



San Diego City Employees' Retirement System

POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2003

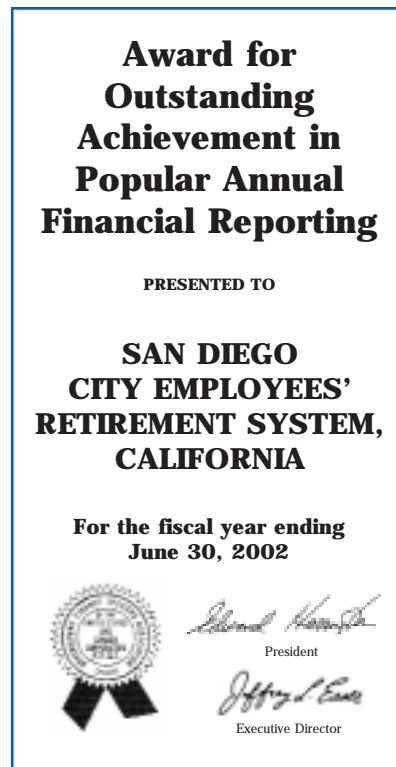
A RETIREMENT SYSTEM TRUST FUND FOR EMPLOYEES OF
THE CITY OF SAN DIEGO, THE UNIFIED PORT OF SAN DIEGO,
AND THE SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY,
SAN DIEGO, CALIFORNIA

GFOA AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to San Diego City Employees' Retirement System (SDCERS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2002. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit or public employee retirement system must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. SDCERS received a Popular Award in the previous fiscal ended June 30, 2002; this was the only year that SDCERS applied for such an award. We believe that our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.



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.

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- Steve Meyer
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- Paul Barnett, *Asst. Retirement Administrator*
- Lori Chapin, *General Counsel*
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- Patrick Lane, *Division Manager*
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- Dawne M. Clark, *Asst. Investment Officer*
- Robin Oleksow, *Retirement Fin. Spec. III*
- Jamie M. Hamrick, *Retirement Fin. Spec. II*

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

CONTACT INFORMATION

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COVER PHOTO

La Jolla Shores and Cove
San Diego, California
Taken by: Oscar Medina (sandiegostockphotos.com)



SDCERS' MEMBERS, RETIREES, BENEFICIARIES AND INTERESTED PARTIES:

As Retirement Administrator of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present this Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2003. A copy of *SDCERS' FY 2003 Comprehensive Annual Financial Report (CAFR)*, from which summary information in this PAFR is derived, is available upon request by calling SDCERS' offices, local dialing (619) 525-3600, or toll free (800) 774-4977. *SDCERS' FY 2003 CAFR* and this PAFR are also available on SDCERS' Web site at www.sdcers.org in Adobe Portable Document Format (PDF file).

Plan Net Assets

SDCERS' **Plan Net Assets totalled just under \$2.68 billion** as of June 30, 2003, a **6.0% increase**, or \$151.59 million over Plan Net Assets as of June 30, 2002. A Summary of SDCERS' audited financial statements can be found on page 6 of this PAFR. As can be seen in the table below, this a nice improvement over recent years' results whereby SDCERS witnessed two years of decreases in Plan Net Assets when annual expenses (deductions) of the plan exceeded annual revenues (additions). This is a positive achievement for SDCERS in that expenses and vested benefits continue to be paid each year while Plan Net Assets have increased to the highest level in five years.

Fiscal Year Ended June 30	Plan Net Assets	Increase / (Decrease)	Percentage Change From Prior Year
2003	\$2,679,049,807	\$151,590,088	6.0%
2002	\$2,527,459,719	\$(71,821,613)	-2.8%
2001	\$2,599,281,332	\$(53,210,902)	-2.0%
2000	\$2,652,492,234	\$342,766,396	14.8%
1999	\$2,309,725,838	\$178,765,162	8.4%

Investment Performance

Over the past year, SDCERS' Board managed the investment portfolio through a period of continued uncertainty, but was witness to improving fundamentals in the financial markets due to the recent economic recovery in mid 2003. For the one year ended June 30, 2003, **SDCERS earned a total return of +5.44%** as compared to a total return of -2.40% for the one year ended June 30, 2002. This **ranked SDCERS' performance in the top 25%** for the year ended June 30, 2003 and in the top 12% for the year ended June 30, 2002 as compared to the performance of other public funds in Callan Associates' peer universe database. SDCERS' investment allocations and investment performance is depicted in further detail on pages 7 and 8 of this PAFR.

