

SDCERS BOARD MEETING November 18, 2005

*Reported by Patricia Karnes (Notes are my understanding of what happened - PK.)*

IMPORTANT ITEMS for future March 2006 SDCERS Board Meeting:

Morning session- page 2: "BrownArmstrong's Findings and Recommendations"

Afternoon session- page 2: "New Actuary is Cheiron"

MORNING SESSION 8:30A.M.

FINANCE AND INVESTMENT Meeting

Bill Lopez, City Manager representative, resigned due to conflict of interest with his additional new responsibility as Labor Relations negotiator. President Peter Preovolos commented on Lopez's recognition of his fiduciary responsibility to SDCERS. Lori Chapin, SDCERS' attorney said it was not clear with the new strong Mayor system, when or who would be appointing his replacement. New Council appointee, James Hearty will start in December.

An election is in process to replace John Torres, general employee member representative, who resigned last month.

FINANCIAL STATEMENTS FOR JULY AND AUGUST 2005

Doug McCalla pointed out that there is an accounting delay when buying/selling due to a delay in "settlement dates", and therefore don't confuse statements with "net plan assets".

HEALTH RESERVE

The health reserve is exhausted and the City is paying this directly now from the General Fund.

OFFSET

Reserve for employee contribution will be exhausted about February 2006. Then, the employee deduction will go up and paychecks will look smaller by 3 ½ % of pay. There will be a smaller City paid offset next year.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

Status of 2004 CAFR- There was a learning curve for Brown Armstrong, SDCERS' new financial auditor, complicated by on-going City investigations of the pension fund and higher auditing standards created by Sarbanes-Oxley legislation.

Their key person is Andrew Paulden. Preovolos told Hebranks that Brown Armstrong is waiting for Navigant and perhaps the other investigators to finish investigations.

NEW ASSISTANT RETIREMENT ADMINISTRATOR

Bob Wilson recently transferred from the City Auditor Controller to be Assistant Retirement Administrator, filling in deceased Paul Barnett's position. As a first step, Wilson will be the new champion of SDCERS' efforts to centralize all accounting functions. Three more City accounting staff, who worked on SDCERS accounts in the past, just completed their physical relocation to SDCERS. They will be dedicated to meeting the items on the list below. The intention is to make them SDCERS' staff. SDCERS was paying their City salaries, anyway.

## BROWN ARMSTRONG'S FINDINGS AND RECOMMENDATIONS

Wilson is following up on the Brown Armstrong's current year findings and recommendations for SDCERS:

- 1) Centralize all accounting functions and reconcile all subsidiary records to the general ledgers on a monthly basis.
- 2) SDCERS is now setting up a separate bank account so SDCERS/City staff can prepare monthly bank reconciliations for the cash with City account.
- 3) On-going installation of a new electronic filing system, of the participants' files, is enabling better control of the files.
- 4) Notification of unclaimed deposits to terminated members. (Wilson said the 8% interest keeps money there.)
- 5) Obtain birth and marriage certificates.
- 6) New system in place to identify deceased monthly. (There is a backlog of approximately 50 cases needing research of survivors.)
- 7) Wire transfers to City payroll for additional payroll cost.
- 8) Develop new policy and procedures for wire transfers and comprehensive list of money movements between managers.
- 9) Add personal trading and other conduct issues to City's Code of Ethics that SDCERS currently uses.
- 10) Include insurance provisions in all future vendor contracts and annual verifications.
- 11) Reconcile market and cost basis of investments from money managers to SDCERS custodial bank for accuracy. Record cost basis consistently.
- 12) Establish purchased service receivable.
- 13) Annually update authorized signatories for expenditure payments.
- 14) Develop formal expenditure payment policies and procedures and controls. (Brown Armstrong could not locate these papers.)
- 15) Finalize and have the Board approve all Certification of Surplus Undistributed Earnings even for years there are no such earnings.
- 16) Ensure work paper files are detailed and adequately documented and maintained for Undistributed Earnings.
- 17) Review procedures in event there is a deficit in the Undistributed Earnings. (Year 2003 was the first year in history to have a deficit of earnings, resulting in uncertainty for recording and the waterfall, etc.) (See the "13th Check and Corbett Discussion" in the afternoon session.)
- 18) Obtain Board approval for all significant financial transactions.
- 19) Secondary review of significant journal entries, regardless of preparers's position to avoid errors in entries. (Will start multi-review of different kinds of transactions and will use the staff transferred over to SDCERS..)
- 20) SDCERS enlist aid of their actuary, or another independent third party, in calculating the City employer contribution prepayment and obtain Board approval. SDCERS administration feels this is moot because MP 2 was repealed.
- 21) SDCERS will notify Plan Sponsor when their MOU is in conflict with the Municipal Code or Participation agreement.  
(Sullivan was concerned about the MOU not giving the correct information as used by employees. The offset arrangement is inconsistent in the MOU documents published by the City. Offsets were

