	137,530
Miscellaneous	106,542	113,973
Total Receivables	<u>2,469,425</u>	<u>8,099,428</u>
Investments, at Fair Value:		
Short-Term Investments	7,786,908	14,097,351
Bonds	134,380,629	123,135,071
Domestic Equities and Mutual Funds	210,506,356	157,386,763
International Equities and Mutual Funds	58,539,803	44,599,350
Alternative Investments	44,016,067	43,589,826
Foreign Currency Contracts, Net	(7,612)	(20,041)
Securities Lending Collateral	48,551,470	21,912,567
Total Investments	<u>503,773,621</u>	<u>404,700,887</u>
<b>Total Assets</b>	<u>512,566,881</u>	<u>419,146,092</u>
<b>Liabilities</b>		
Accounts Payable	1,110	8,161
Benefits Payable	4,294,620	4,431,728
Investments Payable	422,993	13,548,872
Investment Management Fees Payable	361,228	278,835
Securities Lending Liabilities	48,954,055	21,903,806
<b>Total Liabilities</b>	<u>54,034,006</u>	<u>40,171,402</u>
<b>Net Position Restricted for Pensions</b>	<u>\$ 458,532,875</u>	<u>\$ 378,974,690</u>

*See accompanying notes to the basic financial statements.*

# Financial Statements

## Oakland Police and Fire Retirement System Statements of Changes in Fiduciary Net Position Years Ended June 30, 2021 and 2020

	2021	2020
<b>Additions</b>		
Contributions from the City	\$ 43,648,000	\$ 43,409,000
Investment Income:		
Net Appreciation in Fair Value of Investments	84,719,944	677,414
Interest	3,965,167	4,598,569
Dividends	2,735,230	2,775,312
Less: Investment Expenses	<u>(1,354,640)</u>	<u>(1,173,450)</u>
Securities Lending Income:		
Securities Lending Earnings	105,651	521,009
Securities Lending Expenses, Net of Rebates	<u>19,957</u>	<u>(402,021)</u>
Net Securities Lending Income	<u>125,608</u>	<u>118,988</u>
Net Investment Income	90,191,309	6,996,833
Claims and Settlements	26	132
Other Income	<u>882</u>	<u>-</u>
Total Additions	<u>133,840,217</u>	<u>50,405,965</u>
<b>Deductions</b>		
Benefits to Members and Beneficiaries:		
Retirement	32,157,272	33,125,069
Disability	18,803,904	19,696,369
Death	<u>1,736,202</u>	<u>1,797,641</u>
Total Benefits to Members and Beneficiaries	52,697,378	54,619,079
Administrative Expenses	<u>1,584,654</u>	<u>1,522,910</u>
Total Deductions	<u>54,282,032</u>	<u>56,141,989</u>
<b>Change in Net Position</b>	79,558,185	(5,736,024)
<b>Net Position Restricted for Pensions</b>		
Beginning of Year	<u>378,974,690</u>	<u>384,710,714</u>
End of Year	<u>\$458,532,875</u>	<u>\$ 378,974,690</u>

*See accompanying notes to the basic financial statements.*

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## 1. Description of the Oakland Police and Fire Retirement System

The Oakland Police and Fire Retirement System (System) is a closed, single-employer defined benefit pension plan (Plan) established by the City of Oakland (City) Charter. The System is governed by a board of seven trustees (Board); the City Mayor or his/her designate, three Mayoral appointees approved by the City Council, an elected active or retired member of the Police Department, an elected active or retired member from the Fire Department, and an elected member position which alternates between the Police Department and Fire Department membership. Trustees receive no compensation. As a result of a City Charter amendment, known as Measure R, approved by the electorate on June 8, 1976, membership in the Plan is limited to uniformed employees hired prior to July 1, 1976.

The System is exempt from the regulations of the Employee Retirement Income Security Act of 1974. The System is also exempt from federal and California income taxes.

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The financial statements of the System are intended to present only the plan net position and changes in plan net position of the System. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2021 and 2020, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. The City's basic financial statements can be obtained from the Finance Department, Controller's Bureau, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612.

### **a) System Membership**

At June 30, 2021 and 2020, the System membership consisted of only retirees and beneficiaries. The System's membership is as follows:

Retirees and Beneficiaries Currently Receiving Benefits		
	2021	2020
Police	439	460
Fire	284	308
Total	723	768

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## b) Basic Benefit Provisions

The City Charter establishes plan membership, contribution, and benefit provisions. The System provides that any member who completes at least 25 years of service, regardless of age, or completes 20 years of service and attains age 55, or has attained age 65, is eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1 and 2/3% of such compensation for each year of service (up to ten) subsequent to (a) qualifying for retirement and (b) July 1, 1951. However, any member retiring at age 65 with less than 20 years of service shall receive a reduced retirement allowance based upon the number of years of service. A member is eligible for early retirement benefits after 20 to 24 years of service with a retirement allowance based upon 40% to 48% of the compensation attached to the average rank held during the three years preceding retirement. Additionally, a member with 10 to 19 years of service may retire and, on or after the 25th anniversary of his/her date of employment may receive a retirement allowance based upon 20% to 38% of the compensation attached to the average rank held during the three years preceding retirement.

The System also provides for various death, disability, and survivors' benefits. Death and disability benefits are paid to eligible members who became disabled or passed away prior to retirement. If the member's death or disability is duty related, then the surviving spouse or member is paid a pension equivalent to an immediate service retirement. The duty related death or disability pension is paid at a level no less than 50% of the pay attached to the rank. If a death occurs after retirement, then a one-time payment of \$1,000 is paid to the member's designated beneficiary.

After retirement, members receive benefits based on a fixed monthly dollar amount. Pension amounts change based on changes to the compensation attached to the average rank. Upon a retiree's death, benefits are continued to an eligible surviving spouse at a two-thirds level for service and non-duty disabled retirees and at a 100% level for retirements for duty disability.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## 2. Summary of Significant Accounting Policies

### **a) Basis of Presentation**

The financial statements are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. The System adheres to the reporting requirements established by the Governmental Accounting Standards Board (GASB).

### **b) Measurement Focus and Basis of Accounting**

The financial statements are prepared on a flow of economic resources measurement focus using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due pursuant to formal commitments as well as statutory or contractual requirements, and benefits and refunds are recognized when payable under plan provisions.

### **c) Methods Used to Value Investments**

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values based on the net asset value as determined by the fund manager based on quoted market prices of fund holdings or values provided by the custodian or the applicable money manager. Purchases and sales of investments are recorded on a trade date basis.

### **d) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 3. Contributions

In accordance with the City Charter, active members hired after July 1, 1951, and prior to July 1, 1976, contributed a percentage of their earned salaries based upon entry age as determined by consulting actuaries. Since fiscal year 2015, there were no remaining active members in the System.

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

In March 1997, the City issued pension obligation bonds and deposited \$417 million into the System to pay the City's contributions through June 2011. In accordance with an agreement entered into at the time the pension obligation bonds were issued in 1997, the City was not expected to contribute until July 2011. In the year ended June 30, 2005, the City transferred excess proceeds of \$17.7 million from the Oakland Joint Powers Financing Authority Refunding Revenue 2005 Series B Bond to fund a portion of the City's future obligation to the System .

Effective July 1, 2011, the City resumed contributing to the System. The City contributed \$45.5 million in the year ended June 30, 2012. Using the current actuarial cost method, these contributions are based on spreading costs as a level percentage of all uniformed employees' compensation through June 30, 2026. Budgeted administrative expenses are included in the City contribution rates. The City must contribute, at a minimum, such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan members.

On July 30, 2012, the City contributed \$210 million to the System. As a result of a funding agreement entered into between the System's Board and the City no additional contributions were required until July 1, 2017. The City resumed contributions to the System on July 1, 2017. The City contributed \$43.65 million and \$43.41 million in the years ended June 30, 2021 and 2020, respectively. The next required contribution for fiscal year 2022 is \$43.82 million.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## 4. Cash, Deposits and Investments

### **a) Investment Policy**

The System's investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, Yankee bonds and non-U.S.-issued fixed income securities denominated in foreign currencies. The System's investment portfolio is managed by external investment managers, except for the bond iShares which are managed internally. During the years ended June 30, 2021 and 2020, the number of external investment managers was twelve and twelve, respectively.

The System investments are also restricted by the City Charter. In November 2006, City voters passed Measure M to amend the City Charter to allow the System's Board to invest in non-dividend paying stocks and to change the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard as defined by the California Constitution.

The System's investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. The System's investment policy allows the fixed income managers to invest in fixed income instruments and some exposure to investments below an investment grade rating, as long as the portfolio maintains an average credit quality of BBB (investment grade using Standard & Poor's, Moody's or Fitch ratings).

The System's investment policy states that investments in securities known as collateralized mortgage obligations (CMOs) shall be limited to a maximum of 20% of a broker account's fair value with no more than 5% in any one issue. CMOs are mortgage-backed securities that create separate pools of pass-through rates for different classes of bondholders with varying maturities. The fair values of CMOs are considered sensitive to interest rate changes because they have embedded options.

