

Retirement Board Update - January 20, 2006 - By Joe Flynn

Retirees:

First things first. We still have an active and independent Board. Only one appointee, James Heartly, resigned. He was the newest member, having attended only one half of one meeting. The rest believe we have a job to do, and intend to do it. You should be proud of the appointed members to the Board; I am.

We should have a new member soon, elected from the active general city employees. I will be going down next week, and with others, to certify the election results.

It was standing room only for the Jan. 20, 2006 meeting of the SDCERS Board; haven't seen so many TV cameras and reporters since we waived attorney client privilege. And there was a good cross section of members in the audience; active employees, as well General, Fire and Police retirees. Good turnout. Your presence, even if you do not address the Board, has a positive impact.

The object of all this attention was the previously announced release of the **Navigant Consulting report**. This 242 page plus document is the result of an illegal acts investigation of SDCERS prepared for the Board of Administration. This report was commissioned by the Board specifically to address all of the allegations of illegal acts by Boards and staff past and present. And despite the bulk of this tome, numerous copies were available for those in attendance and members of the media. It should get a lot of media coverage this weekend. But don't ask me; I haven't read it yet. In fact, none of the Board members or SDCERS staff had seen the report before it was released today. That was not an accident. The Board wanted to make every effort to have a full and independent investigation, so the report was presented to the public at the same time it was presented to the Board. It was not filtered or edited. What you see is what they found.

As I said I have not yet read the report, (the Board did, however, receive a overview and summary at the meeting today) but I will give you a couple of key points. Navigant found that despite the fact that ". . . it is currently under funded, the System has sufficient assets to pay benefits due to all current retirees." It also states that ". . .the City sought to reduce contributions to SDCERS as early as 1991."

Now if you would like to read "the whole thing" go to:

http://www.sdcers.org/forms_newsevents.jsp

and click on "Navigant Consulting Investigative Report 1-20-06 (PDF 7,347KB) to view or download.

And I hope your computer is faster than mine.

The second part of the report (127 pages) is the Legal Analysis by Reich, Luftman, Reicher and Cohen. On page 9 of this section, they list their legal conclusions, beginning with:

"The funding arrangements agreed to by the Board in 1996 and 2002 in MP 1 and MP 2, respectively, failed to assure the 'competency' of the Retirement System assets as required by the state Constitution."

They go on the list many more specifics.

I do not believe the report uncovered new, major violations. Most listed here, you have seen before but not with this degree of detail or followed by legal analysis. We can expect however, given the length and specificity of this report and the current political climate, that there will be individuals who will pick and choose, or should I say, "pick and run" with a statement or conclusion. We can't prevent that, but the report taken as a whole should provide comprehensive answers to many questions. And today's publication disqualifies the Board in "the race to be last." We were the first, and I hope the style of release sets a precedent for openness.

And **Ad Hoc committee** chaired by Mark Sullivan, along with Thomas Hebrank and Richard Kipperman has been formed to put the report into practice. A special meeting of the Board has been scheduled for Jan. 30, 2006 at 8:30 AM to discuss the report and make recommendations to the Committee. You are welcome to attend.

Our **Comprehensive Annual Financial Report (CAFR) and our Audit** is now anticipated in about six weeks. They were awaiting the results of the Navigant Report.

Also in the morning session, **Chief Financial Officer Doug McCalla** and a Callan consultant outlined the process for selecting a new global custodial bank. Custodial Banks hold all assets of SDCERS, facilitate securities sales and purchases, monitor our investment managers, and provide up to date reports on assets and compliance. The contract with our current custodial bank, State Street Bank expires this year. Board rules require a competitive process to select a new Bank at the end of the contract. A

committee was formed to interview the final three applicants for this contract and make a recommendation to the full Board. I will chair that committee, along with Mark Sullivan and Richard Kipperman and work with Doug, and Callan consultants.

In the afternoon session, the Board appointed Roxanne Story Parks as interim General Counsel to the Board. A search will be initiated to fill the position permanently, and I would expect that Roxanne would be a candidate.

We also had a report on **DROP distribution**. Of the 585 DROP retirees, 568 have been processed and 12 are pending and five have not responded. Previously, 21 had not responded. They were sent certified letters and all but five responded. This was a condensed process that nobody liked, but SDCERS staff did a great job of advising retirees and processing the distribution selections.

Litigation continues to seek court resolution to SDCERS assertion that it has the right to independent counsel and that the pension payments currently being paid are legal. These two issues have been consolidated by the Court and will be heard on Feb. 15, 2006 by Judge Barton.

In summary, we covered a lot of ground today, and overcame some difficult hurdles. With the Navigant Report we have taken a major step forward. I know we have a lot of work to do and a long ways to go, but we just finished 40 miles of bad road and we can do another 40 miles if we have to. But stay close, we still may need a push through some tough spots.

Take care,

Joe Flynn, Retiree Rep. to the Board

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