

**PATTI'S NOTES from  
SDCERS BOARD MEETING  
for March 1, 2, 2012**

**This is my impression of the meetings.**

**Thanks to SDCERS CEO Mark Hovey for reviewing my notes for factual errors before they go to REA retirees' web site.**

**See SDCERS web site for official information.**

**UPDATE: The revised SDCERS' June 30, 2011 Valuation will be presented at the April 13th SDCERS Board meeting.**

**CITY 'S MARY LEWIS TO BECOME SDCERS' CFO**

In his February 15, 2012 report, CEO, Mark Hovey said that, "Mary Lewis, currently the City of San Diego CFO, will join SDCERS as our CFO on March 1."

In his opening non-agenda remarks, Joe Flynn, former SDCERS Trustee, congratulated Hovey on recruiting her.

**HOW MANY NEW RETIREES BY MARCH 31st?**

Membership Service Director Cynthia Queen reported her team is "...very busy with members who are trying to purchase service credit in order to achieve 25 years for the purposes of electing Option A retiree health care." Deferred members eligible to retire by March 31st have been notified. About 300 active members have inquired about retiring by March 31st.

**RETIREMENTS BY MARCH 31st FROM SDCERS**

Joe Flynn welcomed Bob Wilson, SDCERS Internal Auditor to sign up for the City's retirement association through SDCERS. Wilson has worked for the City 34 years. Board Secretary Connie Hernandez is leaving after 24 years. Sara Jimenez who compares SDCERS' last year assets with this years assets, is taking 27 years of experience with her. Hovey said that at least 3 other employees were retiring from SDCERS.

**Proposition B**

**COMPREHENSIVE PENSION REFORM (CPR)**

In his February 15, 2012 report, CEO, Mark Hovey said that "...Cheiron has been assisting the City's Independent Budget Analyst office with updated cost analysis of the Comprehensive Pension Reform (CPR) initiative scheduled to go before voters this summer."

**SDCERS ASSETS**

Executive Summary of Staff Reports for March 1, 2012 reported: "The value of the reconciled net invested assets as of January 31st, as reported by the custodial bank, was \$5,168,820,697."

Jamie Hamrick, Investment Officer reported SDCERS assets were up to \$5.3 billion at the end of February.

Fourth Quarter Report: 8.8% since inception.

## LEGAL

- SDCERS General Counsel Elaine Reagan noted that the duties of SDCERS General Counsel and SDCERS' Chief Compliance Officer were combined, (salary savings). The Compliance report will now appear as part of her Legal report, and will no longer be found under SDCERS Audit Committee.

Background on Compliance Officer as Patti remembers:

Internal Auditor/Compliance Officer Bob Wilson, who is retiring, replaced Roxanne Story-Parks who was the first to hold the position before Story-Parks transferred to the City Attorney's office during budget cuts. The Compliance Officer position originally was created to report solely to SDCERS' Business & Governance Committee for "best practices" avoidance of conflict that had resulted in a SDCERS previous Chief Administrator selecting which legal advice that was given to SDCERS staff and Board by his pressure on the SDCERS General Counsel at that time. As it is now, Reagan will co-report to CEO Mark Hovey as General Counsel and also report as the Chief Compliance Officer to the Business & Governance Committee.

### \* PSC Corrections:

Attorneys Michael Conger and Ann Smith, along with SDCERS, are waiting final ruling after 2-16-12 "Oral arguments on SDCERS and City's demurrers."

Member Services Director Cynthia Queen reported work continues on PSC corrections. The final group have future deadlines. She noted that the most complicated corrections are opting to rescind DROP. Members are making payments out of IRA's, etc. Hovey noted, during someone's appeal on pricing of PSC, that at one time 1/4 of the City employees had applied for PSC.

### \* Saathoff Lawsuit:

"Oral argument held. Case submitted. Awaiting opinion."

\* Presentation: Conflict of Interest Rules for Public Officials by SDCERS Fiduciary Attorneys, Manatt, Phelps & Phillips, LLP. Includes review on Lexin and Saathoff cases.

\* SDCERS General Counsel Elaine Reagan wrote she "...will be participating in a panel on vested rights discussing the statewide public pension initiatives at CALAPRS General Assembly on March 6, 2012."

## REVISED CITY'S ARC and ACTUARIAL VALUATION UPDATE:

Cheiron, SDCERS current outside actuary, presented the impact, from Cheiron's 2011 Experience Study of SDCERS, on substantially equal computations, for each substantially different benefit structure. This computation excludes UAL costs, and other some costs already covered in the Muni Code.

Board approved 9-0 adopting a yearly review of City and employee contribution rates. SDCERS General Counsel Elaine Reagan explained that this is so each employee funds his share and there is no "drift" in the contribution rate.

Trustee Alan Arrollado could already hear future telephone calls from fire members saying they were already contributing \$900 a month. Cheiron explained that new rates for fire members will reflect that fire members are living longer and expecting lower (frozen) earnings.

In general, Cheiron said, the changes in rates resulted in higher rate increases at younger ages and reductions at older ages. City Elected Officials are not subject to the Substantially Equal language of the City Charter.

Trustee Gregory Bych added that contribution rates change when assumptions change. Hovey explained further that the periodic actuarial experience study will incorporate the higher retirement pattern, which may impact future actuarial assumptions.

Hovey said this years' changes would be put into payroll in July.

In conclusion, Hovey noted in his Finance and Benefit Staff Report of Feb. 15, 2012, that "The revised contribution rates... have the effect of changing the City's ARC contribution that was presented in the valuation report reviewed by the Board in January; Cheiron will have a revised City Actuarial Valuation report ready for review and approval in April...."

Look for the revised City June 30, 2011 Actuarial Valuation at SDCERS April Board meeting.

#### SUBSTANTIALLY EQUAL-

The City Attorney's lawsuit against SDCERS for not including actuarial losses, including investment losses, as part of the employees' contribution calculation.

Trustee Edward Kitrosser asked Cheiron about investment gains and losses. Those go into the UAL, said Cheiron, and he noted on page 15 of his presentation printout that Step 2 removes the UAL costs from the substantially equal formula.

SDCERS General Counsel Elaine Reagan announced the replacement Judge for the Substantially Equal case is from Imperial County. Judge Joseph Zimmerman, Retired, was assigned on Feb. 2, 2012 from a neutral county.

The City of San Diego v. San Diego City Employee' Retirement System Case No. 37-2010-00091207-CU-WM-CTL

#### REQUEST FOR PROPOSAL (RFP) for OUTSIDE ACTUARIAL SERVICES

Hovey's report also noted that "...the Board Ad Hoc Committee will now begin the process of reviewing the responses. Selection of the actuarial consulting services and actuarial audit contracts will be presented to the Board in April."

## INFORMATION TECHNOLOGY

David Bond, Chief Information Officer, Information Technology is working with three vendors selected by the City for outsourcing contracts. There will be three towers: "...datacenter, voice and data network, and application services." "The City plans to execute their agreements in April." After which SDCERS will negotiate a contract that will come to SDCERS Board for approval.

Continuing: The IRIS Project and GP/Dynamics financial system vendor Sikich to upgrade SDCERS accounting software.

## RETIRED PRIOR TO JULY 1, 1982?

Did you receive your letter from SDCERS about your Supplemental COLA that the City Council approved, running out in October 2013?

## BUDGET YEAR-TO-DATE

According to the January 17, 2012 report from Sara Jimenez, Principal Accountant (retiring March 31st), SDCERS' budget, six months ended December 31, 2011, was "...18% below the budget of \$22.2 million, as both Administrative expenses and Investment expenses under-ran their respective budgets."