COUNCILMEMBER DONNA FRYE

CITY OF SAN DIEGO – SIXTH COUNCIL DISTRICT

News Release

For Immediate Release
October 12, 2007

Contact: Kevin Smith, District 6:
(619) 533-6469 (office)
(619) 675-4458 (cell)

COUNCILMEMBER FRYE PROPOSES SOLUTION FOR FUNDING PURCHASE OF SERVICE CREDIT BENEFITS

Asks city employees to follow her lead

San Diego, CA- Today, City Councilmember Donna Frye announced her proposal to help fully fund the city's Purchase of Service Credit program. Frye's proposal would save the taxpayers millions of dollars, preserve the benefits for employees who have already purchased service credits and avoid costly litigation.

Frye said, "In order to ensure that the cost of the Purchase of Service Credit program is cost neutral to the taxpayers, I am asking our city employees to support, through their actions, one of the following two options - provide additional payments to the program or reduce their amount of service credit years."

This would allow employees to retain their existing benefit, but only those which they fully funded.

"The potential savings to the taxpayers could exceed over $140 million," said Frye. "It would also avoid costly litigation and reduce the unfunded pension liability. Those savings could then be used to fund critical neighborhood services."

On September 26, 2007, Frye sent a memo to the San Diego City Employees Retirement System (SDCERS) asking them to provide her with the paperwork to make the adjustments to fully fund the service credits she purchased in 2003 (see attachment 1 or this link: http://www.sandiego.gov/citycouncil/cd6/pdf/memorandum/070926.2.pdf).

To date, Frye has received no response from SDCERS.

Frye made her request of SDCERS after reading a September 21, 2007 media report about an August 14, 2007 letter regarding the $146 million unfunded liability caused by SDCERS not charging what was required to cover the service credits (see attachment 2 or this link http://www.voiceofsandiego.org/pdf/cheironpsc.pdf).

Frye was able to cancel a portion of her service credits in 2005, but SDCERS refused to allow her to cancel all of them. She has approximately 1.9 years of service credits for which SDCERS charged her approximately $19,000 or $10,728 per year.

"This is the right thing to do for our city, and can help restore the public confidence, but only if our city employees will join me in this action. I do not believe it is reasonable nor proper for me to receive any benefit which I have not fully funded. I hope others feel the same, "said Frye.

"By working together for the good of our city and the taxpayers, we can help reduce the approximate $146 unfunded liability that was caused by SDCERS undervaluing the service credits," said Frye. "While my action will not make a large difference to our city financially, it may help encourage others to do the same and collectively we can have a significant financial impact."

Frye also learned from reading the SDCERS website that it will convene a special meeting to discuss the Purchase of Service Credits program next Friday, October 19 starting at 8:30 am (see attachment 3 or this link http://www.sdcers.org/images/pdf/special_board_meeting_agenda_10_19_07.pdf).

The options supported by Frye will be discussed, among many others, including: amortizing the current purchase of service credit liability as part of the retirement system's unfunded actuarial liability (leaving the program as is); or initiating declaratory relief litigation to establish the rights of the city, SDCERS and members of the retirement system (more litigation).

Frye plans to attend the meeting and ask the SDCERS board to provide her with a response to her memo.

Frye is the Councilmember for the Sixth Council District of the City of San Diego, which includes the communities of Clairemont, Kearny Mesa, Linda Vista, Mission Bay, Mission Valley and Serra Mesa. She has served on the City Council representing District Six since 2001 and is currently the chair of the Council's Natural Resources and Culture Committee, and a member of the Rules Committee and Budget and Finance Committee.

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COUNCILMEMBER DONNA FRYE

City of San Diego
Sixth District

MEMORANDUM

DATE: **September 26, 2007**

TO: **David Wescoe, SDCERS Retirement Administrator**

FROM: **Councilmember Donna Frye** Donna Frye

SUBJECT: **Purchase of Service Credits**

Due to the SDCERS administrations' refusal to allow me to cancel my previous purchase of service credits, despite allowing other city employees to opt out of this program, I am requesting that you prepare and forward to me the necessary paperwork that would allow me to contribute the full value of the service credits previously purchased.

Thank you for your prompt response.

CC: City Attorney, Michael Aguirre

DF/ks

August 14, 2007

Mr. David Wescoe
Retirement Administrator
San Diego City Employees' Retirement System
401 West A Street, Suite 400
San Diego, CA 92101

Dear David:

When we appeared before the Board in July, we were asked to update our previous analysis of the experience of the purchase service credit (PSC) program since inception to include all categories of participants (e.g., actives, terminated vested) and those in pay-status (e.g., retirees, beneficiaries and disabilities). This letter presents the results of our update and additional conclusions based on this update.

Exhibit A (attached) provides a summary of our analysis.

