



SDCERScoop

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM SPRING 2016

Member Portal Security

In June 2014, SDCERS redefined retirement management by launching an enhanced online Member Portal. On the Portal, members can access their retirement benefits, similar to accessing their bank account or credit card accounts online.

Nearly two years later, over half of SDCERS' membership is registered on the Portal. As we all know in this modern era, easy access also comes with responsibility.

The Member Portal was designed to protect your security while providing access to your account 24/7. As part of this security, you are required to answer a set of questions during the registration and log-in process in order to

confirm your identity before the account is accessed. These steps are critical to the protection of your confidential information.

SDCERS' internet security measures have earned the highest rating possible from the Department of Homeland Security. SDCERS uses Entrust, a security solution deployed in more than 5,000 organizations in 85 countries, including INTERPOL, U.S. Department of State, NASA, U.K. Ministry of Defense and American Airlines. In order to maintain a high level of security, we have to adapt to the ever-changing online environment. SDCERS recently added additional security questions to the registration process for new Member Portal users.

You are encouraged to create and utilize your personal Member Portal account. If you have not yet registered, go to www.sdcers.org and click on the Member Portal Login button in the upper right corner, and follow the step-by-step instructions. If you have any questions while registering, call SDCERS at (619) 525-3600 or 1 (800) 774-4977 and our helpful representatives will assist you.



For Your Protection

SDCERS protects your confidential information in all mediums. When you call the SDCERS Call Center, you will be required to answer a series of questions before any account information will be released, and information can only be released personally to you, the member. If you wish to designate another person to receive your information, you must file a formal Power of Attorney declaration and have it approved by SDCERS Legal Division.

It is very important that SDCERS has your current address and contact information on file. Be sure to immediately read all mail sent to you by SDCERS. If SDCERS contacts you via telephone, we will properly identify ourselves. However, you are welcome to ask for our name and then call SDCERS at (619) 525-3600 or 1 (800) 774-4977 to confirm the contact before proceeding with the conversation. SDCERS takes the security of your information very seriously.

INSIDEScoop

- CEO Update Page 2
- Investments Page 3
- The News Page 4
- Board Updates Page 5
- Retiree News Page 6



Pension Funding Improves for All Three Plan Sponsors

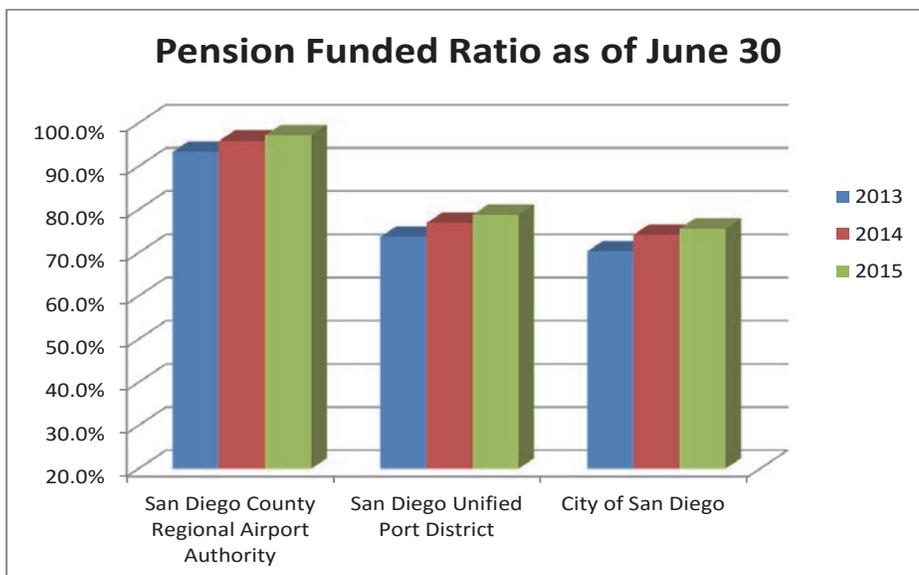
You can find many articles in the news about the level of pension plan indebtedness among defined benefit plans all across the United States. Indeed, the defined benefit plans for the San Diego County Regional Airport Authority, the San Diego Unified Port District, and the City of San Diego all have funding deficits. The most common statistic for assessing a plan's funding is measuring its funded ratio, or the relative percentage of actuarial assets to actuarial liabilities. According to the recently completed June 30, 2015 actuarial valuations, the Airport's plan is 97.2% funded, the Port's plan is 78.8% funded, and the City's plan is 75.6% funded. An 80% funded ratio often has been cited mistakenly as a healthy level, but no single level of funding should be the defining line of what makes a plan "healthy." As important as the point-in-time funded ratio is the trend of that funded ratio. And the

upward trend of the funded ratio at all three plans is noteworthy!

