Over two years ago, SDCERS took an important step toward ensuring the financial and legal stability of the Trust Fund by entering into the Internal Revenue Service’s (IRS) Voluntary Correction Program (VCP). This program has allowed SDCERS to approach the IRS proactively with plan administration issues in need of correction, in order to comply with federal tax law.

BACKGROUND
SDCERS made its initial VCP filing on July 12, 2005. Between July 2005 and August 2006, SDCERS’ tax counsel, Ice Miller, worked with staff to complete an extensive review of our operations and plan documents, to identify all instances where the System was not being operated consistent with federal tax law or the plan document. As a result of this review, SDCERS filed eight supplemental VCP filings, identifying violations and proposing corrections concerning: Internal Revenue Code compensation limits; minimum distribution requirements; eligible rollover distributions; minimum required distributions from the Deferred Retirement Option Plan (DROP) program; overpayment of certain disability benefits; a program allowing conversion of annual leave to purchase service credits; funding of retiree healthcare benefits and health administrative expenses; benefit limits; and remedial plan amendments.

SDCERS worked co-operatively with the IRS to resolve each of the issues in the VCP filings, and in late December 2007, the IRS issued a Compliance Statement.

This Compliance Statement is a positive development for SDCERS, our Members, Retirees, Plan Sponsors and the taxpayers because it:
• Preserves the tax-qualified status of the SDCERS Plan; and
• Does not seek any penalty payments or additional contributions from the City.

Unfortunately, the IRS disapproved some of the past benefits that were enacted by the City – most notably the union presidential leave program and the cashless leave conversion program for firefighters, because they did not comply with federal tax law.

CASHLESS LEAVE CONVERSION
The cashless leave conversion program was a benefit negotiated in 2002 between the City and the International Firefighters’ Union, Local 145. Members represented by Local 145 were allowed to convert to service credit the “cash equivalent” of their accumulated annual leave earned after June 30, 2002, for use in purchasing service credits.

SDCERS stopped allowing cashless leave conversions on April 25, 2006.
For the year ended December 31, 2007, SDCERS generated a total fund return of +8.14% (excluding real estate whose valuations are lagged one quarter). This compares to the benchmark return of +7.6% and ranks in the 53rd percentile of the public fund universe. Long term results for the fund rank in the 7th percentile for the ten years ending December 31, 2007. The fund has returned +9.3% on an annualized basis during this time frame, outperforming its benchmark by approximately 1% per year as well as exceeding the actuarial target of 8%. These results have been achieved with less volatility than the public fund median, resulting in superior risk-adjusted returns.

The big news for markets worldwide in 2007 was the bursting of the US housing bubble. Falling home prices, rising default rates on sub-prime loans, and the implosion of various mortgage backed securities, contributed to the ensuing credit crunch and put downward pressure on the markets. How did this happen? Rising real estate values had emboldened lenders to make credit easily available to many borrowers that, in normal times, might not have qualified for a loan. Last year, sub-prime mortgages totaled $600 billion or about 1/5 of the U.S. home loan market. In the last several years a new crop of complex, financially engineered, mortgage-backed fixed income securities were created. These types of investments had potential benefits of spreading risk and increasing the pool of funds available for economic activities like home ownership. Unfortunately, many of these products were so complicated and so highly leveraged that many investors did not accurately understand the risk that they were taking on. Additionally, many of these securities were insured by leading insurance companies giving a false impression that they were high quality, low risk investments. As we now know, that was not the case. Mortgage lenders, major banks and other financial institutions around the world began to write down their investments in these securities, often taking huge losses. Fortunately, SDCERS had negligible exposure to this area of the fixed income markets but was, none the less impacted by the downward draft in other markets.

Domestic equity markets showed a reversal of leadership during the year in both style and capitalization. Growth stocks outperformed value stocks for the first time since 1999 and large capitalization (calculated by taking the number of shares outstanding times the stock price) performed better than small cap stocks. International equity markets performed in a similar manner to US markets; growth and large capitalization stocks providing the leadership. Emerging markets led by BRIC countries (Brazil, Russia, India, and China) generated strong gains.

Fixed income assets posted positive returns despite the turmoil in the credit markets. In a flight to quality, US Treasury securities outperformed comparable maturities in the asset-backed sector of the market.

