Actuarial and Investment Strategies Trending Favorably

Pension system financially sound, well-positioned to administer benefits for decades

There is no shortage of news media coverage focused on how public pension funds, in California and across the country, are yielding significant investment returns while simultaneously growing liabilities even faster. A UT San Diego opinion-editorialist recently posed the question, “How can an investor earn at such a healthy rate yet develop such an unhealthy deficit?”

The author suggested two questions that plan sponsors and trustees should ask themselves to determine if a plan is in danger of developing an unhealthy deficit. SDCERS long ago asked itself these same questions and implemented a series of actuarial practices and funding strategies to reduce unfunded liabilities and ensure the long-term health of the system. The first question is, are pension liabilities (benefits owed) growing faster than pension assets (contributions plus earnings)?

Over the past 10 years, SDCERS’ actuarial assets have grown at an annualized rate of 8.4 percent, compared to actuarial liabilities at 7.9 percent. As of June 30, 2013, SDCERS’ 10-year and 25-year annualized investment returns, both which include periods of high market volatility and two major market downturns, totaled 8.1 percent and 9.1 percent.

In November 2013, SDCERS’ investments surpassed the $6.5 billion milestone -- the highest level in system history.

Throughout that same 10-year period, the Board of Administration put in place a series of policies designed to significantly strengthen the funding of the plan, including lowering the discount rate three times. Despite these policy changes, which have increased actuarial liabilities, SDCERS’ assets have still grown at a faster percentage. Of course, it will take several years of sustained asset growth higher than liability growth to work off the pension deficit, but recent trends are encouraging.

Article continued on page 6.
Each fiscal year, with support and input from the Board of Administration, SDCERS develops an Action Plan that supports our vision and mission.

The Action Plan for Fiscal Year (FY) 2015 represents a collaborative effort between the administrative departments of the pension system and the Board, providing a strategic framework for the year and setting a vision for allocating resources appropriately.

The Action Plan covers FY 2015, which runs July 1, 2014-June 30, 2015, and is broken down into four main priorities. Here’s an overview of our plan:

1. Continued Pursuit of Excellence in Member Communications and Confidence through Interactive Outreach and Education

SDCERS staff are committed to improving the member experience through new communication tools, outreach programs and revamped retirement and benefit seminars for our members.

Two of the most exciting tools we will be introducing over the next year are a state-of-the-art phone system and our new website. The phone system tracks every single call that comes into SDCERS – down to the average time it takes us to pick up the phone. The website will include video tutorials, interactive social media networking, seminar sign-ups and much more. These tools, and others, are going to make a big difference in the quality of service members receive. We look forward to sharing these new features with you soon.

The Member Services division will also be conducting satisfaction surveys to get your feedback and respond to your needs.

2. Strengthened Internal Controls and Accountability

In FY 2015, SDCERS will be completing the implementation of our new pension system, called IRIS. We will be introducing and stabilizing the system internally, as well as updating internal policies and procedures in accordance with the new operating system. This section of the Action Plan also includes developing and implementing training programs for staff.

3. Continued Pursuit of Investment Program Excellence

In FY 2015, the Investments Division will be reviewing and recommending changes to the asset rebalancing model, a tool used to minimize unintended “drift” away from SDCERS’ long-term asset allocation. Also, a general investment consultant Request for Proposal will be issued and a selection made.

Finally, we’ll also be bringing forth new ideas for the Opportunity Fund, a fund designed to provide additional diversification benefits to the portfolio.

4. Continued Leadership in Pension Governance

SDCERS has become a national model for good governance and municipal pension system reform through a series of measures designed to strengthen internal controls, actuarial practices and compliance. To keep the momentum going in FY 2015, staff will publish online a Frequently Asked Questions document regarding appeals and ethics complaints, they’ll explore the feasibility of implementing live streaming of Board meetings, and will continue our presenter and panelist roles in state and national pension conferences.

These priorities ensure that SDCERS has a clear direction and the resources needed to deliver accurate and timely benefits to our members for decades to come.
Register for the **NEW** SDCERS Member Portal
Easy to **Register** - Easy to **Access** - Safe and **Secure**

SDCERS is redefining online retirement management. Beginning in June 2014, members are encouraged to register on the **NEW** Member Portal for the latest interactive and easy-to-use online tools to manage your retirement benefits, at the highest level of security.

Registered users can take advantage of new features like creating personalized benefit estimates and monitoring account information such as service credit, 1099-R statements and health coverage and benefit seminar sign-ups. Members can also receive email alerts directly to your personal email address to notify important benefit and plan changes. A new, improved Benefit calculator will also be available to registered Portal members. The calculators, which were formally available on the website homepage, are now available on the Portal and will have more accurate and up-to-date estimates.

