“Sub Equal” Trial Date Continued to July from Previously Scheduled Date in May

The “Substantially Equal” lawsuit between SDCERS and the City of San Diego has received considerable news coverage in recent months.

To ensure that our members and the public have accurate and up-to-date information, SDCERS offers the following update.

WHAT IS “SUB EQUAL?”
The case calls into question the Retirement System Board’s decades-long interpretation of City Charter section 143, which requires the City and its employees contribute a substantially equal share of pension costs, except in the case of financial liabilities accruing because of past service of the employees.

SDCERS and City leadership – for more than 70 years -- have interpreted the Charter to exclude actuarial and investment gains and losses.

Virtually all public pension plans allocate responsibility for actuarial gains and losses to the plan sponsor, and that is characteristic of public sector defined benefit plans. The City maintains that the substantially equal requirement applies to actuarial and investment gains and losses in addition to the normal cost of retirement allowances.

SDCERS, the City’s pension administrator, requires annual contributions from the City and its workers in order to pay current and future retiree benefits.

The City’s annual payment and the contribution rate for employees are set by the SDCERS’ Board of Administration based on an actuarial valuation each year. This valuation determines liabilities associated with active employee current year service (normal cost), and liabilities associated with variances to actuarial assumptions (experience gains and losses).

Experience gains and losses include investment gains and losses relative to the assumed rate of return, currently set at 7.5%.

The City has always been responsible for 100% of the experience gains and losses and has acknowledged that responsibility to San Diego voters.

LITIGATION COSTS
Since the case was filed in 2010, the costs incurred by the City for SDCERS’ defense total more than $3.2 million to date and continue to grow.

The City is obligated to pay for SDCERS’ legal expenses.

(article continued on page 5)
For almost 90 years, SDCERS has served as a trusted benefits partner for its plan sponsors and members. Our mission is to deliver accurate and timely benefits to employees so that they may plan for a secure retirement future.

Today, we serve more than 20,000 members. Those members trust us to guard their “nest egg” of pension contributions and educate them about planning for one of the most important times in their lives. That trust comes with a great deal of responsibility — a responsibility we take seriously.

That is why, starting in 2006, SDCERS began implementing a series of reform measures designed to deliver the best services possible. We’ve strengthened internal controls, cut operational costs and eliminated waste to deliver a robust and responsible long-term investment plan. Through our success, SDCERS has become a model of good governance practices.

I am proud to share with you a few of the reform efforts we’ve made.

In 2006, SDCERS created an independent Audit Committee to assist in the oversight responsibilities for financial reporting, system of internal controls, audit process and compliance with laws, regulations and internal policies and procedures. The five-member Audit Committee is comprised of three non-Trustee citizens, making it truly independent.

In 2007, the Board of Administration adopted a Group Trust to ensure the assets of the three plan sponsors - the City, Port and Airport - are separated from each other consistent with the City Charter and Municipal Code.

SDCERS has received favorable Determination Letters from the IRS — for each of its plan sponsors. The Group Trust earned this designation in 2009, the Airport plan and trust in 2010, and the Port and City plans and trusts in 2012. These letters confirm the System’s status as a tax-qualified plan under the Internal Revenue Code and confirm that the SDCERS plan complies with IRS rules. Governmental pension plans are not required to have a Determination Letter, and only few do.

Within the past few years, the Board of Administration has adopted, reviewed and strengthened a series of good governance policies including an Education Policy, Fraud and Criminal Acts Policy, Ethical Conduct Policy, Compliance and Training Policy and Whistleblower Policy.

In 2011, SDCERS’ actuary Cheiron issued a letter noting that SDCERS has implemented a number of conservative actuarial changes, including methods and procedures, which distinguish SDCERS from the average large retirement system.

In fact, Cheiron also said that SDCERS is governed by and employs methods, assumptions and procedures as carefully -- and in many cases, as conservatively -- as any retirement system in the country.

Also in 2011, SDCERS moved approximately 50% of the equity investments held from “active” to “passive” investment options, saving the fund nearly $3.5 million annually.

And in 2012, SDCERS recorded the fifth consecutive year of holding the line on administrative costs, while assets under management have grown. From fiscal year 2007 to fiscal year 2012, SDCERS’ administrative costs decreased by 25%.

We’re not done yet, either, so keep watching us! I look forward to updating on our progress.
SDCERS’ investment portfolio turned in another good quarter, ending March 31, 2013. The portfolio returned +5.1% net of fees versus the benchmark of +4.9%. For the first nine months of this fiscal year, the portfolio is +13.0%.

Strong U.S. equity returns were influenced by positive economic news and solid corporate profitability.

