

**A Four-Part Series of Articles  
San Diego County Pension Fund  
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# Another Pension Fund in the **RED**

## County struggles with aftermath of a 2002 decision to increase benefits

*This is part one in a four-part series.*

By SCOTT LEWIS  
Voice Contributing Writer  
Wednesday, Aug. 17, 2005

In the shadow of the fiscal scandal that has left San Diego's City Hall in a legal and political quagmire is another billion-dollar pension problem.

This one sits just down the road at the county of San Diego.

A review of San Diego County's financial records and interviews conducted by the *Voice of San Diego* suggests the county's pension situation may be putting as much of a basic financial burden on its government operations as the city's has without the legal scandal and allegations of misconduct to accompany it.

A massive pension enhancement for county employees in 2002 torpedoed the once surplus-heavy San Diego County Employees' Retirement Administration. Three years after that benefit increase, the county's \$1.2 billion shortfall in its pension system continues to worsen even as officials invest far more taxpayer dollars into the fund than they did over the entire past decade.

And the costs of that investment are clear. The county, in 2001, only needed to set aside 7 cents in the pension for every dollar it paid sheriff deputies in their salary. This year, however, the county is putting 29 cents in their pensions for every dollar it pays them as a salary.

Supporting the pensions of the county's other employees has come with a similarly dramatic increase in cost over the same period.

But increased taxpayer contributions to the pension fund haven't been the only part of the county's obligations to it in recent years. County taxpayers will now have to pay off \$1.19 billion in debt from pension obligation bonds -- and will still be making payments on some of it for 27 years.

It's a dramatic change from yesteryears. For two years -- 1999 and 2000 -- the county was so confident of its pension system's health that it did not put any taxpayer funds into the retirement savings pool.

But because of the benefit increases, investment losses and mistaken assumptions, the pension deficit forced the county to dip into taxpayer funds. In fiscal year 2004, the taxpayer payment to the pension fund was \$194 million -- almost the exact cost of the county's entire public works department this year, which manages airports, street lights and infrastructure for the vast unincorporated area of the county.

In September of that same year, budget cuts forced the supervisors to eliminate 300 vacant county jobs.

"Perhaps, in hindsight, maybe we should not have been as complacent as we were during the better years," said Supervisor Greg Cox, who represents the southern district of the county. "Right now, we should stay focused on what the contributions should be."

This year, the county made an advanced payment to its pension system of \$271 million.

That's 18 times the size of the average taxpayer contribution to the pension fund during the years from 1995 to 2003.

And yet, even with this investment -- the taxpayer contributions and the sale proceeds from the pension obligation bonds -- the county's pension deficit is projected to continue to grow for the next few years because of its financing plan.

For the third time in four years, the county pension's **funded ratio** is expected to dip below 80 percent. The county's official advisors have warned that funds with ratios below 80 percent are considered to be in the "red zone."

The pension fund's advisors, in fact, recommended a change to the county's assumptions this year that would have immediately dropped the funded ratio into the red zone.

"The county has been the beneficiary of the fact that the city has been gobbling up all the publicity about pensions in the area," said Rick Roeder, who was the county's official pension actuary for 14 years until 2004. "But the county has made its required payments. You wouldn't say that a person who has been making his payments every month on his mortgage is in financial dire straights."

Those payments, however, have never been as high as they were the last two years.

What happened?

By all indications, the county's pension system was very healthy -- if not exemplary -- throughout the decade ending in 2002. But in February 2002, county supervisors granted themselves and their employees a pension enhancement that not only benefited workers from that day forward but retroactively as well.

The benefit increases that year were considerable. Employees who had been working under the presumption that they would receive 2 percent of their highest average salary multiplied by the number of years they worked, suddenly had the opportunity to opt in to a program that gave them 3 percent.

For an employee who had worked 25 years and expected a final average salary of \$40,000, that meant her expected annual pension instantly went up from \$20,000 to \$30,000.

"If people say that city employees have Cadillac pensions than they should say that county employees have Rolls Royce pensions," said Michael Conger, a lawyer who has carved a niche in the local legal environment successfully suing public pension systems.

Applied to the entire county staff, the 2002 deal immediately pushed the pension fund into a deficit of \$1.25 billion. Suddenly, a fund flush with cash dipped more than a billion dollars into the red.

The funded ratio of the county's plan -- a measure of how much assets it has compared to liabilities -- plummeted from a healthy 106.8 percent to 75.4 percent in one year after the benefit enhancements.