And finally, all account changes and updates made through the Portal’s new tools and features are done in real time! Members no longer need to wait weeks for their account changes to be processed.

**Registration is easy!** Visit [www.sdcers.org](http://www.sdcers.org), click on the registration button and follow the steps below to begin the quick two-step validation process.

**Step 1: Registration**

On the registration page, members are required to enter several points of personal information for validation. Users will then be required to register with an email address and password.

Passwords are case sensitive, so if the user enters an initial cap while registering their password, they will be required to use an initial cap each time they log on.

**Step 2: Completing the Process**

Finally, members must read and acknowledge the disclaimer information by checking the box at the bottom of the page. By clicking the “I Agree” button, members will complete the registration process and be routed to their secure personal information page.

**It’s that simple!** Once you’ve registered, users may log on at any time by simply entering their user name and password.

Members can call the Call Center at 619-525-3600 with questions about the Member Portal and the registration process.
# 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.

**Wednesday, June 18:** General Member Meeting, 11:00 AM-2:00 P.M.
Details: REA members are encouraged to attend SDCERS’ Health Enrollment Health Day in Balboa Park. Additional information below.

**Thursday, June 19:** June Advocacy Meeting
Details: See REA’s website for details and location information.

## 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 8:00 A.M.

**Thursday, June 5:** Board Meeting, 8:00 A.M.
**Thursday, July 3:** Board Meeting, 8:00 A.M.

---

## Retiree Health Open Enrollment

**June 9-July 3, 2014**

SDCERS’ Annual Retiree Health Open Enrollment period for City of San Diego Retirees ends Thursday, July 3. Eligible retirees received their 2014-2015 Retiree Health Benefits booklet in the mail prior to the Open Enrollment period, which began on June 9th.

**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.

**WHEN:** Wednesday, June 18  **TIME:** 10 a.m. - 12 p.m.  **WHERE:** Balboa Park Club, 2144 Pan American Road
Re-election of Board President
The Board of Administration has unanimously re-elected Edward Kitrosser as Board president. Kitrosser was appointed to the Board of Administration in April 2009 by Mayor Jerry Sanders and was reappointed to serve a second four-year term in July 2013. His second, one-year term as Board president is effective immediately and will expire on June 30, 2015.

New Policy for Firefighters in DROP
At its May 2014 meeting, the Board of Administration approved a new policy that impacts firefighters in DROP who elect to extend their DROP period using annual leave. Beginning immediately, if a member in DROP is eligible to extend his or her five-year DROP participation by the amount of Unused Annual Leave, the member must file with SDCERS, before the last day of the designated DROP period, a written election setting forth the member’s election to extend the period.

The written election must state the date through which the DROP period is extended.

If a written election is not received by SDCERS as required, the member waives their right to extend their five-year DROP period.

Contact SDCERS at 619-525-3600 or via the Contact Us page at www.sdcers.org if you have any questions or need additional information about this policy.

COLA Approved by Board
A Cost of Living Adjustment (COLA) was approved by the Board at its May meeting. The COLA was applied to the retirement benefits of eligible retirees effective July 1, 2014.

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

- Retired before July 1, 2012 will receive a COLA increase of 2%.
- Retired between July 1, 2012 and June 30, 2014 will receive a COLA increase of 1.5%.
- Eligible retirees who are in the 1981 retirement plan will receive a COLA increase of 0.9%.

Board Member Resignation
Mayoral appointee Jeannie Posner has resigned from her position on the Board of Administration, due to professional time constraints. SDCERS’ CEO Mark Hovey will be working with Mayor Faulconer to fill the position expeditiously and will announce the appointment when a selection has been made.

Pension Check Quick Check
Do you pay attention to your monthly pension payment? You should. Take a minute to review your pension payment details on the Member Portal to confirm your tax withholdings for this year and any monthly deductions. If you have questions, contact the SDCERS Call Center at 619-525-3600.

Confirm Your Beneficiary and Continuance Information
SDCERS encourages retirees to review their continuance and beneficiary designations with their family members and loved ones — not someday, but now. Continuance designations cannot be changed after retirement, even in the case of divorce. In order to plan effectively, it is important for spouses to understand the benefits they will receive upon the passing of an SDCERS member.

Retirees can update the beneficiary of the $2,000 death benefit and the remaining days of pay from the final month’s pension at any time. You can review your continuance and beneficiary designations through the Member Portal on the SDCERS website, www.sdcers.org, or you can contact the SDCERS Call Center at 619-525-3600 with questions and to request copies of documentation. All members should review their designations, but this is imperative for retirees. Plan in advance to avoid confusion for your loved ones after your passing.

