

**PENSION REFORM COMMITTEE
MEETING OF
Tuesday, October 14, 2003
4:00 PM – 6:00 PM Meeting**

**401 B Street
Conference Room, 4th Floor**

MINUTES

**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE
SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4TH FLOOR**

Item 1: Call to Order

The Pension Reform Committee Meeting was called to order by April Boling, Chairperson.

Item 2: Roll Call

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Stanley Elmore	Patricia Frazier
Steve Austin		Chris Morris
Robert Butterfield		Mary Braunwarth
Tim Considine		Larry Grissom
Judie Italiano		Paul Barnett
William Sheffler		Pam Holmberg
Richard Vortmann		
Kathleen Walsh-Rotto		

Item 3: Approval of Minutes

A motion to approve the minutes from the October 1, 2003 meeting was made by Judie Italiano. The motion was seconded by Tim Considine. The motion was unanimously approved.

Item 4: Public Communication

Chris Morris advised the Committee that other City Task Forces had adopted a policy that the Chair would be the spokesperson for the Committee. All members are free to speak about Committee activities, discussions or views but the Chair would be the spokesperson to City Council, the public and the press. Mr. Considine made a motion that the Chair be the spokesperson for the Committee. The motion was seconded by Ms. Walsh-Rotto. The motion was unanimously approved.

Ms. Boling said there had been a recommendation last meeting to dedicate one or more meetings to hearing input from the public beyond the usual non-agenda comments. Non-Agenda public

comment will be on every agenda plus the public has the opportunity to give testimony on any agenda item. It was suggested that the public is being given the opportunity to speak at every meeting so there is no need to specify further speaking time. There was no motion made.

Item 5: Retirement System Overview

Larry Grissom and Paul Barnett from the San Diego City Employee's Retirement System (SDCERS) provided an overview of SDCERS. Please see the attached outline of the presentation. Mr. Grissom presented through slide 22. He will complete his presentation at the next Committee meeting.

Item 6: Discussion and Possible Guidance or Action Regarding Upcoming Presentations related to the Retirement System Overview

Mr. Butterfield submitted an outline of items (see attached) he would like to see presented to the Committee. The Committee felt the first five items would help them broaden their knowledge of SDCERS and its history. Item number six on the list was addressed during today's discussion on public communication. As the Committee expands their knowledge of SDCERS, they will be able to develop a roadmap of their goals. There was no motion made on the outline.

Item 7: Comments by Committee Chairperson

There were no comments.

Item 8: Comments by Committee Members

There were no comments.

Item 9: Non-Agenda Public Comment

There were no comments.

Item 10: Adjournment

The meeting was adjourned at 6:10 PM.

The next meeting will be on Tuesday, October 21 at 4:00 PM at the same location



SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM



**Presentation to the
Pension Reform Committee**

October 14 and 21, 2003



Outline of the Presentation

- I. Overview of SDCERS
- II. Legal and Historical Development of San Diego City Pension Plan
- III. Overview of the Pension Plan's Benefits
- IV. Overview of other City Retirement Benefits
- V. Overview of the Pension Plan's Actuarial Assumptions and Funding Issues
- VI. Overview of the Pension Plan Investments, Asset Allocation and Performance Results



Overview of SDCERS

- Manages and Administers the \$2.9 billion Trust Fund on behalf of the City of San Diego, the Unified Port District and the Airport Authority.
- 53 employees among 6 Divisions: Administration, Legal, Member Services, Investments, Training & Marketing and Finance & Technology.



Overview of SDCERS (cont.)

- The 13 member Retirement Board oversees SDCERS and is comprised of:
 - 3 representatives from the City (Manager, Auditor and Treasurer, or designees);
 - 4 citizens appointed by the City Council;
 - 3 representatives elected by General Members
 - 2 representatives elected by Police and Fire Safety members (one of each), and
 - 1 representative elected by retired members.



