The SDCERS Board of Administration recently voted to reduce the system’s discount rate to 7.25 percent, affirming a recommendation by the actuary Cheiron. The Board of Administration approved the new discount rate at its November 8th meeting by a vote of 8-4.

This is the third time the rate has been changed since 2008, when it was changed from 8 percent to 7.75 percent, the first change in decades. In 2011, the discount rate was further reduced from 7.75 percent to 7.5 percent.

The discount rate, or the rate at which a system discounts future liabilities of member benefits to determine their actuarial present value, is set by the SDCERS Board of Administration with input from the system actuary.

Rate adjustments are prompted by several key factors, including historical plan experience, expectations for the future, the Board of Administration’s risk preference as well as industry trends.

“If the two major market downturns of the last decade have taught us anything, it’s that pension plans need to manage risk,” stated Cheiron CEO and principal consulting actuary Gene Kalwarski. “Trustees for any plan should decide how much risk, if any, they are willing and can afford to take. Based on that risk appetite, the appropriate funding and investment strategies will emerge. SDCERS has adjusted the rate based on their risk appetite and appropriate funding strategies for the long term health of the system.”

Following market trends over the past decade, lowering the discount rate has become more common among municipal pension systems across the country and within California. According to a 2012 survey by the National Association of State Retirement Administrators (NASRA), many plans have reduced their investment return assumption since 2009. The median assumption is 7.8 percent; however, the number of plans assuming 7.5 percent or lower has increased significantly, according to NASRA.

“This was a carefully considered decision for the Board of Administration to make, as we understand the impact it will have on our members and on our plan sponsors,” stated Board President Ed Kitrosser.

“The adjustment is a prudent, fiscally conservative risk-reduction measure, designed to protect the long-term health of the system and safeguard system assets that pay vested benefits for our members. Pension plans have long-term commitments, and the Board of Administration has a fiduciary obligation to ensure the system is equipped to meet those commitments.”

(article continued on page 3)
SDCERS is Financially Sound
Our investments surpassed the $6.5 billion milestone the first week of November, the highest level ever achieved by SDCERS. Strong actuarial funding disciplines, coupled with thoughtful investment strategies over the past decade have proved to be among the most prudent and successful in the country. SDCERS’ annualized net investment returns of 8.1 percent over the past 10 years place us in the top 8 percent of public pension plans. Those results include passing through the rocky and turbulent investment markets over that same time period. We continue to pay retirees and their beneficiaries their vested retirement benefits on time, just as we have for the past 86 years.

Annual Membership Meeting Recap
In October, SDCERS held a successful Annual Membership Meeting with nearly 200 members, active and retired, in attendance. At the meeting, I spoke about the strength and diversity of expertise our 13-member Board brings to the table each month. The roster has changed considerably this year, with six new Board members. Half of the Board terms expire every two years, and in past years we’ve been able to ease turnover with second-term appointments. This year, we are grateful that Ed Kitrosser was appointed for a second term. Following his re-appointment, he was elected by his peers to serve as the new Board President. Ed has been an invaluable contributor to our Disability and Audit Committee over the last four years, and now participates in all of our committee work. Fire Captain Alan Arrollado, another experienced Board Trustee, was also re-elected to a second four-year term and was elected by his peers to serve as the Board’s Vice President. Despite the turnover, we have a great group of Trustees who are all excited about supporting our members and fulfilling their fiduciary obligations to the system. I encourage you to learn more about them online under the About SDCERS button.

Also during the meeting, the Executive Team shared valuable news and insights about member services, benefits administration, investments and the financial health of the system. If you were unable to attend, please take a minute to watch the presentation video, available on the homepage at www.sdcers.org.

Substantially Equal Trial
I am happy to report that the Substantially Equal case between SDCERS and the City of San Diego has been settled.

Since the case was filed in 2010, the costs incurred for SDCERS’ legal defense totaled more than $4 million. The City, and indirectly City taxpayers, are legally obligated to pay for these expenses.

