

**PATTI'S NOTES from  
SDCERS BOARD MEETINGS  
April 12-13, 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.

SDCERS next full Board Meeting: May 18th

Committees meeting May 17th

Disability Committee at 8:30AM

Business & Governance at 10:30AM

Investment at 1:30PM

**WHAT IS RISK?**

In future months, CEO Mark Hovey will be scheduling an educational discussion on risk (of meeting future pension payments) by SDCERS' actuary, Cheiron. Cheiron reported 5000 actuaries have said not enough information is given to plan sponsors about risk.

**SDCERS ASSETS**

Trust Fund Status

Meeting of April 12, 2012- Executive Summary of Staff Reports:

"The value of the reconciled net invested assets as of **February 29th, as reported by the custodial bank, was \$5,297.171,214.**"

SDCERS assets as reported on June 30, 2012 will be used for SDCERS June 30, 2012 Valuation.

**NEW SDCERS TRUSTEES:**

Valentine Hoy (from law and real estate backgrounds) and William Haynor (from banking and insurance backgrounds) were appointed by the Mayor and confirmed by the City Council. See SDCERS web site for information on all Trustees.

**EXTRA RETIREMENTS BEFORE MARCH 29th**

Final number of Active DROP to Retired DROP -178 retiring in March before the March 31, 2012 deadline for health care changes.

Membership Services Director Cynthia Queen noted " The counselors have been working overtime to accommodate these members and all has gone smoothly."

**AMENDED SDCERS JUNE 30, 2011 ACTUARIAL VALUATION FOR CITY OF SAN DIEGO**

SDCERS actuary, Gene Kalwarski from Cheiron, noted that SDCERS recent Experience Study resulted in SDCERS Board changing Substantially Equal contributions. He also noted that every 1% above/below SDCERS assumed rate of investment return, resulted in a \$1 million swing in the City's Annual Required Contribution (ARC).

SDCERS CFO Mary Lewis reported on March 29th that “Cheiron completed their analysis of how the new actuarial assumptions impacted members contribution rates under the application of the City Charter’s Substantially Equal provision.” “Applying the new contribution rates lowered the City’s ARC by approximately \$200,000, and increased contribution rates for most safety members, and decreased contribution rates for most general members.”

Employees will find new contribution rates and explanation on SDCERS web site.

In the future, Hovey will be posting a chart of who pays for what, such as COLAs.

## **EXPERIENCE STUDIES**

Cheiron, SDCERS actuary, recommended extending experience studies to every 5 year, and conducting special limited studies between the 5 year periods, in lieu of the current 3 year schedule.

## **AWARD OF ACTUARIAL SERVICES CONTRACTS**

CFO Mary Lewis report, dated March 29th, noted, “SDCERS Board policies require an actuarial consulting services RFP every five years, and should the same actuary be retained, that an actuarial audit be performed after five years with the same actuary. An RFP was issued earlier this year for two contracts: actuarial consulting services for the next five years, and an actuarial audit. Responses were received from two firms, EFI and Cheiron.” “Given that Cheiron could not audit their own work, their bid was only for actuarial consulting services. EFI bid for both contracts.”

The Board’s Ad Hoc Committee for the RFP noted that the Board was sensitive to the City Audit’s pointing out that actuarial costs were high, however out of 40 major national actuaries serving pension systems, only EFI and Cheiron responded to SDCERS’ RFP after extensive recruiting efforts. Board discussed impact from (1) City litigation against SDCERS, (2) SDCERS indemnification standard requirements and (3) advice from actuarial companies’ legal services to avoid SDCERS due to litigation risk. Committee also aware the actuary community is small and well connected.

Cheiron showed lower comparative cost than EFI. The Committee was concerned about EFI being smaller, their weaker financial statement, and if it would be in existence the next five years.

Trustee Patrick Lane also noted that SDCERS is at a critical time in software development and Cheiron offers continuity in what is going to be a fabulous system. Commenting on Cheiron’s price off-set in the past, Trustee Gregory Bych noted their higher level of transparency and their offering changes that sometimes benefited the City and other times benefited members.

