

**PENSION REFORM COMMITTEE
MEETING OF
Tuesday, December 9, 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 meeting was called to order at 4:20 PM.

Item 2: Roll Call

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

Item 3: Approval of Minutes

There was a motion from Mr. Elmore for approval of the minutes from the December 2 Pension Reform Committee (Committee) meeting. The motion was seconded by Ms. Walsh- Rotto. The motion was unanimously approved.

Item 4: 401k, SPSP and Deferred Compensation

Val VanDeweghe, from the City's Risk Management Department, provided a presentation and answered questions on the City's 401k, SPSP and Deferred Compensation defined contribution plans. Please see the attached presentation.

The Committee asked Ms. VanDeweghe to provide specific figures and averages for the defined contribution plans so they can get a clearer picture of the value of the City's total compensation package. Ms. VanDeweghe agreed to provide any available figures at her earliest opportunity.

Item 5: Work Plan for the Pension Reform Committee

Ms. Boling reported that she reviewed the draft outline of the final report and has a recommendation on how to get the information they need to complete their report. She said she feels it may not be practical for the Committee to attempt to change the scope of the Retirement Board's audits on a broad scale. Instead, she suggested the Committee use the audits to confirm the quality of work that SDCERS's actuary, Rick Roeder, and investment advisor, Callan Associates, are doing for the System. If a positive determination is made, then Mr. Roeder is the logical person to do the additional work for the Committee because of his familiarity with the System and his extensive data base. In addition, the audits would verify for the Committee that the investment analyses done by Callan Associates are reliable. She said she hopes that this information could be made early in the audits, perhaps within four to six weeks. She recommended that the Committee approach the Retirement Board's Audit Committee on December 18 with a request to accelerate the timing for this information.

The Committee discussed this proposal and agreed with the plan. The issues were raised that this plan is contingent on Rick Roeder's availability and willingness to do the additional work and the Committee's need for a budget. Ms. Boling agreed to pursue the plan further and the request to the Retirement Board's Audit Committee can be finalized at the next meeting.

Item 6: Comments by Committee Chairperson

Ms. Boling asked Larry Grissom, Retirement Administrator, if City Council will have results of the actuarial report by the time she gives her interim report to City Council in late January. He said they will have the actuarial report by that time, including the City's contribution level. Ms. Boling said she expects to get questions during her report to City Council about the Committee's perspective on the City's contribution level under Manager's Plan II being less than the full actuarial contribution and if pension obligation bonds are a potential solution. To help address this, she asked that Pat Frazier give a presentation on pension obligation bonds at the January 6 meeting.

Item 7: Comments by Committee Members

Mr. Butterfield brought up an article he read in the San Francisco Chronicle describing the City of San Francisco's plan to give additional vacation days to employees in return for an increased contribution to the pension fund. He asked whether the City is considering a similar option in the meet and confer process. Mr. Grissom said he didn't know anything about that plan but would investigate it and report back to the Committee.

Item 8: Non-Agenda Public Comment

Jim Gleason, a City retiree, addressed the Committee about their January report to City Council and the two issues he feels needs to be addressed; the under funding of the Retirement System and the non-payment of contingent benefits. He suggested the Committee recommend to City Council that they disallow any new hires from joining the System until the funding issue is settled. On the issue of contingent benefits, he suggested that City Council amend the Municipal

Code to remove the contingent provision on those benefits and change them to an actuarial liability.

Item 9: Adjournment

The meeting was adjourned at 5:40 PM.

The next meeting will be on Tuesday, December 16 at 4:00 PM at the same location.