While international equities lagged behind the U.S. because of ongoing debt issues and banking problems, European indices still produced positive returns during the quarter.

U.S. fixed income results were weak as a result of stronger economic numbers and the potential for rising interest rates. Emerging market bond returns were slightly negative, again due to concerns of slowing economic growth in emerging countries.

Longer-term performance continues at a solid pace with annualized returns of 9.3% for 10 years and 9.2% over 20 years.

SDCERS recently completed an Asset Liability study. The purpose of the study was to analyze risk (the long-term outlook for pension payments) and reward (the long-term expected return on SDCERS’ investments).

The study is conducted every three years to determine if any changes should be made to the 78/22 mix of return-seeking assets to risk-reducing assets.

The study concludes there is no compelling reason to change the current strategy at this time.

Compared to the standard 60% in stocks and 40% in bonds that is considered an “average” asset allocation, SDCERS’ 78/22 mix might seem aggressive. However, there are key differences between an individual investor asset allocation versus an institutional, like SDCERS, investor allocation:

- SDCERS has a very long (40-50 year) investment time horizon. Typically, only people in their 20’s have a similar investment time horizon and a similar asset allocation to SDCERS. This longer time horizon allows for taking on additional risk in the form of return-seeking assets. Traditional *individual* investor advice suggests a more conservative allocation to return-seeking assets. Traditional *individual* investor advice suggests a more conservative allocation to return-seeking investments as one gets closer to retirement, with fewer years in which to achieve long-term investment goals.
- SDCERS also includes in its 78% return-seeking allocation investments such as Emerging Market Debt and Real Estate. These investments have characteristics that many investment professionals compare to fixed income and other risk-reducing investments.

For more information, read the Asset Liability study available on the Investments page at www.sdcers.org.

### Return Seeking Assets

<table>
<thead>
<tr>
<th>Allocation</th>
<th>U.S./Int’l Equities</th>
<th>Emerging Market Debt</th>
<th>Real Estate</th>
<th>Private Equity</th>
<th>Infrastructure</th>
<th>Opportunity Fund</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>48%</td>
<td>3%</td>
<td>11%</td>
<td>5%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>78%</td>
<td></td>
<td></td>
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</tbody>
</table>

### Risk Reducing Assets

<table>
<thead>
<tr>
<th>Allocation</th>
<th>U.S. Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Total** 100%
SDCERS Welcomes New Board Appointees

SDCERS recently announced the election of James Steel and Jeffrey Wallace, and the re-election of Alan Arrollado, to the Board of Administration. Steel, Wallace and Arrollado have been elected to serve four-year terms ending March 31, 2017.

Steel is a fleet technician for the City of San Diego’s Public Works Department, responsible for maintaining the city’s vehicle fleet which ranges from light duty vehicles to heavy trucks and industrial equipment. Wallace is an associate management analyst for the City’s Real Estate Assets Department where he is a financial analyst in the corporate services division.

Steel and Wallace were sworn in Friday, April 12, 2013 to occupy the active General Member seats on the Board. They are replacing trustees Steve Meyer and Patrick Lane, whose terms ended March 31, 2013.

Arrollado, a native San Diegan and 24-year veteran of the San Diego Fire-Rescue Department, was re-elected by his peers to represent City of San Diego Fire Safety Members. This will be Arrollado’s second term on the SDCERS’ Board of Administration. He currently serves as Chairman of the Disability Committee.

Board meetings are open to the public and are held approximately every six weeks (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.

See page 7 for a Q&A with new Board member James (Jimmy) Steel. For more information on the SDCERS Board, as well as the responsibilities of the committees, visit www.sdcers.org/About SDCERS/Board of Administration.

Audit Committee
David Kramer, Chair;
Marilyn Brown; Michael Collins; Herb Morgan; Edward Kitrosser

Business and Governance Committee
Edward Kitrosser, Chair;
Valentine Hoy; Herb Morgan; Thomas Sullivan; Richard Wilken

Disability Committee
Alan Arrollado, Chair;
Edward Kitrosser; Herb Morgan; James Steel; Richard Tartre; Richard Wilken

Investment Committee
Richard Tartre, Chair;
Gregory Bych; William Haynor; Herb Morgan; Mark Oemcke; Jeffrey Wallace

BOARD OF administration

President
Herb W. Morgan
Mayoral Appointee

Vice President
Gregory J. Bych
Ex-Officio Mayoral Designee

Board Members
Alan J. Arrollado
Elected Fire Safety Member
William W. Haynor
Mayoral Appointee
Valentine S. Hoy
Mayoral Appointee
Vacant Seat
Mayoral Appointee
Edward W. Kitrosser
Mayoral Appointee
Mark E. Oemcke
Mayoral Appointee

Board Members
James H. Steel
Elected General Member
Thomas A. Sullivan
Elected Police Safety Member
Richard R. Tartre
Mayoral Appointee
Jeffrey J. Wallace
Elected General Member
Richard E. Wilken
Elected Retired Member
UAL (Substantially Equal) Litigation continued from page 1

In December 2012, Judge Joseph Zimmerman denied the City’s Motion for Judgment on the Pleadings on both procedural grounds and on the merits after the City unsuccessfully argued that the court should rule in its favor without the need for a trial.

