

**SDCERS Board Meeting – December 21, 2007**  
**Reported by Joe Flynn**

**The SDCERS Board of Trustees ended the year on a high note:** the IRS has issued a Compliance Statement to SDCERS, which is the final resolution of SDCERS' Voluntary Compliance Program. (VCP) This effort has been underway since July 12, 2005.

Highlights: 1. The VCP preserves SDCERS' qualified tax status. This protects members, active and retired, and city taxpayers.

2. There were 14 problems that needed remedies. These ranged from disallowing the Presidential Leave program for Union Presidents; disallowing the use of "Cash Equivalents", i.e., use of vacation pay to buy Purchase of Service credits; disallowing the use of retirement fund money to pay health benefits (discontinued in 2005); disallowing the Corbett payment to non service eligible disability retirees (discontinued last year); and a number of items that related to required updates of the Pension Plan (The Municipal Code). Many of these required Municipal Code modifications were prepared long ago by SDCERS and sent to the City Attorney for docketing and adoption. Some, like an Ordinance complying with State Law regarding domestic partners, have languished in the Attorney's office since 2004 +/- . This lack of implementing Ordinances accounted for a number of the 14 problems/failures. *These are corrections that SDCERS alone cannot make; they require action by the City Attorney and the City Council.*

**The IRS did not impose fines, sanctions, or penalties.** And, for disallowed payments such as the City's payment of Health Benefits using pension funds, the IRS credited the City's excess payments to the Fund in the recent years as compensation for past withdrawals. This is important since it saves the City and the taxpayer a lot of money, and it gives credit to the City for its efforts to make up for past under funding.

**Let me put this in perspective; THIS IS A BIG DEAL!**

Two SDCERS Board members with extensive experience in Pension Plans, both public and private, have said that by seeking a voluntary compliance program from the IRS, SDCERS is breaking new ground. These Board members, Peter Preovolos, President/owner of two Pension consulting firms, and William Scheffler, Actuary, and President and owner of an Actuarial Consulting firm, deal with both public and private pension plans and bring valuable expertise to SDCERS. At the Board hearing today, Mr. Preovolos said, "This document [VCP] is an extraordinary product in the public sector." Mr. Sheffler, observed, "This VCP puts SDCERS in a class by itself, since most plans would be unwilling to submit to this kind of scrutiny by the IRS"

This review of the Pension Plan, was an open book with the IRS. SDCERS tax consultants, Ice Miller attorney Terry Mumford, and SDCERS Compliance Officer Roxanne Story Parks, went through the Plan, i.e., the Municipal Code, with a fine tooth comb and submitted their findings to the Board and to IRS. In addition, IRS had the independent ability to add to the list of findings or expand the scope of review.

The VCP Compliance statement has been signed by the SDCERS Board President Thomas Hebrank, and the City of San Diego Chief Operating Officer Jay Goldstone. The next step, is to

bring the Plan (the Municipal Code) up to date within 150 days, a time limit established by the IRS. The clock is running.

Also at the Board meeting today, Mike Aguirre, City Attorney submitted a final copy of his "Report to the People of San Diego Regarding the San Diego City Employees' Retirement System." You were emailed the earlier 18 page version of this report. This report is 24 pages. I don't have an email version of this one yet; maybe our friends "of Counsel" will find one for us. In the meantime you can access the City Attorneys' website for the report.

The Board meeting in January should have an in depth review of this document, along with contending facts and figures. Board member George Murray had requested that staff "field strip" this report and verify the accuracy of the information. Yes, prior to his career in the upper echelon of Prudential, George did serve in the Marines, why do you ask?

There were a number of other Board actions, but I wanted to get this to you ASAP.

Board President Thomas Hebrank did add some year end reflections. Top on his achievement list was the VCP, followed by the progress on the Certified Annual Financial Report (CAFR)'s, the move to a new office [saving a cool million the first year], achieving a 16+% return on the fund while avoiding the hedge fund scandal and the mortgage meltdown. He thanked David Wescoe and staff, and the elected and unpaid volunteer members of the Board for their efforts in making this possible. He and previous Board President Preovolos agreed that the Board has two options; "They either pull together as a team, or get sucked into the negativity which surrounds them."

Obviously, he led the Board on the high road and it paid off.

And in year end reflection, I would add my own. We can be thankful that we have a Board and staff that has devoted their time, energy and expertise to the well being of the Pension System and by extension, the City of San Diego. There are two Board members who deserve special consideration for service above and beyond the call of duty. Replacements for Peter Preovolos and George Murray, volunteers appointed by the Mayor, have yet to be recruited. In the interim they continue to serve beyond their initial terms to maintain continuity and the ability of the Board to progress. We can be very thankful for their dedication and service.

Joe Flynn, Retiree