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

The investment policy allows for each fixed income asset manager to have a maximum of 10% of any single security investment in their individual portfolios with the exception of U.S. government securities, which is allowed to have a maximum of 25% in each manager's portfolio.

The following was the Board's adopted asset allocation policy as of June 30, 2021 and 2020:

Target Allocation		
Asset Class	June 30, 2021	June 30, 2020
Fixed Income	21%	21%
Credit	2	2
Covered Calls	5	5
Domestic Equity	40	40
International Equity	12	12
Crisis Risk Offset	20	20
Total	100%	100%

The Board's target allocation does not include cash and cash equivalents, which are designated for approved administrative budget purposes.

### b) Concentrations

GASB Statement No. 40 and GASB Statement No. 67 require the disclosure of investments in any one organization that represent 5 percent or more of the System's fiduciary net position. As of June 30, 2021, the System's investments in the Northern Trust Russell 1000 Growth Index Fund represented 24.23% of its fiduciary net position. As of June 30, 2020, the System's investment in the Northern Trust Russell 1000 Growth Index Fund and the Parametric Research Affiliates Systematic U.S. Fund represented 22.5% and 6.3% respectively, of its fiduciary net position.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## c) Rate of Return

The money-weighted rate of return is a measure of the rate of return for an asset or portfolio of assets that incorporates the size and timing of cash flows. For the years ended June 30, 2021 and 2020, the annual money-weighted rates of return on pension plan investments, net of pension plan investment expenses, were 24.43% and 2.04%, respectively.

## d) Cash and Cash Equivalents

As of June 30, 2021 and 2020, cash and cash equivalents consisted of cash in treasury held in the City's cash and investment pool as well as cash deposits held in bank and with a custodian. Funds in the City Treasury are invested according to the investment policy adopted by the City Council. Interest earned in the City Treasury is allocated monthly to all participants based on the average daily cash balance maintained by the respective funds. Information regarding the characteristics of the entire investment pool can be found in the City's June 30, 2021 and 2020 basic financial statements. As of June 30, 2021 and 2020, the System's share of the City's investment pool totaled \$6,318,773 and \$6,340,768, respectively. The System also had cash not included in the City's investment pool. As of June 30, 2021 and 2020, the System's cash and cash deposits not held in the City's investment pool totaled \$5,062 and \$5,009, respectively.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## e) Hierarchy of Inputs

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The System has the following recurring fair value measurements as of June 30, 2021:

<b>Recurring Fair Value Measurements As of June 30, 2021</b>			
	<b>2021</b>		
	<u>Level One</u>	<u>Level Two</u>	<u>Total</u>
<b>Investments by fair value level:</b>			
Bonds	\$ 12,635,465	\$ 104,543,460	\$ 117,178,925
Domestic Equities and Mutual Funds	93,555,401	707,364	94,262,765
International Equities and Mutual Funds	58,539,803	-	58,539,803
Alternative Investments	<u>43,940,518</u>	<u>75,549</u>	<u>44,016,067</u>
Total investments by fair value level	<u>\$ 208,671,187</u>	<u>\$ 105,326,373</u>	<u>\$ 313,997,560</u>
<b>Investments measured at net asset value (NAV):</b>			
Short-Term Investment Funds			7,786,908
Fixed Income Funds			17,201,704
Domestic Equities and Mutual Funds			116,243,591
Foreign Currency Contracts, Net			(7,612)
Securities Lending Collateral - Short-Term Investment Fund			<u>48,551,470</u>
Total investments measured at NAV			<u>189,776,061</u>
<b>Total investments measured at fair value</b>			<u><u>\$ 503,773,621</u></u>

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

The System has the following recurring fair value measurements as of June 30, 2020:

Recurring Fair Value Measurements As of June 30, 2020			
	2020		
	Level One	Level Two	Total
<b>Investments by fair value level:</b>			
Short-Term Investment Funds	\$ -	\$ 6,023,223	\$ 6,023,223
Bonds	14,422,008	100,740,951	115,162,959
Domestic Equities and Mutual Funds	66,325,124	-	66,325,124
International Equities and Mutual Funds	44,599,350	-	44,599,350
Alternative Investments	27,764,888	-	27,764,888
Total investments by fair value level	<u>\$ 153,111,370</u>	<u>\$ 106,764,174</u>	<u>\$ 259,875,544</u>
<b>Investments measured at net asset value (NAV):</b>			
Short-Term Investment Funds			8,074,128
Fixed Income Funds			7,972,112
Domestic Equities and Mutual Funds			91,061,639
Hedge Fund			15,824,938
Foreign Currency Contracts, Net			(20,041)
Securities Lending Collateral - Short-Term Investment Fund			21,912,567
Total investments measured at NAV			<u>144,825,343</u>
<b>Total investments measured at fair value</b>			<u><b>\$ 404,700,887</b></u>

Investments measured at NAV represent commingled funds where fair value is measured based on the System's pro rata share of the total NAV. As of June 30, 2020, the System's hedge fund investment has monthly liquidity with a notice period of 5 days.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## f) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As described previously, the System's investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. The weighted average duration for the System's fixed income investment portfolio excluding fixed income short-term investments, foreign currency contracts, and securities lending investments was 7.37 years as of June 30, 2021, and 7.69 years as of June 30, 2020.

The following summarizes the System's fixed income investments by category as of June 30, 2021 and 2020:

Short-Term Investment Duration				
Investment Type	2021		2020	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
Short-Term Investment Funds	\$7,786,908	n/a	\$8,074,128	n/a
U.S. Treasury Bills	-	n/a	6,023,223	0.21
Foreign Currency Exchange Contracts, Net	(7,612)	n/a	(20,041)	n/a

Long-Term Investment Duration				
Investment Type	2021		2020	
	Fair Value	Modified Duration (Years)	Fair Value	Modified Duration (Years)
<b>Fixed Income Investments</b>				
<b>U.S. Government Bonds</b>				
U.S. Treasuries	\$ 18,816,292	5.79	\$ 8,153,603	8.03
Government Agencies	32,516,334	8.26	39,171,830	7.23
Total U.S. Government Bonds	51,332,626		47,325,433	
<b>Corporate and Other Bonds</b>				
Corporate Bonds	82,957,273	7.38	75,809,638	7.89
Other Government Bonds	90,730	7.90	-	n/a
Total Corporate and Other Bonds	83,048,003		75,809,638	
Total Fixed Income Investments	\$ 134,380,629	7.37	\$123,135,071	7.69
Securities Lending Collateral	\$ 48,551,470		\$ 21,912,567	

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## g) Fair Value Highly Sensitive to Change in Interest Rates

The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The System has invested in CMOs, which are mortgage-backed bonds that pay pass-through rates with varying maturities. The fair values of CMOs are considered sensitive to interest rate changes because they have embedded options, which are triggers related to quantities of delinquencies or defaults in the loans backing the mortgage pool. If a balance of delinquent loans reaches a certain threshold, interest and principal that would be used to pay junior bondholders is instead directed to pay off the principal balance of senior bondholders, shortening the life of the senior bonds.

The following are the System's investments in CMOs at June 30, 2021:

<b>Investments in CMOs at June 30, 2021</b>				
<b>Investment Type</b>	<b>Weighted Average Coupon Rate</b>	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>	<b>Percent of Total Investments Fair Value</b>
Mortgage-backed securities	2.72%	23.28	\$20,789,617	4.13%

The following are the System's investments in CMOs at June 30, 2020:

<b>Investments in CMOs at June 30, 2020</b>				
<b>Investment Type</b>	<b>Weighted Average Coupon Rate</b>	<b>Weighted Average Maturity (Years)</b>	<b>Fair Value</b>	<b>Percent of Total Investments Fair Value</b>
Mortgage-backed securities	3.07%	23.76	\$27,010,178	6.67%

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## h) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

The following provides information concerning the credit risk of fixed income securities as of June 30, 2021 and 2020:

Short-Term Investment Ratings				
Investment Type	2021		2020	
	S&P / Moody's Rating	Fair Value	S&P / Moody's Rating	Fair Value
Short-Term Investment Funds	Not Rated	\$7,786,908	Not Rated	\$8,074,128
U.S. Treasury Bills	n/a	-	AA/Aaa	6,023,223
Foreign Currency Exchange Contracts, Net	Not Rated	(7,612)	Not Rated	(20,041)

Long-Term Investment Ratings				
S&P / Moody's Rating	2021		2020	
	Fair Value	Percentage of Total Fair Value	Fair Value	Percentage of Total Fair Value
AAA/Aaa	\$ 53,058,908	39.4%	\$ 48,352,450	39.3%
AA/Aa	34,226,943	25.5%	26,839,048	21.8%
A/A	14,322,857	10.7%	16,270,507	13.2%
BBB/Baa	19,359,029	14.4%	22,504,035	18.3%
BB/Ba	1,831,903	1.4%	1,388,389	1.1%
B/B	9,550,906	7.1%	313,940	0.3%
CCC/CCC	-	-	7,466,702	6.0%
Unrated	2,030,083	1.5%	-	-
	<u>\$ 134,380,629</u>	<u>100.00%</u>	<u>\$123,135,071</u>	<u>100.00%</u>

## i) Custodial Credit Risk

Securities Lending Ratings		
S&P / Moody's Rating	2021 Fair Value	2020 Fair Value
Not Rated	\$ 48,551,470	\$ 21,912,567

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or counterparty to a transaction, there will be an inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. As the City holds cash and certificates of deposit on behalf of the System, the collateral must be held by the pledging financial institution's trust department and is considered held in the City's name. For all other System deposits, the collateral must be held by the pledging financial institution's trust department and is considered held in the System's name.