Why did the Board of Supervisors decide to take on such a massive obligation?

County staff explained then that "approval of the recommended actions will significantly enhance the county's ability to attract and retain the best and the brightest employees," according to records of meetings in February 2002, when the board approved the measure.

Cox said the county had trouble keeping quality employees.

"The pensions we offered prior to 2002 were adversely affecting our ability to recruit and retain upper level managers," Cox said. And, moreover, employees working next to each other were sometimes expecting wildly different pension benefits.

"We needed to try to bring everyone up to the same level," Cox said.

But the most immediate effect of the benefit enhancements was actually a mass exodus of employees.

An average of 30 employees had retired from the county every month until the retirement enhancement took effect March 7, 2002. From March 8 to June 21 of that year, 813 employees decided to cash in.

The retirees' new benefits pushed a debt onto the county's balance sheet that it hadn't seen before and the county reacted immediately by seeking a loan -- specifically, the sale of \$737 million in pension obligation bonds. No public vote was needed because pension obligation bonds fall under one of the few exceptions to the California Constitution's requirement that residents sign off on bond issuances.

The bonds allowed the county to avoid a massive payment to the fund in 2003, but in 2004 the county's advisors requested that it inject millions more in taxpayer dollars than it ever had.

So, just like two years before, the county again went to Wall Street. The loan's proceeds came just in time as the county was only days away from having the effects of a large investment loss further worsen the shortfall between how much the county owes retirees and how much it owns in pension fund assets.

But the two trips to visit bond buyers have left the county with a separate debt of \$1.27 billion.

County officials point to the fact that they could even go to Wall Street as one of many indicators of how much healthier their fund is than the city's. The city of San Diego, dogged by allegations that it failed to fully report the extent of its pension problems, has lost its credit rating, leaving it essentially barred from public finance markets.

Not so for the county, which still enjoys exceptional credit ratings.

Taking on the extra debt hasn't been a problem either, said Don Steuer, the chief financial officer for the county. Steuer said he and the other administrators have had no trouble absorbing the massive bill sent to them by the retirement system.

That's another difference between his operation and the city, which orchestrated a deal with its pension board to avoid a massive payment to the pension system. That deal is now being reviewed by multiple criminal investigators.

Steuer said that for the county, there was no sticker shock when the pension bill came.

"We planned for it. It is a percent of payroll and we assess the cost of it across the entire enterprise," Steuer said.

And the county, Steuer said, was able to take advantage of a strong credit rating to sell pension obligation bonds, which provided the county with "significant economic savings."

In fact, low interest rates did allow the county to invest in its pension plan and save an estimated \$132 million -- money that would have gotten sucked away by the fund's ever growing liabilities.

Pension obligation bonds have been seen by many across town in the city of San Diego as a way to put to rest some of its constituents' and retirees' worries about that pension plan. Many in the city long for the day when it can again approach Wall Street to talk about things like pension obligation bonds.

But those bonds are not without their costs.

San Diego County now pays a yearly bill on its pension obligation bonds of more than \$63 million.

Added up, the annual cost of the county's pension system has reached a much higher level than the supervisors were told it would when they approved the 2002 benefit enhancement.

That year, county staff reported that the fiscal impact of their decision would mean an ongoing payment of \$32 million that would begin in fiscal year 2003-2004.

That turned out to be about a seventh of the true bill.

## Part Two: A "Hard" Debt to Wall Street

### Pension obligation bonds come in handy but with a price

*This is part two in a four-part series.*

By SCOTT LEWIS  
Voice Contributing Writer  
Thursday, Aug. 18, 2005

The county of San Diego's pension system positioned itself quite well for the investment boom of the late 1990s.

With proceeds from pension obligation bonds it issued in 1994, the county's pension system rode the boom to its highest heights, generating surpluses every year. The surplus in 2000 reached \$320 million.

Just two years later, that fund faced a deficit of \$1.25 billion. Red ink on the balance sheet meant the fund needed a boost. It needed assets. A deficit in a public pension fund grows for every year it continues without sufficient assets to cover the promises the government has made to its employees.

The trustees who oversee the San Diego County Employees' Retirement Association are in charge of paying down that deficit -- in effect, it is their job to send taxpayers a bill for what has been earned by county employees.

But before the SDCERA sent the county and its taxpayers the big bill from a massive benefit enhancement in 2002 that had sent the fund into a deficit, the trustees made some changes to how they calculate the bill.