CITY OF SAN DIEGO DEFINED CONTRIBUTION SAVINGS PLANS

Presented to the
Pension Reform Committee
December 9, 2003



CITY OF SAN DIEGO DEFINED CONTRIBUTION SAVINGS PLANS

- Risk Management responsible for administration of the City's three DC plans:
 - Supplemental Pension Savings Plans (SPSP, SPSP-M, SPSP-H)
 - 401(k) Plan
 - Deferred Compensation (457) Plan

Supplemental Pension Savings Plan

- City of San Diego's Social Security replacement plan began 1/8/82 after City employees voted to withdraw from Social Security
- Money Purchase Pension Plan – 401(a)
- Police and Fire employees not eligible
- Hourly employees – not members of SDCERS – in separate SPSP plan (SPSP-H)

SPSP Contributions

- **Employee's Voluntary and Mandatory contributions made biweekly via payroll deduction, after taxes**
- **City matches both Mandatory and Voluntary contributions on pre-tax basis biweekly**
- **Mandatory contribution is 3% of pay**
- **Voluntary contribution max depends on hire date**
 - 4.5% - hired prior to 7/1/86 (SPSP)
 - 90% contribute max
 - 3.05% - hired on/after 7/1/86 (SPSP-M)
 - 81% contribute max

SPSP Contributions (cont.)

- Employee contributions always 100% vested
- Employer match vests at 20% per year of participation except:
 - 100% vested upon retirement, becoming Permanently and Totally Disabled or death
- Participant directed investments for both employee and employer contributions
- 14 investment options

Access to SPSP Monies

- One in-service withdrawal of employee contributions and earnings allowed each calendar year (must be 40% vested)
- Must pay personal income taxes on earnings and penalty taxes if less than 59 1/2 years old
- Forfeitures apply if less than 100% vested
- May pay back amount withdrawn within 5 years of withdrawal if less than 100% vested (1 year if 100% vested)

Access to SPSP Monies (cont.)

- **Other options to access monies while employed:**
 - **Loan Program**
 - Access up to 50% of vested account balance up to \$50,000 (combined with 401k)
 - One outstanding loan per plan
 - Repay loan, and interest, up to 5 year period via payroll deductions
 - **Hardship Withdrawal** (if In-Service Withdrawal and Loan have already been done)
 - **Plan to plan transfer to purchase service credit with SDCERS** – one per calendar year

Access to SPSP Monies (cont.)

- Distributions upon termination of employment:
 - Employer match and earnings on both Employee contributions and Employer match are subject to personal tax and penalty tax if taken before age 59 ½ or qualified retirement age
- Participant may choose to keep monies with American Express indefinitely if account balance is over \$3,500 – must start drawing at age 70 1/2

SPSP-H

- Created 7/1/91 in compliance with OBRA of 1990 which mandated that all employees be enrolled in a retirement plan from day one of hire
- Initially covered hourly, probationary, and Police recruits ineligible for SDCERS
- Mandatory after-tax contribution of 3.75% of pay
- City matches 100% on pre-tax basis
- City match immediately 100% vested

SPSP-H (cont.)

- Monies are held in trust and administered by American Express – same as SPSP
- Participant directed investments – same as SPSP
- No withdrawals or loans allowed
- Plan to plan transfer allowed for purchase of service credit with SDCERS

SPSP-H (cont.)

- Monies cannot be co-mingled with SPSP or 401(k) upon becoming ineligible for the plan (once enrolled in SDCERS) while an active employee
- Distribution of monies only allowed upon termination of employment
- Participant may choose to keep monies with American Express indefinitely if account balance is over \$3,500 – must start drawing at age 70 1/2

401(k)

- Voluntary savings program to supplement retirement – available to all employees
- Pre-tax employee contributions -- no City match
 - Payroll deduction
 - Flexible Benefit dollars
- Maximum contribution based on legal limits
- Participant directed investments – 14 investment options
- Monies held in trust

401(k) (cont.)

