

Retirement Board Meeting(s) June 16, 2006
Reported by Joe Flynn

There were a number of Retirement Board meetings this week and a **meeting June 14 with a City Council committee chaired by Toni Atkins and an Actuary hired by the City.** Representing SDCERS in that meeting were Board President Peter Preovolos, David Wescoe, Administrator, and Gene Kalwarski, of Cheiron, SDCERS Actuary. Purpose of the meeting was to provide Council an opportunity to ask questions of SDCERS Actuary. City Attorney Mike Aguirre was also present. The Actuary, on the advice of his attorney, however, did not answer Aguirre's questions directly since Aguirre has scheduled a deposition of Mr. Kalwarski. The Actuary did, though, answer questions from the Council members present.

Questions centered on, "Is the \$162 million payment required of the City this year, adequate?" A number of critics have said that the payment is not high enough to cover interest payments on the debt and to begin paying down the pension fund liability, and that is true. But under current legal standards and court settlements the Actuary or the Board could not present a higher legally binding bill to the City. The Actuary pointed out that the \$162 million is "very defensible," in that it conforms to actuarial standards and methods and assumptions in place at SDCERS. He said that there is nothing to prevent the City from making additional payments to the Fund. In fact, Mayor Sander's has working on a number of options to increase funding, above the required \$162 million.

With 20-20 hindsight, we probably should have presented two bills to the City; the legally binding one, and a suggested bill that would have included the interest on the deficit. Because as one of the Board members suggested, "Everything that is legal, is not always beneficial."

Big news! With the Mayor's appointment of Jo Anne Sawyer-Knoll as his representative to the Retirement Board, all positions are filled. That is the first time since 2004 that we had a full Board. Since then we have gone through 35 people so it has been musical chairs since April 2005. We lost some good people, but we now have a very good Board with deep coverage on almost any subject that comes before us. And the commitment is there too. I expect commitment from the elected City representatives, but I am amazed and pleased by the deep commitment of the appointed Board members. They really put a lot of effort into making sure that SDCERS is on solid ground. You should come down and see them sometime; it's festival seating and no reservations required. And if you don't have

transportation, and live in the city of San Diego, you can catch them live on Channel 24 on the third Friday of the month.

SDCERS Budget was considered and approved by the Board on Friday. Some key points: the budget shows the addition of four staff positions, but only one is new. Three positions in the City Auditor's office, working on SDCERS projects and paid for by SDCERS, were brought home and shown on SDCERS budget. Good move. The one new position is an internal auditor who will work with the Audit Committee of the Board. This position will provide ongoing analysis for the Committee and the Board.

The Budget also shows that the Pension Fund expects \$175 million coming from the three Plan sponsors, the City of San Diego, the Port Authority, and the Airport Authority. In addition the Fund expects \$100 million on June 30 from the City. These funds are to come from the City's efforts to securitize the long term tobacco funds. Call'em Tobacco Bonds, it's simpler. These contributions would result in projected assets totaling \$4,486,000,000 starting July 1, 2006.

The Navigant Report Committee under chairman Mark Sullivan met on June 14 and made a report to the full Board on June 16. The topic of the Committee meeting dealt with Internal Revenue Service requirements for retiree Health Care funding and administration. The Retirement Fund is no longer paying for retiree health care; the City of San Diego now pays directly. Most of you know the long history of health care benefits, so I won't belabor the point. The Administration of retiree health care benefits remains with SDCERS, and it is the Committee's recommendation (vote 5-0), that it remain there, with funding provided by the City. SDCERS has trained and experienced staff who have worked with retirees for many years. Virginia Silverman, CSDREA gave testimony supporting retention of this function in SDCERS, and Jim Clem of RFPA was there as backup. I gave the same recommendation to the full Board on Friday. The committee, the Board, and SDCERS, would all like to maintain this working relationship. IRS doesn't care where the function is located, so long as it is not paid for out of the pension fund. Discussions with the City for future funding of this operation will be scheduled.

In this vein, no pun intended, **Health Care funding** is a matter that needs careful monitoring by retirees in the future. Health care costs continue to rise, the City remains on a tight budget, so we should refresh our memories on how health care benefits evolved and dust off the supporting printed

material we picked up along the way. We must do that, so if the need arises we will be in a position to educate others who may not be aware of past negotiations and agreements.

Some background on Ice Miller, our tax consultants who have been reviewing all of the retirement plan documents with a fine tooth comb to make sure we comply with IRS regulations. The firm is from Indianapolis, and has a national reputation as tax consultants. One of my nephews is a CPA who lives in Indianapolis, so I have my own background sources. All positive.

Two attorneys from the firm have been working on a **Voluntary Compliance Program (VCP)** with the IRS. This is a program where a pension fund such as SDCERS can go to IRS (before they come to you) and lay out your program and show how it complies with IRS regulations. Along the way, these attorneys have found a number of things in the SDCERS system that did not meet IRS regulations. That is why we have been making changes to fix the things that we know are not in compliance. That is also why, for example, we had to make some changes in how DROP retirees made withdrawals of their funds. The changes eliminated some of the previous options but brought the program into compliance. Another big change, relates to the way health care was funded. That is the reason why the Pension Fund no longer pays for health care; the City now pays directly for health care. More changes are anticipated, but you get the idea. We go in, voluntarily, and show the corrections we have made and ask for a ruling on the Fund's compliance with IRS regulations. That way, we are less likely to incur sanctions or penalties from IRS. The key here is that we must do every thing possible to maintain the tax exempt status of the Pension Fund.

The reconstituted **Investment Committee** held it's first meeting on June 15 under Thomas Hebrank, chair. The committee covered a lot of ground and investment staff provided background on the history and evolution of SDCERS investment program. You will like the history; the fund went from dead last among public funds in the 1980's, to our current status over the last ten or more years to one of the top performing public funds in the country. Doug McCalla, Dawne Clark and the investment staff deserve much credit for that success.

One of the reports was on the current realized rate of return which shows gains of \$352.8 million as of March 30. This means that there are sufficient funds available for payment of the **13th Check and the Corbett settlement**. The final certification must wait until after the June 30 audit, with payment made in November.

I will close on that positive note , and I'll probably see some of you at the next Retirement Board meeting on July 21st; right?

Joe Flynn, Retiree Rep to the Board