The City, on behalf of the System, does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. The System does not have any investments that are not registered in the name of the System and are either held by the counterparty or the counterparty's trust department or agent but not in the System's name.

## **j) Foreign Currency Risk**

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Currency hedging is allowed under the System's investment policy for defensive purposes only. The investment policy limits currency hedging to a maximum of 25% of the portfolio value.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

The following summarizes the System's investments denominated in foreign currencies as of June 30, 2021 and 2020:

<b>Investments Denominated in Foreign Currencies</b>		
<b>As of June 30, 2021 and 2020</b>		
<b>Foreign Currency</b>	<b>Fair Value</b>	
	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Australian Dollar	\$ 1,456,518	\$ 1,165,827
Brazilian Real	901,768	684,785
British Pound	3,406,619	2,900,002
Canadian Dollar	3,395,211	2,916,358
Danish Krone	1,386,946	108,321
Euro	8,778,172	5,257,480
Hong Kong Dollar	3,664,544	2,540,943
Indonesian Rupiah	221,352	179,056
Japanese Yen	5,888,554	5,606,895
Mexican Peso	108,650	652,060
New Israeli Shekel	-	270,619
Norwegian Krone	-	158,176
Singapore Dollar	839,140	506,973
South African Rand	575,339	254,493
South Korean Won	212,370	-
Swedish Krona	1,488,233	837,087
Swiss Franc	2,344,951	2,093,668
Turkish Lira	524,786	612,927
Total	<u>\$ 35,193,153</u>	<u>\$ 26,745,670</u>

## k) Securities Lending Transactions

The System's investment policy authorizes participation in securities lending transactions, which are short-term collateralized loans of the System's securities to broker-dealers with a simultaneous agreement allowing the System to invest and receive earnings on the collateral received. All securities loans can be terminated on demand by either the System or the borrower, although the average term of loans is one week.

The administrator of the System's securities lending activities is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of market value of loaned U.S. government securities, common stock and other equity securities, bonds, debentures, corporate debt securities, notes, and mortgages or other obligations held in U.S. Dollar. The minimum collateral level is 105% of market value of loaned securities for any securities held in currencies other than the U.S. Dollar. Collateral received may include cash, letters of credit, or securities. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. If securities collateral is received, the System cannot pledge or sell the collateral securities unless the borrower defaults.

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

As of June 30, 2021 and 2020, management believes the System has minimized its credit risk exposure to borrowers because the amounts held by the System as collateral exceeded the securities loaned by the System. The System's contract with the administrator requires it to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities borrowed) or fails to pay the System for income distributions by the securities' issuers while the securities are on loan.

The following summarizes investments in securities lending transactions and collateral received at June 30, 2021 and 2020:

<b>Securities Lending as of June 30, 2021</b>			
<b>Investment Type</b>	<b>Fair Value of Loaned Securities</b>		
	<b>For Cash Collateral</b>	<b>For Non-Cash Collateral</b>	<b>Total</b>
<b>Securities on Loan for Cash Collateral</b>			
U.S. Government and Agencies	\$ 9,621,902	\$ 5,095,643	\$ 14,717,545
U.S. Corporate Bonds	8,852,719	-	8,852,719
U.S. Equities	29,098,075	97,296	29,195,371
Non-U.S. Equities	182,194	514,214	696,408
Total investments in securities lending transactions	<u>\$ 47,754,890</u>	<u>\$ 5,707,153</u>	<u>\$ 53,462,043</u>
<b>Collateral Received</b>	<u>\$ 48,954,055</u>	<u>\$ 5,840,751</u>	<u>\$ 54,794,806</u>

<b>Securities Lending as of June 30, 2020</b>			
<b>Investment Type</b>	<b>Fair Value of Loaned Securities</b>		
	<b>For Cash Collateral</b>	<b>For Non-Cash Collateral</b>	<b>Total</b>
<b>Securities on Loan for Cash Collateral</b>			
U.S. Government and Agencies	\$ 4,674,146	\$ 5,349,244	\$ 10,023,390
U.S. Corporate Bonds	7,480,228	-	7,480,228
U.S. Equities	9,388,017	470,835	9,858,852
Total investments in securities lending transactions	<u>\$ 21,542,391</u>	<u>\$ 5,820,079</u>	<u>\$ 27,362,470</u>
<b>Collateral Received</b>	<u>\$ 21,903,806</u>	<u>\$ 5,913,897</u>	<u>\$ 27,817,703</u>

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## l) Derivative Instruments

The Retirement System reports its derivative instruments under the provisions of GASB Statement No. 53, Accounting and Financial Reporting for Derivatives Instruments. Pursuant to the requirements of this statement, the Retirement System has provided a summary of derivative instrument activities during the reporting periods presented and the related risks.

As of June 30, 2021 and 2020, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. All investment derivatives are reported as investments at fair value in the statements of fiduciary net position. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net position. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

Valuation methods used by the System are described in more detail in Note 2.c). The fair value of the exchange traded derivative instruments, such as futures, options, rights, and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of swaps are determined by the System's investment managers based on quoted market prices of the underlying investment instruments.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

The tables below present the notional amounts, the fair values, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2021 and 2020:

As of and for the Year Ended June 30, 2021			
Derivative Type / Contract	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Currency Exchange Contracts	\$ -	\$ (7,612)	\$ -
Options			
Equity Contracts	72	(351,506)	(58,431)
Swaps			
Credit Contracts	1,990,000	50,816	7,768
Total	<u>\$ 1,990,072</u>	<u>\$ (308,302)</u>	<u>\$ (50,663)</u>

As of and for the Year Ended June 30, 2020			
Derivative Type / Contract	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Currency Exchange Contracts	\$ -	\$ (20,041)	\$ -
Options			
Equity Contracts	69	(378,167)	108,759
Rights/Warrants			
Rights/Warrants	5,630	-	-
Swaps			
Credit Contracts	1,920,000	(11,645)	32,754
Total	<u>\$ 1,925,699</u>	<u>\$ (409,853)</u>	<u>\$ 141,513</u>

## Counterparty Credit Risk

The System is not exposed to credit risk on non-exchange traded derivative instruments that are in liability positions. As of June 30, 2021 and 2020, the System held forward currency contracts in liability positions of \$7,612 and \$20,041, respectively. The System's counterparties to these contracts held credit ratings of A or better, as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch).

## Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2021 and 2020, all of the System's investments in derivative instruments are held in the System's name and are not exposed to custodial credit risk.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## **Interest Rate Risk**

The tables below describe the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2021 and 2020.

<b>Derivative Interest Rate Risk as of June 30, 2021</b>			
<b>Derivative Type / Contract</b>	<b>Fair Value</b>	<b>Maturities</b>	
		<b>Less than 1 Year</b>	<b>1-5 years</b>
Forwards			
Forward Foreign Currency Exchange Contracts	\$ (7,612)	\$ (7,612)	\$ -
Options			
Equity Contracts	(351,506)	(351,506)	-
Swaps			
Credit Contracts	50,816	-	50,816
<b>Total</b>	<b>\$ (308,302)</b>	<b>\$ (359,118)</b>	<b>\$ 50,816</b>

<b>Derivative Interest Rate Risk as of June 30, 2020</b>			
<b>Derivative Type / Contract</b>	<b>Fair Value</b>	<b>Maturities</b>	
		<b>Less than 1 Year</b>	<b>1-5 years</b>
Forwards			
Forward Foreign Currency Exchange Contracts	\$ (20,041)	\$ (20,041)	\$ -
Options			
Equity Contracts	(378,167)	(378,167)	-
Swaps			
Credit Contracts	(11,645)	-	(11,645)
<b>Total</b>	<b>\$ (389,812)</b>	<b>\$ (378,167)</b>	<b>\$ (11,645)</b>

## **Foreign Currency Risk**

At June 30, 2021 and 2020, the System is exposed to foreign currency risk on \$7,612 and \$20,041, respectively, of its investments in forwards denominated in the Mexican peso.