Our key findings are as follows:

- Cheiron estimates that the net actuarial deficiency between the additional value of benefits due to the additional service credits and the accumulated amounts paid by all active participants, retirees (including active DROPS), and term vested for such additional credits, as of the June 30, 2006 actuarial valuation, is approximately $146 million.

  As requested, this amount is comprised of the following categories:

a.	Pre-2000	$ 20 million
b.	7/1/2000-6/30/2002	$ 63 million
c.	7/1/2002-8/15/2003	$ 29 million
d.	8/16/2003-10/31/2003	$ 34 million
e.	11/01/2003-6/30/2006	$ 0 million
	Total	$146 million

- Our analysis is consistent with Navigant Consulting's January 2006 estimate of "more than $100 million," which was based on the June 30, 2004 actuarial valuation.

- As we have previously reported to the Board, the current rates being charged today "make the system whole." As a result, we continue to recommend that SDCERS make no change to the current rate structure until we complete our experience study in the summer of 2008. At that time, we will likely recommend changes to the current pricing methodology and review process.

- Approximately $20 million of the $140 million liabilities is not part of SDCERS' unfunded actuarial liabilities (UAL) as of June 30, 2006. This amount represents benefits in excess of IRS limitations (Section 415) and is a direct obligation of the City. Until the on-going work in connection the IRS VCP program is finished, we will not know the final number for this item.

- Amounts reflected in the City's June 30, 2006 UAL are included in the City Annual Required Contribution payment. There would be no impact on SDCERS' financial condition, current or projected, if responsibility for funding this deficiency was transferred from the plan sponsors to others (e.g. current or former members).

- With respect to the UPD and Airport Authority, we presented to the board an analysis in July which showed an additional net PSC liability of $3.7 million attributable to active members as of June 30, 2006.

Finally, our analysis is based June 30, 2006 actual data and reflects accumulative experience gains and losses (people living longer, retiring different than assumed, salary increases, etc.) that could not be anticipated at the time any member actually purchased service.

Please let me know if you have any questions.

Sincerely,
Cheiron

Gene Kalwarski, FSA
Consulting Actuary

Attachment

Exhibit A

CITY of San Diego Purchase Service Credit Analysis

A1. Contracts Effective befoore 7/1/2000 (Pre-Corbett)	GENERAL	SAFETY	TOTAL ACTIVE	RETIREES, TVS, and BENEFICIARIES	GRAND TOTAL
Total Contracts	97	18	115	332	447
Average Age at Purchase	44.6	40.9	44.0	53.9	51.3
Total Years	397	66	463	1,196	1,660
Average Years/contract	4.1	3.7	4.0	3.6	3.7
Contract amount accumulated to June 30, 2006	3,832,614	1,452,109	5,284,723	7,134,269	12,418,992
Additional Liability as of June 30, 2006-Benefits at Purchase Date	5,289,523	1,507,627	6,797,151	26,019,851	32,817,001
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ (1,456,909)	$ (55,518)	$ (1,512,427)	$ (18,885,582)	$ (20,398,009)
A2. Contracts Effective 7/1/2000 - 6/30/2002 (MP2/Old Rates)					
Total Contracts	586	134	720	858	1,578
Average Age at Purchase	44.9	38.4	43.7	53.2	48.9
Total Years	2,469	366	2,834	3,232	6,066
Average Years/contract	4.2	2.7	3.9	3.8	3.8
Contract amount accumulated to June 30, 2006	24,800,778	6,868,596	31,669,375	25,992,860	57,662,235
Additional Liability as of June 30, 2006-Benefits at Purchase Date	37,186,801	6,414,761	43,601,561	76,653,167	120,254,728
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ (12,386,022)	$ 453,836	$ (11,932,186)	$ (50,660,307)	$ (62,592,494)
B1. Contracts Effective 7/1/2002 - 8/15/2003 (Board Action/Old Rates)					
Total Contracts	575	194	769	417	1,186
Average Age at Purchase	45.9	39.9	44.4	52.7	47.3
Total Years	2,171	512	2,683	1,446	4,129
Average Years/contract	3.8	2.6	3.5	3.5	3.5
Contract amount accumulated to June 30, 2006	19,712,630	9,347,114	29,059,744	13,797,577	42,857,322
Additional Liability as of June 30, 2006-Benefits at Purchase Date	28,923,615	9,451,816	38,375,431	33,716,183	72,091,615
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ (9,210,985)	$ (104,702)	$ (9,315,687)	$ (19,918,606)	$ (29,234,293)
B2. Contracts Effective 8/16/2003 - 10/31/2003 ("Grandfathered" and "Window" members/Old Rates)					
Total Contracts	1,609	412	2,021	371	2,392
Average Age at Purchase	44.6	40.7	43.8	49.8	44.8
Total Years	5,726	828	6,554	1,287	7,841
Average Years/contract	3.6	2.0	3.2	3.5	3.3
Contract amount accumulated to June 30, 2006	49,363,269	15,510,817	64,874,086	13,297,562	78,171,648
Additional Liability as of June 30, 2006-Benefits at Purchase Date	71,413,136	14,463,793	85,876,929	26,252,431	112,129,360
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ (22,049,867)	$ 1,047,024	$ (21,002,842)	$ (12,954,869)	$ (33,957,712)
C. Contracts Effective 11/1/2003 - Present (New Rates)					
Total Contracts	170	101	271	101	372
Average Age at Purchase	47.2	36.4	43.1	50.4	45.1
Total Years	479	273	752	196	948
Average Years/contract	2.8	2.7	2.8	1.9	2.5
Contract amount accumulated to June 30, 2006	4,966,536	4,063,647	9,030,183	3,068,633	12,098,816
Additional Liability as of June 30, 2006-Benefits at Purchase Date	4,964,886	2,426,237	7,391,123	5,133,245	12,524,368
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ 1,650	$ 1,637,409	$ 1,639,059	$ (2,064,612)	$ (425,553)
D. GRAND Total For All 5 Periods					
Total Contracts	3,037	859	3,896	2,079	5,975
Average Age at Purchase	45.1	39.6	43.9	52.5	46.9
Total Years	11,242	2,045	13,286	7,357	20,643
Average Years/contract	3.7	2.4	3.4	3.5	3.5
Contract amount accumulated to June 30, 2006	102,675,827	37,242,284	139,918,111	63,290,901	203,209,012
Additional Liability as of June 30, 2006-Benefits at Purchase Date	147,777,961	34,264,234	182,042,195	167,774,878	349,817,073
Gain/(Loss) **as of June 30, 2006**-Benefits at Purchase Date	$ (45,102,133)	$ 2,978,049	$ (42,124,084)	$ (104,483,976)	$ (146,608,060)

