

Retirement Board Update – December 16, 2005 - By Joe Flynn

The Retirement Board started its last meeting of 2005 with the swearing in of James Hearty, the new member appointed by Council. In addition to his experience in management and finance, he brings 12 years experience on the Massachusetts State Pension Board. We are now only two members short; an elected active general member (election process is underway) and the appointed member to represent the Manager/Mayor.

The Finance morning session and afternoon Operations session makes for a full day but it does save travel time for both Board members and retirees who wish to attend. We worked in a closed session at Noon to get an update on the numerous court cases now underway, and had a closed session after the afternoon agenda to get an update on the Navigant investigation.

Then to wind up the day, we adjourned to a **Retirement Party for Larry Grissom** who retires at the end of the year. The Board did agree to call him back on an as needed basis for the maximum 90 days allowable for retired city employees. Since he was now a retiree, I suggested that his hours be limited and he be given regular breaks. The search for a new Administrator is well underway with a list of applicants being narrowed for future interview.

The **Financial statements** were reviewed with a lot of questions from the Board. Staff puts a lot of effort into these reports so it is good to see they get the attention they deserve. The finance/investment background of the Board is apparent in the questions and comments. One suggestion that should make it easier for everyone; staff will in the future also prepare a sheet of highlights or unusual expenses or income.

The Comprehensive Annual Financial Report (CAFR) expected in January will be delayed until after the Navigant Report is issued. Remember in one of my previous reports when I mentioned a "race to be last." This is it. No auditor wants to take the risk of someone finding something they missed, so they want to wait until the other reports are published. This is not just undue caution on the part of the auditors. After the Enron fiasco some extensive Federal legislation referred to as "Sarbanes-Oxley," holds auditors accountable (no pun intended) for any errors or oversights in their reports. And there are hefty penalties.

By now you have received your **13th Check and Corbett benefit payments**. Sorry I did not provide more information on that. I had been keeping track of the earnings and knew we were on solid ground but I did not want to ask too many questions about it in a room full of reporters. We get enough publicity on it as is, and none of it is good. I have spent a lot of time explaining the history of the Annual Benefit (aka 13th Check) to those who believe it is a year end bonus. Most of this time has been spent with new Board members and reporters. In this same vein, one of the Retirees favorite charts is the SDCERS Year To Date Status of FY 2006 Realized Gains. This chart has

a bar showing the surplus earnings threshold of \$111 million. Above this line are two more lines showing the threshold for enough funds to pay the 13th check and the Corbett payment. And, at the end of October the realized gains had reached \$112.6 million. This is not a sure thing, as you know things can go up and down, but we are into the right territory. You have a very good investment staff at SDCERS.

Now, for those of you who have always wanted to know about "**Derivatives**," *the financial instrument that derives its value from the price of an underlying security*, you should check the Finance Binder for the Board meeting of Dec. 16, 2006. This is available in the SDCERS reception area. There are four very good reports included that describe derivatives, what they are, their uses, their risks, and their advantages. This information was provided as background for the Board.

The afternoon **Operations portion of the meeting** included a number of status reports. David Arce gave an update on the DROP distribution project. He said they had sent out 561 letters to retired DROP participants and received 540 responses from individuals making their distribution selection. I suggested that he send a letter to the 21 retirees who had not responded, explaining their options and tax consequences of certain types of withdrawals. John Thomson, Fire Safety rep., suggested it be a certified letter. Arce agreed.

The discussion of **rules for the Disability Committee** was lively. The section on membership makeup, as I read it, had inadvertently excluded the Retiree Rep., from membership; not a good thing. I did not wish to be on the committee, but felt it was inappropriate to omit the Retiree Rep. from future membership. John Thomson thought it unnecessarily restrictive since it limited membership to only one safety member, not a good thing in his opinion. Result; the portion on membership was deleted and the President will appoint members to the committee, as needed.

The **procedures for the Disability Committee** went a little smoother, and I was advised that the public notices of the SDCERS Committee and Board meetings were now posted in the SDCERS reception area as well as in the breezeway of the City Admin. Bldg. Previously (one year +-) I had complained that the notices were only posted in the breezeway of City Admin. Bldg. And at the time, I thought nobody was listening. Pleased to say I was wrong, they did listen.

The **Board also agreed to provide legal counsel** for Larry Grissom and Lori Chapin who have been called as witnesses in the court cases underway in Superior Court and in Federal Court. One correction on recent testimony: It was reported in the press that Lori Chapin, when called to testify by the District Attorney had cited the Fifth Amendment and refused to testify. Not so. In response to specific questions, she had stated that she could not testify due to attorney client privilege. She is the Board's attorney and is not at liberty to discuss matters not previously released by the Board.

The **Navigant Consultant Inc.** report is well underway and will be presented by Navigant at the January 20, 2006 Retirement Board meeting. Navigant has been given

free access to SDCERS files and personnel to conduct this illegal acts investigation. They conducted extensive interviews, including Board members (myself included) and reviewed thousands of files, both hard copy and electronic. The Board went to great lengths to ensure that Navigant was not hampered or restrained in their investigation and their report will be presented to the public without being filtered through the Board. As Board President Peter Preovolous said, "We want a full investigation. And we will not engage in the race to be last; we will be first. If they find problems, we will fix them and move on."

So if you plan to attend the January 20, 2006 Retirement Board meeting, better come early and get a good seat.

Happy Holidays, and Have a Happy and Prosperous New Year,
Joe Flynn, Retiree Rep. to the Board