The pending implementation of new pension benefits as a result of the California Public Employees’ Pension Reform Act (PEPRA), also known as AB 340, has generated increased attention and questions from our members.

Below is general information to help answer potential questions and provide insight on pending changes for current and new members. These are preliminary interpretations that may be revised as the law is implemented.

Note: With the exception of the Working After Retirement provisions discussed below, the bill does not affect current or future employees or retirees of the City of San Diego.

Question: What is PEPRA?

On September 12, 2012, the California Public Employees’ Pension Reform Act (PEPRA), also known as Assembly Bill 340, was signed into law by Governor Jerry Brown. The bill will take effect January 1, 2013 and will impact SDCERS members who are current employees, future employees and retirees from the San Diego Unified Port (Port) and current employees, future employees and retirees from the San Diego County Regional Airport Authority (Airport).

The measure offers a number of reforms intended to provide statewide uniformity in pension benefits by limiting benefits offered to new employees and increasing flexibility for employee and employer cost sharing for current employees.

Generally, the measure creates a new defined benefit formula, caps annual salary that counts toward final compensation for all new Members, requires all public retirement systems in California to adhere to the federal compensation limit when calculating retirement benefits for new members, eliminates air time, forfeits benefits for convicted felons and puts limitations on working after retirement.

(Continues on Page 3)

If you are a Port or Airport Member wanting to purchase service credit, you must complete and submit an application before January 1, 2013. If you do not have access to a computer, you can mail or hand-deliver a completed application to SDCERS.

Prior to submitting an application, visit the SDCERS web site and use the Purchase of Service Estimator to find the estimated cost and determine if you have the funds to purchase the time.
You’ve heard people say: “You’re only as good as your last evaluation” or “What have you done for me lately?”

When I explain to our members and plan sponsors that SDCERS is in the long-term investment business, they still want to know about the “latest” accomplishments at SDCERS.

It’s only natural to want updated news, and that’s for the most part what you’re reading about in this edition of the SCOOP.

That said, I want to bang the drum again about our long-term performance. As you’ll read in Liza Crisafi’s Investment update, our 10-year and 20-year returns have been very strong. In fact, the 10-year performance of SDCERS puts us in the top 8% of public plans nationally in terms of investment performance. Our 3-year annualized investment returns are 12.4% as of June 30; a shorter long-term number, if you will.

Our investment team is top-notch, and I have every reason to believe we’ll continue to do well in the years ahead.

Our assets under management now top $5.6 billion, the highest level ever achieved by SDCERS.

The Federal Social Security program is a “pay as you go” system that relies on contributions from today’s workers to pay the benefits of those already retired. Not so with a defined benefit program like SDCERS.

Individual and plan sponsor contributions, plus investment earnings on those contributions, pay the benefits of each person individually.

Our members and plan sponsors are dutifully paying their contributions each year, and as long as they continue to do so, members can rest assured that SDCERS will be around for decades and decades to come.

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-Mark Hovey, CEO

California Public Employees’ Pension Reform Act
(Continued from Page 1)

Question: When does PEPRA go into effect?

January 1, 2013

Question: Why does PEPRA apply to employees and retirees of the Port and the Airport, if it does not apply to the City of San Diego?

As of January 1, 2013, PEPRA applies to all state and local public retirement systems and to their participating employers, except charter cities and counties that operate an independent retirement system. Because the City of San Diego is a charter city with an independent retirement plan, its employees are exempt from the general provisions of PEPRA. Because Port employees and Airport employees are not employees of the City of San Diego, PEPRA would apply to the Port and Airport plans.

Question: What impact does PEPRA have on the Port and Airport’s current and future employees and retirees?