Learn more about the “Sub Equal” case and the settlement terms by visiting the Latest News page at www.sdcers.org and reading the Legal section on page three of this newsletter.

Website Redesign – You Spoke, We Listened!
SDCERS has begun an exciting redesign project to create a more visually appealing website with a fresh look and feel. The new site will expand existing functionality and create a more user-friendly interface so that members can find the benefit information they need more quickly. Expected to go live in 2015, the new site will provide members with exciting new tools and features like a state-of-the-art email notification function, social media integration, video tutorials and calendar-synching capabilities.

Earlier this year, to ensure our redesign will suit your needs, we issued a website redesign survey asking for your ideas and recommendations. We received great and useful feedback, and we’re now considering your suggestions.

Stay tuned for ongoing developments!
The Board also took action on wage inflation assumptions, reducing the rate to 3.3 percent from 3.75 percent and confirming the salary wage inflation for the City of San Diego will be zero through FY 2018. This confirmation is based upon negotiated wage agreements between the City and its bargaining units.

The agreements, finalized in May 2013, were multi-year agreements that freeze pensionable pay levels. The reduction to the City’s Annual Required Contribution (ARC) from these agreements was estimated to be approximately $1 billion over the next 30 years in the analysis published by the Office of the Independent Budget Analyst in 2012. The pensionable pay freeze through FY 2018 will be included in the June 30, 2013 valuation, as will a revised pensionable wage increase assumption for FY 2019 and beyond of 3.3%.

The lower discount rate will increase the City’s ARC payment, Unfunded Actuarial Liability (UAL) and member contribution rates. However, the multi-year wage agreements and the Board’s action to lower the wage inflation assumption will more than offset the lowering of the discount rate. The precise impact of the discount rate and wage inflation rate assumption changes will be unknown until the release of the June 30, 2013 valuation in January 2014.

Preliminary estimates by SDCERS’ actuary indicate the impact to be approximately a $12 million decrease to the City of San Diego’s ARC in FY 2015, an increase of $0.6 million to the San Diego Unified Port District’s FY 2015 ARC and an increase of $0.1 million to the San Diego County Regional Airport Authority’s FY 2015 ARC.

For additional information about the discount rate, please visit the FAQ available on the Latest News page of www.sdcers.org.

If you have questions about this issue, please contact SDCERS’ via the Contact Us page at www.sdcers.org.

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**LEGAL**

SDCERS and the City of San Diego have reached a settlement in the Substantially Equal lawsuit. While there was no final judgment, the settlement lets stand SDCERS’ decades-long application of the “substantially equal” requirement of the City Charter, puts an end to years of litigious spending and marks the first time in more than a decade that there is no open litigation between SDCERS and the City.

Under the terms of the settlement agreement, SDCERS will continue to allocate 100 percent of the Unfunded Actuarial Liability (UAL) to the City. The City will enact an ordinance confirming SDCERS’ past, current and future allocations of the UAL, which cannot be amended or repealed unless the City and its bargaining units first comply with the meet-and-confer provisions of the Meyers-Milias-Brown Act.

The case called into question City Charter section 143, which requires the City and its employees to contribute a substantially equal share of pension costs, except in the case of financial liabilities accruing because of past service of employees. For more than 70 years, SDCERS has excluded actuarial and investment gains and losses from the substantially equal requirement.

To learn more about the Substantially Equal lawsuit and the settlement terms, please visit the Latest News page at www.sdcers.org.
Natasha Collura has been appointed by Interim Mayor Todd Gloria to serve as the ex-officio mayoral designee on the SDCERS Board of Administration.

Collura, who succeeds mayoral designee Nelson Hernandez, began her appointment on Friday, November 8, 2013.

