



SDCERScoop

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM SUMMER 2013

DOMA and Prop 8: How Supreme Court Decisions Impact Your Benefits

The U.S. Supreme Court declared the federal Defense of Marriage Act of 1996 (DOMA) unconstitutional on June 26, 2013. On the same day, the Court determined that challenges to the California Supreme Court's decision on California's Proposition 8 did not have standing. This leaves intact the California Supreme Court's ruling that Proposition 8's declaration that marriage can only occur between a man and a woman is unconstitutional.

While it will take time to determine the full consequences of these rulings, they will have an impact on the tax treatment of benefits paid by SDCERS to members of same-sex marriages.

Defense of Marriage Act of 1996

For purposes of the Supreme Court's decision, DOMA established a federal definition for who is a spouse and what is a marriage. As a result, DOMA denied federal tax benefits to same-sex couples, even if they were legally married in states that recognize same-sex marriages. The Supreme Court's decision specifically ruled that the federal definitions of "spouse" and

"marriage" are unconstitutional. Therefore, same-sex spouses now are entitled to the same federal tax benefits as opposite sex spouses, including tax benefits related to retirement benefits, in all states that recognize same-sex marriage.

Generally speaking, SDCERS follows the provisions of California state law. To maintain its tax qualified status, however, SDCERS must also follow the requirements of federal law. If there is a conflict between state and federal tax qualification laws, SDCERS must comply with federal law.

It is important to note the Supreme Court did not address the status of couples in a Registered Domestic Partnership (RDP) where state law, like California's state law, treats an RDP as the equivalent of a marriage. Also, in the wake of the Supreme Court's decision, the IRS has not yet clarified the federal tax treatment for California RDPs; and until the IRS makes such a determination, SDCERS will continue to maintain the status quo for RDPs. This means that while same-sex marriages will be treated no differently than opposite-sex marriages, persons in an RDP are not entitled to the

same favorable federal tax treatment as persons who are married.

For example, federal tax law allows a surviving spouse to delay taking a distribution from the plan until the member would have reached age 70 ½, whereas a non-spouse must take the distribution within no more than five years of the member's death.

(Continued on page 5)

INSIDEScoop		
	DOMA/Prop 8	Page 1
	Board Update	Page 2
	CEO Update	Page 3
	The News	Page 4
	Retiree Associations	Page 5
	Retiree Update	Page 6
	Investments Update	Page 7

BOARD OF administration

SDCERS recently announced the appointment of Jeannie Posner, Athanasios (Thanasi) Preovolos, K. Denise Thompson, Nelson Hernandez and the reappointment of Edward Kitrosser to the Board of Administration. Posner, Preovolos, Thompson and Kitrosser have been appointed to serve four-year terms ending March 31, 2017.

Posner is a CPA and licensed attorney. She has 20 years of accounting and auditing experience in public and private industry, and is the managing partner of Posner Accountancy Group, CPAs. Throughout her career, Posner has focused on developing successful procedures that ensure compliance within an organization. Posner spends most of her time working with small businesses and auditing non-profit entities. Posner replaces previous Trustee Mark Oemcke.

Preovolos is an attorney with more than 15 years of experience in estate planning and qualified and non-qualified benefit plan management. He also represents clients with pension plan compliance issues before the Internal Revenue Service. Preovolos replaces Trustee Wayne Kennedy.

Thompson is a retired audit partner with more than 25 years of public accounting experience in various industries including consumer markets, biotechnology, technology and early to mid-stage venture-backed funds. She is a board member of Athena San Diego and Magdalena Ecke YMCA and a previous board member of CleanTech San Diego. Thompson replaces Trustee Herb Morgan.

Hernandez has been appointed to serve as the

ex-officio, mayoral designee. As the City's Policy Director, Hernandez is responsible for developing and managing policy initiatives on behalf of Mayor Bob Filner's administration. Hernandez has extensive municipal government experience, serving in various leadership roles for the City of Ventura, the City of Montebello and the Port of Los Angeles. Ex-officio members serve at the pleasure of the Mayor of the City of San Diego and do not have term limits. Hernandez replaces ex-officio Greg Bych.

Kitrosser is a retired CPA with more than 40 years of experience in accounting, auditing, tax and consulting services. This is Kitrosser's second term on the Board. At the August meeting, the Board of Administration unanimously appointed Kitrosser to serve as Board President. He succeeds Herb Morgan who held the position from December 2011 to June 2013.