International fixed income results were also positive for the year. Longer term, international fixed income has generated returns above US bonds helped by a falling US dollar and strong contributions from the emerging market debt sector.

Real estate returns, (which are lagged one quarter due to data timing issues) although buffeted by falling housing prices and the credit crunch, posted good returns and longer term, has been one of the best performing asset classes for SDCERS.

continued on page 3
I am pleased to announce two recent additions to our investment staff. **Liza Crisafi** has taken on the position of Deputy Chief Investment Officer and **Corey Buuhoan** is a new Assistant Investment Officer.

Liza has been in the investment business since 1981 and has had increasingly responsible positions as an investment and research analyst, portfolio manager, and financial advisor. She has worked for US Bancorp and La Salle Bank in Chicago and was most recently running her own investment advisory firm. She graduated from the University of Notre Dame and has an MBA from the Lake Forest Graduate School of Management.

Corey has over 17 years of experience in finance and investments. He has worked for J.P. Morgan Chase and American International Group in Hong Kong in their private equity division. He has also run his own financial consulting firm advising start-up companies and individuals. Corey graduated from Duke University and has an MBA from the Darden Graduate School of Management.

Additionally, I am pleased to announce the promotion of **Jamie Hamrick** to Assistant Investment Officer. Jamie has been with SDCERS since 2001 and has made significant contributions to the organization and her promotion is well deserved.

With our new staff in place, we look forward to a busy and productive future.

**New Investment Staff**  
Doug McCalla

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**Investments, cont. from p. 2**

Looking forward, the impact of the housing slump and lack of liquidity in the credit markets has increased the level of economic risk, and recession is a possibility. On a positive note, the Federal Reserve Bank has shown a willingness to be accommodative with monetary policy. The Fed cut the Fed Funds rate twice in the fourth quarter, to 4.25%: its lowest level in two years. This provides additional liquidity to the economy and may provide some downside protection. In this uncertain and challenging environment, it becomes increasingly important to be fully diversified. To this extent, SDCERS’ portfolio is well positioned to weather what may be a turbulent year.
SDCERS has had a busy new year.

At the top of the list is the work being done to implement the IRS' Voluntary Correction Program Compliance Statement. In addition to internal staff work at SDCERS, the San Diego City Council has passed an IRS-approved ordinance to effectuate the changes so that the plan document (the Municipal Code) is in compliance with federal tax law. Pending the passing of this Ordinance, the IRS has issued a Determination Letter, confirming the tax-qualified status of the Plan. This is good news for all of our members and concludes a process the Board began in July 2005.

Next up was the issuance of SDCERS’ FY 2006 and 2007 Comprehensive Annual Financial Reports (CAFR). Both are on our website and the corresponding FY 2006 PAFR is included with this newsletter. With the publication of the FY 2007 CAFR, SDCERS is now caught up on our financial reporting. Additionally, the June 30, 2007 Actuarial Valuations for the City, Port and Airport were accepted by the Board in February, and are posted on our website.

In February we responded to, and methodically discredited, the City Attorney’s Interim Revised Report No. 24 and alleged violations of law. We also published an information piece about IRS Rule 415 to explain how it operates. These documents are posted on the SDCERS website.

We have also significantly strengthened our staff. Rebecca Wilson was promoted to Chief of Staff and Cynthia Queen has joined SDCERS as Director of Member Services. I look forward to introducing you to her in the very near future. The Investment staff has also been strengthened with the addition of Liza Crisafi as Deputy Chief Investment Officer and Corey Buhoan as an Assistant Investment Officer (AIO). Jamie Hamrick was promoted to Assistant Investment Officer, making your Investment group stronger than it's ever been, which, given recent market turmoil, is a very good thing.

I am very proud of the accomplishments we’ve achieved in the past months. They are due to a lot of hard work by staff and the Board, and speaking of the Board, Dave Hall was sworn in at the March SDCERS Board meeting as the new retiree representative.