Funding Status

SDCERS' Plan Net Assets are collectively invested for the benefit of all SDCERS' participants; however, an actuarial valuation for each plan sponsor (employer) is performed annually. SDCERS began administering benefits for a third plan sponsor (employer), the San Diego County Regional Airport Authority (Airport), as of January 1, 2003. The Airport is comprised of former Unified Port of San Diego (Port) employees and newly hired employees. As a result, interim actuarial valuations were performed for the Port and the Airport to separate their respective SDCERS' assets and liabilities.

As of the most recent actuarial valuation, performed June 30, 2002,

the City of San Diego's SDCERS' funded status is 77.3%

As of the most recent actuarial (interim) valuation, performed December 31, 2002,

the Unified Port of San Diego's SDCERS' funded status is 91.1%

As of the first actuarial valuation, performed December 31, 2002,

the San Diego Regional County Airport Authority's SDCERS' funded status is 95.7%

Over the last ten fiscal years (1993-2002), the City has experienced an average SDCERS funded status of 91.9%. The Port has experienced an average SDCERS funded status in excess of 100% over the same time period; Airport employees (SDCERS members) were participants of the Port's SDCERS plan prior to December 31, 2002.

Additional statistical information such as membership, allowances being paid and average member salary for each plan sponsor (the City, Port and Airport) is summarized on pages 9, 10, and 11, in this PAFR.

Services Provided to Members, Retirees and Beneficiaries

Over the past fiscal year ended June 30, 2003, SDCERS provided the following services to its members, retirees and beneficiaries:

- 3,046 purchase of service credit contracts (PSC's) processed
- 129 service and disability retirements processed
- 363 Deferred Retirement Option Program (DROP) applications completed
- 15 pre-retirement seminars hosted
- 19 new employee orientations - information presented
- 1,469 counseling sessions held

Service Delivery Improvements

SDCERS' Board recently launched its Web site at www.sdcers.org. Information that can be found on the site includes: all aspects of SDCERS' operations; a description of benefits administered; interactive benefit calculation estimates; and, various forms such as change of beneficiary and purchase of service credit request. Additionally, SDCERS' newsletter, **FreeSpirit**, continues to be delivered to almost 18,000 SDCERS' members, retirees and beneficiaries each quarter.

Significant Benefit Changes

The City's SDCERS' general members were granted benefit enhancements over the past year, effective July 1, 2002, that increased the retirement factor to 2.5% per year of service from 2.25% per year of service. A 90% cap was also implemented for the City of San Diego's SDCERS' general members, providing for a maximum retirement benefit of 90% of a member's one-year high salary. A summary of SDCERS' Benefit Provisions is disclosed in *SDCERS' FY 2003 CAFR*, a copy of which can be mailed to you upon request. For detailed information regarding benefit provisions, please call SDCERS' offices and request a member benefit handbook or request an appointment with a SDCERS' Benefits Counselor.

Employer Contributions

The City of San Diego negotiated a new Contribution Agreement with SDCERS' Board effective November 2002. This agreement increased the annual fixed rate employer contributions that the City will pay to SDCERS each fiscal year as compared to rates under the prior agreement, the Manager's Proposal that went into effect as of July 1996. The new agreement will be in effect until fiscal year 2009 at which time the City will begin making annual employer contributions to SDCERS at the full actuarial rate.

Acknowledgments

On behalf of SDCERS' Board, I would like to express my gratitude to SDCERS' staff, advisors, and the many people who have worked so diligently over the past year to ensure the successful operation of SDCERS. It is our goal to deliver accurate and timely benefits through the prudent administration of SDCERS, while ensuring the Trust Fund's maximum safety, integrity, and growth. Should you have questions about your retirement benefits, the investment of Plan Assets or any other issue related to the administration of SDCERS' benefits, please call SDCERS toll-free (800) 774-4977, or local dialing (619) 525-3600.

