

**Popular Annual  
Financial Report**

for the fiscal year ended  
June 30, 2013

A DEFINED BENEFIT PENSION PLAN FOR EMPLOYEES OF  
THE CITY OF SAN DIEGO, THE SAN DIEGO UNIFIED PORT DISTRICT  
AND THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY.

**SAN DIEGO CITY  
EMPLOYEES'  
RETIREMENT  
SYSTEM**

**A COMPONENT UNIT OF  
THE CITY OF SAN DIEGO, CA**

# INTRODUCTION

SDCERS is pleased to present the fiscal year 2013 Popular Annual Financial Report (PAFR) to active and retired members from our three plan sponsors – the City of San Diego, the San Diego Unified Port District and the San Diego Regional County Airport Authority.

The information provided in the PAFR is a snapshot of the detailed information contained in the Comprehensive Annual Financial Report (CAFR). The PAFR provides a concise summary of SDCERS' financial health, investment performance and key accomplishments throughout the fiscal year. For more in-depth information, we encourage you to read the CAFR by visiting [www.sdcers.org](http://www.sdcers.org) and clicking on the Forms and Publications page.

SDCERS' successful year end investment returns total 13.6 percent for FY 2013, up from 0.9 percent in FY 2012. As of June 30, 2013, SDCERS' annualized total investment return (net of fees) was 12.5 percent over the past three years and 5.5 percent for the past five years. Over the past 10 years, SDCERS investment return was 8.1 percent – in the top eight percent for public pension plans.

SDCERS engages an independent actuary to conduct annual actuarial valuations. The June 30, 2012 actuarial valuations show that the City's plan is 68.6 percent funded, the Unified Port District's plan is 72.7 percent funded and the Airport Authority's plan is 98.5 percent funded. All three plan sponsors paid 100 percent of their Annual Required Contribution (ARC) in FY 2012 and FY 2013.

Also throughout the year, SDCERS worked with our plan sponsors to implement two

major pension reform initiatives: Proposition B, approved by City of San Diego voters and which became effective July 20, 2012, and California Public Employees' Pension Reform Act (PEPRA), passed by the California legislature and which became effective January 1, 2013. Proposition B closed the defined benefit retirement plan to City employees, other than sworn police officers, who are initially hired after July 20, 2012. PEPRA applies to Port and Airport new members, those employees hired after January 1, 2013, who haven't been a member of a public retirement system previously or who do not have reciprocity. Among other changes, PEPRA reduced defined benefit retirement formulas for new members who qualify under PEPRA. SDCERS' collaboration and cooperation with our plan sponsors resulted in a smooth implementation of these major reforms.

I would like to express my appreciation to the Board of Administration, Audit Committee members and SDCERS staff, who have provided the leadership, direction and support needed to make our recent achievements possible. Plan sponsors, members and the citizens of San Diego have been well served by their stewardship and dedication.

SDCERS looks forward to continuing its long-standing, disciplined strategy of a well-balanced portfolio that works to the benefit each of our member and our plan sponsors.



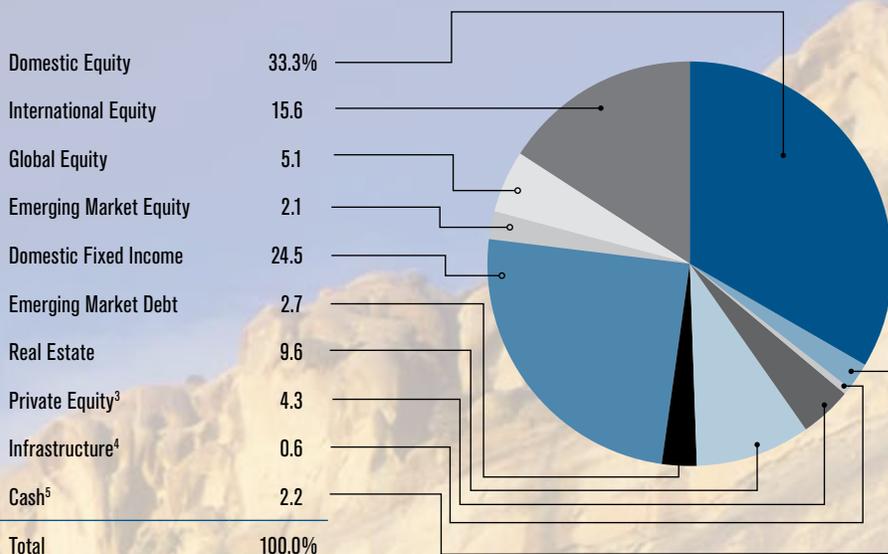
Sincerely,

A handwritten signature in black ink that reads "Mark A. Hovey". The signature is fluid and cursive.