- done according to Ordinances. Documents were not tied to Ordinances by the Labor Relations Office. Prevolos asked what a MOU was...Meyer added it is part of the Brown Act, so it is structural.)
- 22) Interest crediting procedures on Employee reserves.
  - 23) Interest crediting procedures on Employer reserves.
  - 24) Timely transfers from active reserves to retiree reserves.
  - 25) Physical controls over checks as two retiree checks sent to Brown Armstrong in error.
  - 26) Formalize procedures and controls over Prior Service Credit Contracts.

## CORBETT AUDIT

Wilson explained that Corbett referred to eligible salary components used to figure retirement. Those retiring after July 1, 2000, received their amounts in their monthly check. Those retired, pre-July 1, 2000, "...have 7% of their base amount deposited monthly into a retiree Corbett account in the SDCERS Membership Benefit (MBS)". The problem is that the pre-July 1, 2000 retirees are dependent on the "waterfall" for their amounts. Grissom said there had been spirited Board discussions, in the past, about Corbett's liability being included in SDCERS' liability. Grissom would like to reduce work, and errors, by issuing the check monthly, not yearly. Chapin said options were limited by Municipal Code issues, which have made this an administrative nightmare. Sullivan asked what was the benefit to the City, as it was up to the City Council, and asked if it would save administrative costs for SDCERS. Grissom said that if Corbett was recognized as a liability, that it would not be a surprise for the City. Prevolos added that it now created tax consequences of re-opening estates of the deceased. Flynn said that when accumulated years of Corbett are paid in one year, it becomes a tax burden for retirees. He noted that retirees don't earn interest on the delayed payments, but SDCERS does make interest on the unpaid Corbett funds. There is a decreasing group of people receiving Corbett, in the range of \$5.4million annually.

In an Executive Summary, from Kyle, Elser, Internal Audit Manager, sent to Kipperman, Chair of the SDCERS Audit Committee, dated Sept. 20, 2005, regarding Corbett payments of November 2004, it was revealed that there were detailed problems in carrying out payments. Finding #3 "There is not an effective process in place to communicate to the City when SDMC language results in benefit inconsistencies and to determine if the issues should be resolved administratively or require SDMC modifications." page 15. In response to Kipperman's question, Grissom said the current MBS system wasn't built to incorporate yearly payments, such as Corbett. Flynn said that MBS was a powerful argument to change Corbett payments.

## DISCUSSION ON CONTINUING NAVIGANT DUE TO HIGHER COST

Navigant is exceeding expenses... by 40% or 50% of \$1.7million

Item II.1.A.4. Lawyer, Fred Reish, who hired Navigant for SDCERS, in order to maintain "an independent investigation" and retain attorney-client privilege for SDCERS, has asked Navigant for a break out of component parts of the increase. The problem is how much the Board be told and not let the media have access. Initial reasons given by Navigant are increase in interviews from 25-30 to 100 or more interviews and 5 to 10 times the number of documents usually needed to review.

James Waring expressed belief that Navigant is playing a common game played by investigators so he suggested stopping Navigant's investigation of SDCERS as redundant to other investigations. He also thought it would not change SDCERS' policies, and SDCERS had moved beyond the need to investigate. Tom Hebranks was concerned there were only 5 interviews in 30 days. Fred Reish said

that SDCERS had made a deal directly with Navigant before SDCERS hired his law firm. Reish was concerned that the report would be challenged because a number of people refused to be interviewed. Flynn pointed out that if Navigant is terminated, questions will be raised: why stop? What were you finding? And it will fuel the fires that called for the investigation in the first place. Meyer wondered why Navigant thought it was a "usual" investigation...it is anything but usual.

A Board comment: Probably have the report by the time the Board decides not to proceed. Reish added that the Board had a residual responsibility to clean this up, how else will they know what happened. Kipperman said to do it, don't abandon it as it stands, there would be political fallout. Sheffler agreed with Kipperman and Meyer. Sullivan pointed out that Navigant is only a preliminary investigation, Kroll and government investigations are continuing.