The Airport's funding ratio has been improving over the past several years; their 97.2% funding is outstanding and reflects solid support from their leadership to maintaining a well-funded plan. As for the Port, their funded ratio has risen in three of the past four years and is trending favorably; they, too, have a strong commitment to paying their full pension payment each and every year. The City's funded ratio has risen in each of the past six years. This reflects a serious commitment by the City of San Diego to fully pay their pension bills each year, something the City has now done 11 years in a row! This commitment to funding is essential for a healthy plan, and not all plan sponsors across the country are paying their full pension bills. The Airport, Port, and City are all striving to reach a 100% funded ratio over time.

Noted earlier was that the funded ratio uses "actuarial assets," as determined by a smoothing method to dampen the volatility in asset values that occurs because of the fluctuations in market conditions. Use of a smoothing method is consistent with the long-term nature of the actuarial valuation process and ensures more predictability in plan sponsor and member contributions. However, financial reporting standards have been modified recently to show not only the traditional funded ratio but also the unsmoothed market value of assets funded ratio. The Airport, Port, and City market value of assets funded ratio is also trending favorably and now sits at 99.1%, 81.6%, and 77.8%, respectively.

The SDCERS Board of Administration is also doing their part to ensure adequate funding of the plans by lowering the actuarial investment return assumption five times over the past eight years, from 8.0% several years ago to 7.0% for the 2016 valuation. Lowering this rate then requires additional contributions from plan sponsors and members (City only) to supplement expected investment earnings and to ensure sound funding of the plan. Prudent actions taken by the SDCERS Board and strong funding discipline by our three plan sponsors put SDCERS on solid footing!



INVESTMENTcorner

by Liza Crisafi, Chief Investment Officer



For the second fiscal quarter ended December 31, 2015, SDCERS' Total Fund returned +2.6%, performing in line with its benchmark. Total Fund assets ended the quarter at \$6.8 billion. Returns for U.S. stocks were positive on expectations of continued economic growth, and non-U.S. stocks were also generally positive as it appears Europe may be in the early stages of a recovery. Emerging markets continued to suffer from China's economic slowdown and the worldwide weakness in commodity prices. The U.S. Federal Reserve Bank finally raised short-term interest rates by 0.25% after seven years of a 0% interest rate policy. Alternative sectors such as real estate and private equity continue to provide good diversification and strong returns in the low teens. The Fund is down -1.8% for the first half of the fiscal year as a result of negative returns and a challenging market environment in the first quarter.

Staff and our outside investment consultant Aon Hewitt recently completed a preliminary review of the real estate Individually Managed Account (IMA). The IMA is a portfolio of twenty individual real estate properties such as apartment buildings, retail, industrial, and office buildings owned by SDCERS. The IMA currently accounts for over half of SDCERS' real estate allocation, or 5.2% of Total Fund assets. While the portfolio has historically performed well, SDCERS is revising its approach going forward. We will be reducing the

size of the IMA allocation from over 50% of the real estate portfolio to a target of 35%. As properties are sold, proceeds will be redeployed into complementary large, core equity funds to increase the real estate portfolio's diversification and to lower volatility or exposure to fluctuations in market value. Additionally, an outstanding IMA commitment of \$47.5 million will be redirected to core equity funds. In July, Aon Hewitt will present further analysis of the IMA that will look at each property holding in depth and will make follow-on recommendations.

In January, SDCERS hired Copper Rock Capital Partners to diversify SDCERS' investments in international small cap equities. Previously, SDCERS had one manager in the international small cap equity space, but staff and Aon Hewitt believed we should now split the allocation between two

managers. The reasoning is that the existing manager, GMO, favors stocks with a value bias which leads to additional volatility/risk in the Fund. By complementing the existing manager with Copper Rock, who favors growth stocks, this volatility risk will be managed more effectively.