Overview of SDCERS (cont.)

- Services include:
 - Retirement Counseling
 - Purchase of Service Contracts
 - Disability Retirements
 - Pre-Retirement Seminars
 - DROP Program
 - Reciprocity
 - Retiree Pension Administration
 - Post Retirement Health Insurance Administration



Overview of SDCERS (cont.)

- Key Statistics as of September 30, 2003

Active General Members	8,878
Active Safety Members	2,897
Retirees	5,355
Total Fund Market Value	\$2,880,146,297



Historical Development of City Pension Plan

- 1927 – The Plan and SDCERS established by the City Council pursuant to City Charter Section 144
- Original Plan covered only General Members
- 1955 – Police and Fire Plans merged into SDCERS



Historical Development of City Pension Plan

- 1964 – Unified Port District and its employees become members of SDCERS
- 1996 – Managers Proposal agreement allows City to contribute less than actuarially calculated contribution, increasing by 0.5% per year provided the funding ratio does not fall below 82.3%



Historical Development of City Pension Plan

- 2002 – Contribution Agreement (Managers Proposal II) requires that once the funding ratio falls below 82.3%, the City's contribution increases annually by the difference between the actuarially calculated contribution rate and the City's contribution rate. The City's contribution rate must equal the actuarially calculated rate by 2009.



Overview of Benefits

- Vesting – 10 years (service plus purchase)
- Retirement Eligibility:
 - General Members: Age 55 w/20 years or Age 62 w/ 10 years
 - Safety Members: Age 50 w/20 years or Age 55 w/ 10 years
- Member Contributions – Age-based sliding scale set at date of hire



Overview of Benefits

- Profile of Average Active Member (6/30/02):

	Age	Service	Service w/PSC	Salary
General	43.3	10.2	10.8	\$46,911
Safety	42.4	10.8	11.3	\$51,413



Overview of Benefits (cont)

- Employer Contributions:
 - Actuarially determined normal cost plus amortization of the unfunded liability
 - Calculated as a percentage of payroll for each membership group
 - Employee offset contributions – differs by class of membership



Overview of Benefits (cont)

- Retirement Factors: (based on highest one-year salary)
 - General Members: 2.5% ages 55 to 59 with a 0.05% increase for each year thereafter up to a maximum of 2.8% ages 65 and older
 - Safety Members: 3.0%
 - Maximum Benefit for both General and Safety Members is 90% of high one-year salary.
 - Cost-of-Living Adjustment (COLA) each year, not to exceed 2%



Overview of Benefits (cont)

- 5 Retirement Payout Options:
 - Maximum Benefit: maximum monthly amount to employee with an automatic 50% continuance to spouse.
 - **Option 1:** monthly amount actuarially reduced; upon death remaining accumulated contributions paid to named beneficiary or estate.
 - **Option 2:** monthly amount actuarially reduced; upon death 100% continuance to named beneficiary.
 - **Option 3:** monthly amount actuarially reduced; upon death 50% continuance to named beneficiary.
 - **Option 4:** monthly amount actuarially reduced; upon death, percentage continuance to named beneficiary pre-set by member.



Overview of Benefits (cont)

- Profile of Average Retiree (6/30/02):

	Age @ Retirement	Attained Age	Service	Average Benefit
General	58.0	71.1	21.7	\$16,400
Safety	49.2	63.1	21.8	\$33,755



Overview of Benefits (cont)

- Purchase of Service Contracts (PSC)
 - Members may purchase missed contribution periods subject to Municipal Code requirements.
 - In addition, Members may purchase up to 5 years of additional or “permissive” service.
 - Retirement Board sets the cost to purchase service based on recommendations from the actuary.