Contribution Rate Adjustments for City of San Diego Active Members
Beginning July 2014, SDCERS active members from the City of San Diego will experience a decrease in their biweekly contribution rates due to adjustments made to the System’s discount rate, inflationary pay assumptions and multi-year pay freeze agreements made between the City and its labor unions. This reduction will increase biweekly take home pay for employees.

City employees can get more information on the Latest News page at www.sdcers.org.
The Fund grew +1.6% for the quarter ended March 31, 2014, which put the fiscal year-to-date return at +12.8% net of fees. SDCERS’ Trust assets rose $25 million during the quarter as a result of roughly $108 million in investment earnings and approximately $83 million in net withdrawals to pay benefits and expenses.

Global equities, with the exception of the U.K. and Japan, rose modestly during the quarter. Concerns over the impact of the severe winter on the U.S. economy, Russian aggression and civil unrest in the Ukraine, and a deceleration of economic growth in China led to a volatile equity market. Despite these uncertainties, the S&P 500 Index gained +1.8%, while reaching new highs throughout the quarter. Emerging market equities continued to trail on weak sentiment.

Lower interest rates drove positive returns across many sectors of the bond market, with lower quality issues outperforming as investors continued to reach for higher yields. Emerging market debt rebounded during the quarter.

At the March board meeting, the trustees approved a $20 million commitment to the CBRE Strategic Properties U.S. Value Fund VII. The investment strategy is to focus on the conversion of undermanaged or distressed assets and to eventually sell them, while also focusing on the preservation of capital.

The SDCERS trustees also approved two new investments for the Opportunity Fund. The Opportunity Fund was created to provide flexibility in implementing strategies that do not clearly fall within defined asset classes, and to allow the Fund access to interesting and attractive intermediate-term opportunities.

The first recommendation was for a $50 million commitment to the Carlyle Realty Partners VII Fund. This strategy will employ a research-driven, value-based investment approach to identify and purchase high quality assets at discounts to replacement cost. The second investment was a $120 million (2% of fund) commitment to Grosvenor Capital Management for an opportunistic credit strategy.

Grosvenor will construct a customized portfolio of credit strategies that can deliver attractive risk-adjusted returns and provide additional diversification benefits.

Actuarial and Investment Strategies Trending Favorably continued from page 1

SDCERS’ 2013 calendar year results were also strong, earning 17.1 percent (net of fees) with asset growth of more than $900 million.

The second question is, how do actual contributions compare to the recommended actuarially determined contributions? SDCERS’ three plan sponsors have met or exceeded the Actuarially Determined Contribution (ADC) for the past nine years.

Pension funds rely on a combination of investment returns and contributions from employers and employees to pay benefits. On an annual basis, actuaries determine a contribution that, when combined with investment earnings, will meet current and future pension obligations. When these recommended contributions are not made, or not fully made, pension deficits rise. When contributions are paid in a timely manner, as they have by SDCERS’ sponsors, the unfunded liability is lowered and eventually paid off.

The Board is doing an outstanding job managing the actuarial and funding affairs of our plan sponsors, with disclosures that rival any pension plan in California. And while the City’s pension plan is not out of the woods, the funding ratio is now above 70 percent and has been climbing every year for the past four years. SDCERS-administered plans are financially sound and well-positioned to administer benefits to current and future retirees for decades to come.
Pension Reform Act of 2014
In the last two editions of the SCOOP, I provided an update on San Jose Mayor Chuck Reed’s proposed Pension Reform Act of 2014. If approved by the voters, this act would eliminate constitutional protections for vested pension and retiree healthcare benefits.

In January 2014, Attorney General Kamala Harris approved the measure for signature gathering and issued an official summary of the act. Mayor Reed then filed a lawsuit to change the wording of the summary of the proposed act and “accused Harris of stoking voter prejudice against the proposal by citing its impact on “teachers, nurses, and peace officers.”

Mayor Reed lost this lawsuit and announced he would defer this initiative until the 2016 general election.

Have you updated your beneficiaries?
All retirees are strongly encouraged to review their continuance and beneficiary designations with their family members and loved ones – not someday, but today.

Continuance designations cannot be changed after retirement, even in the case of divorce or death of the designated continuance beneficiary. Retirees can update the beneficiary of the $2,000 death benefit and the remaining days of pay from the final month’s pension at any time.

Roles and Responsibilities for Plan Sponsors, Retiree Groups
The City retiree associations (REA and RFPA) sometimes get inquiries from retirees that should be directed to SDCERS and vice versa. I thought it might be useful to clarify roles and responsibilities:

Plan Sponsors: The City of San Diego, the Airport Authority and Port District are the retirement system’s Plan Sponsors, and are governed by the City Council (City only) and their respective Boards (Airport Authority and Port District).

