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Another Pension Fund in the **RED**

Putting the cost of a 2002 benefit increase onto taxpayers in 2032

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The San Diego County Board of Supervisors presented an award recently to Diann Shipione, the whistleblower who many credit with bringing the city of San Diego's pension problems to light.

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Soon after the award, Shipione's husband, attorney Pat Shea -- buoyed by his own background dealing with municipal financial crises -- embarked on a campaign for mayor of San Diego with one theme and one theme only: The city needed to head into Chapter 9 bankruptcy proceedings in order to deal with its massive obligations to pensioners that it simply could not afford.

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Shipione accompanied him to most of his public presentations and he referred to her often as the one who knew the city's pension problems the best. In fact it was probably not only her prescient observations of the pension fund's situation that provoked the award from the Board of Supervisors but also her tireless commitment to teaching people about them and helping hundreds of others slog through the complexity of the issues involved.

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Out of that, her husband took one big lesson: That the city got in trouble because, he said, it violated the letter and spirit of a provision in the [California Constitution](#). That provision mandates that local governments essentially pay their debts at the same time they incur them.

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It's a principle known as "generational equity." A government should not push the costs of something they do now onto future generations of taxpayers.

It's a principle some say the county is violating as well.

The county is dealing with a more than the \$1.2 billion shortfall in its pension system as a result of a package of decisions in 2002 to, among other actions, boost the pension benefits of county employees by 50 percent. It also is paying off \$1.27 billion

in debt from pension obligation bonds, a portion of which won't be retired until 2032.

Although pension obligation bonds provide immediate assets for investment in a retirement fund, they indicate a problem, said Steve Frates, president of the center for government analysis.

"If a government has to go to pension obligation bonds it means it has promised more in benefits than it has prudently set aside reserves for," Frates said.

A prudent pension benefit enhancement would have been accompanied by a proportional reservation of assets that could pay for it, Frates said.

That was a thought echoed by April Boling, who, as president of the San Diego County Taxpayers Association, last year warned the county about its practice of paying off the 2002 benefit increases in a multi-year plan similar to a mortgage.

Amortizing the debt, as the practice is called, was not appropriate for the county, Boling said. If they wanted to give their employees such a large and retroactive pension benefit -- one that added more than \$1 billion to the debt of the retirement system immediately -- county supervisors should have been ready with a large payment, she said.

Such a move allows the county to spread today's costs out into the future, making this year's budget decisions easier at the expense of future taxpayers. Some question the appropriateness of not facing today's bills today.

"If they are going to give benefits to employees that are retroactive, the cost to the county should be volatile," said Boling, who chaired the city of San Diego's Pension Reform Committee.

Instead, she said, the county is pushing out its pension obligation onto future taxpayers.

"It's like a person who starts leading an unhealthy lifestyle -- they may not see the symptoms right away but something will happen eventually," Boling said.

County officials are hostile to any insinuation that the county's pension fund is suffering from anything like the issues plaguing the city of San Diego.

In 2004, a city mayoral campaign occasionally dipped into that debate. County Treasurer and Tax Collector Dan McAllister, in fact, immediately revoked his endorsement of incumbent Mayor Dick Murphy after Murphy held a press conference to highlight the county's own pension debts.

McAllister, who was chairman of the San Diego County Employees' Retirement Association retirement board, held a press conference of his own to defend the county's pension fund.

Now still a member of the board, McAllister said he and his colleagues are working to get the fund into a healthier position. The Board of Supervisors, he said, should be proud of the way they've consistently made the payments they've been asked to make.

"They've done a good job of trying to meet up to their responsibilities. They mean business and they work hard to meet their contribution requirements and do what is right," McAllister said.

Skip Murphy, a retired county employee who is an alternate member of the governing board of the fund, has heaped heavy criticism on the county for its attempts to stop funding the retiree health care reserve. But Murphy said even that problem doesn't compare to the issues the city of San Diego is facing.

"The party line we constantly put out is that we are not the city. We do not have the problems the city is facing. The county to its credit has paid its bill every year its come due and that's exactly what makes the county different," Murphy said.

The county, however, like most other organizations that maintain pension funds, will be dealing with more than the normal size bills in the future, experts warn.

Emily Kessler, an actuary and staff fellow at the Society of Actuaries, said that the baby boomers and increasing life spans of retirees will present costs to retirement funds that are unlike anything in the past.

If these funds are still paying off back debts, it could be even more of an issue, she said. Not only will the cost go up but places like San Diego retirees living on fixed incomes are less likely to support tax increases and there will be proportionately more of them than 20- to 30-year-olds just starting out, Kessler said.

"The aging of the baby boomers is the pig in the python. We've lived through depressions, recessions and wars, but a rapidly aging population? We haven't done that before," Kessler said.

Please e-mail Scott Lewis at smikelewis@comcast.net with your thoughts, ideas, tips or personal stories.

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