

REPORT

DATE ISSUED: July 3, 2007 REPORT NO: HCR 07-61

ATTENTION: Chair and Members of the Housing Commission
For the Agenda of July 13, 2007

SUBJECT: Proposed Revision to the Pension Plan Assets Policy

REQUESTED ACTION:

That the Housing Commission approves revisions to Policy PO000.401 as described in this report.

STAFF RECOMMENDATION:

Approve revisions to the existing Policy PO000.401 relating to the Defined Contribution Pension Plan. The revisions will clarify membership, responsibilities and procedures of the Pension Investment Committee and the authority of the President and Chief Executive Officer (CEO). These changes were recommended by the Housing Commission's Pension Consultant, Jane Barry of The Epler Company as part of her full review of the business documents related to the Defined Contribution Pension Plan. The revisions to the policy include:

1. Authorize the Investment Committee oversight of not only the Pension Plan, but also formally place the 457 Deferred Compensation Plan under its purview. The Investment Committee has overseen the 457 Plan; however, it was not specifically mentioned in the existing policy.
2. Reduce Investment Committee membership from eleven to seven in order to facilitate quorums; eliminate the mandatory requirement that all members be fully vested, which limits staff participation; and allow the CEO to appoint members for a two-year period rather than four years to encourage employee participation.
3. Clarify administrative procedures and responsibilities of the Pension Investment Committee.

BACKGROUND:

In 1979, the Housing Commission established an Internal Revenue Service approved Defined Contribution Pension Plan (Plan) to provide tax qualified retirement benefits to covered employees. In lieu of Social Security contributions, the Plan includes an employer contribution to the employee's individual retirement account of 14% of earnings and a separate participant voluntary contribution capability that allows employees to contribute up to 10% of wages through after-tax payroll deductions. The Plan has a broad variety of investment alternatives and provides for employee directed investment options. The Plan is administered by the President and Chief Executive Officer who is assisted by an

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advisory Investment Committee that makes recommendations. In 1979, the Housing Commission also implemented a voluntary Section 457 Deferred Compensation Plan.

In March 1996, the Housing Commission approved various revisions to the Commission's Policy for Investment of Pension Plan Assets. Those revisions provided the opportunity for each employee to invest in a wide spectrum of options based on individual needs and preferences. In March 2001 significant changes were made to the policy due to guaranteed investment contracts maturing, thus allowing the employees to further select their own investment tools and options and clarify procedural language.

Attachment A is a chronology of Housing Commission and Housing Authority actions related to the Plans and this Policy. Attachment B summarizes the major proposed changes to the policy, and Attachment C reflects the proposed policy annotated with the additions and deletions.

Respectfully submitted,

Approved by,


for Carrol M. Vaughan

Executive Vice President and
Chief Operating Officer



Elizabeth C. Morris
President & Chief Executive Officer

- Attachments:
- A) Previous Related Actions
 - B) Summary of Proposed Changes to Policy PO000.401
 - C) Proposed Revised Policy with changes noted

Attachment A

Previous Related Actions

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| October 12, 2006 HAR 06-019 | The Housing Authority approved the amended Housing Commission's Defined Contribution Pension Plan document and delegates authority to the President and CEO to implement all future mandatory legislative revisions and delegates authority to the Housing Commission for future optional changes to the Defined Contribution Pension Plan. |
| September 13, 2005 HAR05-010 | The Housing Authority authorizes the President & CEO to implement optional 457 Plan changes as provided for in the Economic Growth and Tax Relief Reconciliation Act of 2001 and Final Treasury Regulations and delegates authority to the President and CEO to implement all future mandatory legislative revisions and delegates authority to the Housing Commission for future optional changes to the 457 Deferred Compensation Plan. |
| May 14, 2002 HCR02-027 | The Housing Authority approved a Housing Commission recommendation to amend the Housing Commission's Defined Contribution Pension Plan document as required by the Community Renewal Tax Relief Act of 2000 and the Economic Growth and Tax Relief Reconciliation Act of 2001. |
| April 17, 2001 HCR01-044 | The Housing Authority approved a Housing Commission recommendation to revise Policy PO000.401 to expand flexibility of investment options, comply with new legal requirements and revise procedural language. |
| HCR01-044 April 23, 1996 | The Housing Authority approved a Housing Commission recommendation to revise Policy PO000.401 to allow greater diversification of selected investment funds for Pension Plan assets, and to provide employee-directed investment options. |
| March 11, 1996 (HCR 96-050) | The Housing Commission approved revision to Policy PO000.401 to incorporate changes to allow greater diversification of selected investment funds for Pension Plan assets, and to provide employee-directed investment options. |
| September 12, 1994 (HCR 94-102) | The Housing Commission approved an Investment Policy for employee Pension Plan assets (Policy PO000.401) which established the objectives of investments, types of investments permissible, and authority for placing investments, and authorized a formal Investment Committee, including the Chief Executive Officer, to make investment decisions for the Pension Plan assets. |