Board approved staff completing negotiations with Cheiron for a five year contract with possible exit.

Best comment on reducing actuarial costs came from Trustee and Board President Herb Morgan, that there is a need to “go on to make pensions boring again.”

## **OUTSIDE ACTUARIAL AUDIT CONTRACT**

Contract was approved for EFI to do SDCERS’ outside actuarial audit. EFI also audits CalPERS and SD County’s pension system.

## **FY 2013 PROPOSED BUDGET - as of April 13, 2012**

CFO Mary Lewis noted on April 6th that "The SDCERS FY 2013 proposed budget demonstrates a continued emphasis on budgeting operations to maintain the business while containing costs."

"The \$1.1 million reduction from last year's budget is comprised mainly of reductions in outside legal fees."

"...increase in fringe benefit expense (\$215,000), while total salary adjustments are \$87,000 over the FY 2012 budget due to promotions, step increases and adjustments related to expanded responsibilities. The increase in fringe expense is caused primarily by a catch up payment of \$154,000...for Preservation of Benefit (POB) Plan costs and budgeting (of)...normal fringe rates versus the lower DROP fringe rates of those employees who retired in FY 2012. "...in previous years, the City recorded POB costs on their books, but changed the procedure in FY 2012 to allocate them out to respective departments. The FY 2013 budget for POB costs is \$49,000." "FY 2013 fringe rates may be adjusted by the City in May...."

### **Highlights From Budget Presentation:**

#### **Staff:**

- \* "Increase of \$0.3 million (4.1%) from FY 12 budget primarily due to fringe rates."
- \* "No increase in staffing level...remaining at 58."
  - "6% salary / benefit reductions sustained from FY 10."

#### **Legal/Actuarial Budget:**

- "Majority of work on substantially equal completed FY12 and VCP filing fees not necessary" ( for IRS review of PSC Corrections).

#### **Investment Mangement Budget:**

- \* "5.7% increase over FY 12 budget."

Driven by "Assumed growth of 7.5% in assets under management." "Increased allocation to private equity, infrastructure and real estate."

For more information on investments, see the Investment Committee's asset allocation report below.

#### **Rent**

Trustee Patrick Lane asked CEO Mark Hovey to investigate if there was an advantage to extending the office lease early, currently 5 years into a 10 year lease.

## **INFORMATION TECHNOLOGY DIVISION**

See the extensive report by Chief Information Officer David Bond on the great progress happening in I.T. at SDCERS.

## **PSC CORRECTION**

CFO Mary Lewis wrote March 29th to the Business & Governance Committee that as of March 24th, "...1,909 PSC corrections have been completed." "There is a concerted team effort underway with close coordination among I.T., Legal, and Member Services Division."

PSC Correction - LEGAL (Notes from SDCERS' General Counsel Elaine Reagan)

"...court granted the City's demurrer with leave to amend. The court also granted SDCERS demurrer as to some causes of action without leave to amend, as to some causes of action with leave to amend and overruled the demurrer as to other causes of action. The First Amended Complaints have been received and are being reviewed by litigation counsel."

Legal Chart- on PSC correction

5 cases under Judge Ronald S. Prager Dept. C-71

On 3-5-12

PSC Correction SDCERS: "Causes of action based on extrinsic fraud and breach of fiduciary duty relating to correction process and contractual rights granted without leave to amend. Causes of action based on failure to disclose granted with leave to amend. Demurrer as to remaining causes of action overruled.

PSC Correction City: "Demurrer granted as to all causes of action, with leave to amend."

**OTHER LEGAL - General Counsel Elaine Reagan**

Substantially Equal Case (also known as UAL)

"A status conference is set...for May 4, 2012. The court will hear SDCERS Motion to Compel discovery responses from the City at that time."

Legal Chart notes-

City vs SDCERS Case No 37-2010-00091207-CU-WM-CTL

2-6-12 Case reassigned (from Joan Lewis) to Hon. Joseph Zimmerman, Retired.