Board meetings through October 2013 are held approximately every six weeks (Fridays). Starting November 2013, the Board and its committees will meet on the second Thursday and Friday of odd-numbered months. Meetings are open to the public and held at 401 West A Street, 3rd floor, San Diego, CA, 92101 starting at 8:30 a.m. This facility is wheelchair accessible.

For more information about the SDCERS Board, its members, responsibilities of the committees, meeting schedules, videos, agendas and minutes visit [www.sdcers.org/About SDCERS/Board of Administration](http://www.sdcers.org/About%20SDCERS/Board%20of%20Administration).

Alan J. Arrollado
Elected Fire Safety
Member

William W. Haynor
Mayoral Appointee

Nelson Hernandez
Mayoral Designee

Valentine S. Hoy
Mayoral Appointee

Jeannie Posner
Mayoral Appointee

Athanasios K. Preovolos
Mayoral Appointee

Edward W. Kitrosser
Mayoral Appointee

James H. Steel
Elected General Member

Thomas A. Sullivan
Elected Police Safety
Member

Richard R. Tartre
Mayoral Appointee

K. Denise Thompson
Mayoral Appointee

Jeffrey J. Wallace
Elected General Member

Richard E. Wilken
Elected Retired Member



The outcome of the SDCERS Board of Administration's vote on the revised June 30, 2012 Actuarial Valuation (Valuation) in June has generated considerable interest from members and the public. This quarter's column is dedicated to providing a detailed overview regarding why the revised Valuation was considered and what the vote means for SDCERS and the City now and in the future.

Proposition B, passed by voters in 2012, allowed the City to negotiate multi-year labor agreements with its six labor unions to achieve savings greater than those achieved by imposed or negotiated year-by-year terms. The impact to the City's Annual Required Contribution (ARC) of multi-year pensionable pay freezes was approximately \$1 billion dollars over the next 30 years, with first-year savings of approximately \$25 million. A long-term agreement between the City and the labor unions affects SDCERS' actuarial assumption on annual increases in workers' pensionable pay and reduced future pensionable pay generates savings for the City in the form of a lower pension bill.

At the City's request, SDCERS worked with its actuary (Cheiron) to develop an analysis of the effects the multi-year agreement had on pensionable pay. During that process, the City was made aware there was no certainty that

the City's ARC payment would be lowered for fiscal year 2014. The decision to lower the ARC would be up to the SDCERS Board, who acts independently of the City and who has a primary fiduciary obligation to more than 20,000 system members. In March 2013, the SDCERS Board adopted the June 30, 2012 Valuation that set the City's ARC for the coming fiscal 2014. However, given the passage of Prop B and the significance of the potential savings involved, the SDCERS Board was asked by the City to consider revising the City's ARC payment for FY 2014.

Only after the agreements were finalized did the SDCERS Board consider at the June 2013 Board meeting to revise the June 30, 2012 Valuation. At the meeting, SDCERS' actuary and fiduciary counsel explained that both options - modifying the June 30, 2012 Valuation or deferring the savings to the next Valuation - were fiscally and actuarially sound courses of action. After more than 90 minutes of vigorous discussion and presentations by the actuary and fiduciary counsel, the Board did not adopt the revised Valuation. The Board voted six in favor and four opposed, with seven affirmative votes necessary to approve.

The outcome means that pension savings associated with the multi-year pensionable pay freeze agreements will be deferred to fiscal year 2015. The ARC payment for fiscal year

2014 remained at its original amount of \$275.4 million and was paid in full on July 1, 2013. This marks the ninth year in a row the City has paid their full contribution. Rather than lowering this year's ARC payment, the \$25 million of potential savings was then paid to SDCERS as part of the \$275.4 million, serving to lower the City's Unfunded Actuarial Liability (UAL). Contribution rates for City employees will remain as they were in FY 2013.

However, since the ARC is affected by several actuarial assumptions and related experience gains and losses, it can't be predicted with certainty if the total labor agreement savings will be reflected next year.

SDCERS acts as an independent investment and administrative agent for the City, the Port and the Airport Authority. Its actuarial practices are among the most prudent in the country. The Board's vote allows the System to continue the conservatism in its actuarial methods and procedures that it has been committed to for many years.

SDCERS will continue to update members on this topic as we get closer to the January 2014 release of the June 30, 2013 Valuation.

Board Sets New Meeting Schedule

The Board of Administration at its June meeting approved a new, bi-monthly meeting schedule set to begin this fall.