## **Contingent Features**

At June 30, 2021 and 2020, the System held no positions in derivatives containing contingent features.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## 5. Net Pension Liability

The components of the net pension liability of the City at June 30, 2021 and 2020, are as follows:

Net Pension Liability of the City At June 30, 2021 and 2020		
	June 30, 2021	June 30, 2020
Total pension liability	\$ 578,579,190	\$ 603,971,861
Less: Plan fiduciary net position	(458,532,875)	(378,974,690)
City's net pension liability	<u>\$ 120,046,315</u>	<u>\$ 224,997,171</u>
Plan fiduciary net position as a percentage of the total pension liability	79.3%	62.7%

### a) Actuarial Method and Assumptions

The total pension liability as of June 30, 2021 was determined based on an actuarial valuation as of June 30, 2020, using the entry age normal actuarial cost method and the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions	
Investment Rate of Return	5.29%
Inflation Rate, U.S.	2.75%
Inflation Rate, Bay Area	2.85%
Long-term Post-Retirement Benefit Increases	3.25%

Measurements as of the June 30, 2021 are based on the fair value of assets as of June 30, 2021 and the total pension liability as of the valuation date, June 30, 2020, updated to June 30, 2021. There were no significant events between the valuation date and the measurement date. The update only included the addition of interest cost, offset by actual benefit payments. There are no active members of the plan, and thus no service cost.

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

Mortality rates for healthy lives were based on the CalPERS Healthy Table from the 2012-2015 Experience Study, excluding the 15-year projection using 90% of Scale MP-2016. Mortality rates for disabled lives were based on the CalPERS Industrial Disability Mortality Table from the 2012-2015 Experience Study, excluding the 15-year projection using 90% of Scale MP-2016. The mortality tables are projected to improve with MP-2017 generational mortality improvement tables, with improvements projected from a base year of 2014 (the mid-point of the CalPERS base tables).

The total pension liability as of June 30, 2020 was determined based on an actuarial valuation as of June 30, 2019, updated to June 30, 2020, using the entry age normal actuarial cost method and the actuarial assumptions as described above for the June 30, 2020 valuation, except for the assumed investment rate of return was 5.37%. Measurements as of June 30, 2020 are based on the fair value of assets as of June 30, 2020 and the total pension liability as of the valuation date, June 30, 2019, updated to June 30, 2020.

The actuarial assumptions used in the June 30, 2020 and 2019 valuations were based on the results of actuarial experience studies for the period of July 1, 2014 through June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation.

# Notes to the Basic Financial Statements

## For Years Ended June 30, 2021 and 2020

Best estimates of geometric real rates of return for each major class included in the pension plan's target asset allocation as of June 30, 2021 and 2020 are summarized in the following table:

Long-Term Expected Real Rate of Return		
Asset Class	June 30, 2021	June 30, 2020
Fixed Income	(0.30)%	2.29%
Domestic Equity	4.70	5.55
International Equity	5.00	7.69
Covered Calls	2.60	4.64
Crisis Risk Offset	1.95	3.78
Credit	2.10	4.08
Cash	(1.00)	1.92

### b) Discount Rate

The discount rates used to measure the total pension liability were 5.29% and 5.37% as of June 30, 2021 and 2020, respectively. The projection of cash flows used to determine the discount rate assumed that the City would contribute to the Plan based on its July 1, 2012 funding agreement with the System. This agreement suspended City contributions until the fiscal year beginning July 1, 2017, after which they would resume, based upon the recommendation of the actuary, with a City Charter requirement that the Plan's liabilities be fully funded by July 1, 2026. A cash flow projection showed that the projected fiduciary net position would be greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## c) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate, as well as what the Plan's net pension liability would be if it were calculated using a discount rate of 1-percentage-point lower or 1-percentage-point higher than the discount rate.

City's Net Pension Liability June 30, 2021			
	1% Decrease (4.29%)	Current Discount Rate (5.29%)	1% increase (6.29%)
City's net pension liability	\$ 171,086,474	\$120,046,315	\$76,004,962

City's Net Pension Liability June 30, 2020			
	1% Decrease (4.37%)	Current Discount Rate (5.37%)	1% increase (6.37%)
City's net pension liability	\$279,560,331	\$224,997,171	\$178,053,408

## 6. Reserves

Retired Member Contribution Reserve represents the total accumulated transfers from active member contributions and investments, less payments to retired members and beneficiaries.

Employer Reserve represents the total accumulated employer contributions for retirement payments. Additions include contributions from the employer, investment earnings and other income; deductions include payments to retired members and beneficiaries and administrative expenses.

The aggregate total of the System's major reserves as of June 30, 2021 and 2020 equals net position restricted for pensions and comprises the following:

Aggregate Total of the System's Major Reserves		
	2021	2020
Retired member contribution reserve	\$ 26,828,201	\$ 29,205,764
Employer reserve	431,704,674	249,768,926
Total	<u>\$ 458,532,875</u>	<u>\$ 378,974,690</u>

# Notes to the Basic Financial Statements

For Years Ended June 30, 2021 and 2020

## 7. Administrative Expenses

The City provides the System with accounting and other administrative services. Staff salaries included in administrative expenses for the years ended June 30, 2021 and 2020 were \$1,388,825 and \$1,257,550, respectively. Other administrative expenses including accounting and audit services, legal fees, annual report and miscellaneous expense for the years ended June 30, 2021 and 2020 were \$195,829 and \$265,360, respectively.

# Required Supplementary Information

## For Years Ended June 30, 2021 and 2020

### Schedule of Changes in the Employer's Net Pension Liability and Related Ratios (Unaudited)

	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>								
Interest	\$ 34,680,418	\$ 36,078,037	\$ 37,621,301	\$ 44,320,094	\$ 44,931,829	\$ 42,480,394	\$ 41,262,826	\$ 42,333,496
Differences between expected and actual experience	(7,375,711)	(5,699,459)	(7,915,210)	(10,656,139)	3,027,944	6,977,470	(21,208,627)	-
Changes of assumptions	-	-	(1,475,030)	17,858,013	-	43,480,232	34,219,433	-
Benefit payments, including refunds of member contributions	(51,697,378)	(54,619,079)	(56,212,013)	(55,998,595)	(57,375,815)	(58,441,353)	(59,007,536)	(57,409,113)
<b>Net change in total pension liability</b>	<b>(24,392,671)</b>	<b>(24,240,501)</b>	<b>(27,980,952)</b>	<b>(4,476,627)</b>	<b>(9,416,042)</b>	<b>34,496,743</b>	<b>(4,733,904)</b>	<b>(15,075,617)</b>
<b>Total pension liability – beginning</b>	<b>603,971,861</b>	<b>628,212,362</b>	<b>656,193,314</b>	<b>660,669,941</b>	<b>670,085,983</b>	<b>635,589,240</b>	<b>640,323,144</b>	<b>655,398,761</b>
<b>Total pension liability – ending (a)</b>	<b><u>\$579,579,190</u></b>	<b><u>\$603,971,861</u></b>	<b><u>\$628,212,362</u></b>	<b><u>\$656,193,314</u></b>	<b><u>\$660,669,941</u></b>	<b><u>\$670,085,983</u></b>	<b><u>\$635,589,240</u></b>	<b><u>\$640,323,144</u></b>
<b>Plan Fiduciary Net Position</b>								
Contributions - member	\$ 43,448,000	\$ 43,409,000	\$ 44,821,000	\$ 44,860,000	\$ -	\$ -	\$ -	\$ 4,441
Net investment income	90,191,309	6,996,833	21,557,961	35,446,275	50,158,795	(1,418,645)	5,438,586	66,392,409
Benefit payments, including refunds of member contributions	(52,697,378)	(54,619,079)	(56,212,013)	(55,998,595)	(57,375,815)	(58,441,353)	(59,007,536)	(57,409,113)
Administrative expense	(1,584,654)	(1,522,910)	(1,446,361)	(1,543,412)	(1,261,641)	(1,375,749)	(985,227)	(776,112)
Claims and settlements	908	132	13,856	9,145	70,282	3,593,096	-	-
<b>Net change in plan fiduciary net position</b>	<b>79,358,185</b>	<b>(5,736,024)</b>	<b>8,734,443</b>	<b>22,773,413</b>	<b>(8,408,379)</b>	<b>(57,642,651)</b>	<b>(44,554,177)</b>	<b>8,211,625</b>
<b>Plan fiduciary net position – beginning</b>	<b>378,974,690</b>	<b>384,710,714</b>	<b>375,976,271</b>	<b>353,202,858</b>	<b>361,611,237</b>	<b>419,253,888</b>	<b>463,808,065</b>	<b>455,596,440</b>
<b>Plan fiduciary net position – ending (b)</b>	<b><u>\$458,332,875</u></b>	<b><u>\$378,974,690</u></b>	<b><u>\$384,710,714</u></b>	<b><u>\$375,976,271</u></b>	<b><u>\$353,202,858</u></b>	<b><u>\$361,611,237</u></b>	<b><u>\$419,253,888</u></b>	<b><u>\$463,808,065</u></b>
<b>City's net pension liability – ending (a) – (b)</b>	<b><u>\$120,046,315</u></b>	<b><u>\$224,997,171</u></b>	<b><u>\$243,501,648</u></b>	<b><u>\$280,217,043</u></b>	<b><u>\$307,467,083</u></b>	<b><u>\$308,474,746</u></b>	<b><u>\$216,335,352</u></b>	<b><u>\$176,515,079</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>79%</b>	<b>63%</b>	<b>61%</b>	<b>57%</b>	<b>53%</b>	<b>54%</b>	<b>66%</b>	<b>72%</b>
<b>Covered payroll</b>	<b>\$ -</b>							
<b>Net pension liability as a percentage of covered payroll</b>	<b>N/A</b>							

Note: This is a 10-year schedule. Information for additional years will be presented when available.