"5-4-12 Status Conference and Hearing on SDCERS' Motions to Compel discovery responses from the City."

Saathoff Appeal

"Oral argument was heard in Plaintiffs' appeal on Saathoff vs. City of San Diego and SDCERS (Presidential Leave and Cashless Leave). Following oral argument, the court of Appeal requested additional briefing of the parties."

Legal Chart notes-

City Firefighters vs. SDCERS and City

Case No. 37-2009-00099066-CU-WM-CTL

Hon. Yuri Hoffman

DCA, 4th District, Case No. D057437

"...to enforce right to pension on now-discontinued 'Presidential Leave' retirement contribution...."

**INVESTMENT COMMITTEE**, Chair Steve Meyer

Future: Passive investment will be discussed on May 17.

It was noted that investment returns are so much more in active management areas with increased risk.

Chief Investment Officer Liza Crisafi reviewed the report below and noted that SDCERS diversifies over a number of years to long-term policy targets.

Review of SDCERS' Asset Allocation by SDCERS consultant HewittEnnisKnupp.

Executive Summary- Since September 2010 SDCERS has "made significant progress...implementing the strategic asset allocation"

- "Eliminated non-U.S. fixed income and market neutral allocations"

- “Funded emerging market debt and global equity”
- “Funding up private equity and infrastructure”
- “Real estate restructure underway”

Hewitt does not recommend changes at this time. “Continue to focus on prudent implementation with an emphasis on portfolio efficiency (cost and risk management vis-a-vis value-add potential)”

Expected Nominal Returns over 30 years:

Equities -7.6%

Non-U.S. Equities 9.2%

Global Equities 8.7%

U.S. Fixed Income 3.5%

Emerging Market Debt 5.8%

Real Estate 7.2%

Private Equity 9.4%

Infrastructure 8.7%

## **PRINCIPAL ACCOUNTANT APPOINTMENT**

As of April 2nd, retiring Sara Jimenez’ Principal Accountant position is being filled by Rolando Charvel from the City’s Comptroller’s Office where he “...was the Principal Accountant who led the accounting team responsible for the City’s Redevelopment Agency financial reporting,” according to CFO Mary Lewis’ report of March 29th to the Business & Governance Committee.

## **SDCERS AUDIT COMMITTEE - INTERNAL AUDITOR POSITION**

“The Audit Committee has completed the recruitment and interview process for the position of Internal Auditor and is pleased to recommend that the Board approve the appointment of Kyle Elser to the position.” “Kyle comes to SDCERS from the Office of the City Auditor at the City of San Diego. Employed by the City Auditor since 1995, Kyle has extensive audit and management experience in a variety of progressively responsible positions with the City. “Kyle received his B.S. degree in Accounting from Humboldt State University and is a CPA, CIA and CFE.” “Upon appointment, Kyle will begin his position with SDCERS on April 23.”

## **DISABILITY’S “CATCH 22”:**

Board continued the motion to send a letter to the City Counsel and Mayor regarding Disability’s “Catch-22”.

As SDCERS’ General Counsel Elaine Reagan explains in her March 20th report:

“SDMC 24.0501 sets forth the elements an employee must provide to qualify for a disability retirement, which includes a showing that the Member is permanently incapacitated from the performance of duty. Where the Board determines that an employee has not met the burden of proof to show permanent incapacity and denies the employee’s application and the City of San Diego makes a separate determination that the employee is incapacitated from performing the job and terminates the employee, the employee is left with no job and no disability retirement.”

## **SETTING BOARD’S AGENDA**

The Executive Committee was eliminated as

General Counsel Elaine Reagan's March 29th reported that now, under Board Rule changes, SDCERS' "...CEO Charter provides that the CEO sets the Board agenda placing the Agenda items the CEO deems appropriate, items requested by the Board President ... or items requested by concurrence of any two Board Members. The CEO can develop the Board agendas as he has done in the past and circulate them to Committee Chairs for comment without violating the Brown Act."