### SDCERS Receives Favorable Tax Determination Letter

On January 25, the IRS issued SDCERS a favorable determination letter, which confirms SDCERS’ status as a tax-qualified plan. SDCERS’ status as a “qualified plan” allows its members to make employee contributions on a pre-tax basis and defer taxes on their benefits until retirement. In addition, the earnings of the retirement plan are exempt from taxation. The favorable determination letter was contingent upon the City Council’s adoption of an IRS-approved tax ordinance amending the retirement plan to comply with federal tax law. The ordinance was adopted on April 1, 2008.

### Retiree Association Board Members

- **Nancy Acevedo**
  - President
  - 619-579-5930

- **Patti Karnes**
  - Vice President, Programs
  - 858-488-6895

- **Leonard “Ty” Rogers**
  - Vice President, Advocacy
  - 619-233-1744

- **Ruth Ann Hageman**
  - Secretary
  - 858-270-8530

- **Sylvia Tatum**
  - Treasurer
  - 858-272-0494

**Board Members:**
- John Casey, Terry Flynn, Alyse Ford, Bob Korch, Maggie Smith, Jean Struiksm, Lynn Swanson, and John Tsiknas

**San Diego Retired Employees Association**
4185 Galt Street,
San Diego, CA 92117-1126

**www.csdrea.com**
Our Holiday Luncheon at Tom Hams in December was a great success. It was good to see several new members and out-of-towners that we don’t get to see often. Lynn Swanson was our photographer, and you can find several of her photos on our website at www.csdrea.com. Except for December, meetings are held the second Tuesday of the month, at the War Memorial Building in Balboa Park. Our Board meeting, to which members are welcome, begins at 9:30 a.m. and the General meeting begins at 11:00 a.m., followed by a speaker and buffet luncheon.

Two special upcoming programs at our April and May meetings, which are being co-sponsored by the Retired Fire and Police Association, are forums for the City Attorney and Mayor races, to which all candidates are being invited. To provide additional time for candidates to express their views and to respond to questions, these meetings will start at 9:30 a.m., rather than our normal 11:00 a.m. schedule. Our moderator for both forums will be Andrew Donohue, award winning journalist with voiceofsandiego.org. In June, we will have our annual health care benefits panel with the City’s Benefits Administrator and representatives from the City’s health care providers as well as Care Counsel. All of these programs offer excellent opportunities for retirees to stay informed.

And it is critical for all retirees to stay informed. Although the City Attorney has suffered numerous setbacks in Court, he still presses litigation to roll back pension benefits. In addition, he appears regularly on TV and in press conferences promulgating his unique negative view of pension benefits. Informed retirees can better inform their friends and neighbors on the facts of the pension system and pension funding. In fact, a good source of up-to-date information on pension funding can be found on our website, or that of SDCERS, in a February 21, 2008 memo from Retirement Administrator David Wescoe to the Mayor and Council responding to “inaccuracies, misstatements and flat-out falsehoods” included in the City Attorney’s Revised Interim Report No. 24, “Report to the People of San Diego Regarding the San Diego City Employees’ Retirement System”.

Your retirement benefits are much too important to be ignored in the face of continual negative publicity. When we were employed by the City, we frequently found it necessary to tell “the rest of the story,” after a rash of negative publicity. Unfortunately, despite our retirement, we are still often called upon to fill that role. As a group we can fulfill that role much more effectively, but we need the involvement of all retirees. If you are not yet a member, use the form on this page to join. Or the form may be used to update your address, phone number or e-mail address.

Members have access to our website’s members-only section, with a myriad of informational reports. And a new membership benefit that has had wide acceptance is an electronic newsletter. It is an expanded version of our mailed newsletter, since with the electronic version we do not have space limitations. We also now have the ability to easily send notices to all members on our e-mail list about upcoming events or late breaking news. If you want to be better informed, join your Association.
The last quarter of the year was as active as anyone could imagine.

In October, concerns centered around cleaning up the backlog in processing disabilities; working hard to get a Compliance Statement and a Tax Determination Letter from the IRS; getting the Group Trust resolution to Council for approval; completing the FY 2006 CAFR and beginning field work for the FY 2007 CAFR; reviewing Whistleblower, Ethics and Conflict of Interest policies; and beginning the process of obtaining fiduciary insurance coverage for all Board members.