New Board Member

Carina Coleman has been appointed to fill the vacant SDCERS Board of Administration seat. Ms. Coleman has been an independent, non-trustee member of the SDCERS Investment Committee since February 2015 and has been a great addition. Now a trustee, she is filling the seat vacated by Richard Tartre, and her term runs through March 31, 2019. Ms. Coleman is an accomplished investment management professional with Sempra Energy and has experience managing both tax exempt and tax sensitive assets, including qualified and non-qualified retirement plan assets. She has expertise in constructing portfolios to meet return and risk objectives, conducting investment manager due diligence, negotiating investment management agreements, and analyzing risk and performance. Ms. Coleman was previously a corporate treasury manager with The Walt Disney Company.

Retiree Health Open Enrollment June 6 – June 30, 2016

SDCERS' Annual Retiree Health Open Enrollment period for City of San Diego retirees is from Monday, June 6 to Thursday, June 30. Eligible

retirees will be sent the 2016-2017 Retiree Health Benefits booklet in the mail prior to the Open Enrollment period.

CareCounsel

Looking for a stress-free solution to your healthcare inquiries, or concerns? Look no further, we are pleased to offer CareCounsel, your health care advocates. CareCounsel has been advocating for employees and retirees since 1997. They take pride in the services they offer to us as a client and to each of you. Their goal is to help you understand and navigate health care questions and concerns that you and your family face each day. As one of our valued members, this service is free of charge for you to use.

CareCounsel's Member Care Specialists will:

- Listen attentively
- Ask pointed questions enabling them to investigate and troubleshoot your concern
- Intervene on your behalf
- Explain Medicare eligibility and how Medicare plans work with plans offered through SDCERS
- Educate, as well as troubleshoot to correct claims and billing issues

- Coordinate multiple party interactions such as physician offices; facilities; carriers, as well as credit collection agencies
- Address quality of care concerns
- Help you to understand and utilize your plans in a way that are most cost effective for you and your family
- Guide you to additional resources

Member Care Specialists do not provide medical advice or treatment. As a subsidiary of Stanford Health Care, they are committed to providing exceptional service.

Call: (888)227-3334, or email: staff@carecounsel.com Monday through Friday 6:30 a.m. to 5:00 p.m. PST

After hours you can leave a message and they will get back to you on the next business day.

Get more information on the Latest News page at www.sdcers.org

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 will be available in your Open Enrollment Booklet.



When: Tuesday, June 14
Time: 10 a.m. to noon
Where: Balboa Park Club Ballroom
2144 Pan American Road





BOARD OF administration

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Elected Retiree

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Thomas A. Sullivan
Elected Police Safety Member

BOARD MEETINGS: Board meetings are open to the public and generally held on the second Friday of odd numbered months at 8:30 a.m., 401 West A Street, San Diego, CA, 92101. Call (619) 525-3600 for more information or visit www.sdcers.org to view meeting schedules, videos, agendas and minutes. This facility is wheelchair accessible.

Retiree Associations

EVENTS Calendar & CONTACT Information

City of San Diego Retired Employees' Association

Website: www.csdrea.org • **Phone:** (858) 272-0494 • **Email:** president@csdrea.com

Monthly General Meetings are held at the War Memorial Building in Balboa Park. All retirees are welcome, REA members and non-members alike. Check the REA website for more information.

- May 10 at 11 a.m.: General Meeting
- July 12 at 11 a.m.: General Meeting
- August 9 at 11 a.m.: General 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.

- May 5 at 9 a.m.: Monthly Board Meeting
- June 2 at 9 a.m.: Monthly Board Meeting
- July 7 at 9 a.m.: Monthly Board Meeting
- August 4 at 9 a.m.: Monthly Board Meeting

AFSCME San Diego Retiree Group

Phone: (619) 462-1316 • **Email:** signlady@yahoo.com

Meetings are held on the fourth Thursday of even months at 10:30 a.m. at the Malcolm X Library, 5148 Market Street, San Diego. Retiree group is open to all City retirees, regardless of prior employment classification.

- June 23 at 10:30 a.m.: General Meeting
- August 25 at 10:30 a.m.: General Meeting

Consequences of Pension “Reform” to City of San Diego Pension Plan

Note: The following observations are mine and do not necessarily represent the opinions of the SDCERS staff or the Board of Trustees.

Background: In 2012 voters approved Proposition B that closed the City of San Diego’s defined benefit pension system to all new employees except uniformed police officers. (Unified Port District and Airport Authority plans remain open to new employees.)