This information agenda item was continued to December, in order to make it an action item.

(Preovolos seems to understand that there is a connection between Navigant's investigation and SDCERS own auditor's releasing SDCERS's June 05 audit, as well as, KPMG releasing the City's audits.) Preovolos added that the trustees who came in April are more sensitive to liability.

Further, many on Navigant's list of interviewees are now refusing to be interviewed (some are under indictment), confusing the process, so Navigant is requesting copies of interviews from Kroll, etc.

It was noted that Navigant's investigation has released the Board from continued political harassment. Preovolos added that the greatest point is the personal assurance that if there were illegal acts, that they are corrected. He noted that the past Mercer report found Board members outstanding.

#### INVESTMENT AND STATUS REPORTS- Doug McCalla

There have been extra withdrawals of DROP funds, it is possible that bridge funds may be needed to fully fund real estate goals. Meyer was concerned about the affect of DROP withdrawals on future investment returns.

#### CUSTODIAL BANK

RFP for custodial banks are due back November 29th. Callan Associates is negotiating for SDCERS. Callan is using the types of questions suggested by the SEC and the Department of Labor. The Board needs to do a timely review and be ready to go by February 2006.

#### INVESTMENT CONSULTANTS SCARE DROP RETIREES

Board expressed concern regarding inaccurate advertisements sent by outside investment consultants to DROP retirees/employees that DROP funds were accessible by the City.

#### STOCK INVESTMENTS

McCalla said it was important not to take advantage of investment information from SDCERS at the expense of participants. It was not ethical to "front run the trade" before SDCERS made purchases, or the reverse when selling. SDCERS is not allowed to buy or sell individual stocks, etc. SDCERS only receives statements after that event. He suggested a review of ethics policy and if they might or might apply to SDCERS.

Terms:

Beta 1 is stock holdings going up and down in proportion to the market.

(When you go up and down faster than the market, the number is greater.)

1 Alpha is how much more your manager's decisions add make over and

above the market performance.

#### DISCLOSURES

Discussion of verbal disclosures to the Board by Callan and Townscend. There were 20 pages in the Trustee packet regarding disclosure policies, such as "Summary of Callan's Manager Relationship Disclosures", "Products and Services for Investment Management Firms", etc.

Ennis Knupp & Associates were retained August 11, 2005 to monitor Board investment activities, serve as additional layer of oversight, and provide independent advice to the Board regarding the Pension Funds investment practices in comparison to best practices of other similar institutional investors. They gave SDCERS a good report.

#### RETURNS ON INVESTMENTS

Callan reported 4.49% quarterly returns.

Positive equity market forging ahead. Conflicting reports of indicators. Eight out of ten indicators are up. Appears small caps are doing well. Value stocks are doing better than growth stock. Emerging markets are up 18.1% for the quarter. Interest rates are rising on bonds from 3.75% to 4%, so bond prices are down 7% for the quarter.

SDCERS ranks 9th in the nationally in the public fund peer group. While the bench mark was 13.25%, SDCERS is up 15.5% for the year. Eight out of ten managers out perform bench marks. Callan noted that other funds have different revenue streams and risk tolerance. SDCERS is 38% domestic equity, other funds have higher percentages of domestic equity. Only half the funds have real estate. In relative performance, in comparison to other funds, asset allocations drive returns. The absolute return is different.

Fixed income for SDCERS is designed to be less volatile, but adjusted for risk. Its performance is high and efficient. SDCERS portfolio is getting the highest return for the risk level the Board is taking. Should there be an adjustment of that risk?

Prevolos asked Callan/Krupp to prepare a report for December on derivatives, risks, and rewards from their perspective. Meyers asked staff to add their commentary on derivatives also.

#### REAL ESTATE REPORT BY TOWNSCEND

Recommended moving from REITs, due to the increased interest rates, into enhanced and high return opportunities though co-mingled funds. As the interest rates rise, strategic use of leverage will become less profitable. The new direction is to design for a dynamic real estate market, benefit from current trends and mis-pricing, and better diversification. Townscend will present possibilities in 2006.

#### MOTION TO PASS IMPLEMENTATION OF SDCERS' FINANCIAL STRATEGIC PLAN

Pass 9 to 3.

#### PREVOLOS REPORT ON CONFERENCE

"Pensions in Crisis: three pillars of solutions" was held at Washington D.C. SDCERS is known all over the country. Never so many high level players who stayed for the two whole days. The world population is aging all over the globe. Netherlands is perhaps the most financially responsible country as they treat pensions as if they were individual insurance policies.

