

Retirement Board Update: January 18 & 19, 2007

Reported by Joe Flynn

The **Business and Governance Committee** met on Jan. 18 at 8:30 AM and received updates from all SDCERS Divisions. We heard from Benefits Administration, Compliance, Finance and Administration, Information Services, Legal Services, and Member Services. The November Financial statements and the Milestone report were also reviewed. The meeting lasted a little over two hours and chairman Mark Sullivan kept things moving right along.

So, if you would ever like to have a good update on what is going on at SDCERS and get a chance to see all of the key staff in action, this two hour meeting is the best briefing you could ask for, well, it's the best two hour briefing you could ask for. There are a lot of detail oriented people at SDCERS, and each of the individuals giving the staff reports could easily spend that much time in a more thorough review of their part of the operation. But I would highly recommend one of the Business and Governance Committee meetings as an introduction to and update on SDCERS. No reservations required and parking is paid.

In the afternoon, **the Investment Committee**, under Thomas Hebrank, met with a full agenda. The Committee was conducting interviews of three candidate firms to select a new International Equity Large Cap Growth Manager. Doug McCalla, Chief Investment Officer, and Callan Corp. our outside consultant, had screened hundreds of possibilities down to a manageable number and then with Investment Committee members narrowed the list to three finalists to be interviewed. One firm was located in the British Isles, one in Europe, and one in Alaska. Very interesting presentations, a lot of detailed questions and answers and wide ranging discussion. In the end, the Committee made a selection, and brought that selection to the full Board meeting on Friday for approval. McKinley Capital Management Inc., Global Growth Specialists of Anchorage was the successful firm approved by the Board. They will be charged with managing some \$300 million of the SDCERS portfolio, which is why it was such an extensive and detailed selection process.

At **the Board meeting on Jan. 19**, the main event was the presentation of the June 30, 2006 Actuarial Reports for the City of San Diego, the Unified Port District, and the Airport Authority, all prepared by Gene Kalwarski of Cheiron consulting. I have sent you earlier, information on this topic. In summary, the City of San Diego's unfunded liability is **down** from \$1.394 billion in 2005 to \$1.000 billion in 2006. The funding ratio is **up** from

68.2% to 79.9%. The Unified Port District's unfunded liability is down from \$34.4 million in 2005 to \$17.4 million in 2006. The funding ratio is up from 82.6% to 92.1%. The Airport Authority is small but healthy. It has a surplus of \$4.3 million and a funding ratio of 111.7%.

The key number in the Actuarial Report that Mayor Sanders was looking for is the city's annual required contribution (ARC). This year that number is \$137.7 million, that's down from \$162 million last year. The Mayor has said he hopes to contribute more than the minimum amount. The Mayor's financial advisor, Jay Goldstone, was at the meeting.

A number of changes have been made in this actuarial report. For example, the Corbett settlement and the 13th Check, previously listed as contingent liabilities, are now shown as part of the Pension Fund liabilities. DROP and supplemental COLA, assets and liabilities are also included in the valuation. Details of all changes in the valuation are available in the report, on line. Many of the changes were required by new post Enron government accounting standards and IRS requirements. But in the report, each and every figure, methodology, and change is shown and explained.

Our actuary and other consultants cautioned the Board not to over react to this good news, because who knows what next year may bring. That's true. And we do have very good consultants, but between you and I, that is the best news I have heard since we hired David Wescoe. And I am just going to thoroughly enjoy this report. But I will take the highroad; I won't drag the naysayer's, kicking and screaming, through the report, but I will politely offer it for their perusal. And I will do what I can to get this information out, and I ask you do the same. I ask that because, as you know, good news associated with the Pension Fund is a hard sell in this town. But if we all share this information with friends and neighbors they will receive the news from a known trusted source - you. It will take time, but we have all been involved in similar endeavors. When we worked for the City we had to fight misconceptions and rumors with facts and we did it one person at a time. And we can do it again.

Continuing on the upbeat, here is another fact, to put the pension deficit in perspective; on Wednesday, Jan. 17, the Pension fund hit \$4.703 Billion. So, Doug McCalla, take a bow.

I will close now, because I know you all have to get out there and spread the news.

Joe Flynn, Retiree Rep. to the Board.