**Mark A. Hovey**

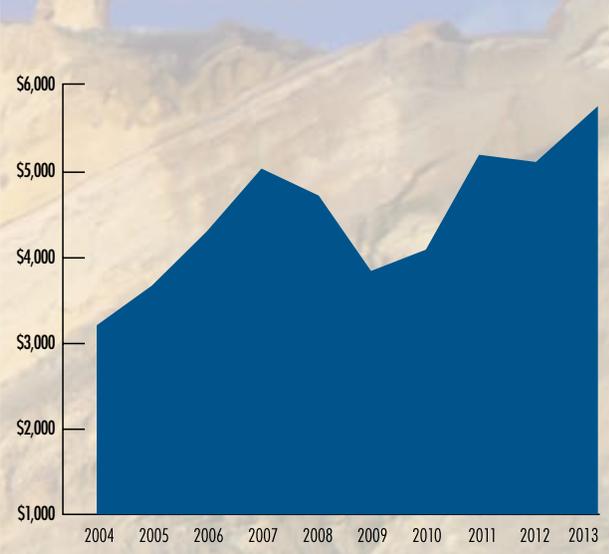
Chief Executive Officer

## ACTUAL ASSET ALLOCATION As of June 30, 2013



## GROWTH OF INVESTMENTS, AT FAIR VALUE

For Ten Years Ended June 30, 2013



## HISTORICAL INVESTMENT PERFORMANCE

Periods Ending June 30th

\* Total Fund returns are shown net of investment management fees beginning FY 2011. Returns prior to FY 2011 are gross of investment management fees.

# INVESTMENTS

SDCERS' investment team, along with the system's hired investment consultant Hewitt EnnisKnupp and actuary Cheiron, reviewed the fund's investment strategy following the passage of Proposition B. The asset and liability

study determined that SDCERS' current mix of 78 percent return-seeking assets and 22 percent risk-mitigating assets was an appropriate allocation.

SDCERS committed \$20 million to the CB Richard Ellis Strategic Partners U.S. Value Fund 6, a value-add fund focused on domestic real estate. The fund's strategy will seek to create value by converting and upgrading undermanaged or distressed real estate with the intention to sell them in the future. The private equity and

infrastructure mandates continued to grow during the year, private equity accounting for 4.3 percent and infrastructure accounting for 0.6 percent of the total fund.

The investment team, with Hewitt EnnisKnupp, also completed a search for custodial bank services during the year. After a thorough selection process, incumbent State Street Bank was rehired as the system's custodial bank.

# FINANCIALS

## STATEMENT OF PLAN NET POSITION

As of June 30 (Dollars in Thousands)

2013					2012	2011
	City of San Diego	Unified Port District	Airport Authority	Total	Total	Total
Cash & Cash Equivalents	\$212,474	\$15,489	\$9,127	\$237,090	\$166,455	\$386,667
Receivables	198,271	11,966	3,957	214,194	171,954	85,479
Investments, at Fair Value	5,374,028	303,577	102,672	5,780,277	5,188,935	4,920,326
Securities Lending Cash Collateral	177,445	9,967	3,439	190,851	265,439	326,600
Capital Assets and Prepaid Expenses	4,660	274	96	5,030	3,720	2,313
<b>TOTAL ASSETS</b>	<b>\$5,966,878</b>	<b>\$341,273</b>	<b>\$119,291</b>	<b>\$6,427,442</b>	<b>\$5,796,503</b>	<b>\$5,721,385</b>
Current Liabilities	\$393,798	\$24,581	\$7,387	\$425,766	\$365,800	\$190,438
DROP Liabilities	477,478	11,436	2,017	490,931	453,019	434,547
Securities Lending Obligations	177,922	9,993	3,448	191,363	267,176	326,600
<b>TOTAL LIABILITIES</b>	<b>\$1,049,198</b>	<b>\$43,010</b>	<b>\$12,852</b>	<b>\$1,105,060</b>	<b>\$1,085,995</b>	<b>\$951,585</b>
<b>PLAN NET POSITION</b>	<b>\$4,917,680</b>	<b>\$298,263</b>	<b>\$106,439</b>	<b>\$5,322,382</b>	<b>\$4,710,508</b>	<b>\$4,769,800</b>

This table depicts a summary presentation of the assets and liabilities of SDCERS. The Plan Net Position shown are available for future payments of benefits to retirees and beneficiaries of SDCERS.