Collura has served as the City’s Director of Strategic Partnerships since 2011. In this capacity, she is responsible for soliciting and negotiating city wide corporate partnerships, community and service sponsorships, as well as licensing, production and cause-marketing partnerships. Within her first year of employment, she successfully negotiated and implemented several new multi-year partnerships that generated more than $2.6 million dollars in additional revenue for the City.

Prior to working for the City, Collura worked for the Anheuser-Busch Theme Parks, followed by the World Famous San Diego Zoo and Wild Animal Park, where she specialized in national promotions, advertising and marketing campaigns.

Collura holds a degree in communications from the University of California San Diego.

The mayoral designee serves at the pleasure of the mayor of the City of San Diego and does not have term limits.

Also in September, the Board of Administration approved the appointment of James (Jim) B. Smith III to the Audit Committee.

Smith, who succeeds Mike Collins, has been appointed to serve a four-year term as one of the Committee’s three independent members.

Smith has been a senior partner with the business consulting firm, The TriMentor Group, LLC, since 2002. He is an executive with more than 30 years of experience in automotive, financial services and technology-based industries. He has experience working in diverse organizational settings, including international operations and high technology environments, with a broad background in financial analysis and control, strategic planning including acquisitions and divestitures, organization and process redesign, restructuring and capital structuring analysis and venture capital financing. He holds a Masters of Science in Management degree from Alfred P. Sloan School of Management – Massachusetts Institute of Technology and a Bachelor of Science in Administration and Management from Carnegie Mellon University.

The Audit Committee was established in October 2006 to provide oversight on the financial reporting process, the System’s internal controls and the independent auditing process. The Committee is comprised of three independent, non-Board members and two Trustees from the Board. Committee members are appointed to serve four-year terms, with a term limit of eight consecutive years.

Board meetings are open to the public and held approximately every two months, on Fridays at 8:30 a.m. Visit www.sdcers.org to view schedules, videos and agendas.
The Affordable Care Act

The Affordable Care Act (ACA), or Obamacare, was signed into law in March 2010 to provide access to health care for those who are uninsured, to create a more efficient way to administer health care and to contain the growth of future health care costs. There are a number of ways that this is being done, but one in particular that directly impacts SDCERS retirees at this time. Retirees are required to have access to information about the new Health Insurance Marketplace in preparation for the Individual Mandate requirement of the law.

Learn more about the ACA, the Health Insurance Marketplace and its impacts on SDCERS-administered benefits by reading the FAQ available on the Latest News page at www.sdcers.org.

13th Check and Corbett Benefits

The Board of Administration approved the payment of the “13th Check” supplemental benefit and the Corbett settlement benefit for eligible retirees. Eligible retirees received the payment as part of their November 2013 monthly retirement benefit check.

The “13th Check” and Corbett settlement benefits are paid in years when the realized investment earnings of the fund are sufficient to pay them.

For the November 2013 payment, eligible retirees received a “13th Check” for fiscal year 2013 and Corbett payments for fiscal year 2013 and 2012. In years when the “13th Check” is not paid, it does not carry forward. The Corbett benefit, however, is carried forward and paid in the next year when the “13th Check” is paid. Because the Corbett benefit was not paid in 2012, the 2012 Corbett benefit was carried over and was paid in November 2013.

Annual Membership Meeting

More than 200 active and retired members were in attendance at this year’s Annual Membership Meeting!

If you were unable to attend, please watch the meeting video or read the presentation slides available on the homepage at www.sdcers.org.

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.
  - Tuesday, January 14: General Member Meeting, 11:30 AM-2:00 PM, War Memorial Building, 2325 Zoo Drive, San Diego, 92101 Featured Speaker: TBD
  - Tuesday, February 11: General Member Meeting, 11:30 AM-2:00 PM, War Memorial Building, 2325 Zoo Drive, San Diego, 92101 Featured Speaker: Amy Abrams

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 a.m.
  - Thursday, January 2: Monthly Board Meeting
  - Monday, January 13: RFPA General Membership Meeting and Luncheon, 11 a.m., Police Pistol Range
  - Thursday, February 6: Monthly Board Meeting
SDCERS’ final investment earnings for fiscal year 2013 totaled 13.6%, compared to the total fund policy benchmark of 12.6%. This placed SDCERS’ return in the top 17th percentile of the public funds universe, as measured by the Bank of New York Mellon.