SDCERS' Committees - Disability, Business and Governance and Investments – and the Board of Administration will now meet on the second Thursday and Friday of odd-numbered months starting in November 2013. A revised schedule is available on the Latest News page at www.sdcers.org.

SDCERS Receives Achievement for Excellence in Financial Reporting Award

The Government Financial Officers Association has awarded the Certificate of Achievement for Excellence in Financial Reporting to SDCERS for its FY 2012 Comprehensive Annual Financial Report (CAFR) and FY 2012 Popular Annual Financial Report (PAFR).

This is the fifth consecutive year SDCERS has received this recognition for the CAFR and the fourth consecutive year it has received the honor for the PAFR.

The award is the highest form of recognition in the area of governmental accounting and financial reporting and

represents a significant accomplishment by a governmental agency and its management.

The CAFR and PAFR were judged by an impartial panel to meet the high standards of the program including demonstrating an effective means to disclose and clearly communicate SDCERS' financial story and motivating members and the public to read the publications.

SDCERS' award-winning CAFR and PAFR are available on the Latest News page at www.sdcers.org.

COLA Approved by Board

A Cost of Living Adjustment (COLA) was approved by the Board at its May 17, 2013 meeting. The COLA was applied to the retirement benefits of eligible SDCERS retirees effective July 1, 2013.

Three separate COLAs were approved, and differ depending on when the eligible member retired:

- Eligible retirees who retired before July 1, 2012 will receive a COLA increase of 2.0%
- Eligible retirees who retired between July 1, 2012 and June 30, 2013 will receive a COLA increase of 1.7%
- Eligible retirees who are in the 1981 retirement plan will receive a COLA increase of 0.8%.

Note: The same COLA schedule applies to members who enter DROP.

Supplemental COLA Reserve Fund Continued for City Retirees

Funding for the Supplemental Cost of Living Annuity (COLA) benefit currently being paid to approximately 650 City retirees was confirmed on June 10, 2013.

The City Council's approval of the FY 2014 budget extended funding for the Supplemental COLA benefit for one year. Funding for FY 2015 and beyond will be brought before the Council for consideration on a year-by-year basis.

The Supplemental COLA increases the retirement allowance for members (and their survivors) who retired prior to July 1, 1982 and meet specific eligibility requirements. Retirement allowances for this group have been increased by an amount that as of July 1, 1998, raised benefits to the equivalent of 75% of purchasing power of the original retirement allowance.

To pay for this benefit, the San Diego City Council in 1998 created a special Supplemental COLA Reserve account of \$35 million. At the time, the City specified that benefits could only be paid until the reserve was depleted. The reserve was projected to be depleted in October 2013.

Without the continuance, COLA-eligible retirees would have seen their annual retirement benefits diminished by an average of 25-30%.

DOMA and Prop 8: How Supreme Court Decisions Impact Your Benefits

Continued from page 1

Proposition 8

In addition to its decision on the constitutionality of DOMA, the U.S. Supreme Court let stand the California Supreme Court's decision striking down Proposition 8 as unconstitutional.

Proposition 8 required that California only recognize marriage between a man and a woman. As a result of the U.S. Supreme Court's decision, same-sex marriages are allowed to resume in California.

While Proposition 8 was in effect, same-sex marriages were not recognized by California. Therefore, the Member's same-sex spouse was not eligible for the surviving spouse benefit, but would have been eligible if the couple had entered into an RDP.

Prospectively, an SDCERS member's spouse in a same-sex marriage will be treated as a surviving spouse and will be eligible for the same federal tax treatment as an opposite sex marriage.

SDCERS' legal staff, in coordination with its outside tax and fiduciary legal counsel, is reviewing the Supreme Court ruling to provide additional guidance on what impacts these rulings have on your SDCERS benefits.

The review, which will include guidance on what retroactive impact the decisions may have, will be made available in the coming months.

If you have specific questions regarding the Supreme Court's decisions and how they might impact your specific retirement benefits, submit them to SDCERS via the Contact Us 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.

11 a.m. - 2 p.m. Tuesday, October 8, 2013 - General Member Meeting, featuring SDCERS staff

11 a.m. - 2 p.m. Tuesday, November 12, 2013 - General Member Meeting, featuring Carl Luna

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 a.m.