First, they changed the deadline by which the deficit would need to be paid off. In 2002, the system had a mandatory five-year **amortization** period on such pension deficits. Meaning, that like a home mortgage, the county could finance the deficit for five years, paying off a portion of it each year until the county owed nothing more to retirees than it had invested. With the pension benefits the county awarded in 2002, however, that short of a time frame would have meant an enormous taxpayer payment into the pension fund the next year that could have stretched as high as \$450 million, according to some calculations.

So the trustees pushed the deadline out to a little farther than eight years.

It proved to be a habit-forming initiative.

The next year, the board of retirement again made a change -- switching this time to a 15-year **rolling** amortization schedule. And again, in 2004, the county's pension board lowered the payment the supervisors would have to make by replacing the amortization period with a 20-year **fixed** timetable.

In four years, the county's pension board pushed back the deadline by which they would require a balance in the pension fund three times.

That helped ease the sticker shock, but not as much as an initiative the county's administration undertook in 2002: They went to Wall Street and asked for a loan.

Given the county's excellent credit ratings, Wall Street welcomed the officials and agreed to give them more than \$737 million. It is a loan county taxpayers will be paying off until 2032. Given the success the

county had experienced in the 1990s putting the borrowed assets to work, the county's pension fund welcomed the new investment possibilities.

A large portion of the new proceeds went to pay off the older pension obligation bond debts. After those liabilities were put to rest, the county took the proceeds from the loan and invested \$550 million into the pension system.

The money made it possible for the Board of Supervisors, even though they had given the benefits to their employees in 2002, to skip a proportionately higher payment to their pension system in 2003.

But over the next year, even with the \$550 million boost, the pension fund's shortfall worsened again. By June 30, 2003, the pension fund had a deficit of \$1.435 billion. In spite of the big loan from investors, the fund's deficit had grown again. It dropped to a 75 percent funded ratio, meaning that it had 75 percent of the assets it needed to pay off all the liabilities it would eventually owe county retirees. And the deficit was projected to top \$1.6 billion.

The county called up Wall Street investors again and by the end of the fiscal year, in June 2004, they secured the sale of another \$450 million in pension obligation bonds -- leaving the taxpayers with yet another loan to pay off.

Better to pay off the loan than to watch the pension system's health worsen, county officials said in interviews.

"When you have the ability to and good interest rates to work with, pension obligation bonds are a good option. From what I've seen, they've provided us a significant economic savings," said Don Steuer, the chief financial officer of the county.

Where do the savings come?

The county issued its bonds during attractive borrowing times. County administrators were able to secure interest rates for the bonds lower than what the pension fund expects to receive from the investment market each year.

The maneuver, to refinance debt in the pension system to "hard" debt owed to Wall Street investors in order to invest it at a higher rate in the pension fund's portfolio, is known as arbitrage.

The county may be borrowing \$1.2 billion from investors right now, but it is putting that money to work in the stock market. The pension fund's managers believe they can earn 8.25 percent. If they do earn that much with the bond proceeds, Steuer said the county will have saved itself more than \$130 million by issuing the bonds.

"It has to do with your overall portfolio management," Steuer said. "If you've put yourself in the position to have good credit, you can take advantage of low rates and save money."

Stephen D'Arcy, a professor of risk management at the University of Illinois, agrees.

"In general if you can borrow at an effective rate then you're likely to do better than if you just didn't put money in at all," D'Arcy said. "But it is somewhat worrisome -- there are no guarantees you're going to get a higher rate of return on investments than the interest rate you borrowed at."

And it's still a **\$1.27 billion debt** -- separate from the \$1.2 billion pension deficit.

No pension fund in California has issued as many pension obligation bonds as the county.

To pay off Wall Street investors, county taxpayers will pay \$63 million this year. The annual payment will rise to more than a \$100 million by 2020.

All to pay off benefit enhancements given to county employees in 2002.

"In the future, county taxpayers are going to wake up and ask the county supervisors why they're still paying off pension debt the county incurred 15, or maybe 20, years before," said Michael Conger, a lawyer who has sued the county on behalf of retirees in the past.

The 2002 deal effectively elevated the cost structure of the county's labor and that can be a problem, said Emily Kessler, an actuary and staff fellow at the Society of Actuaries.

Like the county, she said, many businesses and governments watched the funded ratios of their pension plans rise and stay in very healthy positions in the late '90s. But it's precisely during those types of "good times" that businesses and governments should avoid giving pension benefit enhancements to their employees, she said.

