

SDCERS Board Meeting – March 16, 2007

By Joe Flynn

My last meeting as an elected member of the SDCERS Board of Trustees was an instant replay of my first meeting two years ago. Both meetings began with City Attorney Mike Aguirre appearing in the non-agenda comment portion of the meeting and, 1. telling the Board that he was our rightful attorney, 2. that we should not listen to SDCERS General Consul or our Fiduciary Counsel, and 3. if we didn't take the action he suggested that he would file suit against us. In the past two years, the Board has made significant progress; sorry to see the City Attorney has not.

The **big news from today's meeting** was early AM Board approval to allow SDCERS Administrator David Wescoe and Chief Finance Officer Bob Wilson to provide a letter to the City's auditor KPMG, verifying the accuracy of SDCERS information included in the City audit. This letter is somewhat unusual but was a requirement of KPMG before they would release the audit. SDCERS General Council Chris Waddell and Fiduciary Counsel Harvey Leiderman reviewed the issue in depth in writing and in testimony to the Board. That counsel provided the necessary assurance that SDCERS staff would not be placed in a precarious position and the Board members approved the request.

You may have seen the **Mayor's press conference** in the late afternoon announcing that KPMG had released the city's long awaited audit. He looked very relieved. Now the City can get back into the Bond markets and borrow money for long overdue capital improvements. We can all be relieved that this has finally been accomplished.

Another key item on the agenda, and the object of Mr. Aguirre's angst, was the setting of the **amortization rate for the unfunded liability**, also known as UAL (Unfunded Actuarial Liability), or the one you have heard and read most often, "the \$1 billion pension deficit." But a debt by any other name is still a debt. It is the amount the City owes the pension fund.

What we were doing today was deciding the amortization period; that is, the length of time in which the debt should be paid off. When the Gleason settlement was agreed upon some years ago, the amortization period was set at 30 years and could not be changed until the 2008 Fiscal year. A vote of the people on Prop G in 2004, said that the amortization period should be 15 years. Shortly thereafter the State Attorney General rendered an opinion that said the the State Constitution places that responsibility squarely and solely on Pension Boards throughout the state SDCERS General Consul and

Fiduciary Consul advised the Board to follow that opinion and the State Constitution.

You know from experience that if you shorten the payoff time on your car loan or your home mortgage, the payments go up. Same thing with the pension deficit. But the pension amortization had been extended to the point that the debt payments were not staying ahead of the interest. This is what is called "negative amortization."

So the goal was to set an amortization rate that would not drastically increase the City's payments on the debt but would avoid "negative amortization." We are fortunate to have a Board and staff with a wide array of experience and talent, and one of the best Actuaries in the Country as a consultant. He had been providing background information on this subject for the last year.

Today, after considerable discussion and much public comment, the Board adopted a 20 year fixed amortization period. The time frame will increase the City's payments to the pension fund. The Board action also included a requirement that in the event "negative amortization" was appeared likely that an additional payment by the the City would be required.

Mayor Sanders had been targeting a 20 year amortization within his long range budget. Today's action will increase the required payments by the City, avoid negative amortization but establishes an amount that would not place unnecessary burdens on the City. I think it was a good outcome for an issue that has been consuming a great deal of time and energy for the last two years. Now, it's done, and as Board member Mark Sullivan said, "It accomplishes the intent of the people who wanted to make sure that the liabilities didn't grow."

Also resolved was a matter **of concern to retirees who have DROP accounts**. Last year, IRS requirements caused the reduction of the withdrawal options on those DROP accounts. In addition, a later restriction based on the advice of SDCERS tax counsel prevented DROP retirees who were on a monthly payout from taking a lump sum distribution. This raised the ire (code for made them mad as hell) of a number of retirees who attempted to take a lump sum withdrawal but were denied. This has been resolved, and lump sum payments are once again available.

Roxanne Story Parks, SDCERS Attorney who is working with the tax attorney's on our Voluntary Compliance Program with the IRS, accompanied those attorneys to Washington, D.C., to meet with IRS officials. When she came back, IRS and our tax attorneys thought that lump sum withdrawals should be allowed. Now I'm not inferring that Roxanne turned

this around all by herself, but if you want to make that inference I would not object. SDCERS will be contacting those members whose requests for lump sum withdrawals were put on hold.

Speaking of good news, **Doug McCalla** told the Board that pension fund earnings for the current were up to \$242 million, this is well beyond the threshold necessary for payment of the Corbett payments and the 13th Check.

Rebecca Wilson announced that two pre-retirement seminars have been scheduled for April 12 and 13. They will be conducted by outside consultants. The retiree associations have taken part in these briefings in the past, to welcome prospective retirees and talk about membership in one of the organizations. Currently, retirees have been seeking a little more time in these programs with the pre-retirees to share some of the social aspects of retirement and help them avoid gray panther pitfalls. For example, wives of some retirees have been heard to say, "I married him for better or for worse - - but not for lunch." We probably hired and trained some of these kids when we were working, now we can smooth their path in retirement. Some things never change.

Take care,
Joe Flynn, Retiree Rep. to the Board -- until March 31