



OFFICE OF MAYOR DICK MURPHY
City of San Diego

MEMORANDUM

To: San Diego City Council
From: Mayor Dick Murphy *Dick*
Subject: Pension Reform
Date: July 7, 2004

While we await the final report of the Pension Reform Committee, I am recommending a four-point program to begin to address the challenges facing the San Diego City Employees' Retirement System (SDCERS) as follows:

1. **Issue at least \$200 million in pension obligation bonds during fiscal year 2005.** Pension obligation bonds (POB) are bonds issued by the City to finance part of the pension plan's Unfunded Accrued Actuarial Liability (UAAL). Reducing the UAAL with \$200 million or more of POB's should increase the pension system's funded ratio to approximately the 70% level that credit agencies prefer. *I will be docketing a proposal for City Council consideration on July 19.*

2. **Approve the lawsuit settlement requiring the City to pay the full actuarially required contribution to SDCERS in FY '06, FY '07 and FY '08.** As you know, a lawsuit was filed by City retirees against SDCERS and the City challenging the underfunding of its pension system. In the proposed settlement, the City agrees to pay the full actuarially required contribution to SDCERS in Fiscal Year 2006, Fiscal Year 2007 and Fiscal Year 2008. This settlement would return the City to full funding of its pension system and eliminate the uncertainty and costs of litigation. *Approval of this proposal*

settlement is to be used for a public hearing before the San Diego City Council on July 16.

3. **Adopt the Pension Reform Committee's proposal to mandate a fifteen-year amortization schedule effective FY '09 (starting July 1, 2008).** The goal is to assure that the pension system is never again underfunded. The Pension Reform Committee has recommended a charter amendment to implement its proposal related to amortizing costs. Attachment 1 is a slight modification of the Pension Reform Committee's proposal to address the concerns raised by the City Attorney in his memo of June 25, 2004. **This proposal will be considered by the Rules Committee on July 14.**

4. **Restructure the Retirement Board.** The intent is to create a more independent retirement board. Under the present system, 9 of the 13 trustees are current or retired municipal employees. The Pension Reform Committee recommends 7 outside directors. To protect the independence of the Retirement Board, but give employees and retirees a voice in its oversight, **I will propose to the Rules Committee on July 14 the following compromise (See Attachment 2):**

- A. An eleven member Retirement Board.
- B. Six members who are neither City employees nor pension plan members and have the professional qualifications that the Pension Reform Committee recommends.
- C. One police pension plan member elected by active police officers.
- D. One firefighter pension plan member elected by active firefighters.
- E. One non-public safety pension plan member elected by active general employees.
- F. One retired pension plan member elected by retired employees.
- G. One management employee appointed by the City Manager.

ATTACHMENT 1

Charter Amendment to Implement PRC Proposal Related to Amortizing Costs

Section 141: City Employees' Retirement System

The Council of the City is hereby authorized and empowered by ordinance to establish a retirement system and to provide for death benefits for compensated public officers and employees, other than those policemen and firemen who were members of a pension system on June 30, 1946. No employee shall be retired before reaching the age of sixty-two years and before completing ten years of service for which payment has been made, except such employees may be given the option to retire at the age of fifty-five years after twenty years of service for which payment has been made with a proportionately reduced allowance. Policemen, firemen and full time lifeguards, however, who have had ten years of service for which payment has been made may be retired at the age of fifty-five years, except such policemen, firemen and full time lifeguards may be given the option to retire at the age of fifty years after twenty years of service for which payment has been made with a proportionately reduced allowance. When setting and establishing amortization schedules for the funding of the unfunded accrued actuarial liability, the Board shall place the cost of the past service liability associated with a new retirement benefit increase on no greater than a fixed, straight-line, five year amortization schedule. Effective July 1, 2008, the Board shall place the cost associated with net accumulated actuarial gains and losses on no greater than a fifteen year amortization schedule. Notwithstanding the above, the Retirement Board shall retain plenary authority and fiduciary responsibility for investment of moneys and administration of the system.

ATTACHMENT 2

Charter Amendment to Implement PRC Proposal to Change Retirement Board Composition

Section 144: Board of Administration

Effective March 1, 2005, the system shall be managed by a Board of Administration which shall consist of 11 residents of the City, selected as follows:

A. Six (6) board members shall be appointed by the Mayor and confirmed by the Council. No person who is a City employee, participant in the Retirement System, or city union representative may be eligible for appointment or service. Such appointees shall have the professional qualifications of a college degree in finance, economics, law, business or other relevant field of study or a relevant professional certification. In addition, such appointees shall have a minimum of ten (10) years experience in pension administration, pension actuarial practice, investment management, real estate, banking, or accounting. Members of the Board shall serve staggered terms of four (4) years each and members shall be limited to a maximum of eight (8) consecutive years in office and an interval of four (4) years must pass before such persons can be reappointed. Appointees shall not have any other personal interests which would create a conflict of interest with the duties of a Trustee.

B. One (1) police pension plan member elected by active police officers.

C. One (1) firefighter pension plan member elected by active firefighters.

D. One (1) general member of the Retirement System elected by active general members of the Retirement System.

E. One (1) retired member of the Retirement System elected by the retired members of the Retirement System.

F. One (1) management employee appointed by the City Manager from the City Treasurer, City Auditor and Controller, or other top management employees.