Subsequently, the City Attorney filed a Motion for Summary Judgment (MSJ) restating the arguments claimed in the Motion for Judgment on the Pleadings.

In March 2013, in the face of strong opposition from SDCERS and the employee unions, the City Attorney withdrew the City’s MSJ, a method normally used to resolve litigation without the need for a trial. The City Attorney’s Notice of Withdrawal cited the need to focus its resources on the upcoming trial, despite the fact that the primary goal of an MSJ is to avoid preparation for and the expenses associated with trial.

The court’s ruling and Goldsmith’s actions effectively demonstrate SDCERS’ strong position in this case and signal that the City’s case may be too weak to prevail.

SDCERS’ REQUEST TO DROP SUB EQUAL

In March, SDCERS Board President Herb Morgan joined Mayor Bob Filner at a press conference to urge City Attorney Goldsmith and the City Council to drop the Sub Equal case. For more information about this event, visit the Latest News page at www.sdcers.org.

TRIAL CONTINUED TO JULY

Judge Zimmerman announced in April 2013 that the trial will be continued to July 2013 from its previously scheduled date in May.

The trial will now begin at 10 a.m. on Tuesday, July 9th at the San Diego Superior Court, 220 W. Broadway, on the fourth floor.

For more information, read the FAQ available on the Latest News page at www.sdcers.org.

Retiree Associations
EVENTS Calendar & CONTACT Information

City of San Diego Retired Employees’ Association
Website: www.csdrea.org       Phone: 858.272.0494       E-mail: president@csdrea.com
Monthly General Member meetings are held at the War Memorial Building in Balboa Park. All retirees are welcome, REA members and non-members alike. Visit the REA website for more information.
Special Note: There is no General Member meeting in June. On Wednesday, June 12th REA members are encouraged to attend SDCERS’ Annual Retiree Open Enrollment Help Day. See page 7 for details.
11 a.m. - 2 p.m. Tuesday, July 9th - General Member Meeting

Retired Fire and Police Association of San Diego
Website: www.retiredfp.com       Phone: 760.753.7462       Email: sdfdrouse@yahoo.com
Monthly Board Meetings are held at the Firefighters Credit Union, 4926 La Cuenta Drive, San Diego on the first Thursday of each month at 9 am.
9 a.m. - 12 p.m. Thursday, June 6th - RFPA Board Meeting
9 a.m. - 12 p.m. Wednesday, July 3 - RFPA Board Meeting
Supplemental COLA (Cost of Living Adjustment) Update

Over the past year, I’ve been keeping members and retirees updated on the status of the Supplemental COLA benefit.

The special reserve fund, which was set up for City retirees who retired on or before June 30, 1982, is expected to run out by October 2013.

SDCERS staff has done an excellent job of tracking this issue and analyzing the potential impacts for recipients who would be impacted.

It is important to note that SDCERS cannot advocate for additional funding for the COLA benefit -- that’s where the retiree organizations have come in.

The Retiree Issues Task Force, a combined group of board members from the Retired Fire & Police Association (RFPA) and the Retired Employees’ Association (REA) held meetings with the Mayor and each City Council office to build support for continuing this benefit.

As a result, funding is included in the Mayor’s Proposed Fiscal 2014 Budget. While the proposed funding must be reviewed and adopted by the City Council, the RFPA and REA are cautiously optimistic that the proposed funding will be approved.

I expect the City Council’s final decision will be announced on the REA and RFPA websites.

Medicare Part B Medical Services Premiums Reimbursement Update

SDCERS’ staff and the REA and RFPA Boards heard complaints from retirees concerning reimbursement policies and procedure changes by SDCERS during last year’s Open Enrollment. The Retiree Issues Task Force met with SDCERS staff to discuss these complaints.

As a result, the policies and practices relating to reimbursement of Part B premiums have been thoroughly reviewed and revised by SDCERS staff. I am pleased to report that the revised instructions are a big improvement.

Thanks to SDCERS’ staff for their responsiveness on this issue.

Water Department (METRO) Retiree Reunion

The City’s Public Utilities Department is celebrating the 50th Anniversary of the Wastewater System on September 24, 2013. They hope to have a reunion of “Metro” employees (1985 era) at this event. For more info contact Yvette Peak (YPEak@sandiego.gov) or 619-221-8755.

