

San Diego City Employees' Retirement System

*Summary of the*  
COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT

For The Fiscal Year Ended  
June 30, 2002

*San Diego City Employees' Retirement System (SDCERS) pledges to continually deliver accurate and timely benefits through prudent administration and safeguarding of SDCERS, while ensuring the Retirement System Trust Fund's maximum safety, integrity, and growth.*

A RETIREMENT SYSTEM TRUST FUND OF THE CITY OF SAN DIEGO, CALIFORNIA



THE CITY OF SAN DIEGO

City Employees' Retirement System

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Lawrence B. Grissom  
*Retirement Administrator*

## THE YEAR IN REVIEW — JULY 1, 2001, THROUGH JUNE 30, 2002

As Retirement Administrator of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present this Summary of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002.

### Investment Performance and Plan Net Assets

Over the past year, the Board managed the investment portfolio through a period of extreme volatility in the financial markets. For the years ended June 30, 2002, and June 30, 2001, SDCERS earned a total return of -2.48% and -0.45%, respectively. Plan Net Assets totaled \$2.527 billion as of June 30, 2002, as compared to \$2.599 billion as of June 30, 2001. The current year reduction of \$71.8 million in Plan Net Assets is due primarily to the decline in market value of the invested assets and additionally due to an increase in the number of retirees, and finally benefits enhancements paid during the current and prior fiscal years as a result of litigation settlements (Corbett and Andrecht).

### Funding Status

SDCERS, as the agent of a multi-employer defined benefit plan, currently has a well-funded status. The City of San Diego's funded status as of the June 30, 2001, actuarial valuation is 89.9%. The San Diego Unified Port District's funded status is 118.0% over the same valuation period.

### Services Provided to Members, Retirees and Beneficiaries

Over the past fiscal year, SDCERS provided the following services to its' members, retirees and beneficiaries: 2,980 purchase of service credit contracts (PSC's) processed; 315 service and disability retirements and 343 DROP applications completed; 19 pre-retirement seminars hosted; information at 27 new employee orientations provided; and, 1,629 counseling sessions held.

### Service Delivery Improvements

At the direction of SDCERS' Board, a customer service survey was conducted by the firm Reid Moomaugh Associates in March and April 2002. The response rate was almost one out of five SDCERS' members and retirees, or 19%. The ratings received were very, very good. The general impression of SDCERS was positive; only 4% of respondents had a negative impression of SDCERS. This feedback is very valuable to SDCERS' Board and staff as we continue to strive to provide a positive experience for all members and beneficiaries concerning their retirement benefits.

Additionally, a new Training and Marketing Division was created within SDCERS. This Division will: oversee SDCERS' quarterly newsletter production; prepare and distribute brochures; update member handbooks; develop a retiree handbook; and, produce other marketing materials to facilitate communication with SDCERS' membership and the public.

### Significant Benefit Changes, as of June 30, 2002

Beginning January 1, 2002, San Diego Unified Port District (District) SDCERS members, retirees and beneficiaries began receiving increased benefits resulting from the Andrect settlement. District active members will have a choice of increased benefits at the time of retirement. For complete information concerning the Andrect settlement and the associated benefit changes, please call SDCERS at (619) 525-3600.

On behalf of SDCERS' Board, I would like to express my gratitude to the staff, advisors, and many people who have worked so diligently over the past year to ensure the successful operation of SDCERS.

Regards,



Lawrence B. Grissom  
Retirement Administrator  
November 1, 2002

## ADDITIONS TO PLAN ASSETS - REVENUES

(Dollars in Millions)

SDCERS' revenues for the year ended June 30, 2002, totaled \$86.71 million as compared to \$109.12 million for the year ended June 30, 2001. Revenues were down by \$22.41 million or 20.5% from the prior year. A sharp increase in member contributions to SDCERS was a result of payments for purchases of service credit. Total revenues were significantly less over the past year due to declines in the market value of invested assets.