The provisions found in PEPRA include:
• Reduced Benefit formulas (New Members only)
• Employers’ ability to impose contribution cost sharing (new Members only)
• 3-Year Final Compensation (New Members only)
• Cap on Pensionable Compensation (New Members only)
• New Definition of Pensionable Compensation (New Members only)
• Elimination of Air Time and, potentially, any Purchase of Service other than Military Leave under USERRA for all Members (All employees)
• Prohibition against Retroactive Benefits Enhancements for all Members (All employees)
• Forfeiture upon Felony Conviction (All employees)
• Health Benefit Vesting (All employees)

Question: What does PEPRA mean when it says a provision is applicable to New Members only?

As defined in PEPRA, a New Member is a Port or Airport employee hired on or after January 1, 2013, who (1) has never been a member of a public retirement system before January 1, 2013, or (2) has previously been a member of a public retirement system but had a break in service of more than six months before becoming a member of the Port or Airport plan.

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For more information about AB 340, you can find an AB 340 FAQ on the SDCERS website.
Purchase of Service Credit Estimator

SDCERS has launched its new Purchase of Service Credit Estimator, an online tool for members to calculate the cost to purchase service credit for the 5-year general purchase. The PSC Estimator can be accessed at the top of the SDCERS home page.

For additional information about PSC, read the PSC booklet available on the Member Publications page of the website.

Supplemental Cost of Living Adjustment (COLA)

The Supplemental COLA, a cost of living adjustment allowance for members who retired prior to July 1, 1982, was created to increase a member’s monthly retirement allotment. The City Council created a special reserve account of $35 million to pay for this benefit. However, the City specified that benefits can only be paid until the reserve account is depleted. Once the reserve account is depleted, the benefit will cease.

If you retired prior to July 1, 1982 there is a strong likelihood that your Supplemental COLA benefit will discontinue by October 2013. It is important that you prepare for that possibility.

Update Your Beneficiaries Today!

Keeping your beneficiary information current is important. It will ensure your retirement benefits are distributed according to your wishes upon your death.

Update your beneficiaries today by using the Member Portal on the SDCERS website homepage.

Note: Proposition B does not impact Port or Airport members.

Update on Comprehensive Pension Reform: Proposition B

Proposition B passed by two-thirds of the City electorate in the June 5th primary election. In general, the initiative amends the City Charter to eliminate Defined Benefit pensions for all City officers and employees, except sworn police officers, who are newly hired by the City of San Diego or who assume office on or after its effective date. Proposition B was signed by the California Secretary of State and went into effect on July 20, 2012.

While SDCERS is neither affiliated with nor involved in Proposition B, it is important for our members to understand the initiative. In our last newsletter, SDCERS provided an overview of Proposition B as it was understood at that time. Since then, SDCERS has refined its interpretation of Proposition B, including the impact of Prop B on employees hired between its date of passage and the effective date. SDCERS has prepared a series of Frequently Asked Questions (FAQs) that provide an update from the previous quarterly Scoop issue on the status of the initiative and how the measure affects City of San Diego member retirement benefits.

City employees are encouraged to visit the SDCERS web site and review those FAQs to determine the impact of Prop B on their individual retirement benefits.

San Diego’s bayfront is an economic engine.

“Le Bateau Ivre” at National City’s Pier 32.

The Disney Wonder cruise line.
Board Meetings
Board meetings are open to the public and held approximately every six weeks, on Fridays at 8:30 a.m., 401 West A Street, 3rd Floor, San Diego, CA, 92101. Call 619.525.3600 for more information or visit www.sdcers.org to view meeting schedules, videos, agendas and minutes. This facility is wheelchair accessible.

Retiree Associations
EVENTS Calendar & Contact Information

City of San Diego Retired Employees’ Association
www.csdrea.com • 858.272.0494 • president@csdrea.com

Monthly General Meetings are held at the War Memorial Building in Balboa Park. Check the REA website for more information.

