sdCERS
San Diego City Employees'
Retirement System

DAVID B. WESCOE
Retirement Administrator

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Robert A. Kittle
Editor, The Editorial Page
The San Diego Union-Tribune
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BY HAND

Dear Bob:

Your two recent editorials ("A Needed Shift – Move city workers to a 401(k)-style pension", February 5, 2007 and Double-dipping – DROP pads city pensions to absurd levels", February 11, 2007) were thoughtful and thought-provoking. Because you play a very important role in the public debate in San Diego about the City's retirement benefits, I wanted to share some facts and thoughts with you.

First, with respect to SDCERS' defined benefit pension plan:

1. No current retired SDCERS Member receives a monthly pension benefit of 140% of their highest-year salary.

2. In 2000 (for Safety Members) and 2002 (for General Members), the San Diego City Council enacted ordinances capping, with very limited exceptions, retirement benefits at 90% of an employee's final compensation.

3. Since 2002, 2148 service-based retirements have been granted to City employees. These retirement allowances averaged 71% of the retired employee's highest-year salary. This is well within the target range for a defined benefit plan payout.

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4. In December 2006, Buck Consultants released the results of a City of San Diego-commissioned "Police Classification Compensation and Benefits Survey." The Survey concludes that "the defined benefit pension plan offered by San Diego is in line with other agencies from a benefit perspective." It also found that "the employee contribution rate [the percentage of an employee's salary that is contributed towards the retirement plan] is the highest reported." (Buck Consultant Survey at p. 5, emphasis added)

Second, with respect to the City's Deferred Retirement Option Plan ("DROP"):

The following comments are solely my own and do not reflect the official position of SDCERS or its Board.

1. My first observation is that DROP is a separate benefit from SDCERS' defined benefit plan. A DROP Member's SDCERS pension benefit is fixed and is paid out whether they continue to work for the City another 5 years in DROP, leave City employment and begin working for the Union-Tribune (or any other employer) or move to Arizona and never work again.

2. DROP appears to be more a human resource response to improve employee retention. This was explicitly stated in both Lamont Ewell's January 10, 2005 "Analysis of the Deferred Retirement Option Plan (DROP)" *("Through the benefits offered by DROP, skilled workers are incentivized to remain in the employ of the City of San Diego, passing along their skills and long-term knowledge to newer workers and future generations.")* and Joe Esuchanko's February 6, 2007 "DROP Cost Neutrality" study prepared for the City *("Although the DROP may be designed to encourage valuable employees to remain with the City... ")*. Therefore, DROP should be viewed as a program to retain experienced employees and not as a retirement benefit.

3. DROP is a City of San Diego employee benefit designed to accomplish the City's human resources goal to retain experienced employees. As such, SDCERS' sole responsibility is to implement the DROP-related provisions that are codified in the City's Municipal Code. Contrary to Mr. Esuchanko's characterization of DROP as "SDCERS DROP", it is the City's DROP administered by SDCERS.

4. As part of administering DROP, the Municipal Code requires SDCERS to credit interest annually to a Member's DROP account. Since DROP's inception in 1997, SDCERS has credited DROP accounts with its actuarial stated rate of 8%. Because the total annualized return of the SDCERS Trust fund has exceeded 8% over that time period, SDCERS has earned approximately $18 million more than was required to credit to these accounts. An ad-hoc SDCERS Board committee currently is reviewing this interest crediting policy.

5. I think it is misleading to add payments that a SDCERS Member receives from their DROP account or from any other City retirement plan (e.g., 401(k) Plan, Supplemental Pension and Savings Plan or 457(b) Deferred Compensation Plan) to the retirement benefit paid by SDCERS' defined benefit plan. Doing so ignores the fact that these plans are separate from SDCERS' defined benefit retirement allowance. As you know, it is quite common for retired employees anywhere to work after they retire and begin collecting a pension benefit from their former employer. That former employer would never gauge the reasonableness of their pension system payout (or calculate its amount) by adding a retiree's post-retirement compensation to the company's payout.

I hope this is helpful. Please call me anytime if you have any questions about SDCERS or need additional information. In addition, I, along with SDCERS' Board President, would be happy to meet with you or your colleagues at any time in person to discuss SDCERS in more detail.

Sincerely,

David B. Wescoe

P.S. For your convenience, I have enclosed spiral-bound copies of the City, Port and Airport 2006 Actuarial Valuations. They are in color and easier to read and work with. Also enclosed are copies of the Buck Consultants Survey, Lamont Ewell's Analysis and Joe Esuchanko's study.

Enclosures

cc: SDCERS Board