"If you always improve benefits during an up cycle, when the cycle comes down you've shot yourself in the foot and you're in trouble," Kessler said. "When you do that, you escalate your cost structure and then you attempt to maintain that cost structure when times aren't so good."

The county's most recent payment to its pension system -- which included an agreement to pay part of what the employees would normally be required to pay themselves -- was \$271 million.

Add the debt payments on the pension obligation bonds and that's a one-year total payment of \$334 million in pension debt costs.

The county has 17,717 employees. That means that for each employee, the county made an average additional payment of \$18,851 to support his or her retirement in one year. And yet, even with all this investment, the pension deficit is projected to grow for at least the next five years under the county's current deficit-financing timetable.

From the perspective of the pension board, which will be responsible for paying retiree benefits, another round of pension obligation bonds may be necessary to shore up its funding level, said Dan McAllister, the county's treasurer and tax collector and a member of the retirement board.

"Because the interest rate environment market right now is primed and ready, we are in as good a position as ever to issue more bonds," McAllister said. "The issue, of course, is whether the county is willing to take on more debt to fund up its pension promises."

It doesn't sound like county administrators are.

"At the present time, we are not preparing any recommendations to issue any additional pension obligation bonds," the county's CFO Steuer said.

With pension obligation bonds off the table for now, only direct taxpayer payments will be available to offset the remaining deficit in the retirement fund. And because of the 20-year financing plan being employed to pay down the debt, those taxpayer payments aren't projected to grow as fast as the deficit is for the next two years.

# Another Pension System in the **RED**

Retiree health care on the chopping block as county refuses to back off expectations of future investment gain

*This is part three in a four-part series.*

By SCOTT LEWIS  
Voice Contributing Writer  
Friday, Aug. 19, 2005

County pension board meetings aren't usually exciting spectacles, but so many people are expected to show up to the board's Sept. 1 meeting that officials have opted to hold the event at the spacious Mission Valley auditorium of the Scottish Rite Masonic Center.

It should not surprise anyone that former county employees and current workers will pack the house that day. At issue: whether to cut off funding for the health care of county pensioners. It is a bill the county's retirement fund has been paying for decades.

The county's \$1.2 billion deficit in its pension fund has forced pension officials to consider withholding the money that would usually pay for retiree health care and using it instead to supplement ballooning taxpayer contributions to the deficit. County leadership maintains that health care has always been an added benefit -- one the county could take away if it needed to.

And there's more than just the taxpayers to think about. Next year, new government accounting standards will force the county and other governments to acknowledge how much they owe future retirees not only in pensions but in health care too. It will add potentially hundreds of millions of dollars of debt to the pension system.

Unless, somehow, the county can get out of it.

Retirees and employees say the county can't. They are expected to show up en masse at the September meeting, and they say that guaranteed health care when they retire is a vested benefit the employees have earned.

"The retirees feel that even if it's not an absolutely legal obligation at the very least the county has a moral obligation to maintain health benefits for retirees," said Skip Murphy, a member of Retired Employees of San Diego County, Inc.

At the root of the controversy are the county's pension investments and how much it expects to earn from them. The money that exceeds that annual expectation has traditionally been used to pay for retiree health care and other additional benefits not already included in the retirees' basic pension.

The concept is known as "excess earnings." The idea is that the fund earns more than it needs on investments some years so it can take that surplus and pay for things other than the basic pension debts. However, it does this even when the fund is facing a massive deficit and the "excess earnings" could be used to pay that down. It's an idea that even the county's leaders have questioned.

So now they're pushing for a change -- one that would throw out the practice of taking excess earnings and, at the same time, allow the county to stop funding for retiree health care.

And who benefits? The short answer is that the county would be able to cut down the amount of taxpayer contributions it makes to the fund.

So what exactly is an "excess earning?" How can a government with a pension fund \$1.2 billion in the red and an additional debt of \$1.27 billion in bonds declare each year that it has an "excess" amount of earnings?

Right now, the county expects to earn 8.25 percent every year from its more than \$5 billion in investments. Anything above that, in any one year, is excess. That's money that can go to health care. Significantly, however, there's nothing that accounts for years when investment returns come in below that. So bad years are always harder on the pension fund than good years are good.

The county pension board, confident in its past performance and methods, recently reaffirmed that assumed rate of return of 8.25 percent.

They had been offered a different option. In June, the relatively new advisor of the county's pension fund, an actuary from the firm The Segal Company, had recommended that the board of retirement of the San Diego County Employees' Retirement Association expect an 8 percent annual return rather than an 8.25 percent return.