Thursday, December 13: Annual Holiday Party, 11:00 AM-2:00 PM, Bali Hai Restaurant, 2230 Shelter Island Drive, San Diego, 92106
Tuesday, January 8: General Member Meeting, 11:30 AM-2:00 PM, War Memorial Building, 2325 Zoo Drive, San Diego, 92101 Featured Speaker: MEA General Manager Mike Zucchet

Retired Fire and Police Association of San Diego
www.retiredfp.com • 760.753.7462 • sdfdrouse@yahoo.com

Monthly Board Meetings are held at the Firefighters Credit Union, 4926 La Cuenta Drive, San Diego (unless otherwise noted) on the first Thursday of each month at 9:00 AM.

Wednesday, December 5: General Members Meeting, 9:00 AM - 12:00 PM
Thursday, January 3: RFPA Board Meeting, 9:00 AM - 12:00 PM
SDCERS’ investment return for the fiscal year ended June 30, 2012 was +0.9%.

The return was a result of volatile market conditions due to concerns over the Eurozone debt crisis, weak economic conditions in the U.S., and uncertainty over the U.S. presidential election.

While U.S. equity returns were positive, SDCERS’ bias toward small capitalization stocks, which outpaced large capitalization stocks by nearly seven percentage points in FY2011, was out of favor this year and underperformed large cap stocks by an offsetting amount in FY2012.

As expected from the Eurozone fallout, international and emerging market equities were the weakest performers, down -13.8% and -15.9%, respectively.

In a flight to quality, the best performing asset class was the 10-year U.S. Treasury which was up an unprecedented +17.8%. Private equity returns (about 3% of the portfolio) returned 16% and real estate continued to rebound, up +9.4%. Additionally, in this uncertain environment, active managers lagged their benchmarks.

Longer term performance continues to be strong with annualized returns of 7.3% for ten years and 8.9% over twenty years.

Other new initiatives included new investments in real estate. SDCERS made an additional $30 million commitment to the JP Morgan Strategic Property Fund, which is a core real estate portfolio designed to generate strong income flows.

Core real estate generates its return from cash flows derived from rental income compared to non-core real estate which derives its return from rental income and capital appreciation.

A $20 million commitment was made in June to the CB Richard Ellis Value Fund 6. This investment will focus on preservation of capital and conversion of undermanaged or distressed assets into core properties to be sold into a strengthening market.

Infrastructure, a new asset class for SDCERS in 2012, has begun to make commitments. The allocation in infrastructure (which encompasses essential assets that are needed in an economy like transportation, energy, utilities, etc.) is intended to provide current yield, portfolio diversification, and long-term stable returns. So far, five commitments have been made totaling about $33 million.

SDCERS along with its General Consultant, Hewitt EnnisKnupp, is currently conducting a search for custodial bank services. State Street Bank currently provides these services but their contract expires in May of 2013.

As a function of good business practice, it is the norm to issue a Request for Proposal and State Street will be invited to rebid for the contract. In-house interviews and on-site due diligence visits for finalist candidates will be scheduled.

A selection is expected to be named at the January 2013 Board meeting. In the meantime, SDCERS is in a quiet period.

Since inception (approximately three years ago), PE investments have been made totaling $150 million. The portfolio continues to generate positive annual returns.
Recent retirements