AFTERNOON SESSION 1:30p.m.  
OPERATIONS

LEGAL SERVICES

Lori Chapin reported that it has not been possible to get any technical correction ordinances in front of the City Council, in the last year, to update retirement sections of the Municipal Code that were written in the 1930's.

DROP DISTRIBUTION PROJECT

David reported that 1580 people had been notified. As forms are returned they are scanned electronically into SDCERS' new system. Grissom said that until the City Council clarifies the interest rates, that the interest rate will stay at 8% until December 2006 on lump sums. Sullivan was interested in knowing if the City Council intended the 8% interest as a benefit. Flynn also had questions from members confused about SDCERS' interest rate in the future.

Meyer wanted the City Council to clarify the controversy over what the Municipal Code intended:

- 1) Did SDCERS have sole authority?
- 2) Was the rate fixed at 8%?
- 3) Was the rate tied to SDCERS' assumed rate of return, or something else?

PRESIDENT PREOVOLOS' REPORT FROM 4-1-05 to 11-1-05

The Board does not set benefits. It only administers benefits. It invests and maximizes returns, but the City, as Plan Sponsor, is responsible for shortfalls of funding. The Board can make efforts to act in member's interests and otherwise correct policies, etc., as well as, cooperate with the City and outside investigators. To move forward, Board members need to understand SDCERS' past, and adjust current practices to reflect changes in the industry and law. Finally, the Board needs to create and plan to build strength where there is weakness and success where there is potential.

Preovolos inventoried Board actions:

- Field Declaratory Relief action.
- Released 60,000 plus documents.
- Navigant Consulting, Inc. "illegal acts" investigation in MPI and MPII.
- New actuary for SDCERS is Cheiron, Inc.
- Retained outside advisor to evaluate past and present investments practice to ensure that they are prudent, maximizing return at appropriate risk level.
- Approved settlement for policy limits and fee division agreement of SDCERS vs. Hanson and Bridget.
- Began to explore the concept of establishing a self-insurance fund to provide indemnification, under appropriate circumstances, for members of the Board and staff to protect the recruitment of future Board members and to be able to attract and retain qualified individuals, to serve on this Board, and to protect them from personal exposure.
- Address issues of the DROP program.
- Executive search firm hired to find a new Retirement Administrator.

- Actuarial reports for the City, Airport and Port.
- Sheffler added the Tri-annual review of actuarial assumptions.

Continue to develop comprehensive plan to move SDCERS out from a cloud of suspicion. Present a list of proposals to do that to the Board in December and formally vote on it in January.

#### PROPOSAL FOR LEGAL SERVICES

RFP out for legal services. Pleased with quality of four firms, (particularly the fiduciary counsel area, real estate counsel, and tax counsel).

Listed in the Board Packet: Stafel, Levitt & Weiss, P.C.; Pillsbury, Winthrop, Shaw, Pillman, LLP; Sullivan, Hill, Leivin, Rez, & Engel, APLC; Cox, Castle, Nicholson, LLP (only for real estate).

Prevolos appointed a panel to do the interviewing: Kipperman, Meyer, Waring, Thomson and Prevolos.

#### NEW ACTUARY IS CHEIRON (pronounced Ki-ron)

This was the initial meeting of a Cheiron representative with the Board. Cheiron has a team approach and different philosophical style. They plan to give SDCERS the highest priority due to their situation, and focus on the long term financial condition of the system, the IRS review of SDCERS' plan, DROP, "415", etc. They include a peer review to give complete answers and a built-in second opinion. The Cheiron representative said that actuaries are more like a weatherman predicting a hurricane or navigating a stormy sea in an ocean liner, rather than reading a crystal ball.

In contrast to the previous year, Cheiron does projection analysis in addition. The presentation to the Board will be educational, so they can understand, rather than the Board blindly trusting Cheiron as an authority.

The 2005 valuation results are expected by the end of February, after first testing last years' data and programming. They will give the Board information on costs, liabilities, and perhaps projection models, at the March meeting. A report will follow after the Board has a chance to ask questions and look at data.

Key question: What is the ratio of assets to liabilities? Sample of their computer program in action: If the 8% rate of return continues after 29 years, and the City pays 24/25% of payroll, SDCERS will be 99% funded.