Overview of Benefits (cont)

- Disability Retirement:
 - Industrial Disability if member becomes permanently disabled because of an injury or disease caused primarily by City employment (no age or service requirements).
 - Non-industrial Disability if member becomes permanently disabled regardless of the cause and member has at least 10 years of creditable service.
 - Industrial Disability retirement is the higher of the normal service retirement allowance or 50% of the highest one-year salary.
 - Non-industrial disability retirement is the higher of the normal service retirement allowance or 33 1/3% of the highest one-year salary.



Overview of Benefits (cont)

- Death Benefits:
 - If not eligible to retire, then return of contributions and interest plus up to 6 months salary.
 - If eligible to retire, one-half of the maximum benefit retirement allowance plus an allowance based on accumulated contributions.
 - If work-related death, one-half of the highest one-year salary for monthly retirement allowance plus an allowance based on accumulated contributions.



Overview of Benefits (cont)

- Supplemental Benefits:
 - If there are Surplus Undistributed Earnings, retirees will receive a 13th check. Amount of check is based on years of service.
 - If there are Surplus Undistributed Earnings, retirees will receive an amount equal to 7% of their annual pension under the terms of the Corbett litigation. If not paid in any year, the amount accrues to the following year.



Overview of Benefits (cont)

- Deferred Retirement Option Plan (DROP):
 - Must be service eligible to retire and agree to leave City employment within 5 years
 - Employee and Employer Contributions are fixed at 3.05% of salary, each (6.10% total).
 - DROP account receives monthly retirement allowance, plus interest, plus COLA, plus any Supplemental Benefits.
 - At the end of DROP participation, account balance can be paid out in lump sum or periodic payments.



Overview of Benefits (cont)

- Profile of Average DROP Participant (6/30/02):

	Age at DROP	Service	Benefit	DROP Balance**
General	58.7	28.0	\$32,627	\$71,494
Police	53.2	26.2	\$59,147	\$190,466
Fire	53.5	28.5	\$63,580	\$203,912

** average balances as of 9/30/03



Overview of Benefits (cont)

- Retiree Health Insurance:
 - Retirees after October 5, 1980 are eligible to receive premium reimbursement for the highest priced City-sponsored HMO plan for themselves only (no dependent coverage).
 - Retirees prior to October 5, 1980 are eligible to receive reimbursement for actual health related costs up to an annual maximum of \$1200.



Overview of Benefits (cont)

- Reciprocity
 - If a City employee accepts a position with another reciprocal public agency within 180 days after leaving city employment, retirement benefit will be based on the highest one-year salary when the employee retires from the second reciprocal agency, or vice versa.



Overview of Other City Retirement Benefits

- Supplemental Pension Savings Plans:
(SPSP, SPSP-M, SPSP-H)
 - Mandatory contributions of 3%, with voluntary contributions up to 4.5%
 - City matches 100% of mandatory and voluntary contributions
 - 5 year cliff vesting
 - Administered by American Express with over 11 different investment options selected by employee.



Overview of Other City Retirement Benefits

- 401(k) Plan:
 - 100% voluntary contributions by employee up to annual legal limit.
 - No City matching contributions
 - Administered by American Express with over 11 different investment options selected by employee



Overview of Other City Retirement Benefits

- 457 (b) Deferred Compensation Plan:
 - 100% voluntary contributions by employee up to annual legal limit.
 - No City matching contributions
 - Administered by AIG VALIC Retirement Services with over 27 investment options selected by employee

EDUCATION PHASE

1. Education as to parameters and funding of City DB System (by Larry Grissom).
2. Education as to parameters and funding of City 401 (k) Plan and 457Plan (by City Treasurer's Office?)
3. Education as to California, Federal and City laws and regulations relating to City employee benefits and collective bargaining process (by City Attorney? By System Attorney?)
4. Education as to the collective bargaining benefits history and process (by City Manager and by Union Reps.).
5. Education as to current actuarial funding status of City DB System (by Rick Roeder in person).
6. Interviews with Public members with comments and input on current situation (more than 3 minute comment periods for selected people- there are people outside of Committee who have valuable data to share).