

Regarding the Cortex Report on Pension Management

February 12, 2013

The City of San Jose has engaged Cortex Applied Research of Toronto on two occasions, 2009 and 2012, to evaluate the San Jose retirement programs and recommend improvements. Cortex specializes in public retirement management, which offsets their remote home office.

One of the key factors to the San Jose situation is the city's having two separate retirement programs, one serving only the police and fire employees and the other serving all other city employees. The former program is called Police and Fire Department Retirement Plan, and the latter is called Federated City Employees Retirement System. While each system has its own Board of Administration, they use the same external firms for actuarial, legal, audit and investment services. Both depend upon the same Director of Retirement Services, a civil service post.

In both 2009 and 2012, Cortex recommended that the two retirement plans be consolidated. In the 2012 report, they estimated that a consolidated fund would yield 43 to 50 basis points better than the present separate funds. In the current environment, that is a compelling difference. Consequently, Citizens for Fiscal Responsibility strongly recommends that the two funds be consolidated, as recommended by Cortex. We recognize that there will be turf battles arising from that move, but the promise of superior returns should be compelling to all parties.

Much of the Cortex report is devoted to best management practices, and this part of the report should be implemented as well. Part of the report recommends a board structure with four independent members, each well qualified in the field of public pension programs, two members who are current employees contributing to the program, and one member who is a retired beneficiary of the program. They recommend that no elected officials serve as board members because that presents a systematic conflict of interest. Further, Cortex recommends that the board have full authority for its staffing and support. Cortex recommends that the board have full accountability for the performance of the retirement programs, within the constraints of the contributions and payouts defined by the San Jose City management structure.

The Federated City Employees Retirement System essentially has the board structure recommended by Cortex, and the public members are to have at least 12 years of relevant experience in retirement programs. The Police and Fire Department Retirement Plan has a nine-member board with five public members, professionals, one active and one retired member from each of the police and fire departments. The wild card in each case is Councilman Pete Constant listed as a non-voting member on each board, which seems to be at odds with the Cortex recommendations.

The principal administrator is the Director of Retirement Services, Russell Crosby, and he is responsible to the City Manager, not to the Boards of Administration. This appears to be contrary to the Cortex recommendations.

While the paths of responsibility within any government organization are tangled, Citizens for Fiscal Responsibility recommend that, in addition to consolidating the two retirement programs, the management responsibilities be aligned so that accountability is clear, and that the Cortex recommendations for eliminating systematic conflicts of interest be fully implemented.