Ronald Lemaster
Dianna Webb
Joshua Joseph
Johnny Stellini
Greg Pinarelli
Frances Fischman
Ana Jaramillo
Edwin Santiago
Suzanne Sanderman
Christopher Ball
Mellin Hampton-Oglesby
Alicia Podschen
Simin LeGrand
George Tuck
Rita Vandergaw
Frank Belock
Brenda Clark
Anita Noone
Jeanne Twigg
Jethro Hudgins
Michael Lazare
Tina Claridge
G. Jeffrey Williams
Douglas Bolton
Jeffery Scruggs
Kimberley Lyon
Donald Dolezal
Donna Souza
Kevin Rooney
Patricia Stone
Jonathan Alva
Suzi Tafoya
Anna Rodriguez
Carey Brooks
Glory Omohundro
Robert Nicklo
Jerry Fabula
William Stetson
Charles Sanders
Kelly Milligan
Willie Shipley
Alejandro Hernandez
Alberto Ragucos
Ricardo Cuevas
Willie Kwan
David Hernandez
Jeffrey Edgren
Ronald Coss
Dean Pasko
Nestor Malibago
Thomas Gardenhire
Ronald Garcia
Annette Peer
Leona Gulck
Peter Zajda
Randal Jones
George Muren
John Aruffo
David Berglund
Michael Elerding
Brian Leribeus
Michael Brogdon
Melvin Mcfarlin
Randal Cooper
Kevin Haupt
Monica Kaiser
Dolly Bakshai
Stephen Connolly
Jamie Chapman
Jon Coffman
Jesus Esparza
Gregory Myers
Supplemental COLA (Cost of Living Adjustment) Update

As I reported in the Spring 2012 edition of SCOOP, the City Council adopted the Supplemental COLA Benefit (“SuppCOLA”) in 1999. This benefit was adopted to assist those City employees who retired on or before June 30, 1982 to help them keep up with the increased cost of living.

A special reserve fund was set up to pay for this supplemental benefit. SDCERS’ staff estimates that the funds in this special reserve will run out by approximately October 2013.

The Retiree Issues Task Force consisting of board members from the Retired Employees’ Association (REA) and the Retired Fire & Police Association (RFPA) have been working jointly to develop possible alternatives for adding to the fund for this benefit.

Meetings are underway with individual City Council members to develop support for continuing the City’s Supplemental COLA program. Stay tuned.

13th Check and Corbett Settlement Payments

SDCERS staff reported at the November SDCERS Board meeting that realized investment earnings for fiscal year 2012 were insufficient to pay the 13th Check and Corbett payments this year.

The Corbett benefit is paid in any year where a 13th check is paid. In years where the 13th Check is not paid, the Corbett benefit is not paid but is carried forward and will be paid in the next year when the 13th Check is paid.

PSC Correction and Substantially Equal Litigation Update

SDCERS staff reports that almost all of those impacted by the court-mandated PSC Correction process have completed this process. PSC court litigation against SDCERS continues.

To assist members in tracking the progress of this litigation, SDCERS posts the complaints, filings, rulings, etc. for each of these cases (and others) on the SDCERS web page.

I am pleased to report that the Litigation section (see About SDCERS drop down menu) is now current with all PSC and UAL (“Substantially Equal”) court filings and rulings.

The Substantially Equal case is scheduled for trial in May 2013.

Keeping Informed & Involved

Joining and volunteering for organizations that represent City retirees or public entity retirees will help you stay on top of issues. Importantly, these organizations advocate on behalf of the retiree population.

Retired Fire & Police Association (RFPA) membership has been restricted to sworn police and fire safety members. However, RFPA members recently voted unanimously to allow all retired San Diego City Lifeguards, including those currently in DROP, to become members.

The RFPA Board recommended this since Lifeguards are Safety members of the City’s retirement system and have been part of San Diego Fire Rescue for the past several years.

All retirees are eligible to join the City of San Diego REA. Information on joining REA can be found at its web site: www.sdrea.org.

Information on joining RFPA can be found at its web site: www.retiredfp.com.
Annual Membership Meeting

SDCERS held its fourth Annual Membership Meeting on October 24 at Balboa Park.

More than 125 Active and Retired Members attended the meeting, which provided a “state of the union” overview of the health of the pension system, including an educational review of the system’s investment program.

If you were unable to attend, you can view the presentation by logging onto www.sdcers.org and clicking on the “Annual Membership Meeting.”

We Want to Hear from You!

SDCERSCOOP is published four times a year. We welcome your feedback and encourage you to submit comments to:

Editor, SDCERS, 401 West A Street, Suite 400, San Diego CA 92101, or via email by visiting www.sdcers.org/AboutSDCERS/Contact Us.