SDCERS

San Diego City Employees' Retirement System

(DISABILITY ACCESSIBLE)

NOTICE OF SPECIAL MEETING

BOARD OF ADMINISTRATION AGENDA

FRIDAY, OCTOBER 19, 2007 – 8:30 A.M. to Noon

401 WEST A STREET
SDCERS BOARDROOM, THIRD FLOOR
SAN DIEGO, CA 92101

SDCERS TRUSTEES

Thomas C. Hebrank, President; Mark C. Sullivan, Vice-President; Susan S. Gonick, V. Wayne Kennedy, Franklin R. Lamberth, Carmen C. Lutes, Steven W. Meyer, George A. Murray, Peter E. Preovolos, Jo Anne SawyerKnoll, William J. Sheffler and John G. Thomson

CALIFORNIA GOVERNMENT CODE SECTION 1090: INTEREST DISCLOSURE

Pursuant to California Government Code Section 1091.5(a)(9), a city officer or employee does not have a financial interest in a city contract if these conditions are satisfied: (i) his or her interest is that of a person receiving a salary, per diem or reimbursement for expenses from a government entity; (ii) the contract does not directly involve the department of the government entity that employs him or her; and (iii) the interest is disclosed to his or her body or board at the time the contract is considered and is noted in its official record. In accordance with this statute, the following Board members request that the Board note in its official records that they receive a salary, per diem or reimbursement for expenses from the City of San Diego: Franklin Lamberth, Steve Meyer, Jo Anne SawyerKnoll, Mark Sullivan and John Thomson. John Thomson is also a Board member of San Diego Fire Fighters Local 145 and a DROP participant. Carmen Lutes is a retired City employee and receives a SDCERS retirement allowance. Mark Sullivan is also a Board member of the San Diego Police Officers Association. Steve Meyer, Franklin Lamberth, John Thomson and Mark Sullivan have decided to recuse themselves from discussions pertaining to past pricing of purchased service credits because they have made service credit purchases.

I. PURPOSE OF MEETING

To provide representatives of SDCERS' plan sponsors, their employee bargaining units and retirees, public interest groups, system members and the general public the opportunity to express their views on the issues described below concerning the pricing of purchased service credits.

II. BACKGROUND

In 1997, the City approved amendments to the Municipal Code to permit its employees to purchase up to five years of additional service credit towards their retirement benefits. The Code requires that purchasing employees pay the amount the SDCERS' Board of Administration "determines to be the employer and employee cost" of the additional service credit.

Since 1997, nearly 6,000 City employees have entered into contracts under the PSC program. Between 1997 and November of 2003, the former SDCERS' Board charged a single price per year of service for all general employees and another single price for all safety employees. During that time period, City-approved increases in retirement benefits increased the value of each year of additional service credit. In November, 2003 the former Board increased the prices of future PSC purchases. Those prices have remained constant since then.