## STATEMENT OF CHANGES IN PLAN NET POSITION

For the years ended June 30 (Dollars in Thousands)

2013					2012	2011
	City of San Diego	Unified Port District	Airport Authority	Total	Total	Total
Plan Sponsor Contributions	\$231,143	\$13,200	\$2,600	\$246,943	\$247,600	\$245,098
Member Contributions and Other Contributions	85,492	5,548	3,580	94,620	66,090	110,899
Net Investment Earnings	665,171	37,922	12,385	715,478	32,088	1,039,851
<b>TOTAL ADDITIONS</b>	<b>\$961,806</b>	<b>\$56,670</b>	<b>\$18,545</b>	<b>\$1,037,021</b>	<b>\$345,778</b>	<b>\$1,395,848</b>
Benefit Payments	\$362,266	\$17,838	\$1,956	\$382,060	\$361,018	\$336,460
Refunds of Member Contributions	3,770	194	100	4,064	5,346	35,119
Administrative Expenses	12,003	698	278	12,979	11,839	14,600
DROP Interest Expense	25,447	542	55	26,044	26,867	24,878
<b>TOTAL DEDUCTIONS</b>	<b>\$403,486</b>	<b>\$19,272</b>	<b>\$2,389</b>	<b>\$425,147</b>	<b>\$405,070</b>	<b>\$411,057</b>
<b>NET INCREASE (DECREASE)</b>	<b>558,320</b>	<b>37,398</b>	<b>16,156</b>	<b>611,874</b>	<b>(59,292)</b>	<b>983,840</b>
<b>NET POSITION AT JULY 1</b>	<b>4,359,360</b>	<b>260,865</b>	<b>90,283</b>	<b>4,710,508</b>	<b>4,769,800</b>	<b>3,785,960</b>
<b>NET POSITION AT JUNE 30</b>	<b>\$4,917,680</b>	<b>\$298,263</b>	<b>\$106,439</b>	<b>\$5,322,382</b>	<b>\$4,710,508</b>	<b>\$4,769,800</b>

This table illustrates the additions and deductions to Plan Net Position. The payment of retirement benefits accounts for the majority of deductions from the fund.

## FUNDED RATIO AND UNFUNDED ACTUARIAL LIABILITY (UAL)

As of June 30

Plan Sponsor		2008	2009	2010	2011	2012
City of San Diego	Funded Ratio	78.1%	66.5%	67.1%	68.5%	68.6%
	UAL (billions)	\$1.3	\$2.1	\$2.2	\$2.2	\$2.3
Unified Port District	Funded Ratio	92.0%	77.5%	75.3%	73.1%	72.7%
	UAL (millions)	\$21.5	\$64.8	\$76.7	\$95.5	\$104.2
Airport Authority	Funded Ratio	102.3%	86.9%	96.0%	102.7%	98.5%
	UAL (millions)	\$(1.3)	\$8.9	\$3.0	\$(2.3)	\$1.4

The chart summarizes key information from the most current independent actuarial valuation performed from SDCERS. The Funded Ratio is the relative percentage of actuarial assets to actuarial liabilities. The UAL (Unfunded Actuarial Liability) is the difference in dollars between actuarial assets and actuarial liabilities.

Agency funds that do not represent the assets of SDCERS are excluded from the financial summary.

# SELECTED ACCOMPLISHMENTS

## FUNDING POLICIES STRENGTHENED

SDCERS has implemented a number of policies that have strengthened its funding discipline when compared to most other public sector retirement systems. Most recently, in November 2013 the Board of Administration adjusted the actuarial discount rate to 7.25% based on a recommendation by the system's actuary. The adjustment was a prudent, fiscally conservative risk-reduction measure designed to protect the long-term health of the system and safeguard system assets.