# Required Supplementary Information

## For Years Ended June 30, 2020 and 2019

Schedule of Employer Contributions (Unaudited) (dollars in millions)										
	2021	2020	2019	2018	2017*	2016*	2015*	2014*	2013**	2012
Actuarially determined contribution	\$ 43.6	\$ 43.4	\$ 44.8	\$ 44.9	N/A	N/A	N/A	\$ 20.3	\$ 34.2	\$ 45.1
Contributions in relation to the actuarially determined contribution	<u>\$ 43.6</u>	<u>\$ 43.4</u>	<u>\$ 44.8</u>	<u>\$ 44.9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210.0</u>	<u>\$ 45.5</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ 20.3</u>	<u>\$(175.8)</u>	<u>\$ (0.4)</u>
Covered payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.1	\$ 0.1
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	210000%	45500%

\* Actuarially determined contributions are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year. Although actuarial valuations were performed as of June 30, 2014, June 30, 2015, and June 30, 2016, the System did not determine an actuarially determined contribution for FY 2015-2017, based on the City's funding policy.

\*\* In July 2012, the City of Oakland contributed \$210 million in Pension Obligation Bond (POB) proceeds to the Plan.

Schedule of Investment Returns (Unaudited)										
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Annual money-weighted rate of return net of investment expense	24.43%	2.04%	6.10%	10.57%	15.57%	-0.75%	3.90%	16.40%	9.70%	1.40%

# Note to Required Supplementary Information

## For Years Ended June 30, 2021 and 2020

### Note to Schedule of Employer Contributions

Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year in which contributions are reported. Methods and assumptions used to determine contribution rates are:

Methods and Assumptions Used to Determine Contribution Rates					
Fiscal Year	Valuation Date	Discount Rate	Cost-of-Living Adjustments	Mortality	Other Significant Assumption Changes from Prior Year
2021	6/30/2019	5.50%	3.25%	CalPERS Mortality Table from the 2012-2015 experience study, excluding the 15-year projection using 90% of Scale MP-2016	None
2020	6/30/2018	5.50%	3.25%		Longevity Pay assumption for Fire Members was added
2019	6/30/2017	5.50%	3.25%		None
2018	6/30/2016	6.44%	3.25%		None
2017	6/30/2015	6.50%	3.25%	CalPERS Mortality Table from the 2006-2011 experience study, excluding the 20-year projection using Scale BB	None
2016	6/30/2014	6.54%	3.25%		None
2015	6/30/2013	6.75%	3.975%	RP-2000 Mortality Table from the 1997-2007 experience study, projected with Scale AA	None
2014	6/30/2012	6.75%	3.975%		None
2013	6/30/2011	6.75%	3.975%		None
2012	6/30/2010	7.00%	4.50%	RP-2000 Mortality Table from the 1997-2007 experience study	None

A complete description of the methods and assumptions used to determine contribution rates can be found in the corresponding actuarial valuation reports.

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# SECTION 3

# INVESTMENT



*Lana Andrews*  
*Widow of*  
*William "Bill" Andrews*  
*Sergeant of Police*

*Served with Oakland Police Department*  
*1972 to 1997*

# Investment Consultant's Report



INVESTMENT GROUP

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Suite 300A  
Portland, OR 97210

503.226.1050  
Meketa.com

December 31, 2021

Retirement Board  
City of Oakland Police and Fire Retirement System  
150 Frank Ogawa Plaza, Suite: 3332  
Oakland, CA 94612

Dear Board Members:

This letter reviews the investment performance of the City of Oakland Police and Fire Retirement System ("the System" or "OPFRS") for the fiscal year ended June 30, 2021. During this 12-month period, the OPFRS total investment portfolio increased 24.4% on a money-weighted, net of fees basis. The System has been effective in using its resources in a cost-effective manner to ensure that benefits continue to flow to plan participants.

Meketa serves as OPFRS' independent investment consultant. Performance data is provided by the System's custodian, Northern Trust, and is independently calculated by Meketa's performance measurement team.

A major factor influencing overall investment performance is the allocation of the OPFRS portfolio across major asset classes. As of June 30, 2021, the Covered Calls, Cash and Domestic Equity classes were overweight, while Fixed Income and Crisis Risk Offset were underweight relative to policy.

Over the latest 3-year period, the OPFRS portfolio produced an annualized money-weighted, net of fee return of 10.2%, underperforming its benchmark's time-weighted return of 10.5% by (30) basis points. Over the latest 5-year period, OPFRS' average annual money-weighted net return of 11.4% outperformed the Policy Benchmark by 40 basis points.

## OPFRS Annualized Money-Weighted Returns As of 6/30/2021

	1 Year	3 Year	5 Year
Total Portfolio <sup>1</sup>	24.4	10.2	11.4
Policy Benchmark <sup>2</sup>	22.3	10.5	11.0
Excess Return	2.1	(0.3)	0.4

Sincerely,

David Sancewich, Managing Principal, Meketa Investment Group

<sup>1</sup> Money-Weighted & Net of Fees. Performance since 2005 includes securities lending.

<sup>2</sup> Evolving Policy Benchmark consists of 40% Russell 3000, 12% MSCI ACWI ex U.S., 33% Bbg BC Universal, 5% CBOE BXM, 6.7% SG Multi Asset Risk Premia, and 3.3% BB Long Treasury.

## List of Investment Professionals

### Domestic Equity Managers

Brown Advisory  
Earnest Partners  
Northern Trust Investments  
Rice Hall James and Associates

### Fixed Income Managers

DDJ Capital Management  
Ramirez Asset Management  
Reams Asset Management  
Wellington Management

### International Equity Managers

Strategic Global Advisors

### Investment Consultant

Meketa Investment Group

### Covered Calls

Parametric Portfolio Associates, LLC.

### Custodian

Northern Trust

### Security Lending

Northern Trust

## Investment Manager Fees and Other Investment Expenses

Years Ended June 30, 2021 and June 30, 2020

	2021	2020
<b>Investment Manager Fees</b>		
Domestic Equity Managers	\$ 508,064	\$ 446,280
International Equity Managers	251,072	175,856
Domestic Fixed Income Managers	259,176	231,887
Covered Calls	119,828	102,928
<b>Total Investment Manager Fees</b>	<b><u>\$ 1,138,140</u></b>	<b><u>\$ 56,950</u></b>
<b>Other Investment Fees</b>		
Custodian Fees	\$ 116,500	\$ 116,500
Investment Consulting	100,000	100,000
<b>Total Other Investment Fees</b>	<b><u>\$ 216,500</u></b>	<b><u>\$ 216,500</u></b>
<b>Total Investment Fees</b>	<b><u>\$ 1,354,640</u></b>	<b><u>\$ 1,173,450</u></b>

**Largest Stock Holdings (by Fair Value)**  
As of June 30, 2021

Stock	Fair Value
1. Apple	\$2,219,711
2. Microsoft	2,107,331
3. Amazon	1,523,991
4. Synopsys	1,509,399
5. Skyworks Solutions	1,435,824
6. D. R. Horton	1,342,717
7. CBRE Group	1,215,566
8. CMC Materials	1,206,523
9. Keysight Technologies	1,199,920
10. Intercontinental Exchange	1,174,062

Note: The above schedules do not reflect holdings in index funds. A complete list is available upon request.