Additionally, the Board held a special off-site public meeting at the San Diego Convention Center on the subject of past pricing of Purchase of Service Credit contracts. The room was filled to capacity as the Board heard public comment and professional presentations on the subject.

Activity for November did not diminish. After careful consideration of the facts, the Board voted to continue to recover the shortfall on prior Purchase of Service Credit contracts through the unfunded actuarial liability (UAL). The Board also set the interest crediting rate for DROP accounts at 8% for the year, noting that this decision was subject to a mid-year correction in the event that additional guidance or limitations are set forth by the IRS.

At the December meeting, the long awaited Voluntary Correction Program Compliance Statement was presented to the Board and selection of fiduciary insurance carrier AIG was made and payment of the annual premium was approved.

Sadly, this will be my last report for the Free Spirit. Because of unforeseen personal problems, I have found it necessary to resign my position as the Retiree Representative on the SDCERS Board. I have enjoyed my short experience, and I now have a better understanding of what is involved in keeping our retirement fund safe. Just because a person retires doesn’t mean that their involvement ends there. We must be forever vigilant of what is occurring and how the decisions made by the Board affect us.

I have also seen how hard the administration staff of SDCERS works to bring information to the Board, keep the "wheels oiled" on the day-to-day work processes so that the system doesn't fail when there is a hiccup, and takes action to alert the Board of current and future impacts on the retirement system. The rumor that the SDCERS Board is a board run by the administration staff is simply not true. They are our worker bees and without their constant vigilance we would be at a loss. What is needed now is for some retirees to step up and volunteer to take over the reins as a Retiree Representative. The fear of possible loss of personal assets due to possible legal suits was removed when the Board unanimously approved the purchase of fiduciary insurance. If this report comes out after the next retiree representative has been elected, I wish that person great success.

Adios amigos y mucha suerte!
Be Cautious When Considering Medicare Part D Coverage

An important rule concerning Medicare Part D coverage could unwittingly leave you with no insurance at all. The federal prescription drug program only allows eligible retirees to be signed up for one plan at a time. If your current health plan includes Medicare Part D coverage and you sign up with a Part D plan offered by an independent company, you could lose all your insurance coverage.

City of San Diego sponsored retiree health coverage for Medicare eligible retirees, (Kaiser’s Senior Advantage and Pacificare’s Senior Supplement) already includes Medicare Part D coverage. Participants in either of these plans, could have their entire Kaiser or Pacificare health plan terminated if they sign up for an independent Medicare Part D plan through a pharmacy or other independent company. Additionally, you may not be notified right away that your coverage has been terminated, leaving you unaware that you have no coverage for doctor’s visits or hospital stays.

To avoid getting caught in this scenario, check with your insurance provider, whether City sponsored or not, to see if your plan includes Medicare Part D prescription coverage or other comparable coverage, before signing up for any other Medicare Part D plan.

What are City of San Diego Retirees saying about CareCounsel

““The CareCounselor I spoke to was very helpful in getting me an appointment that I was having a hard time to obtain to avoid driving twice to the same location. I commend her very highly and thank her very much for helping a senior citizen.”

“My CareCounselor was able to give me all the answers I asked for and gave me the feedback and referrals to expedite my decisions. My kudos to her. Thank you so much.”

“To say the assistance I received was “helpful” and “saved me time” doesn’t begin to describe the care and concern my CareCounselor displayed in solving the ongoing problem I had with my supplemental insurance. I will always be grateful.”

CareCounsel is a free healthcare assistance program for all City of San Diego retirees. Registered nurses and healthcare professionals are available by phone to help:

• Clarify benefit coverage
• Claims submissions
• Provider billing issues
• Medicare issues
• …and more!

Call CareCounsel today at (888) 227-3334
As we made it through another devastating San Diego winter and now spring is here and summer is just around the corner.

Since I wrote my last article we've gone through one of the worst fires in San Diego history. Six of our members lost their homes, from the Fire Dept, Ron Riley and from the Police Dept, John Hartman (RFPA Secretary), Nate Hom, Robert Thompson, John Slough, and Patty Maxe (widow of Paul).

Our members donated over $9,000. Coupled with a donation from the RFPA Foundation, we were able to give these members $2,000 each to help in getting their lives back together.