	2002	2001	Increase/ (Decrease)	Percentage Change
Employer Contributions	\$49.96	\$44.60	\$5.36	+12.0%
Member (Employee) Contributions Paid by Employer	28.79	25.57	3.22	+12.6%
Member (Employee) Contributions	53.55	35.41	18.14	+51.2%
DROP Contributions	29.89	28.30	1.59	+5.6%
Investment Income *	(75.93)	(25.13)	(50.80)	-202.2%
Miscellaneous Income	0.45	0.37	0.08	+21.6%
<b>Total Additions</b>	<b>\$86.71</b>	<b>\$109.12</b>	<b>\$(22.41)</b>	<b>-20.5%</b>

\* Net of investment expenses of \$11.27 million and \$11.21 million, respectively.

## DEDUCTIONS FROM PLAN ASSETS - EXPENSES

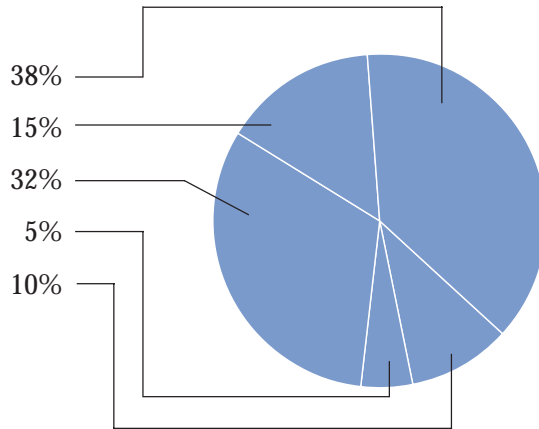
(Dollars in Millions)

SDCERS' expenses for the year ended June 30, 2002, totaled \$158.54 million as compared to \$162.34 million for the year ended June 30, 2001. Current year expenses decreased by \$3.80 million, or 2.3%, as compared to the prior year. The dollar value of expenses, by category, has remained about the same year over year.

	2002	2001	Increase/ (Decrease)	Percentage Change
Benefit Payments	\$141.04	\$145.99	\$(4.95)	-3.4%
Health Insurance Payments	8.88	7.21	1.67	+23.1%
Refund of Terminated Members' Contributions	0.99	1.46	(0.47)	-32.2%
Administrative Expenses	7.59	7.65	(0.06)	-0.1%
Other Expenses	.04	0.03	0.01	+33.3%
<b>Total Deductions</b>	<b>\$158.54</b>	<b>\$162.34</b>	<b>\$(3.80)</b>	<b>-2.3%</b>

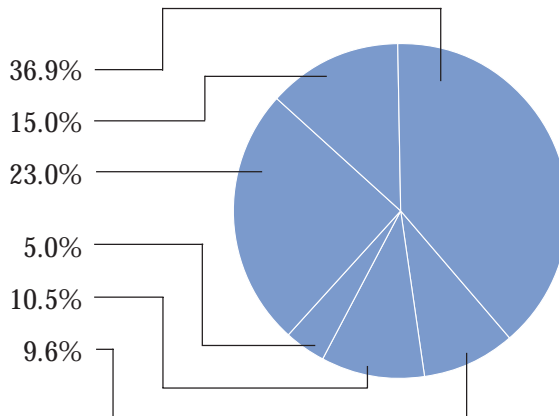
**Target Asset Allocation**

- Domestic Equity (Stocks)
- International Equity (Stocks)
- Domestic Fixed Income (Bonds)
- International Fixed Income (Bonds)
- Real Estate



**Actual Asset Diversification**

- Domestic Equity (Stocks)
- International Equity (Stocks)
- Domestic Fixed Income (Bonds)  
(includes short-term investments & mortgages)
- International Fixed Income (Bonds)
- Real Estate
- Cash



	Market Value at June 30, 2002
Domestic Equity (Stocks)	\$935,859,657
International Equity (Stocks)	379,798,539
Domestic Fixed Income (Bonds)	584,803,907
International Fixed Income (Bonds) <small>(includes short-term investments &amp; mortgages)</small>	126,953,432
Real Estate	267,069,355
Cash & Cash Equivalents	243,596,793
<b>Total Assets</b> <small>(Total Cash and Cash Equivalents plus Total Investments)</small>	<b>\$ 2,538,081,683</b>



