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City Auditor's Financial Analysis of Measure M

The Oakland Police and Fire Retirement System (PFRS) was established in 1951 to operate under local control with a Board of Directors. In 1976, the plan was closed to new participants while it was to continue to provide retirement benefits to sworn police and fire personnel remaining as members.

The PFRS Board continues to review and direct the plan investments relying on investment managers to invest PFRS funds in a diversified portfolio of investments in conjunction with oversight from financial advisors.

Currently, the City Charter does not permit the PFRS Board to make investment decisions solely in accordance with the prudent person standard prescribed by the California Constitution. The PFRS Board cannot invest more than 50% of the PFRS fund in equities and is limited from investing in stocks that have not paid dividends in the last five years. The Board may override this prohibition on a case by case basis. Accordingly, many stock growth investments may not be utilized and these investment restrictions prevent the Board and its investment managers and advisors from investing in the mix of instruments determined to be most prudent to maximize investment returns.

The plan has not been able to meet the assumed actuarial rate of return of 8% which has a direct impact on the overall unfunded status. The unfunded liability of the plan has grown from \$200 million to \$268 million based on a valuation of the plan at July 1, 2002 through July 1, 2005. The City of Oakland is responsible for the unfunded liability. Investment in growth securities may, when successful, reduce this unfunded liability.

The prudent person rule required by the State Constitution will provide the PFRS Board with the authority to implement investment strategies relying on the expertise of its financial advisors and investment managers. The prudent person standard is nationally recognized as the measure for performance of fund managers.

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