Cheiron added that traditionally retirement systems have looked at too short a term. Funding is a long-term proposition, to look at it in one year is very volatile and misleading, and adds risk to the plan sponsor (City) for future required contributions.

Questions:

Waring asked how to guide political bodies in cherry picking for a lower required contribution?

Cheiron replied, show them the long term death spiral. This is the power of using Cheiron's computer projection program at negotiations.

Sullivan said that it wasn't a weather problem in San Diego, but a political problem.

Sheffler asked about the probability of attaining a certain funding level.

Cheiron said they would pick a set of assumptions and run the program 500 times to come up with the probability of attaining full funding.

When Cheiron ran the old Board's MPI vote in 1996, the range of risk came up 25% chance of bankruptcy and a 50% chance SDCERS' funded ratio would be 25%.

Sheffler responded that if the old Board had known there was a 25% chance of disaster that they might have voted differently. At that time, actuary Roeder could only guess and he didn't take into

account the chance of market reversals.

Sullivan congratulated Cheiron, saying "You have just earned yourself a subpoena, I'm sure".

Prevolos added, that subpoenas were a badge of honor around SDCERS.

Grissom pointed out that, at the risk of another subpoena, there is now a 220% different environment that last year on the Board, because the old Board relied on management and labor to take data to the City Council. Grissom recommended that in the future, the Board should take Cheiron to the Council, send minutes with data to the Council, or send the Council a bill. Long overdue to do this. Waring suggested an educational workshop for employees and Council.

### 13th CHECK and CORBETT DISCUSSION

Board authorized less than \$4,500,00 for the 13th check and less than \$5,600,000 for Corbett, pending certification of the schedule of surplus undistributed earnings for FY 2005.

Grissom said the use of the word "surplus" was misleading. The whole concept was wrong and that one of the major factors in being underfunded (UAAL) is that the waterfall payments are based on the premise that the money is to be spent. The City must understand that the payment of the 13th check, he continued, is the payment of a benefit, and it ultimately increases employer contributions. He wanted Cheiron to move the Supplemental Cola, established in 1998, out of "reserve" and be part of the system as a benefit. The Employee contribution reserve, of \$35 million, was created as a benefit to balance the Supplemental Cola. The Supplemental Cola is capped at the value of the reserve. Grissom added that the City actually harmed itself by pulling out the \$35 million from the system and increased the employer contribution.

McCalla gave a historical context. Before the pension funds could invest in stock, return was interest, realized gains were unusual and not a planned income. So they were thought of as "extra" over expectations. Now we reinvest and put that money back to work, so it is expected to earn income. It would help to raise the percent of the funded ratio. It is possible, that if the City Council allowed this reserve is invested, it would be more than enough for Supplemental Cola and help the UAAL. Also ask the Council to make the Corbett non-contingent to ease administrative problems. In addition Corbett requires hiring an outside auditor to verify there is enough realized gains to pay it. Meyer said this would remove fiscal terrorism for retirees.

In response to Waring comments, McCalla said the definition of "surplus" was traditional "realized earnings" and did not mean "extra" in this context. Chapin added that the definition of 'surplus' could not be changed.

Kipperman suggested Corbett "may be paid monthly". But the Board had concerns regarding vesting, use of "may", and the impact on the court settlement. Chapin noted that the Board could find that they would never pay the waterfall. Thomson said that if the Board went with Waring, then the Board would find themselves in court.

Flynn pointed out that long term planning was difficult with the four year election cycle. The 13th check and Corbett were for a "closed group", and retirees would be impacted if they were not to receive them. He noted that there are many patches to the system, without a comprehensive review. He asked if SDCERS would be fixing the current accounting system to process Corbett with less difficulty?

Sheffler stated that it was a very artificial arrangement. He said the Pension Reform Committee recommended that they should all be in the UAAL, so that the funding streams are straight.

Meyer said that the goal was to get rid of the waterfall.

Grissom's staff recommendation was to:

1) Communicate to the Mayor/Council to confer Corbett to non-deferred benefit paid monthly.

Grissom' report said that these recommended changes may require approval of both City and eligible retirees to the Corbett litigation, and subsequent amendment of the Municipal Code by the City Council.

2) Direct the actuary to determine the present value of the 13th check benefit for the now closed group, including the expected value of this benefit in system liabilities; and, recommending to the Mayor and City Council that benefits be vested. The report went on to say that the 13th check was an alternate method, in the 1980's, to dividing and sharing realized gains between retirees and the retirement system. For most the benefit is \$30 per year of service credit, payable in November of each year, contingent upon having sufficient undistributed earnings (not met in 1992, 2002, and 2003, in which case reserves were used to pay it). Recently eligibility was closed to those hired on or after June 30, 2005.