Asset class performance was strong throughout the portfolio and returns over long term periods also remain strong, with 3-year annualized returns of 12.5% and 10-year returns of 8.1%.

The first quarter of fiscal year 2014 got off to a strong start with performance up 5.7% net of fees compared to the benchmark of +5.2%.

U.S. stocks continued a positive trend from the first half of the calendar year. Major U.S. indices posted very strong performance during the last three quarters. Stocks have rallied on the basis of improved balance sheets and earnings, and an accommodating Federal Reserve. Stocks of small companies (small cap stocks) outperformed the broad market index by 4%, which benefitted SDCERS’ intended overweight allocation to that strategy. Non-U.S. equities rebounded from the previous quarter. Shares of financial institutions and industrial companies led the advance. Emerging market equities bounced back in the third quarter after declining for the first six months of the year.

U.S. Treasury rates fell across all maturities on the surprise announcement in September that the Federal Reserve would continue with its current pace of asset purchases. Returns were modestly positive and SDCERS’ move to shorten the duration of the portfolio (i.e., to invest in bonds that mature sooner rather than later) added value during the period. Non-U.S. and emerging market debt trading stabilized after a sell-off in May and June.

Following a discussion regarding the Asset Allocation in May, the Board of Administration, Investment Committee, SDCERS’ consultant Hewitt EnnisKnupp and staff reviewed a potential investment strategy for the Opportunity Fund.

The Opportunity Fund was created to allow for investments that are truly opportunistic and may occur due to temporary market imbalances or strategies that don’t fit neatly in the portfolio. Strategies for the Opportunity Fund include additional elements of diversification and/or the potential for higher returns than the expected return of the total portfolio, currently at 7.6%. Up to 8% percent of the total fund can be invested in opportunistic strategies -- sourced by 78% return-seeking assets like common stocks, and 22% from risk-mitigating strategies like U.S. Treasuries.

One of the most attractive opportunities that exists is in “non-core” real estate, where returns are driven by appreciation as opposed to income.

This is an area of the real estate market that has not experienced the recovery that core properties have seen. The Investment Committee felt it would be appropriate to consider a tactical allocation to non-core real estate for the Opportunity Fund in a commitment size of between 2-3% of the total fund. The ideal strategy is focused on temporarily mispriced real estate investments. The ideal fund manager would offer a high degree of transparency, strong risk management practices, a well-established team and a defined investment process. Given the opportunistic nature of these investments, it was considered appropriate to put the allocation in the Opportunity Fund as opposed to increasing the strategic long-term target to Real Estate, currently 11% of the total fund.

In September, the Board approved a $50 million commitment to the Torchlight Opportunity Fund IV. The Fund is focused on real estate debt investments in both the public and private sectors to invest across the entire spectrum of debt and other interests related to commercial real estate. The strategy is expected to deliver returns around +15% net of fees.
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<th>Malcolm Spooner, an SDCERS member and retired employee of the City of San Diego, celebrated his 100th birthday in November.</th>
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<td>A dedicated employee, Spooner retired from the City in 1976 after serving more than 30 years as an information clerk in the Treasurer’s Office. Spooner was born Nov 27, 1913 in Cleveland, Ohio and was one of 10 children born to Myron and Mary Spooner between 1909 and 1923. Spooner is the proud father of son Lawrence and daughters Dorothy and Carol. During this time in San Diego, he lived in the community of Allied Gardens. He currently resides in Challis, Idaho.</td>
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<td><strong>SDCERS Member Malcolm Spooner Turns 100!</strong></td>
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Retiree News
by Richard Wilken, Elected Retired Member

A Personal Opinion: Retirees, Your Voices and Votes are Needed

I've been closely watching pension-related events locally and nationally over the last several years and I feel compelled, once again, to make a detailed and urgent request for City retirees to join the retiree organizations.