The pension officials knew that if they opted for that new assumption, the fund's deficit would only grow.

Had county officials decided to lower the assumed rate of investment return by .25 percent, the county's pension forecast would have changed immediately. The pension fund's deficit would have **risen** from \$1.2 billion to \$1.36 billion. And the funded ratio -- the comparison of the pension fund's assets to its liabilities - - would have dropped to 79 percent.

The pension board, however, reported that it had other reasons for rejecting the assumption change.

Chief Investment Officer David Deutsch reported on the pension fund's Web site that the board had a confidence in its unique investing style.

"The investment program has earned excess return over the past 10 years of 1 percent to 2 percent," said Deutsch. "There is a 90 percent-plus chance that these results are due to skill and not chance."

The impact of the potential change in that assumed rate of investment return shows just how integral expected investment returns are to the pension system. The county, like all public pension funds, is counting on the stock market to keep it afloat.

If they don't reach the assumed rate of return investments, not only do officials not have any "excess earnings" to put into a reserve for health care, but taxpayers alone -- not employees -- have to make up the difference.

Some wonder if that's a gamble or good management.

"The key question is how much is your plan for recovery is dependent on the market going up dramatically, because that's a bet, it's not a certainty. The market doesn't have to go up," said Emily Kessler, an actuary and staff fellow of the Society of Actuaries.

And, according to some, the county's 8.25 percent assumed rate of return on investments is not unreasonable.

"A prudently run fund, perhaps, could get something like that," said Steve Frates, president of the Center for Government Analysis.

For comparison, Orange County's employee pension system assumes its investments will earn 7.5 percent. The city of San Diego's pension system maintains an assumed rate of return of 8 percent.

Not only is 8.25 percent the return the county expects to get on its pension investments, it's also the cutoff point -- anything above that, on any given year is considered "excess earnings." And rather than head into the fund to make up for less fortunate investment years as is recommended, much of the excess earnings have traditionally been spent on what the county considers extra benefits, like retiree health insurance.

It's a system similar to that used at the city of San Diego, and one outside consultant investigating it actually came up with a name to describe the system of siphoning off excess earnings from good investment years. He said the process acted like a "snake in the garden."

County Supervisor Dianne Jacob, who also sits on the retirement board, made note of the paradox herself during a pension board meeting in June 2004.

She wondered why, with a deficit in the pension plan, the system could afford to spend investment earnings on anything but paying down the deficit.

"How can you even have excess benefits when you have debt to pay off?" she asked.

And that's what the controversy at September's pension board meeting comes down to. Pension administrators have put out a proposal to cut off the excess earnings model until the fund has an 85 percent funded ratio -- a level of health it has not been able to attain in the last three years despite a more than \$1.7 billion investment in the retirement system over that time period.

That means no money would fund retiree health care until the pension system is 85 percent funded. The county's pension has health care reserves, but with the rapidly increasing cost of medical care, those savings will be gone within five years.

But the county is committed to raising the funded ratio in its pension plan, officials said.

"I would certainly feel a lot more comfortable about the fund if we were north of 85 percent," said Supervisor Greg Cox.

And it's not only worries about the pension system that are driving the push to potentially siphon off the money flowing to retiree health care benefits. In 2006, all governments like San Diego County will have to list their health care obligations on their accounting sheets -- a move that will add billions in liabilities to municipal financial disclosures around the country.

"That is a cause for concern," Cox said. "How we deal with other post-employment benefits like health care in the future is our challenge. We will have to find an equitable solution for all the parties affected."

County Treasurer and Tax Collector Dan McAllister agreed.

"The impact on debt issuers of which all local government entities are part is looming fairly large because transparency is at the heart of what these new requirements are all about," he said.

What worries retirees, said Murphy, one of their representatives, is that the county will continue to lop off the peaks of good investment years. But instead of filling in the valleys, the county will just use the money

to lower the amount it has to come up with to pay into the fund. In that case, retirees would lose health care even while the pension deficit remained high.

Murphy said that if the retirement board really wanted a healthier pension fund, it could just send county taxpayers the bill to do that.

"But they won't do it because it would hurt the county supervisors politically," Murphy said.

# Another Pension Fund in the RED

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

*This is part four in a four-part series..*

By SCOTT LEWIS  
Voice Contributing Writer  
Saturday, Aug. 20, 2005

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.

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.

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.

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.

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.