- June 7, 1993 The Commission authorized a contract with The Wyatt Company for consulting services related to employee benefit programs; a Section 457 deferred compensation plan; and the Pension Plan.
- September 18, 1989 The Housing Commission authorized the Chief Executive Officer to make investment decisions for assets of the Pension Plan.
- 1979 The Housing Commission established an Internal Revenue Service-approved Defined Contribution Pension Plan to provide tax qualified retirement benefits to covered employees and a voluntary Section 457 Deferred Compensation Plan.

Attachment B
Summary of Major Proposed Changes to Policy PO000.401

The major proposed changes to Policy PO000.401 are summarized as follows:

1. Policy Title – Renamed to “Investments – Pension Plan and 457 Investments and Administration” to include the administration of the 457 plan.
2. Section 1.4 – To include the Investment Committee’s capacity for administration of the 457 plan.
3. Section 3.1.A – Changes composition of the Investment Committee to reflect current titles, reduce the number of mandatory participants and delete requirement that committee members are fully vested.
4. Section 3.1.D – Authorizes the President and CEO to appoint two additional committee members in the event of corporate changes.
5. Section 4.E – Clarifies that non-directed participant funds will be invested according to Department of Labor Standards.

Attachment C

San Diego Housing Commission

POLICY

Subject: **INVESTMENTS -- PENSION PLAN & 457 INVESTMENTS AND ADMINISTRATION**

Deleted: ASSETS

Number: **PO000.401**

Effective: 9/26/94

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1. INTRODUCTION

1.1 The San Diego Housing Commission is an organization created in 1979 by the City Council. The San Diego Housing Commission's vision is to provide "An Affordable Home for Every San Diegan" and its mission is to "Provide Quality Housing Opportunities which Improve the Lives of Those in Need." Funds to support the Housing Commission programs are provided by a variety of Federal, State and Local sources.

1.2 The employees of the San Diego Housing Commission participate in pension plans that were established in 1979. The San Diego Housing Commission Pension Plan, is a "defined contribution plan" that provides an employee with the accumulated value of all agency pension contributions and interest earnings after meeting specific vesting requirements. The 457 Deferred Compensation plan provides tax qualified retirement benefits for employees who choose to voluntarily contribute to the plan. From this point forward, either Plan may be referred to as "the Plan" or "the Plans.

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1.3 All contributions are held in trust for the exclusive benefit of each participant. The Housing Commission recognizes the importance of these funds in providing primary retirement benefits to each employee. It also recognizes the differing investment needs of the Plan participants and that each participant has different risk tolerances and investment horizons.

1.4 The Pension Investment Committee authorized in Section 4 shall serve in such capacity for both the Pension Plan and 457 Deferred Compensation Plan.

2. INVESTMENT GOALS AND OBJECTIVES

2.1 It is the purpose of the Housing Commission's Pension Investment Policy to maximize individual participant investment flexibility and control over the assets in his or her account under these Plans. This Policy is intended to allow each participant to achieve maximum investment potential consistent with his or her basic objectives and risk tolerance and any transfer limitations established by the Plans' service providers. Therefore, the participants' and beneficiaries' individual investment direction shall take precedence over all other financial interests.

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2.2 In order to provide the greatest individual investment flexibility under the Pension Plans, the investment objectives will include the following:

- A. Assure a broad spectrum of investment alternatives are available to all plan participants.
- B. Allow each participant to invest in any combination of at least four or more professionally managed pooled funds in one-percent increments and to allow participants to further select individual securities and registered investment funds under a fully directed brokerage account option.
- C. Allow each participant to change the investment allocation of his or her account among the permitted investment alternatives at any time, or as limited by the providers.

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[Rev. 4/23/96, 3/23/01, 7/13/07]

Authorized: _____

POLICY

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Carrol Vaughan, Chief of Staff

Date

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- D. Allow each participant to change the allocation of future contributions made in his or her behalf among the permitted investment alternatives at any time, or as limited by the provider.
- E. Provide information on the objectives, risk and return characteristics and diversification for each managed pooled fund investment option.
- F. Provide information on the fund manager, a description of each fund's fees and expense charges and make prospectuses available for participant review.
- G. Provide information on each pooled fund's investment performance at least quarterly.
- H. Provide a default investment alternative that will minimize the risk of investment losses for those participants who do not elect to exercise independent investment control over their account, or fail to do so on a timely basis.