SDCERS: SDCERS administers the retirement benefits for the three retirement systems established by the Plan Sponsors to deliver accurate and timely benefits to its members, retirees and beneficiaries. It does not establish benefit levels and does not advocate for changes to benefits.

Retiree Associations: The mission of the City of San Diego Retired Employees’ Association (www.csdrea.org ) and the Retired Fire and Police Association (www.retiredfp.com) is to advance the social and economic welfare of all retired employees and their beneficiaries.

Membership is voluntary and open for all retirees and other beneficiaries. Both organizations advocate on behalf of retirees before both the City Council, Trustees and SDCERS.

SDCERS Moving in Right Direction
Large unfunded liabilities are being publicized as proof that many public, defined benefit pension systems are unsustainable and retirement benefit levels must be lowered or replaced by defined contribution (401k)-type systems. So, how is SDCERS doing financially?

In very basic terms, assets must grow as fast or faster than liabilities to ensure the health of the system. Over the past 10 years, SDCERS’ assets have grown at an annualized rate of 8.4 percent, a faster rate than liabilities at 7.9 percent.

More detailed information about SDCERS’ financial health and investment strategies, make sure to read the cover article of this newsletter.
Carolyn L. Allen  Gene C. Loucks  Steven G. Hobbs
Charles E. Arnold  John M. Macintyre  Yolanda A. Housley
Raymond K. Balai  Joel R. McMurrin  Charles M. Hudgins
James F. Barwick  Camille A. Medina  Harry W. Jones
Nicolas Borrelli  Stanley M. Medina  Paul N. Keffer
Hector S. Carlos  Patricia A. Meislik  William M. Lansdowne
Terry L. Chrisman  Micah C. Millet  Patrick A. Lenhart
Nancy J. Clapp  Roy D. Moody  Philip J. Stanley
Sandra G. Cleisz  Luis Y. Moreno  Patricia A. Stone
Jaime D. Conti  Donald Nash  Garth K. Sturdevan
Kevin H. Cook  Allan M. Navarro  Carol H. Tellez
Rolito O. Cunanan  Garry L. Norris  Alice V. Thomas
Shirley J. Cunningham  Julius Ocen-Od og e  Kenneth J. Umbarger
Dennis R. Davis  Ralph A. Oliver  Dwayne L. Wells
James F. Dickinson  Enrique Paniagua  Denys R. Williams
James D. Donovan  William E. Pepper  Kris M. Witczak
Jeffrey Dunn  Kerry D. Perkins  Bennie R. Womack
Vernon Evans  George E. Qsar
Cristina G. Golowaty  Bertha A. Ramirez
Manuel E. Guaderrama  Farid Sadeghipour
Maureen A. Hall  Shawn Sayasith
Walter D. Harrington  Jacqueline H Shirley
Paul A. Harris  Sharon M Smyth
Kathleen S. Hasenauer  Cesar A. Solis
Harry L. Herman  Kandy G. Spier
IN memoriam

Jesus Aguilar
Willie L. Anderson
Mary C. Bachman
Diann Bianconi
Pepito B. Burlaza
Thomas Z Dechandt
John P. Gener
Jeanne D. Hammon
Thomas A. Lamb
Alfredo M. Montemayor
Thomas R. Packer
Nettie Pargo
David M. Rodgers
Jack S. Ross
Delorese J. Shafer
James R. Smidt
Elizabeth A. Stevens
Gerald A. Sturm
Harold D. Sutton
Abbe Wolfsheimer

BOARD OF administration

Alan J. Arrollado
Vice President
Elected Fire Safety Member

Natasha L. Collura
Ex-Officio Mayoral Appointee

William W. Haynor
Mayoral Designee

Valentine S. Hoy
Mayoral Appointee

Thanasi K. Preovolos
Mayoral Appointee

Edward W. Kitrosser
President
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

Vacant
Mayoral Appointee
Audit Committee
David Kramer, Chair
Marilyn Brown
Ed Kitrosser
James (Jim) Smith
Denise Thompson

Business and Governance Committee
Valentine Hoy, Chair
Alan Arrollado
Natasha Collura
Ed Kitrosser
Thomas Sullivan
Richard Wilken

Disability Committee
Alan Arrollado, Chair
Natasha Collura
Ed Kitrosser
Thanasi Preovolos
Richard Wilken

Investment Committee
Richard Tartre, Chair
William Haynor
Ed Kitrosser
Jimmy Steel
Denise Thompson
Jeffrey Wallace

SDCERS Scoop is published four times a year by the San Diego City Employees' Retirement System. We welcome your feedback! Submit your comments to SDCERS at 401 West A Street, Suite 400, San Diego CA 92101, or via e-mail by visiting the Contact Us page at www.sdcers.org.