The City’s employee unions subsequently filed suit with the California Public Employment Relations Board (“PERB”) claiming the initiative violated several collective bargaining laws. After a thorough investigation, PERB ruled in December 2015 that the City violated state labor laws because it refused to “Meet and Confer” with the unions prior to placing the measure on the 2012 voter ballot. PERB directed the City to nullify the impact of this pension reform.

As expected, in January 2016 the City filed an appeal of the PERB decision with the 4th District Court of Appeals. It is possible that whatever decision is made by the 4th District regarding this matter will be further appealed to the California Supreme Court. It could potentially be a couple of years before this matter is resolved. Proposition B remains in force, and SDCERS has no option but to continue to follow it.

Impacts to a Closed System: Pension plan actuarial experts advise that closing defined benefit systems to

new members can, over time, pose additional investment challenges for the system. As part of its fiduciary responsibilities, the SDCERS Board is thus developing plans to meet these challenges and maintain the long-term health of a system that is now mostly closed to new members.

The main topic of discussion at an offsite SDCERS Board Retreat in February 2016 was “Implications of a Partially Closed City of San Diego Plan.” We learned that a largely closed defined benefit plan will, over time, result in increasing negative cash flows as the ratio of active members to retirees continues to decline.

At some point, the City’s pension fund will get gradually smaller or “decumulate” (decrease) its assets. This will increase liquidity needs and investment volatility will increasingly have a greater impact on contribution volatility. (“Contribution volatility” refers to the payments needed from the City and from the still-active members of the system to pay for their pension costs. Higher “volatility” means greater swings in required contribution amounts from year to year.)

To maintain a stable system, SDCERS’ actuarial experts advise that the closed portion of the City’s defined benefit system should gradually move toward “de-risking.” That means lowering the Discount Rate (assumed rate of return) and at some future point, gradually lower investment risks by reducing the proportion of investments in equities and moving to more conservative investment



options. Lowering the assumed investment return will, of course, result in increased costs to active members and to the City. There are no plans to move to a more conservative investment allocation any time soon.

SDCERS Expands Educational Outreach to Members

Whether retirement feels far away, or you are eagerly anticipating this major life event, it's important to gather information and plan along the way. SDCERS offers pre-retirement seminars to help educate members about retirement while working, so you will be prepared for the retirement process when eligible.

SDCERS provides retirement information to members in multiple formats, in segmented doses that members can absorb at their own pace. Our goal is to engage members throughout their career.

Monthly pre-retirement seminars provide an overview of how members pay into their retirement account and the choices available to receive their future pension, as well as the basic steps to prepare for retirement.

The seminars, which are held both at SDCERS and at workplace locations, last approximately one hour and are held near the lunch hour for member convenience. A question-and-answer period takes place at the end of the seminar. Members are

welcome to attend as many seminars as they like throughout their career.

Individual counseling appointments are reserved for members within a year of eligibility to retire or enter DROP, as well as those who have requested a purchase of service contract, are terminating or have an account issue to resolve. SDCERS conducts an average of 40 individual counseling appointments per week, which is more than 2,000 per year. Due to the volume,

individual counseling appointments are booked out six to eight weeks. To schedule an appointment, contact SDCERS at (619) 525-3600.

Please be sure to visit SDCERS' web site, www.sdcers.org for the latest news on future events, seminars and outreach.



Basic Steps To Prepare For Retirement

Using The Member Portal To

- Track Personal Account Information
- Generate Benefit Estimates Under Various Scenarios

Viewing The SDCERS Website To

- Read Summaries Of The Various Member Tiers
- Watch Informational Videos
- Learn How To Apply For Reciprocity
- View Health Coverage Options For Eligible City Members
- Apply For A Disability Retirement If Applicable
- Purchase Available Service Credit If Eligible

Reading All Correspondence Sent By SDCERS

- Annual Member Statements
- Retirement Eligibility Notice
- Invitation To Attend SDCERS Annual Meeting

Understanding That The SDCERS Pension Benefit Is Only One Piece Of Retirement Planning

- Learn The Difference Between Your Pension And Other Retirement Accounts
- Knowing When To Apply To Retire And The Required Application And Documents

SDCERS

San Diego City Employees' Retirement System

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Contact Us page at www.sdcers.org.

Remember to always open your mail from SDCERS