Sincerest Regards,



Lawrence B. Grissom
Retirement Administrator
December 15, 2003



SDCERS' SUMMARY FINANCIAL STATEMENTS

Statement of Plan Net Assets	2003	2002
Cash and Cash Equivalents	\$312,044,538	\$243,596,793
Receivables	25,855,528	23,629,417
Securities Sold	50,803,727	47,377,501
Investments, at Fair Value	2,391,132,052	2,294,484,890
Securities Lending Collateral	217,483,322	163,484,036
Fixed Assets and Pre-Paid Expenses	244,552	291,785
Total Assets	2,997,563,719	2,772,864,422
Current Liabilities	3,490,774	3,476,110
Securities Purchased	97,539,816	78,444,557
Securities Lending Obligations	217,483,322	163,484,036
Total Liabilities	318,513,912	245,404,703
Net Assets Held in Trust for the Payment of Benefits	\$2,679,049,807	\$2,527,459,719

Statement of Changes in Plan Net Assets	2003	2002
City of San Diego Employer and Members' Contributions	\$193,146,707	\$157,276,420
Unified Port of San Diego Employer and Members' Contributions	8,170,807	4,918,943
San Diego County Regional Airport Authority Employer and Members' Contributions	749,056	0
Total Contributions¹	202,066,570	162,195,363
Total Net Investment Income (Loss)	123,111,596	(75,934,760)
Miscellaneous Income	0	450,646
Total Additions to Plan Assets	325,178,166	86,711,249
Monthly Retirement Allowances	145,986,753	128,596,099
Health Insurance Payments	11,450,200	8,882,138
Other Benefit Payments	6,838,393	12,441,675
Total Benefit Payments	164,275,346	149,919,912
Refunds of Members' Contributions	1,378,787	994,740
Administrative Expenses and Depreciation	7,933,945	7,626,651
Total Deductions from Plan Assets	173,588,078	158,541,303
Non-Operating Revenue	0	8,441
Net Assets Held in Trust for Payment of Benefits		
Beginning of Year	\$2,527,459,719	\$2,599,281,332
Net Increase (Decrease)	151,590,088	(71,821,613)
End of Year	\$2,679,049,807	\$2,527,459,719

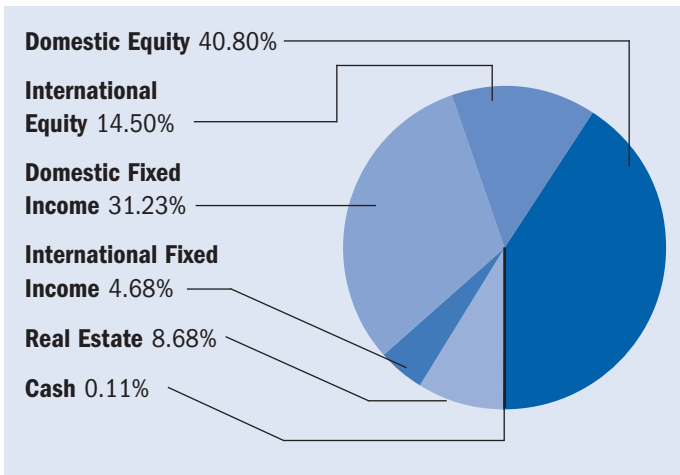
¹ Contributions include DROP Pension Allowances.

The above financial statements are a summary depiction of SDCERS' audited financial statements. The complete audited financial statements, prepared by the City of San Diego's Auditor and Comptroller's Office, and pertinent notes to the financial statements can be found in *SDCERS' FY 2003 CAFR*. The basic financial statements of SDCERS, as presented in *SDCERS' FY 2003 CAFR*, have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, established financial reporting standards for defined benefit plans by which *SDCERS' FY 2003 CAFR* complies with in its presentation of the financial statements and note disclosures.