9 a.m. - 12 p.m. Thursday, October 3, 2013 - RFPA Board Meeting

11:30 a.m. Wednesday, October 8, 2013 - RFPA Quarterly Luncheon

9 a.m. - 12 p.m. Thursday, November 7, 2013 - RFPA Board Meeting

Special Note: The SDCERS Annual Meeting will be held from 11 a.m. - 12 p.m. on Wednesday, October 16 at the Balboa Park Club ballroom in Balboa Park. All active, retired and deferred members are encouraged to attend. Additional information will be sent to retirees via U.S. mail and available online at www.sdcers.org.

RETIREE NEWS

by Richard Wilken, Elected Retired Member



New Health Rates in Effect on July Pension Checks

City retirees will note fiscal year 2014 health insurance rates are in effect and reflected on pension checks issued July 31, 2013. The new rates reduced the net pay amount for some retirees who selected a HealthNet HMO plan. Health-eligible retirees who retired between October 6, 1980 and June 30, 2009 and selected the non-Medicare HealthNet HMO will see that the City's monthly allowance of \$931.24 does not fully cover the HealthNet monthly premium of \$959.88. The significant 15% increase in the cost of the HealthNet non-Medicare HMO for fiscal 2014 was more than the 3.8% increase in the City's Allowance. The Kaiser Non-Medicare HMO cost of \$791.58 is within the City's allowance. The yearly allowance is calculated on a federal government projected medical cost increase formula.

Additional information is available at www.sdcers.org under the Latest News page.

13th Check & Corbett Payments

This time each year, retirees start to ask if 13th Check and Corbett payments will be made. These payments are not automatic and depend upon whether SDCERS achieves sufficient investment gains.

This matter should appear on the agenda for the September 2013 SDCERS Board meeting.

Supplemental COLA Approved by Council

City retirees owe the Retired Fire & Police Association (RFPA) and the Retired Employees' Association (REA) kudos for their cooperative efforts on behalf of our retirees and beneficiaries eligible for the Supplemental COLA benefit.

In July, the City Council gave final approval for fiscal year 2014 Supplemental COLA funding for employees who retired on or before June 30, 1982. Funding for fiscal year 2015 and beyond will require action each year. The benefit would simply not have been funded without the outstanding efforts of the RFPA and the REA.

Retiree groups continue to work with the Port to secure funding for those eligible retirees.

I urge you to consider joining the RFPA or the REA.

REA: www.csdrea.org

RFPA: www.retiredfp.com

SDCERS' Board Decision on Revised Actuarial Valuation

At its June 28th meeting, the SDCERS Board voted on a revised June 30, 2012 Actuarial Valuation that was completed to reflect savings from the freeze on

pensionable pay agreements made between the City and its labor unions, following the passage of Proposition B.

While the matter received six votes in favor, it failed to obtain the seven affirmative votes necessary to approve. Had the measure been approved, the City's Annual Required Contribution (ARC) payment for fiscal year 2014 would have been lowered by \$25 million. This vote created controversy among those who expected the lowered ARC payment and by those that saw it as a mechanism to improperly fund the system. This proposal was not an attempt to improperly fund the system. In fact, the proposal was based upon information that could only be confirmed late in this fiscal year.

Both SDCERS' actuary and fiduciary counsel were supportive of the revised Valuation as well as the original Valuation. While I supported the revised Valuation, it is important to remember that the Board's fiduciary responsibility is to make decisions based on the best interests of the SDCERS' members, retirees, beneficiaries, and the overall financial health of the pension system itself.



SDCERS reported a preliminary return of +13.4% net of fees for the fiscal year ended June 30, 2013, compared to the benchmark of +12.3%. The results were driven by strength in U.S. equities, particularly in small cap stocks and active management returns from SDCERS' investment managers.

U.S. equity returns and non-U.S. equity returns were the main sources of value-add during the year. U.S. stocks were particularly strong as the U.S. economy showed signs of improving stabilization.

Stocks rallied over the course of the year on the basis of solid corporate balance sheets and earnings, an

improving employment picture, low interest rates and an accommodative Federal Reserve. Emerging market equities had a tougher time due to continuing concerns over slowing growth in China and political unrest in Turkey and Brazil. Despite those concerns, emerging markets still managed to post mildly positive returns.

U.S. fixed income returns experienced their biggest quarterly sell-off since 2010 in the quarter ending June 30. Fears that the Federal Reserve would pull back its bond buying program led to the decline in quarterly bond returns, which in turn affected full fiscal year results. The Barclays Aggregate Index was slightly

negative at -0.7%, while SDCERS' active fixed income managers posted mildly positive returns. Emerging market debt was also slightly positive for the year.