**Largest Bond Holdings (by Fair Value)**  
As of June 30, 2021

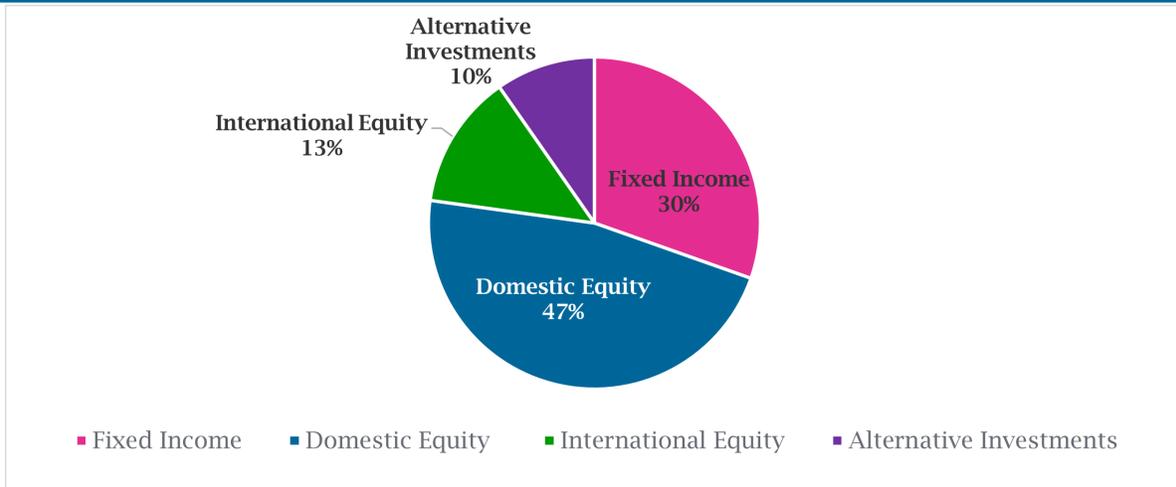
Description	Interest Rate	Maturity Date	Fair Value
1. U.S. Treasury	0.75%	03/31/2026	\$3,588,806
2. U.S. Treasury	2.75%	02/15/2024	3,483,334
3. U.S. Treasury	1.13%	02/15/2031	2,305,605
4. U.S. Treasury	2.00%	02/15/2023	2,109,898
5. U.S. Treasury	2.25%	11/15/2027	1,936,134
6. U.S. Treasury	1.13%	07/31/2021	1,821,629
7. North Shore Long Island Jewish Health Care	6.15%	11/01/2043	1,582,405
8. Metropolitan Transportation Authority New York	7.34%	11/15/2039	1,308,426
9. U.S. Treasury	1.13%	05/15/2040	1,122,266
10. U.S. Treasury	1.38%	08/15/2050	1,083,265

Note: The above schedules do not reflect holdings in index funds. A complete list is available upon request.

**Investments by Manager/Exchange-Traded Funds (ETF)  
As of June 30, 2021**

Investment Firm	Portfolio Type	Amount
<b><u>Fixed Income Managers</u></b>		
Reams Asset Management	Core Plus	\$ 29,354,805
Ramirez Asset Management	Core	78,984,777
Vanguard Long-Term Treasury Index Fund ETF	Long Duration	13,240,128
Wellington Management	Core	7,639,617
DDJ Capital Management	High Yield/ Bank Loans	9,177,195
<b>Total Fixed Income</b>		<b>\$ 138,369,522</b>
<b><u>Domestic Equity Managers</u></b>		
Northern Trust Investments	Large Cap Core	\$ 116,334,895
Earnest Partners	Mid Cap Core	46,718,093
MSCI USA Minimum Volatility (USD) Index Fund ETF	Crisis Risk Offset	21,455,561
Brown Advisory	Small Cap Value	21,455,561
Rice Hall James and Associates	Small Cap Growth	17,079,808
Transition Account	Short-Term	304,029
<b>Total Domestic Equity</b>		<b>\$ 212,962,149</b>
<b><u>International Equity Managers</u></b>		
Strategic Global Advisors	International	\$ 41,614,290
Vanguard Developed Markets Index Fund ETF	International	18,033,573
<b>Total International Equity</b>		<b>\$ 59,647,863</b>
<b><u>Alternative Managers</u></b>		
Parametric Portfolio Associates, LLC	Covered Calls	\$ 44,220,679
<b>Total Alternative Investments</b>		<b>44,220,679</b>
<b>Total Investments</b>		<b>\$ 455,227,213</b>

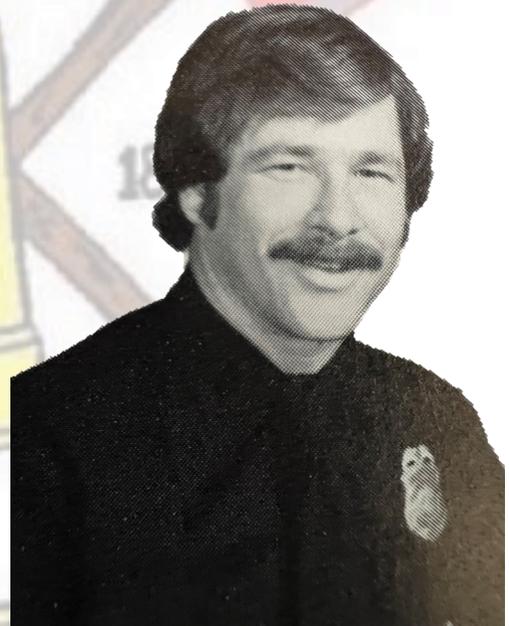
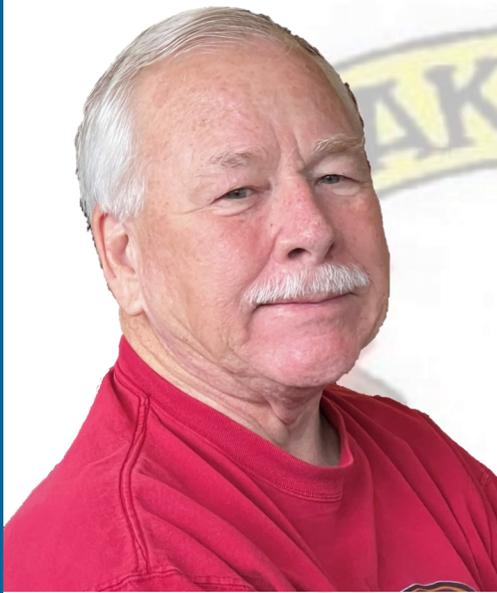
**Asset Allocation  
As of June 30, 2021**



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# SECTION 4

# ACTUARIAL



*Al Valcour*  
*Engineer of Fire*  
*Served with Oakland Fire Department*  
*1974 to 1990*

# Actuary's Certification Letter



Classic Values, Innovative Advice

## *Via Electronic Mail*

February 7, 2022

### **Actuarial Certification**

This is the Actuary's Certification Letter for the Actuarial Section of the Annual Report for the Oakland Police and Fire Retirement System (PFRS, the Plan) as of June 30, 2021. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation report as of June 30, 2020 (transmitted January 14, 2021) and the GASB 67/68 report as of June 30, 2021 (transmitted November 18, 2021).

### **Actuarial Valuation Report as of June 30, 2020**

The purpose of the annual actuarial valuation report as of June 30, 2020 is to determine the actuarial funding status of the Plan on that date and to calculate an actuarially determined contribution amount in accordance with the Plan's funding agreement with the City of Oakland. The prior review was conducted by Cheiron as of June 30, 2019.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution amount provides for current cost (normal cost and expected administrative expenses) plus an amount to amortize the Unfunded Actuarial Liability (UAL). All members of the Plan have retired, therefore no normal cost has been computed, and the actuarially determined contributions are equal to the unfunded liability amortization payment plus administrative expenses.

As part of the funding agreement with the City, the UAL is expected to be amortized as level percentage of overall City Safety payroll, with payments commencing in the fiscal year beginning July 1, 2017, and completed in the year ending June 30, 2026.

For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the Actuarial Value of Assets recognizes one-fifth of the difference between the expected asset value (based on the 6.00% return assumption for the current Plan year) and the actual market value each year. The actuarial value is restricted to fall between 90% and 110% of the market value.

The Retirement System Board is responsible for establishing and maintaining the funding policy of the Plan.

We prepared the following schedules, which we understand will be used in the Actuarial Section of the 2021 PFRS Annual Report, based on the June 30, 2020 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by Bartel Associates, who served as the actuary prior to 2013.



[www.cheiron.us](http://www.cheiron.us) 1.877.CHEIRON (243.4766)

# Actuary's Certification Letter

February 7, 2022

Page 2

- Statement of Actuarial Assumptions and Methods
- Summary of Participant Data
- Development of Actuarial Gain/Loss (Analysis of Financial Experience)
- Schedule of Funding Status
- Summary of Plan Provisions

The assumptions used in this report reflect the results of an experience study performed by Cheiron covering the period from July 1, 2014 through June 30, 2017 and adopted by the Board. The assumptions used are intended to produce results that, in aggregate, reasonably approximate the anticipated future experience of the Plan.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 27, 35, and 44.

## **GASB 67/68 Report as of June 30, 2021**

The purpose of the GASB 67/68 report as of June 30, 2021 is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the City of Oakland. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total Pension Liability (TPL) is based on the June 30, 2020 actuarial valuation updated to the measurement date of June 30, 2021. The update included the addition of interest cost offset by actual benefit payments.

Beginning of year measurements are based on the actuarial valuation as of June 30, 2019, updated to the measurement date of June 30, 2020. The June 30, 2021 Total Pension Liability (TPL) presented in the GASB 67/68 report was based upon the same data, plan provisions, actuarial methods, and assumptions as were used in the actuarial valuation report as of June 30, 2020.

Please refer to our GASB 67 report as of June 30, 2021 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the 2021 PFRS Annual Report based on the June 30, 2021 GASB 67/68 report:

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to the Schedule of Employer Contributions



# Actuary's Certification Letter

February 7, 2022

Page 3

We certify that the letter was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

## Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Plan. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

Cheiron utilizes ProVal, an actuarial valuation application leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect our reports.