SDCERS' INVESTMENT ALLOCATIONS

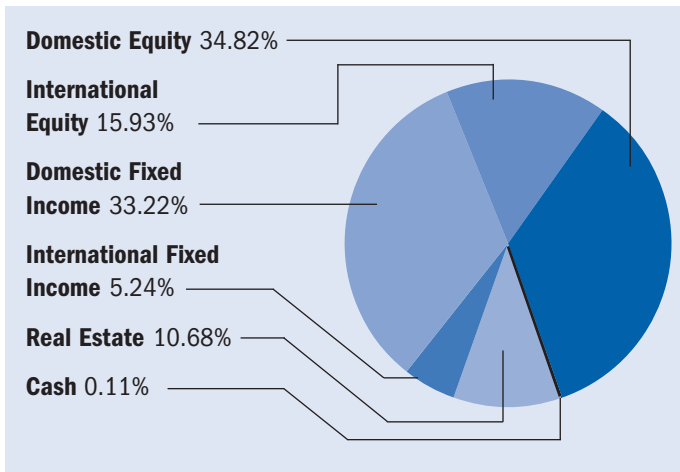
SDCERS' diversified target investment allocations for the years ended June 30, 2003 and 2002, was as follows: 38% U.S. domestic equity; 15% international (non-U.S.) equity; 32% U.S. domestic fixed income; 5% international (non-U.S.) fixed income; and, 10% real estate (U.S. directly-owned assets and REIT stocks). SDCERS does not have a target allocation to cash. SDCERS exercises an opportunistic, yet disciplined rebalancing process to maintain asset allocation exposures and control risk.

Actual Investment Allocations as of June 30, 2003



Domestic Equity	\$1,102,894,758
International Equity	391,845,286
Domestic Fixed Income (includes short-term investments and mortgages)	844,336,681
International Fixed Income	126,443,010
Real Estate	234,594,612
Cash	3,062,243
Total Assets, at Fair Value	2,703,176,590
Less Pending Transactions	(46,736,089)
Total Net Investments	\$2,656,440,501

Actual Investment Allocations as of June 30, 2002

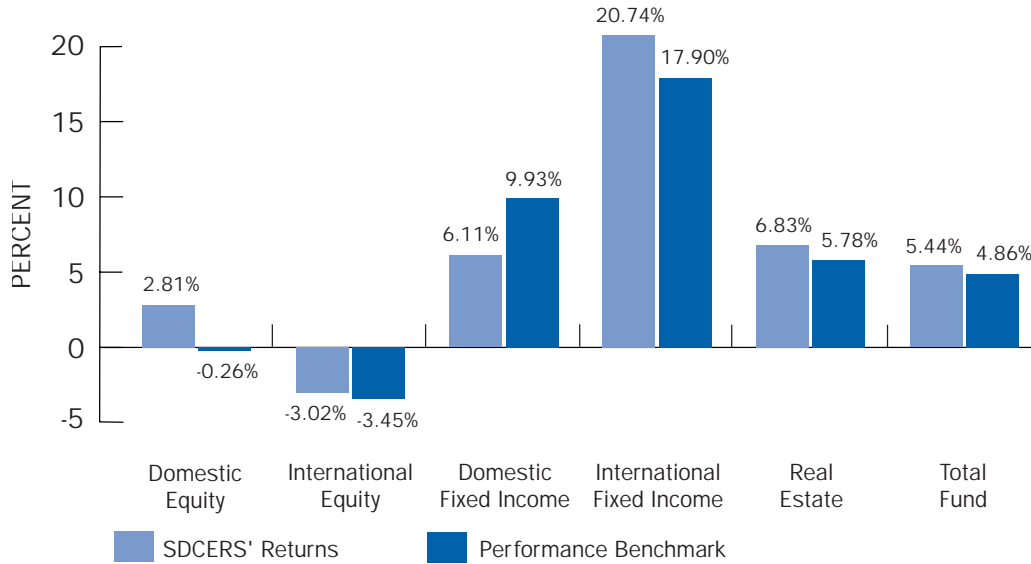


Domestic Equity	\$883,827,495
International Equity	404,236,603
Domestic Fixed Income (includes short-term investments and mortgages)	843,223,029
International Fixed Income	132,999,735
Real Estate	271,029,406
Cash	2,765,415
Total Assets, at Fair Value	2,538,081,683
Less Pending Transactions	(31,067,056)
Total Net Investments	\$2,507,014,627