The last couple of months the city attorney has tried to seek an early endorsement from the San Diego Democratic Club, SD Democratic Central Committee, Chicano Democratic Association and the Philippine Democratic Association. Informational rally's were held at each location and attended by MEA, RFPA and LOCAL 145. We were there to encourage the members to not give an early endorsement to the city attorney. He has thus far only received one such endorsement. There are several outstanding candidates who have thrown their collective hats in the ring.

The Mayor is running for re-election and we will also be voting for new council members as the previous council members have termed out for districts 1, 3, 5 and 7. Safety's endorsements should be out just prior to the primary election.

Cherie Olaveson and Sarah Contreras both Fire Dept widows have started a volunteer group called Hand in Hand (HIH). When a FD retiree or spouse dies they provide emotional support and resources to help guide the widow/widower through this very difficult time. They are familiar with the paperwork that needs to be completed with the City and SDCERS and can guide you in the right direction for the myriad tasks that need to be completed. If you need their services, would like to assist them or start a similar organization within the PD or SDREA they can be reached by calling, Cherie 619-561-5985 or Sarah 619-445-8399. They are also looking for retirees in the trades that can provide miscellaneous repair services for reasonable prices.

Nancy Acevedo, President CSDREA and I had a meeting with David Wescoc, SDCERS Administrator/CEO and Rebecca Wilson, Chief of Staff. Our major topic was the elimination or drastic reduction of the periodic medical reimbursement paperwork needed to justify the $100 monthly healthcare payment to the pre-1980 retirees.

In the future, SDCERS will be sending out a letter requesting a one-time proof that you are receiving Medicare benefits, which will then satisfy previous requirements. For those of you that aren’t Medicare eligible you will, on an annual basis, continue to be required to show proof of paid healthcare.

MEMBERSHIP in RF&PA, if you are not a member we encourage you to join by going to our website www.retiredfp.com filling out and mailing in the application. You can also have one mailed to you by calling “J.J.” Hunter 619-440-7879 or John Hartman at 760-789-5216. The cost is $2 per month by payroll deduction. We have 4 general member meeting/lunches a year. Come on out and reconnect with old friends.

If you have email access and are not receiving information regarding SDCERS/City issues, retirement parties, illness and death notices etc. Please contact me for FD aticolonmok@cox.net and for PD, Chris Gregg at cgregg12@gmail.com.

On behalf of the RFPA board I would like to wish you all a great spring and all the activities that go with it.

BE SAFE and BE HEALTHY.

Ron Moskowitz, President
New and Improved SDCERS Website

*Members may now view account information online*

The new and improved SDCERS website, scheduled to launch this spring, is a big step forward in our ongoing efforts to improve service to our members. By providing secure, online access to account information any time you need it, the new website brings you closer to the information you need to help you manage your account at your convenience.

The new site allows active members from the City, Port and Airport to view information on file with SDCERS including member contact information, current beneficiaries, contribution rates and balances.

Retirees can see contact information, benefit payment information, 13th check payments, annual tax documents and more.

Additionally, members and retirees are able to submit certain changes to their account information through the website and download documents, forms and other information.

Visit the new site at [www.sdcers.org](http://www.sdcers.org) and let us know what you think about the changes.
Recent Retirements