These reports are for the use of the Plan, the participating employer, and their auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan and its auditors may rely on these reports solely for the purpose of completing an audit related to the matters herein. Other users of these reports are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. These reports do not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Respectfully Submitted,

Cheiron



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# Summary of Actuarial Value, Assumptions and Funding Methods

## PURPOSE OF ACTUARIAL VALUATION

The Oakland Police and Fire Retirement System (PFRS) is a closed defined benefit pension plan. It was closed to new members on June 30, 1976. As of June 30, 2020, there are no active members. All members are retirees and beneficiaries.

The actual costs of a defined benefit plan are determined entirely by the amount of the benefit promise, the actual salaries and service of the plan participants, and how long they and their beneficiaries live to receive payments. In addition, the actuarial methodology provides a reasonable plan, or method, towards funding the expected costs of the plan. This information assists the plan trustees so they can make informed decisions regarding plan investments and how much in contributions will be required from the employer to eventually fully pay for the plan's costs.

The most recent actuarial valuation was as of June 30, 2020. The key results of the actuarial valuation are as follows:

- The actuarially determined employer contribution amount for Fiscal Year 2021-2022 is \$43.8 million, based on projecting the Actuarial Liabilities and the Actuarial Value of Assets to the end of the 2020-2021 Fiscal Year. This represents a decrease of \$0.3 million from the estimated amount in the prior valuation for the same Fiscal Year. The contribution is assumed to be paid in equal installments throughout the year, or on average at approximately January 1, 2022.
- During the year ended June 30, 2020, the return on Plan assets was 1.85% on a market value basis net of investment expenses, as compared to the 6.00% assumption for the 2019-2020 Plan year. This resulted in a market value loss on investments of \$15.7 million. The Actuarial Value of Assets (AVA) is calculated as the expected AVA plus 20% of the difference between the market value and the expected AVA. This smoothed value of assets returned 6.53%, for an actuarial asset gain of \$1.9 million.

- The Plan experienced a gain on the Actuarial Liability of \$0.4 million, the net result of changes in the population and changes in benefits. Combining the liability and asset gains, the Plan experienced a total gain of \$2.3 million.
- A new Memorandum of Understanding (MOU) went into effect for Fire members since the previous valuation, changing Fire retirees' Cost-of-Living Adjustments (COLAs). This change in COLAs decreased the Actuarial Liability by \$6.5 million since the scheduled increases under the new MOUs were lower than the amounts originally assumed, in aggregate.
- The Plan's smoothed funded ratio, the ratio of Actuarial Value of Assets over Actuarial Liability, increased from 58.0% last year to 62.2% on an AVA basis as of June 30, 2020.
- The Plan's funded ratio increased from 61.8% to 63.5% on a Market Value of Assets (MVA) basis.
- The Unfunded Actuarial Liability (UAL) is the excess of the Plan's Actuarial Liability over the Actuarial Value of Assets. The Plan experienced a decrease in the UAL from \$261.8 million to \$225.5 million as of July 1, 2020.
- Overall participant membership decreased compared to last year. 28 members died, 15 of whom had their benefits continue to a surviving spouse. In addition, 17 surviving beneficiaries died. There are no active members of the Plan.
- If the contribution were determined using a projected asset value based on the current market (i.e., non-smoothed) value of assets, the contribution for FY 2021-2022 would be \$42.4 million. The contribution is smaller than that determined using the projected AVA, because the current market value reflects the full amount of recent investment gains, while under the AVA projection a portion of those gains are deferred until years after FY 2021-2022.

## VALUATION SUMMARY

Table I-1 below summarizes all the key results of the valuation with respect to membership, assets and liabilities, and contributions. The results are presented and compared for both the current and prior plan year.

<b>Table I-1</b>			
<b>Summary of Principal Plan Results</b>			
<b>(\$ in Thousands)</b>			
	<b>July 1, 2019</b>	<b>July 1, 2020</b>	<b>% Change</b>
<b>Participant Counts</b>			
Active Participants	0	0	
Participants Receiving a Benefit	798	768	-3.8%
<b>Total</b>	<b>798</b>	<b>768</b>	<b>-3.8%</b>
Annual Pay of Active Members	\$ 0	\$ 0	
<b>Assets and Liabilities</b>			
Actuarial Liability (AL)	\$ 622,836	\$ 597,014	-4.1%
Actuarial Value of Assets (AVA)	\$ 361,037	\$ 371,467	2.9%
Unfunded Actuarial Liability (UAL)	\$ 261,798	\$ 225,547	-13.8%
Funded Ratio (AVA)	58.0%	62.2%	4.3%
Funded Ratio (MVA)	61.8%	63.5%	1.7%
<b>Contributions</b>			
Employer Contribution (FY2020-21)	\$ 43,648	N/A	
Employer Contribution (FY2021-22)	\$ 44,091	\$ 43,820	-0.6%

## ACTUARIAL DEFINITIONS

The **Present Value of Future Benefits** (PVFB) is used for measuring all future Plan obligations, the obligations of the Plan earned as of the valuation date and those to be earned in the future by current plan participants under the current Plan provisions, if all assumptions are met.

The **Actuarial Liability** (AL) is calculated taking the Present Value of Future Benefits and subtracting the Present Value of Future Normal Costs under an acceptable actuarial funding method. Because the Plan has no active members, the Actuarial Liability is equal to the Present Value of Future Benefits (i.e., all benefits are fully accrued).

The **Unfunded Actuarial Liability** (UAL) is the excess of the Actuarial Liability over the Actuarial Value of Assets.

The **Actuarial Value of Assets** (AVA) is the value of cash, investments, and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an Actuarial Value of Assets is to smooth out fluctuations in market values.

## **ACTUARIAL METHODS AND ASSUMPTIONS**

### **ACTUARIAL METHODS**

The actuarial funding method used to determine the normal cost and the Unfunded Actuarial Liability is the Entry Age Normal cost method.

The normal cost rate is determined with the normal cost percentage equal to the total Projected Value of Benefits at Entry Age, divided by Present Value of Future Salary at Entry Age. Since there are no longer any active employees, the normal cost for this plan is \$0.

### **Actuarial Value of Plan Assets**

The excess of the Plan's Actuarial Liability (AL) over the Actuarial Value of Assets (AVA) is the Unfunded Actuarial Liability (UAL). In accordance with the Plan's funding agreement with the City of Oakland, the UAL must be amortized by July 1, 2026, with contributions resuming in the 2017-2018 fiscal year. The projected fiscal year 2021-2022 contribution has been calculated using level percent of pay amortization, based on total projected City payroll for all Safety employees.

### **ACTUARIAL ASSUMPTIONS**

The assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2014 through June 30, 2017 and adopted by the Board. More details on the rationale for the demographic and economic assumptions can be found in the Experience Analysis presented to the Board on February 28, 2018.

### Rate of Return

The expected annual rates of return, net of investment expenses, on all Plan assets are shown in the table below. The equivalent single discount rate for these returns using the Plan’s expected projected benefit payments is 5.37%.

Benefit Payment Year	Expected Return
2020 - 2026	6.000 %
2027	5.725 %
2028	5.450 %
2029	5.175 %
2030	4.900 %
2031	4.625 %
2032	4.350 %
2033	4.075 %
2034	3.800 %
2035	3.525 %
2036+	3.250 %

### Cost of Living Adjustments and Long-Term Salary Increases

Cost-of-living adjustments are based on salary increases for a retiree’s rank at retirement. The long-term rate of salary increase is assumed to be 3.25% (2.85% inflation plus 0.4% productivity). The following schedule shows salary increases based on the current Police contract which expires on June 30, 2023, and the Fire contract which expires on December 31, 2023. All increases shown after those dates are assumptions.

### Inflation

Post-Retirement Benefit Increases (Based on Salary Increases for Rank at Retirement)		
Date of Increase	Police	Fire
July 1, 2020	2.50%	N/A
January 1, 2021	N/A	2.50% /4.50% <sup>1</sup>
July 1, 2021	3.00%	1.50%
January 1, 2022	N/A	2.00%
July 1, 2022	3.50%	1.00%
July 1, 2023	3.50%	0.00%
December 1, 2023	N/A	2.00%
Annual Increases Starting July 1, 2024	3.25%	3.25%

<sup>1</sup>4.50% For Fire Engineers, 2.50% for all other Fire

The assumed rate of general inflation is 2.75% (entire US) and local inflation is 2.85% (Bay Area). The general inflation rate is used in the determination of the investment return assumptions. The local inflation rate is used in the determination of the growth in expenses and salaries (which determine the COLA increases).

### **Rates of Termination, Disability and Retirement**

None

### **Rates of Mortality for Healthy Lives (for service retirees and beneficiaries)**

CalPERS Healthy Annuitant Table from the 2012-2015 Experience Study, excluding the 15-year projection using 90% of Scale MP-2016.

