

**PENSION REFORM COMMITTEE
MEETING OF
Tuesday, March 2, 2004
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

THE OPINIONS AND VIEWS OF THE COMMITTEE OR ITS MEMBERS, AND PRESENTATIONS MADE AND DOCUMENTS PROVIDED TO THE COMMITTEE OR ITS MEMBERS, MAY CONTAIN PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER BACKWARD-LOOKING RECONSTRUCTIONS OR FORWARD-LOOKING STATEMENTS, ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACT, AND ARE QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT. ONLY STATEMENTS MADE BY THE CITY IN AN OFFICIAL RELEASE OR SUBSEQUENT NOTICE OR ANNUAL REPORT, PUBLISHED IN A FINANCIAL NEWSPAPER OF GENERAL CIRCULATION AND/OR FILED WITH THE MSRB OR THE NRMSIRs ARE AUTHORIZED BY THE CITY. THE CITY SHALL NOT BE RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF UNAUTHORIZED STATEMENTS.

Item 1: Call to Order

Item 2: Roll Call

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Richard Vortmann	Chris Morris
Steve Austin	Kathleen Walsh-Rotto	Paul Barnett, SDCERS Staff
Robert Butterfield		Mary Braunwarth
Tim Considine		Jo-Ann Novak
Stanley Elmore		
Judith Italiano		
William Sheffler		

Item 3: Approval of Minutes

There was a motion for approval of the minutes for the February 24, 2004 Pension Reform Committee (Committee) meeting from Tim Considine. The motion was seconded by Judith Italiano and passed unanimously with April Boling abstaining.

Item 4: Report on Progress of Actuarial Study

Mr. Austin distributed a copy of the March 2, 2004 letter from Rick Roeder redefining the scope of specific work assignments and providing fee quotes for each. The time-frame for completion of the 14 items will depend on the official start date of the work and Mr. Roeder's availability. Mr. Austin estimated that items 1-4 and 6-8 will take two weeks to complete. Items 5, 9 and 10 may take up to an additional two weeks to complete, and item 12 will take two weeks after receipt of accurate data from SDCERS staff. Mr. Roeder will be out of town the week of March 22, 2004. The Committee discussed a few additions and modifications to the work plan. Mr. Austin will take the changes to Mr. Roeder and get a new scope of work which will include an hourly rate for additional work as needed.

Item 5: Work Plan for the Pension Reform Committee

Ms. Boling said that as the Committee looks at solutions to recommend in the final report, normal cost needs to be broken out from the unfunded liability. Mr. Austin asked how the Committee is going to begin work on the retirement health care component. Mr. Barnett reported that retirement healthcare remains a pay as you go system so no actuarial studies have been done. The Committee discussed the healthcare issue and agreed that presentations on this issue will be needed in the near future to educate the Committee.

Item 6: Discussion of Upcoming Presentations Related to the Retirement System Overview and Meeting Schedule

Ms. Boling reviewed the presentations still needed by the Committee and asked for updates. Mary Braunwarth reported that Will Griffith, Director of Real Estate Assets, is planning to attend the March 9, 2004 meeting to provide further detail on City properties. Ms. Boling said that Chris Morris' presentation on vesting is critical for the Committee to hear. Mr. Morris explained that he is still prohibited from presenting this information due to the ongoing litigation. However, he did offer this information on vesting as it relates to current employees: Public employees are vested for pension benefits on their first day of employment. The vesting of pension benefits and employment benefits are different.

Ms. Boling asked Ms. Braunwarth about the survey on normal cost that is still outstanding. Ms. Braunwarth said that Larry Grissom, Retirement Administrator, will be back in town on Thursday at which time he will review the report. It should be available for distribution before the next meeting. Ms. Boling asked that Ms. Braunwarth ensure that upcoming presentations and reports for the Committee are ready at the time of scheduled meetings.

Item 7: Assignment Matrix

Mr. Austin expressed his concern about having outstanding assignments on the matrix. He suggested that the Chair get closure or set new deadlines for the work to be completed. Ms. Boling agreed.

Item 8: Discussion Related to Previously Docketed Items

At the request of Ms. Boling, the Committee revisited the presentation from Mr. Roeder on the Actuarial Valuation. Ms. Boling said that it is her goal to provide the Mayor and City Council by mid-April with a funding-level floor that provides enough money to cover normal cost, interest on the unfunded liability, the 13th check and Corbett. Ms. Boling asked if the Committee agreed that the funding-level recommendation should ensure that the unfunded liability does not increase. The Committee members agreed. Mr. Considine said he believes the Committee should use market valuations, not smoothed numbers, when calculating a contribution level recommendation. The Committee agreed to use market value and asked if Mr. Roeder could provide an updated valuation as of February 28, 2004. Mr. Austin said he will discuss this new scope of work with Mr. Roeder.

Ms. Boling asked if Deputy City Manager Pat Frazier could provide additional information on active payroll. Specifically, she wants to understand the variances between Ms. Frazier's numbers for active payroll and those used by Mr. Roeder. Ms. Boling said she is concerned that the City's proposed contribution in FY05 will make the unfunded liability increase.

Item 9: New Business

There was no new business.

Item 10: Comments by Committee Chairperson

Ms. Boling reminded Committee members to prepare their individual proposal on how to balance SDCERS funding level.

Item 11: Comments by Committee Members

Mr. Butterfield suggested adding to an upcoming agenda a discussion or presentation on the letter prepared by Mr. Roeder on the financial impact of DROP. In addition, Mr. Butterfield asked if there could be information from staff on the effect downgrading will have on possible pension obligation bonds.

Item 12: Non-Agenda Public Comment

Mr. Gleason said he is concerned that the 8% interest rate assumption set by SDCERS' Board is not leaving earnings to credit employer and employee contribution accounts. Yet, 8% was credited to the DROP accounts. The other liabilities of the system which are dependent on earnings, are not being addressed. Mr. Gleason stated that when a system is less than 100% funded, interest should be distributed to contribution accounts. He believes the interest should be left in the Trust to create additional earnings. He recommended that benefits associated with the Andrews case and the Corbett case be folded into the System as funded liabilities. In addition, controls should be put into place to maximally distribute earnings to the health insurance accounts. Mr. Gleason was very encouraged by the Committee's work and thanked them for their time and assistance.

Ms. Folsom provided clarification to the Pension Reform meeting of February 17, 2004 on public disclosure in resolving some of the existing City pension issues. Ms. Folsom referred to California Government Code Section 7500 and asked that the Committee consider making the following recommendations to City Council: voluntarily adopt the provisions of Section 7507; employ the services of an actuary independent of SDCERS to value the cost of benefits; and publish notice of meetings in a widely-read local newspaper and the City's official newspaper.

Item 13: Adjournment

The meeting was adjourned at 5:36 PM.

The next meeting will be on Tuesday, March 9, 2004 at 4:00 PM at the same location.