## ASSET CLASS RETURNS

For fiscal years ended June 30

	2002	2001
SDCERS' Domestic Equity Performance	-13.66%	-3.49%
Blended Domestic Equity Benchmark (60% S&P 500; 20% S&P MidCap; 20% Russell 2000)	-13.48	-7.32
SDCERS' International Equity Performance	-6.38%	-18.62%
Blended International Equity Benchmark (68% MSCI EAFE Index; 12% MSCI Emerging Markets Free Index; 20% Salomon EMI World ex-US)	-5.89	-21.38
SDCERS' Domestic Fixed Income Performance	+6.56%	+6.85%
Blended Domestic Fixed Income Benchmark (70% Lehman Aggregate Bond Index; 20% Merrill Lynch 1-5 Govt/Corp; 10% First Boston Convertible Securities Index)	+6.33	+8.73
SDCERS' International Fixed Income Performance	+14.86%	-7.04%
International Fixed Income Benchmark (100% Salomon Brothers Non-US World Govt. Bond)	+ 15.73	-7.43
SDCERS' Real Estate Performance	+12.19%	+21.97%
Blended Real Estate Benchmark (25% NAREIT Index; 75% NCREIF Index)	+10.34	+14.84
SDCERS' Total Fund Performance	-2.48%	-0.45%
Custom Blended Total Fund Performance Benchmark (22.8% S&P 500; 22.4% L/B Agg; 10.2% EAFE; 7.6% Russell 2000; 7.6% S&P MidCap; 7.5% NCREIF; 6.4% ML 1-5 GC; 5.0% SB Non-US World Gov Bond; 3.2% First Boston Conv Index; 3.0% EMI World ex-US; 2.5% NAREIT; and, 1.8% MSCI Emg Mkt Fr)	-1.97	-2.31

As of June 30, 2002, SDCERS' annualized 3-year and 5-year Total Fund Performance was +3.69% and +6.97%, respectively, as compared to SDCERS' Custom Blended Total Fund Performance Benchmark annualized returns of +1.79% and +6.06%, over the same time period.

## SDCERS' MEMBERSHIP

*As of June 30*

	2002	2001
Active & Inactive Members	13,082	12,432
Retired Members & DROP Participants	5,352	5,247
<b>Totals</b>	<b>18,434</b>	<b>17,679</b>

## ACTIVE MEMBER DATA

*As of last actuarial valuation, June 30, 2001*

	Number	Average Annual Salary
Active Members	9,892	\$48,712

## INACTIVE MEMBER DATA

*As of last actuarial valuation, June 30, 2001*

	Number	Average Contribution Balance
Inactive Members	1,271	\$14,511

## ANNUAL ALLOWANCES BEING PAID

*As of last actuarial valuation, June 30, 2001*

	Number	Average Annual Allowance
Service Retirement	3,087	\$27,495
Disability Retirement	1,296	\$19,769
Death Before Retirement	42	\$13,380
Death After Retirement	833	\$7,170
<b>Total/Average Allowance</b> (across all groups)	<b>5,258</b>	<b>\$22,258</b>



**San Diego City Employees' Retirement System**  
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**SDCERS' Board**

- Mr. Frederick W. Pierce, IV, President
- Mr. John Torres, Vice-President
- Mr. John Casey
- Mr. David Crow
- Mr. Ray Garnica
- Ms. Cathy Lexin
- Mr. Tom Rhodes
- Mr. Ron Saathoff
- Ms. Diann Shippione
- Ms. Mary Vattimo
- Mr. Richard Vortmann
- Ms. Terri Webster
- Ms. Sharon Wilkinson

SDCERS' Board meets monthly  
on the third Friday of each month, at  
1:30PM. Meetings are open to the public.

**SDCERS' Management**

- Lawrence B. Grissom, Retirement Administrator
- Paul Barnett, Asst. Retirement Administrator
- Lori Chapin, General Counsel
- Douglas B. McCalla, Chief Investment Officer
- Vincent Hayes, Jr., Division Manager
- Patrick Lane, Division Manager
- David Arce, Division Manager