

Pension board OKs adoption of IRS plan

'Compliance statement' calls 14 issues 'failures'

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San Diego's pension board yesterday unanimously adopted a 14-point plan negotiated with the Internal Revenue Service to bring its programs and practices in compliance with federal tax law.

Key changes include the retroactive elimination of all vestiges of the controversial extra retirement benefit given to some current and past municipal union presidents and the slashing of a program that allowed members of the firefighters union to convert their annual leave to service credits.

Also on the list was **the improper use of \$33.8 million in pension funds to pay for health care coverage promised to retirees.** The IRS labeled those three issues and 11 others identified in an 11-page "compliance statement" as "failures."

The IRS said the San Diego City Employees' Retirement System must correct the problems within 150 days. **Despite the violations, the IRS did not require additional city contributions to the fund, issue a fine or lift the retirement system's tax-exempt status.**

Board member Peter Preovolos pointed out that while the system dodged a bullet in preserving its tax status, the compliance statement confirmed a spate of irregularities.

"I'd suggest that what we have in front of us is an extraordinary milestone in the public sector and will be used as a road map for how not to administer your (retirement) plan," said Preovolos, who presided over the board two years ago, as the system entered a voluntary IRS compliance program.

Retirement system spokeswoman Rebecca Wilson said officials received the compliance statement Thursday and may not know until next month how much money the system will have to reimburse employees for contributions that were disallowed by the IRS.

Union presidents who the IRS said received improper benefits will have the improper contributions returned to them and that amount will be taxed. Their remaining benefits will be recalculated. Other employees will have their pension benefits recalculated and adjusted within the system.

Retirement officials manage fund investments and administer benefits but do not grant them. Many of the deficiencies pointed out by the IRS came about because of deals negotiated between the city and its unions. One stretches back nearly 25 years.

Mayor Jerry Sanders praised the fund for initiating contact with the IRS and said he had been assured that all the tax issues could be fixed.

"They've given us an idea of where we have to go now and that's what we'll do, but I think it ends a lot of the questions that a lot of people have had," Sanders said.

Continuing a recent trend, the mayor also will bypass City Attorney Michael Aguirre and ask the City Council to hire a private attorney to review the city's legal questions about the agreement. Council President Scott Peters, in a statement, said he will support that decision.

Peters said the council probably would vote late next month to adopt the changes in the compliance statement and insert them into the city's Municipal Code and charter. Those governance documents are a guide for how the retirement fund administers the assets of city employees.