On September 21, 2007, the current SDCERS Board announced that it has been engaged in a thorough review of the Purchase of Service Credit program. The Board has been advised by its actuary, Cheiron, that the purchased service credit rates in place for contracts entered into since November 2003 cover the full projected cost to the System. Cheiron also confirmed that the prices charged prior to that date did not cover the full projected cost of purchased service credits. The shortfall totals an estimated $146 million, and has been included in the system's Unfunded Actuarial Liability since the inception of the PSC program and is being recovered through the Annual Required Contribution payments made by SDCERS' plan sponsors.

The issues arising out of the PSC program also affect the Port and Airport and their respective employees and retirees, although to a lesser extent than the City.

The Board is considering carefully its options regarding the prior pricing of PSC contracts. These options include: with respect to some or all past PSC contracts, continue to amortize the associated liability as part of the system's Unfunded Actuarial Liability; recovering past overpayments of benefits and renegotiating or adjusting contracts either to provide for additional member payments or reduced

amounts of service credit for some or all of the affected member contracts; and initiating declaratory relief litigation to establish the respective rights and obligations of the City, SDCERS and the members. In considering its options, the Board will also take into consideration, among other things, the bases on which the prior board made its pricing determinations, the length of time that has passed since many of these contracts have been entered into and whether the members relied in good faith on the prices they were asked to pay for their purchases.

The Board is holding two public stakeholder meetings at which any interested party may appear to express their views on these issues. For this first meeting the Board is particularly interested in input on the following questions:

1) What additional facts should SDCERS take into consideration in weighing its options?
2) What actions, if any, should SDCERS take under the circumstances?
3) What legal challenges might result from any SDCERS' action or inaction?
4) What impact would efforts to recover overpaid amounts or adjust past PSC contracts have on SDCERS' active members and retirees?
5) Should SDCERS initiate declaratory relief litigation to determine the validity of the contracts in question, or is such legal recourse best left to the plan sponsors and their employees/retirees?

III. SDCERS' ADVISORS' PRESENTATIONS

A. Actuarial Information (Gene Kalwarski, Cheiron)

B. Factual and Legal Information (Harvey Leiderman, Reed Smith)

IV. PLAN SPONSOR PRESENTATIONS

V. REPRESENTATIVE EMPLOYEE BARGAINING UNIT PRESENTATIONS

VI. RETIRED EMPLOYEE ASSOCIATION PRESENTATIONS

VII. PUBLIC INTEREST GROUP PRESENTATIONS

Representatives can register with SDCERS using the attached form to make a presentation on these topics. We request that representatives notify the Board Secretary and submit presentation and handout materials (if any) at least 48 hours before the meeting and fill out a Request to Speak form and submit it to the Board Secretary before the meeting begins. Presentations by representatives will be limited to 15 minutes unless additional time is granted by the Board President.

VIII. MEMBERS OF THE RETIREMENT SYSTEM, RETIREES AND GENERAL PUBLIC COMMENT

Members and retirees of the retirement system and the general public also are invited to provide comment. To address the Board during this portion of the meeting, a Request to Speak form should be submitted to the Board Secretary prior to the end of the Representative presentations. These forms will be located in the back of the meeting room. The Board President will call your name to address the Board. Because of the anticipated number of speakers, public testimony will be limited to 3 minutes per speaker. The Board encourages individual speakers to avoid repetition in their presentations.

IX. QUESTIONS OR COMMENTS FROM PRESIDENT, TRUSTEES, STAFF and ADVISORS

X. ADJOURNMENT

SDCERS
San Diego City Employees' Retirement System

SDCERS STAKEHOLDER REPRESENTATIVE
REGISTRATION FORM

The SDCERS Board of Administration is permitting approved stakeholder groups to register an individual as a Stakeholder Representative to express their views on the issues concerning the pre-November 2003 pricing of purchased service credits.

Stakeholder Representatives may make formal presentations to the Board pursuant to the following guidelines:

- Presentations may not exceed 15 minutes;
- Subject matter is limited to service credit pricing;
- Stakeholder Representatives must notify the SDCERS Board Secretary of their intent to make a presentation at least 48 hours before the meeting;
- Electronic or printed presentations (if any) must be forwarded to the SDCERS Board Secretary at least 48 hours before the meeting (see contact information below).

To register your group's representative, please fill out the form below and return it to Michelle London at the address or fax number listed below.

REPRESENTATIVE REGISTRATION *(Please Print)*

REPRESENTATIVE NAME: _____

ADDRESS: _____

CITY: _____ ST _____ ZIP _____

PHONE: _____

EMAIL: _____

ORGANIZATION NAME: _____

PLEASE SUBMIT THIS FORM AND PRESENTATION REQUESTS TO:

SDCERS
Attn: Michelle London
401 West A Street, Suite 400
San Diego, CA 92101

Phone: (619) 525-3655
Fax: (619) 595-0357
Email: mlondon@sandiego.gov