## LEGAL AND COMPLIANCE MILESTONES ACHIEVED

The settlement of the Substantially Equal lawsuit between SDCERS and the City of San Diego in November 2013 marked the first time in more than a decade that there is no open litigation between SDCERS and the City of San Diego. SDCERS has worked diligently to reduce legal costs and protect the vested benefits of its members by pushing for the resolution of litigation disputes, including the Substantially Equal case. Resolution of legal cases with the City will significantly reduce the System's fiduciary and litigation counsel costs, insurance costs and actuary costs, which are ultimately

paid by the taxpayers through the City's pension funding. SDCERS completed a Tax Compliance Review conducted by outside tax counsel to ensure the system remains in compliance with all tax rules and regulations to maintain the tax-qualified status of the plans for all three plan sponsors.

## COMMUNICATIONS IMPROVED

SDCERS held its sixth Annual Membership Meeting in October 2013, with over 200 attendees receiving first-hand information about their retirement fund investments, the financial outlook and overall health of the System, and the impact of new legislation on retiree benefits. A social media program was successfully implemented in FY 2013 to enhance member communication; our Facebook, Twitter and LinkedIn sites supplement the System's traditional communication methods and provide valuable information regarding the retirement benefits offered by SDCERS. Our Call Center was reorganized to increase operational efficiencies and improve response times for our members. Increased training was provided to the entire Call Center team in order to answer health insurance and reimbursement questions, freeing up the health staff for processing.

## BY THE NUMBERS...

**2,055**

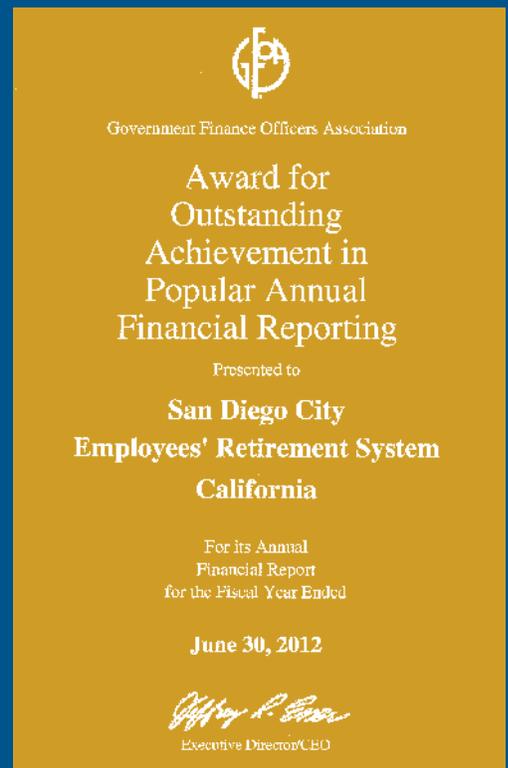
Number of individual counseling sessions conducted by SDCERS' Retirement Counselors covering topics such as the Deferred Retirement Option Plan (DROP), service retirement, purchase of service credit, termination and disability.

**37,747**

Number of calls from Members, beneficiaries and others received by the Call Center and counseling staff requesting assistance with Member benefits, appointments to meet with counseling staff and the City's Retiree Health Enrollment questions.

**17**

Number of retirement seminars, new employee orientations, benefit fairs, retiree meetings and other outreach efforts conducted to educate and inform our active and retired Members.



**SDCERS received an award from The Government Finance Officers Association (GFOA) of the United States and Canada for Outstanding Achievement in Popular Annual Financial Reporting, for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2012.**

## SDCERS MEMBERSHIP AS OF JUNE 30, 2013

### CITY OF SAN DIEGO

Active & Inactive Members	10,537
Retired Members & DROP Participants	8,454

### UNIFIED PORT DISTRICT

Active & Inactive Members	703
Retired Members & DROP Participants	485

### AIRPORT AUTHORITY

Active & Inactive Members	426
Retired Members & DROP Participants	51

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**TOTAL SDCERS MEMBERSHIP 20,656**

# SDCERS

San Diego City Employees' Retirement System

401 West A Street, Suite 400  
San Diego, CA 92101

This Popular Annual Financial Report (PAFR) is a summary depiction of SDCERS' audited financial statements and other information contained in SDCERS' Comprehensive Annual Financial Report (CAFR). The complete audited financial statements and pertinent notes to the financial statements can be found in SDCERS' 2013 CAFR. SDCERS' PAFR provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP); the SDCERS' CAFR conforms to GAAP and provides a comprehensive overview of the System's financial and operating results.

SDCERS' CAFR is available for review at [www.sdcers.org](http://www.sdcers.org) under "Forms and Publications," or at the SDCERS office.

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