CITY OF SAN DIEGO
PENSION REFORM COMMITTEE'S
MINORITY REPORT OF MEMBERS
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September 21, 2004

This brief report is offered by the undersigned two Committee members as an addendum to the Pension Reform Committee's final report dated September 15, 2004.

Our purpose in issuing this Minority Report is to highlight key differences of opinion between us two and the "majority" view which the final report reflects.

We agree – as we believe was obvious from the first day of the Committee's existence – that **under funding of the pension system** as a means to fund the City's other spending objectives in any given year (without having to raise fees or impose on San Diegans to pay their fair share for services), or as a means to balance the City's budget – is fiscally unsound and should not reoccur.

But **we disagree** that the under funding trap was the product of incompetence. Many experts on which reasonable people relied over the course of several years agreed that the under funding was *prudent* at the time the decisions to under fund were made. No one saw the gathering storm clouds as clearly as they can now be seen in hindsight.

We, as Committee Members, were at times embarrassed by the discourtesy – even disdain – some of our fellow Committee Members demonstrated toward City staff that appeared before the Committee. We were equally ashamed of the disrespect some of our fellow Committee Members displayed when referring to the City's elected officials and their actions regarding Pension issues. This behavior created unnecessary rancor on the Committee and diminished the credibility of those who spoke this way.

We **disagree** with those Committee Members who insisted that an "apples-to-apples" comparison between the City's pension plan and private sector pension plans could or should be fairly made. The more valid comparison – as to benefit levels, performance, and governance – is to other public sector pension plans. But the results of this legitimate comparison were dismissed and the warnings from actuary Rick Roeder about private/public sector comparisons were ignored – in favor of the convictions of certain Committee Members based on their individual, personal experience.

Benefit Levels. To an outside observer, the City's pension benefits may appear "generous." But these benefits are the product of more than two decades of collective bargaining during which improvements in pension benefits were made a priority by Union-represented employees – and concessions in other forms of compensation were made in exchange. The Committee did not attempt to put those improvements in perspective or to evaluate how the

City's budget had been balanced in past years by those economic concessions.

And the documentation the Committee did receive showed that the level of pension benefits enjoyed by City of San Diego employees – when compared to other public agency employers in California – falls at the high end of the *middle* of the range.

While the amount of the "pick up" – i.e., that portion of the employee's contribution to the pension system which the City agrees to pay in addition to its own – should and undoubtedly will be under discussion during the next "meet and confer" between the City and its labor unions, the creation of an inferior pension plan for new hires is not a sure-fire fix. The City already has the evidence of that based on the morale and recruitment problems which led to the elimination in 1988 of the former, inferior (and short-lived) "Tier II" pension plan implemented in 1982.

In sum, we **disagree** with the notion that the Committee had sufficient information to purport to guide the City in making changes to its pension benefits – any more than this Committee is qualified to recommend whether the City should make future deals with owners of sports teams, sponsor a super bowl or political convention, or build more libraries or other capital improvements for its residents. The collective bargaining process will ultimately determine those benefits as it has in the past. The Committee spent no more than an hour at the end of a very long meeting without all members present in discussing the reported changes for new hires. Numbers were thrown out and accepted without any foundation or documentation and Council should not go forward with these numbers without the required due diligence. At a minimum, it would seem that an accurate and complete comparison between the benefit compensation package, including pension, offered by the City of San Diego and that offered by other public sector employers is needed. After all, it is these other employers who are the City's real competitors when attracting quality employees in mission-critical areas of the City's operations. *This Committee did not have that information.* Nor did this Committee have the data to determine if the City's DROP program is cost neutral, cost effective, or costly. Only the City is in a position to evaluate the risks posed by its competition and by the difficulties in recruiting and maintaining quality employees, and then to bargain an outcome in light of all relevant factors, including the undisputed high cost of living in San Diego County. All this Committee *can say* is that the City should pay into the pension system the amount needed to fund the benefits it promises and the City's overall budget should be balanced each fiscal year with this obligation in mind.

Performance. We believe that the staff of the Retirement office are highly skilled and have conducted the business of the pension plan and invested the money entrusted to them in an exemplary manner, making CERS one of the best run pension systems in the country. There are many *public* pension plans and *private* ones in far worse shape than the City's.

Governance. ***** We **disagree** that the governance of the pension system – in place for decades – is broken, and "if it ain't broke, don't fix it." We believe that the call to change the make-up of the Retirement Board is wrong. The facts speak for themselves on this: "public member" trustees on the Retirement Board voted in favor of the City's past under funding proposals just as the "City employee" trustees on the Board did!

And we **disagree** with the unprecedented notion that minimum qualifications – "a college degree and/or relevant professional certifications, 15 years experience in pension administration, pension actuarial practices, investment management, banking, or certified public accounting" – should be required of a Trustee in order to be eligible to serve. *Unprecedented* because we impose no such minimum eligibility requirements and demand no similar educational degrees or experience when other elected or appointed officials seek to serve the public or lead their nation or community – not even when the highest elected office in the nation or state is at stake! Nor do we make a similar demand on candidates who seek election to local office or who seek appointment to Boards or Commissions. And despite the Committee's misplaced insistence on borrowing from the *private* sector when comparisons served their opinions, the Committee ignored the fact that Congress does not impose such requirements on the trustees of ERISA-covered private pension plans.

Again, the make-up of San Diego's pension fund governance – its 13-member Board of Trustees – is nearly identical to every other public pension system in California – with the employer and employees sitting as voting members.

**** On this item four of the nine committee members disagreed with the majority on the changes that were recommended to you.***

Finally, we feel the Committee did not have the time to offer any useful guidance on the issue of health insurance. While the City's practice of paying for this benefit on a "pay-as-you-go" basis is common among employers, it is a matter that needs immediate attention and we feel immediate attention should be paid to meeting with Unions ASAP on developing a plan to change that funding.

We remain concerned that the long-term consequences of the Committee's recommendations that the City issue pension obligation bonds and use its real estate as funding mechanisms have been thoroughly identified. While either or both of these mechanisms *may be appropriate solutions,* we strongly encourage the City to take adequate time to explore the full cost and liability consequences of such actions before succumbing to the political pressure – created at least in part by the Committee's report – to adopt these seductive quick fixes.

By:________________________________
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By: ________________________________
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