Felix Aguirre
Frank J. Alfano
Robert R. Allen
David M. Alley
Frank G. Almond
Betty J. Baldwin
Edward H. Bandrup
David E. Barbosa
Stephen E. Barr
John A. Bull
Russell Calvin
Karen M. Campos
D. Sean Cardenas
Robert B. Cartelli
Aina Celms
Mary L. C. Cherwink
Chett T. Chew
Richard M. Contreras
Natalie Crosthwaite
William H. Davis
Dean L. Davison
Richard M. Dell’Orfano
Pete A. Delmundo
Joyce Edgar
Edward G. Erbe
Maria I. Esquer
Fay E. Faulkner
Maureen K. Filley
Terrance F. Finch
Charles L. Foster
Timothy R. Freistroffer
Charles E. French
Scott D. Fulkerson
Ronald R. Garcia
Gail A. Gatzke
Carmen H. George
Marilyn J. Gibbs
Robert F. Glass
Daviey J. Gomez
Eugene P. Gordon
Virgil F. Hathaway
Randal K. Hawley
Joan L. Hernandez
Ann B. Hix
Catherine J. Hollam
Charles A. Hood
John S. Hopkins
Ann C. Howard
David P. Hu
Gary D. Johnson
Rodney C. Johnson
Donald L. Jones
Sterling G. Jones
Henry L. Jordan
Robert H. Kennedy
John C. Kersell
William D. Kingsbury
Ronald Knuth
Crystal M. Krueger
Lucy L. La Valle
James R. Lee
Crispulo O. Leyco
Timothy M.A. Long
Alfred V. Lopez
William J. Mackey
Laurie Macrae
Albert M. Massey
Leslie J. McDaniels
Noel L. McElfresh
Gary W. Mc Kee
Peggy L. Mears
Theodore M. Medina
Maria E. Melendrez
Jose M. Mesa
Alma P. Meza
William C. Middleton
Rodney K. Miller
Pedro Y. Moreno
Leonard Morrison
Robert J. Mulcahy
Rafael L. Munoz
Robert V. Murphy
Robert G. Negrete
Ronald W. Nichols
Ronald T. Nimmo
Vernon H. Noble
Mary Jean Noland
Michael T. O’Neill
Marcelino R. Oregel
Russell W. Palmer
Patricia C. Parent
George F. Parkinson
John C. Paschall
David E. Pearman
David J. Pederson
Joyce E. Perry
Robert D. Peters
Francisco A. Pinnelli
Maryanne Piumatti
Rodolfo V. Reyes
David M. Rodgers
Henry A. Rodriguez
Beverly Ross
Hossein Ruhi
John T. Ryan
Dennis W. Sadler
Keith S. Sadowski
Richard A. Schneider
David E. Schwartz
Michael E. Scott
Randall T. Smith
Richard L. Snapper
William D. Snyder
Miria F. Stephens
Mary Ann Stepnowsky
Mark S. Stiffler
William S. Sweeten
Lena F. Swindle
Brian J. Szmunek
William D. Taitano
Tony Taranto
Gary W. Tillinghast
Paul J. Toomey
Susan L. Tortorice
Michael T. Tudury
Jerry E. Valladolid
Gary Valles
Joseph S. Via
John B. Vivoli
Allan K. Wake
Wayne K. Watson
Warren J. Wazny
Randall E. Weaver
Kelly G. Wellborn
Harvena M. Westmoreland
Ronald D. Willimann
Joseph A. Winney
Frances C. Wyborney
Patricia A. Young
Robert W. Zarrick
Robert A. Zepeda
In Memoriam

Glenn F. Awrey
Jerrett G. Baker
Jimmy W. Brown
Robert W. Burgreen
Marjorie L. Cochran
Ronald E. Colby
Norman J. Dube
Freddy Echaves
Eric J. Enell
Beverly Fountain
Freeman A. Grant
James S. Grice
Richard G. Hamilton
Frank A. Hernandez
Patricia N. Hildebrand
James J. Holodnak
Paul W. Hook
Charles E. Inglett
Robert M. Irvine
Ollie Jackson
Richard E. Jones
John Kolodziej
Robert A. Lamb
Herman D. Lancaster
Donald E. Lindsley
John W. Mettlach
Billie D. Morse
Ronald J. Oldham
Harry T. Palmer
Paul S. Powers
Michael A. Purvis
Betty D. Riseley
June J. Rogalski
David D. Somers
Frank L. Stephens
Robert E. Stokes
Mary Taylor
Frank B. Tribby
Deborah R. Tucker
Tinny Tucker
George G. Wagner
Joyce I. Walker
Robert S. Weeks
Elton Williams

The above information is based upon confirmation and documentation provided to SDCERS by employers, beneficiaries or family members. SDCERS has many Members whose names are similar. Please use caution when contacting family members of individuals with names like those listed above.
Providing the latest news and valuable information about retiring and retirement.

FreeSpirit is published by the San Diego City Employees’ Retirement System.

Rebecca Wilson
Editor

We welcome your articles and suggestions. Please submit them to Editor, San Diego City Employees’ Retirement System, 401 West A Street, San Diego, CA 92101-7991.

WEBSITE – WWW.SDCERS.ORG

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