

DATE ISSUED: August 1, 2003

REPORT NO. 03-172

ATTENTION: Rules, Finance, and Intergovernmental Relations Committee  
Agenda of August 6, 2003

SUBJECT: Pension Reform Commission

### BACKGROUND

On July 23, 2003, the Rules Committee considered a proposal from the Mayor regarding the creation of a Pension Reform Commission (PRC) pursuant to Section 43(b) of the San Diego City Charter (attached memoranda from Mayor Murphy dated July 11, 2003 and July 22, 2003) to examine, evaluate, and report on the San Diego City Employees Retirement System (SDCERS). After a public hearing regarding this proposal, the Rules Committee unanimously approved the Mayor's proposal and directed the City Attorney to prepare a Resolution creating the PRC and delineating its objectives for consideration at the next Rules Committee meeting. The Rules Committee also directed the City Manager to offer any additional recommendations related to the creation and objectives for the PRC for consideration by the Rules Committee.

### DISCUSSION

Attached is a draft Resolution prepared by the City Attorney's office, which when approved by the Rules Committee and subsequently adopted by the City Council will create a nine member PRC pursuant to Section 43(b) of the City Charter. The draft Resolution describes the composition of the PRC members, as well as the purpose, and objectives of the PRC as proposed by the Mayor.

### Time Line

The Resolution contemplates the PRC completing its work and producing an advisory report to the City Council within six months. If this Resolution is approved by the City Council in September and appointments confirmed in October, the PRC could produce a report by April 2004.

## Objectives

1. SDCERS is in the process of hiring independent consultants to conduct three (3) different audits: an operations or “best practices” audit; an audit of investment practices; and, an actuarial audit. The City and the Board also have engaged an independent accounting firm for an annual financial audit which covers SDCERS. The Resolution provides that the PRC would review the scope and independence of these audits and determine whether to conduct any additional audits, studies or investigations it deems necessary to achieve its objectives.
2. The PRC would review and make recommendations regarding the composition of the Board of Trustees. The City Charter establishes the current composition of the Board, and changes may require a Charter amendment.
3. The PRC is also asked to examine, evaluate, and make recommendations regarding the current defined benefit structure which provides the following benefits: service retirement benefits; disability benefits; Deferred Retirement Option Plan (DROP); purchase of service benefits, survivor benefits, death benefits, cost of living adjustments and others, and make any recommendation it deems appropriate. The PRC will also evaluate other options for providing retirement benefits, such as a defined contribution plan, or joining another existing plan such as CalPERS.
4. It is also recommended that the Council have the PRC evaluate and make recommendations regarding retiree health insurance benefits and funding.

## Staff Support/Budget

It is further recommended that the City Manager be directed to assign administrative staff support as requested by the PRC to assist with logistical needs for scheduling, docketing, recording and reporting of meetings pursuant to the Brown Act, to serve as liaison between the PRC and SDCERS as necessary, and assist with procuring any consulting services required to complete its work. The Council may wish to authorize a specific budget for the PRC, or may wish to direct the PRC to propose a budget for subsequent approval by the Council.

The City Manager fully endorses this proposal and will provide any staff support requested by the PRC to carry out its objectives.

Respectfully submitted,

P. Lamont Ewell  
Assistant City Manager

# DRAFT

(R-2004-xxx)

RESOLUTION NUMBER \_\_\_\_\_

ADOPTED ON \_\_\_\_\_

WHEREAS, during the past several months concern has been expressed about the current unfunded liability of the San Diego City Employees Retirement System [CERS]; and

WHEREAS, the San Diego County Taxpayers Association and several City Council Members have called for an independent audit of CERS; and

WHEREAS, the Mayor has proposed establishing a Pension Reform Committee pursuant to City Charter section 43 (b); and

WHEREAS, pursuant to Council Policy 000-16, the Pension Reform Committee will adhere to the requirements of the California Brown Act; and

WHEREAS, the Mayor and City Council desire to assure the public that prospective members do not have business relationships with the City Retirement System; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego, that there is hereby established pursuant to City Charter section 43 (b) a Pension Reform Committee consisting of nine members including a chair person who shall be appointed by the Mayor and confirmed by the City Council. The Mayor shall use his best efforts to recruit appointees who have pension plan management experience or expertise. The composition of the Pension Reform Committee shall be as follows:

1. Five individuals who are not City employees, not city retirees, and have no business

relationship with CERS, who have expertise in pension plans, law, accounting, stock market investing, or real estate; and

2. One taxpayer advocate who is not a City employee not a city employee or city retiree; and
3. One member of the City Retirement Board who is not a city employee or city retiree; and
4. One City retiree who is not a member of the City Retirement Board; and
5. One City employee who is not a member of the City Retirement Board.

BE IT FURTHER RESOLVED, by the Council of the City of San Diego, that to assure the public that the members of the Pension Reform Committee do not have business relationships with the CERS, subsequent to appointment and prior to confirmation, prospective members shall be required to execute an affidavit under penalty of perjury declaring that they do not have any economic interests with CERS (other than as a member of the Board or member of CERS for those members appointed pursuant to paragraphs c, d and e) or with any vendor or consultant doing business with CERS and further, that such prospective member shall refrain from establishing any such economic relationship with CERS for a one year period following the dissolution of the Pension Reform Committee.

BE IT FURTHER RESOLVED, by the Council of the City of San Diego, that there is hereby established pursuant to City Charter section 43 (b) the Pension Reform Committee with the following defined objectives:

1. Report back to the City Council no later than six months.
2. After reviewing and considering the scope and depth of audit activity currently being conducted by CERS, conduct any additional or supplemental independent audits, studies or investigations deemed necessary and appropriate.

3. Examine how the existing pension system has performed compared to other similar systems.
4. Examine whether changes should be made to the existing pension system.
5. Examine whether the make-up and representative constitution of the Retirement Board should be restructured.
6. Examine whether the system should be changed from a defined benefit plan to a defined contribution plan for new employees.
7. Examine whether the City should join the California Public Employees Retirement System or any other retirement system.
8. Make any other recommendations as appropriate.

BE IT FURTHER RESOLVED, by the Council of the City of San Diego, that the expectation of the Council is for CERS and the Pension Reform Committee to cooperate in the sharing of documents, information and resources in order for both CERS and the Pension Reform Committee to efficiently and expeditiously fulfill their respective duties and responsibilities.