2.3 The Plan offers a broad spectrum of investment options and participant directed investments to allow employees greater investment flexibility and control. Although the Plan is not subject to the Employee Retirement Income Security Act of 1974 (ERISA), the Housing Commission intends to follow the guidelines under ERISA Section 404(c) for participant directed investments for purposes of establishing fiduciary relief for the Housing Commission from the investment results of each participant exercising control over the investment of his or her account.

3. AUTHORITY FOR INVESTMENT REVIEW

3.1 A. The Housing Commission has authorized an Investment Committee that is advisory to the President & Chief Executive Officer of the Housing Commission and the Housing Commission, with authority to make recommendations concerning the oversight, selection and monitoring of the Plan's investment alternatives. The Investment Committee will be comprised of the following positions and/or offices:

1. President & Chief Executive Officer (President & CEO) or Executive Vice President & Chief Operating Officer, (EVP & COO)
2. Director of Financial Services
3. One Supervisor appointed by the President & CEO to a two-year term,
4. Two full-time permanent employees appointed by the Union to a two-year term; and
5. Two full-time permanent employees appointed by the President & CEO to a two-year term.

B. In no event will the Investment Committee attempt to influence any participant regarding the selection of funds for that participant's specific situation.

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C. Each member of the Investment Committee shall have one equal vote. Appointment of Committee members should be staggered to ensure continuity and limit the number of new members at any one time. Bi-annually, the Committee shall elect a member to serve as Chairperson.

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D. The President & CEO retains the right to appoint two additional members in the event of corporate changes. In no event shall the Committee consist of an even number of members.

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E. The President & CEO or Executive Vice President will assign clerical support for recording minutes, posting of meetings, and other related tasks.

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3.2. The Investment Committee shall oversee the expenditure of investment management fees, custodial fees, consulting fees, transaction costs and other administrative investment costs. These fees and costs shall be reasonable and consistent with market rate fees for similar services. In addition, the Committee shall have responsibility to ensure the proper administrative procedures are in effect in order to comply with all provisions of plan documents.

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Deleted: 3.2. The Investment Committee is separate and distinct from the committee appointed to administer the Plan in accordance with Article X of the Plan Document.¶

3.4. The President & CEO, or designee, shall have the authority to enter into contracts in the name of the San Diego Housing Commission on advice of the Investment Committee for the benefit of the participants. The procedure for such contracting shall be delegated from the Housing Authority and/or the Commission.

A. Term of Contract and Annual Contract Limits. The President & CEO (or designee) may contract for a period of years as the President & CEO, in his or her discretion, may determine is in the best interests of the Plan participants. The President & CEO may contract for a limited number of years (e.g., one, two or three), with multiple options to extend the contract for services, at the option of the Housing Commission, as he or she, in his or her reasonable discretion, determines is in the best interest of the participants. The President & CEO, upon the advice and recommendation of the Investment Committee, may contract for services up to annual contract amount(s), as may be authorized, from time to time, by the Housing Authority and/or Board of Commissioners of the San Diego Housing Commission. Provided, however, any portion of each contract funded and paid for by the plan participants, individually or jointly, shall not be included for the purposes of the President & CEO's annual contract limit.

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1. Contract Provisions. Each contract shall provide for cancellation of said contract upon the failure of the Commission and/or Authority to provide funding for such contracts and upon reasonable notice to the contracting party. The performance of the contracting parties shall be reviewed and monitored not less frequently than annually and shall be subject to termination with or without cause, at the election of the President & CEO, upon recommendation by the Investment Committee. Terminations without cause shall be with reasonable notice to the service provider. Terminations with cause shall be without notice.

3.5 Commission and Authority Approvals. Due to the complex nature of regulatory requirements governing pension administration, the President & CEO, with advice from the Investment Committee, may enter into contracts in accordance with the provisions of Section 3.4 hereof. Selection of contractors, regardless of annual contract amount, may be through informal solicitations, requests for qualifications, or any other method allowed by the Housing

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Commission's Procurement Policy, including, in the appropriate instances, sole source procurement methods, competitive proposal methods (formal and informal), etc., provided adequate steps are taken to ensure that contracting is accomplished in a cost effective and productive method for the ultimate benefit of the participants and that the cost being paid for the services rendered is reasonable and in line with industry standards, taking into account factors such as experience, reputation in the industry, etc. Nothing contained herein, shall require the President & CEO to adhere to the recommendations of the Investment Committee, which shall be advisory in nature.