Shorter-term performance has been good with three-year returns of +12.2%. Five-year returns, which include the effects of the fiscal 2009 downturn, are up +5.3%. Longer-term results continue to be strong with annualized returns of 8.0% for 10 years and 9.1% over 20+ years.



The average annual internal rate of return for the private equity program since its 2009 inception is approximately 20%.

SDCERS' Net Returns as of June 30, 2013

Invested assets as of June 30, 2013 totaled \$5.8 billion (unaudited)

1-Year Return	5-Year Return	10-Year Return	20-Year Return
+13.4%	+5.3%	+8.0%	+9.1%

The second recommendation was to shorten the duration of the fixed income portfolio to focus on an intermediate

orientation. Duration is a measure of the sensitivity of the price of a bond to changes in interest rates. With interest rates at historical lows, shortening the duration offers downside protection in the event that interest rates rise.

The third recommendation was to create a dedicated allocation to emerging market equities of 1%. This brings SDCERS' emerging market equity exposure in line with the broad market weighting.

The final recommendation was to increase the allocation to emerging market debt from 3% to 5%. Emerging market debt provides attractive risk-adjusted returns and diversification benefits to the portfolio.

In May 2013, SDCERS conducted an annual asset allocation review. The purpose of the review was to determine if the current mix of investments was appropriate relative to achieving the actuarial rate of return of 7.5% while also seeking to minimize risk. Several recommendations were made and approved.

The first and most significant recommendation was to increase the target allocation to private equity from 5% to 10%. SDCERS first committed to private equity in 2009, and while SDCERS' history with this asset class has been relatively short, the results have been strong.

RECENT retirements

Kathleen J. Aceves

Thomas Adams

Benjamin O. Andoh

Scott J. Armstrong

Robert S. Austin

Larry F. Baker

Edilberto T. Basilan

Clayton C. Bingham

Schuyler V. Boyce

Robert B. Cartelli

Jose J. Castaneda

Ronald P. Caster

Cory G. Chesebrough

Rose A. Chisholm

Bradford C. Cody

Henry D. Corrales

William E. Craig

Jan E. Cronin

Denise Culverson

Robin Currie

Ma Corazon S Dompore

Farley L. Doxey

Charles E. Dupont

Robert E. Durham

Jeannie P. Egidi

Christopher C. Escudero

Roberto D. Espiritu

John T. Everhart

Donald W. Farney

Linda E. Garcia

Manuel M. Garcia

Kenneth V. Goebel

Luke D. Goodrich

John A. Graham

Larry D. Griffin

Danilo D. Gutierrez

Asmerom Habtom

Anna Marie A Hain

Theresa M. Hall

Ernest C. Herbert

Javier E. Hernandez

Rose M. Hernandez

Julie A. Hoffman

Kent G. Hoflen

Roy B. Hulbert

James P. Jackson

Erilyn K. Kaiwi

Samuel L Khasim

Kevana M. Kollins

Gerry M. Kramer

P.K. Kushner

Vern A. Larson

Jorge R. Leon

William D. Long

Sally K. Loucks

Magdalena Q. Lujan

Elizabeth A. Lunn

Cuu Luong

Ledenila B. Mateo

Lawrence Mc Kinney

Jeffrey B. McEntee

Catherine D. Millett

Beverly A. Morisako

Gordon R. Nikkola

Mary M. Ochs

Chris M. Pollock

Janice L. Powell-Benoit


 **IN**memoriam

[Daniel Barragan](#)

Eddie Mae Bryant

[Claire M. Gore](#)

Muhsin Iscan

[Leroy Murphy](#)

Arthur Belenzon

[Max M. Camberos](#)

William H. Grindle

[William V. Kent](#)

Sally R. Ostroger

[Joe N. Brooks](#)

Janet L. Chatelain

[Sherry L. Guess](#)

Richard Maler

[Herbert G. Paro](#)

Donald E. Prisby

[James B. Vander Bie](#)

[John C. Stanton](#)

Clarence M. Whyte

John R. Trebil

SDCERS

San Diego City Employees' Retirement System

401 West A Street, Suite 400
San Diego, CA 92101

SDCERS' Annual Membership Meeting

**Mark your calendars for SDCERS' Annual Meeting being held from 11 a.m. - 12 p.m. on
Wednesday, October 16, 2013 at the Balboa Park Club ballroom in Balboa Park.**

**A formal announcement, including an address and directions,
will be sent to SDCERS members via U.S. mail and will be available
online at www.sdcers.org.**