3) Direct the actuary to determine the present value of the Supplemental Cola for the closed group eligible for this benefit; including the expected value of this benefit in the system liabilities (not to exceed allocated funds); and moving the reserve allocated to fund this benefit into system assets. In 1998, for pre-June 30, 1982 retirees, who were less than 75% of purchasing power of their original benefit level, it was contingent if money. On June 30, 2005, the reserve was \$17.8 million and not included in the UAAL.

#### DESIGNATION OF AUTHORIZED SIGNATORIES

Passed 9-0. Bob Wilson added to authorized signatures.

Board packet information is noted here:

Over \$25,000: President Prevolos and Vice President Meyer.

Under \$25,000: Add Retirement Administrator, Grissom.  
Assistant Retirement Administrator, Bob Wilson.

Business Documents and Investment activities:

Add Chief Financial Officer, McCalla.

Assistant Investment Officer, Dawne Clark.

Settle lawsuits and claims:

Any amount with prior Board approval: President, Vice-President,  
Retirement Administrator, Assistant Retirement Administrator.

Without Board Approval and between \$5000 to \$20,000: President and V.P.

Less than \$5000 and prior to Board approval: Retirement Administrator  
and Assistant Retirement Administrator.

#### PUBLIC RECORDS REQUESTS

New procedures passed 9-0.

Board Packet information:

Requested records must be focused, specific and identifiable. SDCERS will help identify, describe information technology and physical location of records and suggest ways to overcome any practical

basis for denying access to the requested records. Request will be forwarded to Legal Services Division for review for member privacy, etc . Response in 10 days. Cost: 25cents a page, or cost of programming and computer services to produce.

#### DISABILITY RETIREMENT COMMITTEE

A disability committee of five was appointed: Sullivan, Sheffler, Preovolos, Meyer and Hebrank. They will consider staff and adjudicator recommendations on disability retirement matters, with all public comment and argument at that committee's public monthly meetings. The Brown Act does require public comment, but only at the committee level. The comments cannot come again to the full Board before the Board votes to approve or disapprove this committee's recommendation. Flynn hoped that the disability applicant would have more than a three minute window to make comments on their situation. Preovolos said that decision was up to the committee.

#### CONFIRMATION OF CONTINUED DISABILITY ELIGIBILITY AND POTENTIALLY FRAUDULENT DISABILITY CASES.

The Final Report was from the City Manager's Committee to Review the Disability Retirement System, dated April 14, 2005.

Board Packet said that disability costs SDCERS nearly \$30 million annually. Pays 50% of highest one year salary. (Patti's note: There are references to 50% income tax exemptions, however SDCERS refuses to assist with information in this matter, no tax code is referred to and some disability retirees have not figured what this means, perhaps it applies only to fire and police.) Disability includes healthcare costs.

Staff proposal included authorizing staff to investigate potentially fraudulent disability retirements and further to recommend that the Board file civil lawsuits under the False Claims Act (Government Code section 12650 et.seq.) or refer to District Attorney for criminal prosecution whenever appropriate. The Board was urged to order random re-examination and evaluation of disability retirement recipients as required by SDMC section 24.0510.

Sheila Jackson announced that this was at the direction of the City Manager and as the Board is not a "meet and confer" with unions, therefore the Board should follow the direction of the City Manager. Sullivan said that without evidence of fraud, that these people had already made life-changing decisions, even if medical advances could change their disability status.

Referred to committee.

#### INDEMNIFICATION OF SDCERS EMPLOYEES

Attorney Reish re-worked the previous resolution. He told Thomson that legally SDCERS didn't need to establish principals of decisions, only ethically and morally. When Thomson asked about criminal attorney rates, Reish said they charged more than Reish, and "reasonableness" varies with circumstances. Lawyers also needed a process to be paid by SDCERS.

While Flynn appreciated that the President and V.P. would shoulder the responsibility of making quick decisions, in the motion on the floor, that he found this one of the hotter buttons and he felt that the Board should vote if employees are covered. Waring said that the motion referred to a situation in which Chapin could not approve her own coverage. Reish wanted to make quicker decisions and stop the bleeding immediately if it was a bad act by an employee.

Meyer added that discretion is also needed as you cannot anticipate everything in advance. Motion passed 8-1. Flynn voting no.

1.