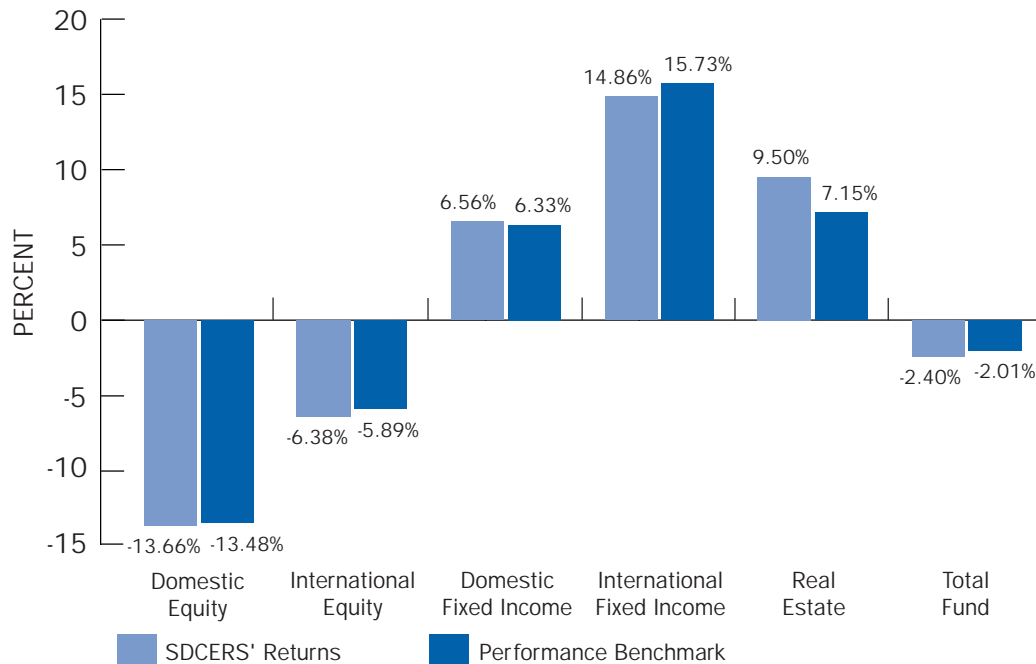
Total Net Investments for each year is calculated by taking Investments, at Fair Value, adding in Cash and Cash Equivalents and the receivable for Securities Sold, and subtracting the liability for Securities Purchased. Actual asset allocation values illustrated here are based upon SDCERS' investment managers' specific strategies. Each portfolio including all securities and cash, held by an investment manager is categorized based upon the strategy that SDCERS hired that manager to execute. In *SDCERS' FY 2003 CAFR*, for GASB reporting purposes, assets in the audited financial statements are stated from a total fund perspective and are then classified by security type, i.e. cash, stocks, bonds and real estate.

SDCERS' INVESTMENT RETURNS

For the One-Year Ended June 30, 2003



For the One-Year Ended June 30, 2002



Long-Term Performance

As of June 30, 2003, SDCERS' annualized 3-year, 5-year and 10-year Total Fund Performance was +0.71%, +5.21% and +8.78%, respectively, as compared to SDCERS' Custom Blended Total Fund Performance Benchmark annualized returns of +0.14%, +4.16% and +8.03%, over the same time period.

**PLAN SPONSOR (EMPLOYER) DATA
CITY OF SAN DIEGO**

SDCERS increased by 239 participants (City); -85 members and +324 retirees

	<u>6/30/03</u>	<u>6/30/02</u>
Active & Inactive Members	11,823	11,908
Retired Members & DROP Participants	5,467	5,143
Totals	17,290	17,051

The following four tables present data from the most recent actuarial valuations, as of June 30, 2002 and June 30, 2001.

Funding Progress declined by 14% as of June 2002 from June 2001

(\$ in thousands)	<u>6/30/02</u>	<u>6/30/01</u>
Actuarial Valuation of Assets	\$2,448,208	\$2,525,645
Actuarial Accrued Liability	\$3,168,921	\$2,809,538
Funded Ratio	77.3%	89.9%
Unfunded Actuarial Accrued Liability	\$720,713	\$283,893

Allowances Being Paid +131 recipients, +5.1% in average amount as of June 2002 from June 2001

	<u>6/30/02</u>		<u>6/30/01</u>	
	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	3,043	\$29,356	2,945	\$27,766
Disability Retirement Annuity	1,247	20,623	1,238	19,981
Death Before Retirement Payment	42	14,264	40	13,589
Death After Retirement Annuity	811	7,285	789	7,143
Totals	5,143	\$23,635	5,012	\$22,483

Active Members +517; average salaries +5.5% as of June 2002 from June 2001

	<u>6/30/02</u>		<u>6/30/01</u>	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	10,409	\$51,413	9,892	\$48,712

Inactive Members +61; average contribution balance +5.4% as of June 2002 from June 2001

	<u>6/30/02</u>		<u>6/30/01</u>	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	1,499	\$17,217	1,438	\$16,343

PLAN SPONSOR (EMPLOYER) DATA UNIFIED PORT OF SAN DIEGO

SDCERS decreased by 118 participants (Port); -129 members and +11 retirees

	6/30/03	6/30/02
Active & Inactive Members	803	932
Retired Members & DROP Participants	274	263
Totals	1,077	1,195

The decrease in Members is as a result of Port employees that are now Airport employees.