Staying Informed & Involved

Like me, you might be discouraged by misguided local and national reporting about public employee pensions. It seems public employee pension “bashing” has become widespread. What can you do?

First, I recommend that active and retired SDCERS members stay informed by monitoring SDCERS Board activities. You can do this by attending Board meetings or reviewing videos of the meetings at www.sdcers.org.

Retirees should join and volunteer for organizations that represent SDCERS retirees, like REA and RFPA.

These organizations monitor SDCERS’ actions to keep members informed. They also monitor actions by other local and state public organizations that impact vested pension rights and post this information on their respective websites.

Most importantly, these organizations advocate on behalf of the retiree population - note the successful work on the Supplemental COLA and the Medicare reimbursement issues mentioned above.

Join the REA or RFPA by visiting www.sdrea.org and www.retiredfp.com.
Retiree Health Open Enrollment - June 3-28, 2013

SDCERS’ Annual Retiree Health Open Enrollment period for City of San Diego Retirees ends Friday, June 28th. Eligible retirees received their 2013-2014 Retiree Health Benefits booklet in the mail prior to the Open Enrollment period, which began on June 3rd.

Join us for Open Enrollment Help Day!

SDCERS staff and sponsored health providers will be on site to answer questions about retiree healthcare benefits. Details about the event are available in your Open Enrollment Booklet. Note: brief presentations by sponsored providers will be held from 12-1 p.m. The presentations are optional.

WHEN: Wednesday, June 12 TIME: 10 a.m. - 12 p.m. WHERE: Balboa Park Club, 2144 Pan American Road

Q&A with New Board Member Jimmy Steel

Q: How long have you lived in San Diego? How long have you been a City employee?
A: In 2000, the Navy stationed me in San Diego. I’ve lived in the area ever since. I have been working for the City of San Diego for more than five years. During that time, I have also been attending San Diego State University (SDSU) where I am earning my bachelor’s degree in business management.

Q: What are your hobbies or interests?
A: I have several hobbies, but if I had to choose my favorite, it would be spending time with my seven-month-old daughter. My wife, daughter and I are usually outdoors taking advantage of the City’s parks and hiking trails.

Q: What motivated you to run for a seat on the SDCERS Board of Administration?
A: I decided to run for a seat on the SDCERS Board after a co-worker informed me about the position. I had recently completed a finance class at SDSU, and I wanted to learn more about finance and investments. Having the opportunity to represent my co-workers at the City of San Diego has always been appealing to me. I look forward to learning more about what it takes to make sound decisions based on a fiduciary commitment to members.

Q: What would you like SDCERS members to know about you?
A: I bring several skills to the Board. I am an effective group member and leader. I focus on making the correct decisions and rely on a strong set of ethics. I would like SDCERS members to know that I have a constant thirst for knowledge. I am always looking for an opportunity to learn so that I acquire the right tools to make the right decisions. I strive to reach the next level in my career, and I think this tops it so far. This opportunity gives me a chance to represent and serve my City co-workers and other SDCERS members.
Richard Schaaf
Sally Schutte
Brooke Lawson
Carol Jenkins
Paul Garcia
Anna Pierce
Esther Ramos
Richard Russell
Kathleen Certain
Miguel Rosario
Gerald Dearie
Rena Blades
Michael Young
Nino Williams
Bradley Phelps
Margie Clear
Gael Strack
Heather Petty

Louie Mcrae
Denise Zuranski
Diane Yamada
Lori Montgomery
Michael Harris
Sergio Sanchez
David Hendron
Cheri Miller
Raja Abihashim
Abdollah Rahman Setayesh
Seyed Haghgouy
Alan Souza
Vicente Magapan
Kevin Jiampa
Makini Hammond
Michael Cabral
Geary Pollard
Steven Canchola

John Barrios
Marcos Ruiz
Lila Olix
Edgar Faralan
Michael Gomez
David Borja
Patricia Hinkley
David Feeley
Phillip Worts
John Amador
Lynne Rich
Linda Dawn
Susan Erlbeck Calvin
Garry Collins
Michael Moller
Annette Havin
John Durazo
Charlynne Moyer
Sven Beck
Richard Bounking
Kenneth Hauser
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.

www.sdcers.org
SDCERS is giving its website, www.sdcers.org, a makeover. We need your feedback to determine what you like and don’t like about the current website and what features you hope to see included on the new site. Give us your ideas and tips today by taking our Website Redesign Survey available on the homepage at www.sdcers.org. We look forward to your feedback.

WWW.SDCERS.ORG