Deleted: n**4. ELIGIBLE INVESTMENTS**

- 4.1 All selected investment options must have liquidity and/or marketability to pay benefit amounts to participants utilizing that option when due under terms of the Pension Plan and the investment fund sponsor's provisions. Assets within each investment fund option are to be diversified by industry and issuer, unless industry concentration is specifically provided for in the fund's investment objectives and communicated to participants by the fund's prospectus and any related fund descriptive materials.
- 4.2 Each alternative must provide the ability to direct the investment of each participant's account as frequently as the market volatility dictates, but no less frequently than once within any three-month period.
- 4.3 Risk categories available for participant selection will include:
- A. Lower Risk/Return Funds: The objective of these funds is to preserve the safety of principal and provide a commensurate rate of interest or return. These investment funds should be typically invested in fixed income investments and safety of principal. Fund options may include Money Market Funds, Stable Value Funds and Short Term Government Bond Funds.
 - B. Medium Risk/Return Funds: The objective of these funds is to provide an opportunity for capital appreciation and higher levels of interest or return than generally available in the Lower Risk/Return Funds. These funds will generally be invested in highly liquid equity securities, fixed income investments or a combination of both equity and fixed income investments.
 - C. Higher Risk/Return Funds: The objective of these funds is to provide greater opportunity for capital appreciation. Income may be a secondary objective. These individual fund options may be invested solely in equity securities or higher risk fixed income options or a combination of these investments.
 - D. Highest Risk/Return Funds: The objective of these funds is to provide an opportunity for greater capital appreciation with correspondingly greater risk by the participant. These individual fund options may be invested in equities and fixed income options of smaller capitalized companies, international stocks, lower grade bonds, securities of a specific industry, securities of initial public offerings and other high-risk options.
 - E. Default Fund: When a participant fails to direct the investment of his or her account or fails to do so on a timely basis, the default investment election shall be in accordance with the Department of Labor standards.

Formatted: Bullets and Numbering**Deleted: the****Deleted: Money Market Fund.****Deleted: A Money Market account is not without some investment risk, but neither the Investment Committee nor the San Diego Housing Commission shall be responsible for any Money Market Fund investment losses.¶**

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4.4 A self-directed brokerage account option is specifically authorized for these Plans. The self-directed brokerage account may allow the participant to invest in an extended menu of registered investment funds, including industry specific funds, as well as individual stocks and bonds. The Committee recognizes this capability may involve higher risks, but this optional capability will only be offered in conjunction with other pooled separate accounts and registered investment fund options. Employees utilizing this option do so at their own risk and will be responsible for any fees incurred with this option.

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5. MONITORING AND REPORTING INVESTMENT FUND ALTERNATIVES

5.1 The Investment Committee will review the services provided by the Plans' selected investment fund providers at least annually.

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5.2 Each calendar quarter, the Housing Commission will receive from the investment fund provider and post a report comparison of each fund's investment performance and the similar performance of appropriate indices for communication to participants.

5.3 The Investment Committee will review existing fund and provider options at least annually to determine if new investment alternatives are appropriate or needed. Funds or fund families may be added or deleted if the Investment Committee determines changes are desired.

5.4 At least once each Plan year, reports concerning the individual employee's accounts will be distributed to each employee by the investment fund provider. These reports will reflect individual contributions by the Housing Commission and the employee, any investment earnings for the period, the employee's vesting in his or her account for each of the participant's elected investment options.

5.5 The Director of Financial Services will report to the Housing Commission annually pertinent information regarding the pension fund as reflected in the Annual Agency Financial Audit Report.

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6. CUSTODIANSHIP OF INVESTMENTS

6.1 The Housing Commission may choose to utilize the services of a third party administrator due to complex nature of governmental pension regulatory requirements. The third party administrator will be responsible for the maintenance of the individual employee pension records, crediting interest and earnings at least quarterly from statements received from investments of pension plan assets, calculation of employee distributions, providing annual reports to employees concerning changes in amounts and vesting, and providing information for annual reporting to state and federal regulatory authorities as required.

7. INSURANCE PERMITTED

7.1 Insurance. The Housing Commission may obtain and maintain insurance regarding the Investment Committee and its members as it may, from time to time, determine is appropriate, if any.

Recommended this _____ day of _____, 2007.

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For the Pension Plan Investment Committee

History:

Adopted: 9/26/94

Revised: 10/3/95

Revised: 4/23/96

Revised: 3/23/01

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