The following four tables present data from the most recent actuarial valuations, as of December 31, 2002¹ (interim valuation), June 30, 2002 and June 30, 2001.

Funding Progress declined by 15% as of June 2002 from June 2001

(\$ in thousands)	12/31/02 (int.)	6/30/02	6/30/01
Actuarial Valuation of Assets	\$125,619	\$140,613	\$145,278
Actuarial Accrued Liability	\$137,824	\$140,197	\$123,126
Funded Ratio	91.1%	100.3%	118.0%
Unfunded Actuarial Accrued Liability	\$12,205	\$(416)	\$(22,152)

Allowances Being Paid +17 recipients, +13.2% in average amount as of June 2002 from June 2001

	12/31/02 (int.)		6/30/02		6/30/01	
	No.	Avg. Allowance	No.	Avg. Allowance	No.	Avg. Allowance
Service Retirement Annuity	167	\$25,403	158	\$24,636	142	\$21,890
Disability Retirement Annuity	62	16,470	60	16,476	58	15,228
Death Before Retirement Payment	1	9,337	2	9,827	2	9,219
Death After Retirement Annuity	48	9,162	43	8,355	44	7,657
Totals	278	\$20,549	263	\$20,000	246	\$17,670

Active Members +2; average salaries +7.0% as of June 2002 from June 2001

	12/31/02 (int.)		6/30/02		6/30/01	
	No.	Avg. Annual Salary	No.	Avg. Annual Salary	No.	Avg. Annual Salary
Totals	606	\$56,098	736	\$53,075	734	\$49,626

Inactive Members +33; average contribution balances -6.5% as of June 2002 from June 2001

	12/31/02 (int.)		6/30/02		6/30/01	
	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance	No.	Avg. Contribution Balance
Totals	186	\$6,645	196	\$6,515	163	\$6,967

¹ Effective January 1, 2003, the State of California established the San Diego County Regional Airport Authority (Airport) separate from the Unified Port of San Diego (Port). The Airport elected to enter into an agreement with SDCERS to manage a defined benefit retirement plan for their employees. As a result, interim actuarial valuations, as of December 31, 2002, were prepared by SDCERS' actuary to separate the actuarial value of assets and accrued liabilities between the Port and the Airport as two distinct plan sponsors.

**PLAN SPONSOR (EMPLOYER) DATA
SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY**

SDCERS' Participants (Airport)

	6/30/03
Active & Inactive Members	215
Retired Members & DROP Participants	1
Total	216

The following four tables present data from the most recent actuarial valuation, as of December 31, 2002¹ (interim valuation).

Funding Progress as of December 2002

(\$ in thousands)	12/31/02 (int.)
Actuarial Valuation of Assets	\$11,028
Actuarial Accrued Liability	\$11,526
Funded Ratio	95.7%
Unfunded Actuarial Accrued Liability	\$498

Allowances Being Paid

	12/31/02 (int.)	
	No.	Avg. Allowance
Service Retirement Annuity		
Disability Retirement Annuity		
Death Before Retirement Payment		
Death After Retirement Annuity		
Totals		

All retirees remained with the Port as of 12/31/02 as the Airport was created from current employees (active SDCERS' members).

Active Members

	12/31/02 (int.)	
	No.	Avg. Annual Salary
Totals	173	\$51,279

Inactive Members

	12/31/02 (int.)	
	No.	Avg. Contribution Balance
Totals		

All inactive members & their contributions remained with Port as of 12/31/02.

¹ Effective January 1, 2003, the State of California established the San Diego County Regional Airport Authority (Airport) separate from the Unified Port of San Diego (Port). The Airport elected to enter into an agreement with SDCERS to manage a defined benefit plan retirement for their employees. As a result, interim actuarial valuations, as of December 31, 2002, were prepared by SDCERS' actuary to separate the actuarial value of assets and accrued liabilities between the Port and the Airport as two distinct plan sponsors.



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