The lawsuit filed by former City Attorney Mike Aguirre in 2005 to significantly roll back City retiree pensions was dismissed in 2011, mainly due to a concerted legal defense brought by the various labor organizations and a number of retirees, using their own money.

Since that time, the City Council voted to reduce pension benefits for new employees, the labor organizations agreed to significantly reduce retiree healthcare for many current employees and the passage of Proposition B closed the City’s Defined Benefit pension system to new employees, except sworn police. With all this ‘reform’ you might think that we retirees could now relax. If so, you’d be mistaken. That rollback effort in 2005 was local but others are following at the state level.

Momentum is rapidly building across the country to adopt new laws or change old ones to ‘reform’ public pensions. The National Institute on Retirement Security has completed a national survey and reports that 48 states have enacted pension “reforms,” some of which impact benefits of existing retirees. Fifteen states have reduced Cost-of-Living Allowances for already retired employees. Various committees are forming, fueled by anti-union, anti-public employee sentiment, and which are very well funded by deep pocket donors.

Significantly, the mayor of San Jose is leading an effort to change the California Constitution provision that prevents reduction in vested pension benefits. We have not yet seen much about this in the mainstream media. The proposal has just been filed with the State Attorney General’s Office and the proponents have not yet started gathering voter signatures. However, if this initiative qualifies for the November 2014 ballot and is approved by the voters, the Pension Reform Act of 2014 could dramatically impact pension benefits for all active California government employees on a prospective basis. The initiative could also create extreme financial pressures on government agencies that could potentially lead to bankruptcy or further cutting of other vested benefits, like retiree healthcare. Cities like Detroit and San Bernardino are using Chapter 9 bankruptcy in an attempt to roll back vested pension benefits for both active and retired employees.

I believe SDCERS is an efficient and very well-managed organization. Since SDCERS cannot advocate for retirees and labor organizations and cannot represent retirees, we are on our own. We must make our voices heard; our votes count, and, if necessary, fund our own legal action.

First, we must come together to strengthen our numbers and financial resources and to network with other retiree organizations.

Currently, the Retired Fire and Police Association (RFPA), (Safety) and the Retired Employees Association (REA) account for less than half of the eligible City retirees as members. The RFPA and REA have been on the job informing retirees and protecting their pensions and benefits. Recently, the two associations were successful in getting funding extended for the Supplemental COLA benefiting some 650 of our oldest retirees and widows. It took a lot of time and effort, and many of those recipients were not members of either association. That is understandable: they retired prior to 1982, and many of them are in their 90s and not in good health.

So what about the rest of retirees with better benefits? With the rapidly growing number of states and local governments that are moving in this direction, I believe it is important to get prepared now.

If you have not yet joined, I urge you to do so today. For more information, visit their websites:
REA: www.csdrea.org
RFPA: www.retiredfp.com
Register for SDCERS’ Member Portal

Are you an active (employed) or deferred SDCERS member who would like to see your member contribution account balance, or track your total amount of service credit? Or a retired member, wanting to change your tax withholding directly online, without having to mail a paper form?

These options are available through the SDCERS Member Portal. If you haven’t registered, now is the time to act!

Registration is simple: Go to www.sdcers.org and, from the home page, click on the “Member Portal Registration” button to get started. From there, you will be walked through a secure registration process that includes choosing a user name and password.
SDCERS’ investment returns were in the top 17% of the public funds universe for FY 2013! See page 6 for investment details!

SDCERS and the City of San Diego have reached a settlement in the “Sub Equal” case. See page 3 for details!