



***Summary of and Update to October 17, 2008  
Fiduciary Analysis of DROP Program  
Interest Rate Determination***

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**Presented to the Board of Administration  
San Diego City Employees' Retirement System**

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January 23, 2009**

# Topics

- Summary of fiduciary duties
- Summary of applicable Ordinances and Board rules
- Questions posed regarding interest crediting to DROP accounts and responses to same
- Fiduciary issues to consider when making interest crediting decisions

# Fiduciary Duties

- Duty of Care
  - Prudence, expertise, diligence, consultation with professionals
  - Assure competency of assets of SDCERS
  - Follow Plan Document
  
- Duty of Loyalty
  - Exclusive benefit rule
  - Serve overall best interests of members and beneficiaries
  - Balance competing beneficiary interests (Rest. (3d) Trusts, § 50 (2003))

# **San Diego Municipal Code (“SDMC”) Provisions Regarding Deferred Retirement Option Program (“DROP”)**

- Division 14: §24.1401:
  - Provides members hired before the termination of the program an “alternative method of benefit accrual” in the Retirement System.
  - Provides members who elect into DROP “access to a lump sum benefit at the time of their actual retirement, in addition to their normal monthly retirement allowance.”
  - DROP is “intended to be cost neutral.”

## **SDMC Provisions Regarding DROP**

- Division 14: §24.1404, subd. (c)(6): A Member's DROP Participation Account must be credited with: "Interest on the above amounts, as determined by the Board through rules and regulations adopted under Division 9 of this Article. These rules and regulations will have the same force and effect as a duly adopted ordinance."
- Note that a *different* section of the SDMC governs interest credited to member and city contribution accounts (§24.0904).

## **SDCERS Board Rule 12.10(a): Amount of Interest Credited to DROP Accounts**

- “. . . . Pursuant to SDMC section 24.1404(c)(6), the amount of interest credited to DROP accounts is determined by the Board. The Board has adopted the following rates of crediting interest to DROP accounts during the following fiscal years. SDCERS will continue to use the most recent Interest Rate specified below until this rule is amended by further action of the Board.

[Table showing DROP Interest Crediting Rate at 8% for each year from 1998 through 2008; DROP Interest Crediting Rate was decreased to 7.75% effective January 1, 2009.]”

## SDMC Provisions Regarding DROP

- §24.1407, subdiv. (b)
  - A Member may receive the amounts in his or her DROP Participation Account in any of the following benefit forms:
    - (1) single lump sum distribution,
    - (2) equal monthly payments over 240 months starting with the date the Member leaves DROP and retires, or
    - (3) *any other benefit form approved by the Board*, subject to applicable provisions of the Internal Revenue Code.