- Loans and Hardship withdrawals available
- Plan to plan transfers allowed to purchase service credit with SDCERS and other qualified governmental plans – one per calendar year
- Distributions only allowed upon termination of employment with exception of hardship withdrawal
- Participant may choose to keep monies with American Express indefinitely if account balance is over \$5,000 – must start drawing at age 70 ½
- Penalty for early distribution (before age 59 1/2)

SPSP and 401(k) Plan Assets

- Monies held in trust – Defined Contribution Plans Master Trust Fund
 - Oversight by 5 member Trustee Board
 - 3 appointed
 - Retirement Administrator
 - City Treasurer
 - Risk Management Director
 - 2 elected by participants
 - 1 by 401(k) participants
 - 1 by SPSP participants

SPSP/401(k) Oversight

- Trustee Board responsible for selection and oversight of:
 - Third party administrator
 - Independent investment consultant
 - Investment options
 - Plan Administrator
- Risk Management Deputy Director is Plan Administrator, responsible for day to day administration of Plans

SPSP/401(k) Oversight (cont.)

- Daily recordkeeping and administration handled by American Express Trust Company (AETC)
 - AETC initially selected from RFP process conducted in 1995 with guidance from City's benefits consultant – Foster Higgins – prior to creation of the Trustee Board
 - Trustee Board entered into a new agreement with AETC effective 8/23/01 for a 3 year term with 2 one year optional renewal provisions
- No annual management fee
 - Distribution fee
 - Loan initiation fee

SPSP/401(k) Oversight (cont.)

- Investment Consultant - Milliman USA - responsible for:
 - Evaluating portfolio and mutual fund performance
 - Providing written quarterly review of fund performance
 - Recommending and conducting fund searches, as needed
 - Establishing and reviewing Trustee Board's General Investment Policies and Guidelines

Deferred Compensation

- Voluntary savings program to supplement retirement – available to all full time employees
- Pre-tax employee contributions via payroll deduction – no City match
 - Reduces definition of wages for SPSP
- Maximum contribution up to annual legal limit
- Participant directed investments –29 investment options

Deferred Compensation (cont.)

- Distributions only allowed upon termination of employment with exception of hardship withdrawal
- Plan to plan transfers allowed for purchase of service credit with SDCERS or other qualified governmental plan
- Participant may choose to keep monies with AIG VALIC indefinitely – must start drawing at 70 ½
- No penalty for early distribution (before age 59 1/2)

Deferred Compensation Plan Oversight

- Monies held in trust by AIG VALIC
- No Trustee Board
- Risk Management Director is Plan Administrator
- No independent investment consultant
- Recordkeeping and daily administration handled by AIG VALIC – annual management fee of 19 bp

Deferred Compensation Plan Oversight

- Investment performance monitored by AIG VALIC and reported to Plan Administrator on a quarterly basis
- Replacement of funds determined by Plan Administrator based on input and data from AIG VALIC

DC Plans Statistics

as of 9/30/03

	Active Accounts	Inactive Accounts	Total Asset Value	Average Account Value
SPSP	1,643	429	\$204,720,132	\$95,402
SPSP-M	5,994	1,589	\$187,307,936	\$23,139
SPSP-H	1,133	3,406	\$10,142,972	\$2,233
401(k)	6,902	2,906	\$134,638,306	\$13,145
457	1,642	1,368	\$100,480,918	\$31,862

DC Plans Statistics

as of 9/30/03

	In-Service Withdrawals	Value of Withdrawals	Hardship Withdrawals	Value of Hardship Withdrawals
SPSP	458	\$3,519,981	2	\$2,308
SPSP-M	1,040	\$4,290,109	7	\$9,604
SPSP-H	n/a	n/a	n/a	n/a
401(k)	n/a	n/a	29	\$130,416
457	n/a	n/a	5	\$136,922

DC Plans Statistics

as of 9/30/03

	Participants with Outstanding Loans	Value of Outstanding Loans	Plan to Plan Transfer Activity	Value of Assets Transferred to SDCERS
SPSP	669	\$7,410,229	235	\$8,580,552
SPSP-M	2,109	\$10,945,295	546	\$12,545,260
SPSP-H	n/a	n/a	66	\$117,842
401(k)	1,706	\$5,712,411	567	\$8,020,359
457	n/a	n/a	127	\$3,274,377