### **Rates of Mortality for Disabled Retirees**

CalPERS Industrial Disability Mortality Table from the 2012-2015 Experience Study, excluding the 15-year projection using 90% of Scale MP-2016.

### **Mortality Improvement**

The mortality tables are projected to improve with the MP-2017 generational mortality improvement tables, with improvements projected from a base year of 2014 (the mid-point of the CalPERS base tables).

### **Survivor Continuance**

30% of disabled retirees' deaths are assumed to be related to injuries arising out of the performance of duty, entitling the surviving spouse to a 100% continuance.

### **Changes in Assumptions since the Last Valuation**

A new Memorandum of Understanding (MOU) went into effect for Fire members after the previous valuation, changing Fire retirees' Cost-of-Living Adjustments (COLAs). No other changes were made to the actuarial assumptions.

### **Administrative Expenses**

Administrative expenses for the Fiscal Year Ending June 30, 2021 are assumed to be \$1,645,600, growing at 2.85% per year.

# Membership Information

## Service Retired Participants

Age	Police		Fire		Total	
	Number	Total Annual Benefit	Number	Total Annual Benefit	Number	Total Annual Benefit
< 50	0	\$0	0	\$0	0	\$0
50-54	0	\$0	0	\$0	0	\$0
55-59	0	\$0	0	\$0	0	\$0
60-64	0	\$0	0	\$0	0	\$0
65-69	23	\$1,777,267	0	\$0	23	\$1,777,267
70-74	78	\$6,276,173	21	\$1,474,645	99	\$7,750,818
75-79	80	\$5,984,336	31	\$2,606,491	111	\$8,590,827
80-84	27	\$2,080,540	13	\$1,034,257	40	\$3,114,796
85-89	11	\$1,057,010	13	\$1,153,340	24	\$2,210,350
90-94	8	\$712,274	12	\$1,159,797	20	\$1,872,071
95-99	2	\$169,124	5	\$349,694	7	\$518,818
100+	0	\$0	0	\$0	0	\$0
<b>Total</b>	<b>229</b>	<b>\$18,056,724</b>	<b>100</b>	<b>\$7,778,223</b>	<b>324</b>	<b>\$25,834,947</b>

## Disability Retired Participants

Age	Police		Fire		Total	
	Number	Total Annual Benefit	Number	Total Annual Benefit	Number	Total Annual Benefit
< 50	0	\$0	0	\$0	0	\$0
50-54	0	\$0	0	\$0	0	\$0
55-59	0	\$0	0	\$0	0	\$0
60-64	0	\$0	0	\$0	0	\$0
65-69	3	\$216,288	8	\$564,708	11	\$780,996
70-74	50	\$3,801,265	29	\$2,011,326	79	\$5,812,591
75-79	30	\$2,137,626	34	\$2,617,554	64	\$4,755,180
80-84	11	\$831,149	16	\$1,370,309	27	\$2,201,458
85-89	5	\$425,200	4	\$304,430	9	\$729,630
90-94	0	\$111,785	4	\$355,113	4	\$355,113
95-99	0	\$0	1	\$65,195	1	\$65,195
100+	0	\$0	0	\$0	0	\$0
<b>Total</b>	<b>99</b>	<b>\$7,411,529</b>	<b>96</b>	<b>\$7,288,635</b>	<b>195</b>	<b>\$14,700,164</b>

# Membership Information

## Beneficiaries

Age	Police		Fire		Total	
	Number	Total Annual Benefit	Number	Total Annual Benefit	Number	Total Annual Benefit
< 50	0	\$0	0	\$0	0	\$0
50-54	0	\$0	0	\$0	0	\$0
55-59	1	\$50,602	1	\$85,277	2	\$135,879
60-64	3	\$170,562	4	\$212,960	7	\$383,522
65-69	14	\$816,499	5	\$320,391	19	\$1,136,890
70-74	27	\$1,364,399	16	\$897,233	43	\$2,261,632
75-79	29	\$1,520,104	17	\$1,013,126	46	\$2,533,230
80-84	12	\$658,412	17	\$1,016,633	29	\$1,675,045
85-89	16	\$1,086,277	22	\$1,114,420	38	\$2,200,697
90-94	24	\$1,356,037	27	\$1,479,502	51	\$2,835,539
95-99	4	\$194,177	8	\$435,205	12	\$629,382
100+	2	\$138,651	0	0	2	\$138,651
<b>Total</b>	<b>127</b>	<b>\$7,355,720</b>	<b>117</b>	<b>\$6,574,747</b>	<b>249</b>	<b>\$13,930,466</b>

# Membership Information

## Participant Data Summary

	July 1, 2018			July 1, 2019		
	Police	Fire	Total	Police	Fire	Total
<b>Active Participants</b>						
Number	0	0	0	0	0	0
Number Vested	0	0	0	0	0	0
Average Age	00.0	00.0	00.0	00.0	00.0	00.0
Average Service	00.0	00.0	00.0	00.0	00.0	00.0
Average Pay	\$0	\$0	\$0	\$0	\$0	\$0
<b>Service Retirees</b>						
Number	250	110	360	241	100	341
Average Age	75.0	80.8	76.8	75.7	80.9	77.2
Average Annual Benefit	\$77,420	\$77,216	\$77,358	\$76,879	\$80,605	\$77,972
<b>Disabled Retirees</b>						
Number	109	101	210	107	99	206
Average Age	74.2	75.6	74.9	75.2	76.4	75.8
Average Annual Benefit	\$73,959	\$72,635	\$73,322	\$73,598	\$74,879	\$74,214
<b>Beneficiaries</b>						
Number	133	134	267	127	124	251
Average Age	80.5	83.4	82.0	80.6	83.2	81.8
Average Annual Benefit	\$55,952	\$54,306	\$55,126	\$54,889	\$55,549	\$55,215
<b>All Inactive</b>						
Number	492	345	837	475	323	798
Average Age	76.3	80.3	77.9	76.9	80.4	78.3
Average Annual Benefit	\$70,850	\$66,976	\$69,253	\$70,261	\$69,231	\$69,844

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# In Memoriam



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***Oakland Police and Fire Department  
Retiree & Beneficiary Deaths  
Fiscal Year  
2020—2021***

**Fire Members**

Robert Allan	Retiree
Randal Bernard	Retiree
Dorothy Bovyer	Beneficiary
Alda M. Conner	Beneficiary
Mary Rose De Marco	Beneficiary
Barbette L. Graves	Beneficiary
Diane Green	Beneficiary
Roberta Heath	Beneficiary
Shirley Hill	Beneficiary
Robert Kenney	Retiree
Margaret King	Beneficiary
Ines Klingler	Beneficiary
Agnes D. Morrison	Beneficiary
Elaine Odell-Maier	Beneficiary
Patricia Opsahl	Beneficiary
Gino Pacini	Retiree
Lawrence Pinto	Retiree
James Powers	Retiree
Rose Prola	Beneficiary
Jeanne F. Ray	Beneficiary
Lawrence Ross	Retiree
Phyllis Spencer	Beneficiary
Robert Thorsen	Retiree
Lois Wilkinson	Beneficiary
Melvin Woolcock	Retiree

**Police Members**

Mary Alves	Beneficiary
John Beauchamp	Retiree
Richard Cademartori	Retiree
Delores Campbell	Beneficiary
William Carlson	Retiree
Cesar Celada	Retiree
Vaune Dillman	Retiree
Dennis Downum	Retiree
Lamar Dunster	Retiree
Donald Edwards	Retiree
Jacqueline Freitas-Hoeppner	Beneficiary
Victor Grant	Retiree
Robert Heritage	Retiree
Gloria Ann Kearns	Beneficiary
James Kennemore	Retiree
Jerry Kramer	Retiree
Evangeline Loey	Beneficiary
Raul Martin	Retiree
Patricia McCormac	Beneficiary
James McCuen	Retiree
Paddy McGrew	Retiree
Walter McIntyre	Retiree
Florine Mullins	Beneficiary
Elmer Pruitt	Retiree
Tillie E. Roehl	Beneficiary
Barbara Smith	Beneficiary
Valerie S. Smith	Beneficiary
Henry Tarabochia	Retiree
Steven Todar	Retiree
Winifred Walden	Beneficiary
Grace Wilson	Beneficiary
Artris Wiseman	Retiree

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# AGENDA REPORT

**TO:** Oakland Police and Fire Retirement System Board (PFRS)      **FROM:** David F. Jones  
Plan Administrator & Secretary

**SUBJECT:** Audit Committee Agenda Pending List      **DATE:** February 23, 2022

	SUBJECT	TENTATIVE SCHEDULED MTG DATE	STATUS
1	Staff Review of the 2006 Management Audit	TBD	Pending
2	Monitor & Update PFRS Board of Upcoming City Council Agendas Regarding Discussion of the 2026 Actuarial Funding Date	Ongoing	Ongoing

Respectfully submitted,

David F. Jones  
Plan Administrator & Secretary  
Oakland Police & Fire Retirement Systems