Priorities and Action Plan
Fiscal Year 2018
Final Results

Each year, SDCERS develops a high priority Action Plan to support SDCERS’ Mission, Vision, and Priorities as shown below. An Action Plan is typically above and beyond the regular daily business conducted by staff, and may take more than one year to complete. The number of Priorities and supporting Action Plan items in any given year is based on the needs of the organization, the Board of Administration, and the participants in SDCERS.

SDCERS Mission

To deliver accurate and timely benefits to its participants and ensure the Trust Fund’s safety, integrity, and growth.

SDCERS Vision

To be an independent, leading edge, financially sound, well-governed, and transparent pension plan.

Priorities and Action Plan for Fiscal Year 2018: Final Results

1. **Continued Pursuit of Excellence in Serving Our Members**

   Supporting Action Plans:

   a. **Expand Seminar Education Offerings**

      SDCERS’ comprehensive communications plan is designed to help members prepare for retirement by providing useful information during their working career, so that when they are ready to retire, they have a good understanding of their benefits. A key piece of this effort is providing pre-retirement educational seminars; this year we greatly expanded our offerings. In the past, seminars covered the basics of the retirement plans and member questions would depend on who was in the audience. This year, we debuted subject-specific seminars and invited members in that category. The new seminar offerings are DROP Entry, DROP Retirement, Airport PEPRA benefits, Port Hybrid benefits, and Safety member benefits. All presentations, including the existing classic member retirement seminars, were updated in the new Prezi format, and include easy-to-
understand benefit examples. Seminars were at SDCERS, individual plan sponsor locations, and two were held in partnership with the Police Officers Association and Retired Fire and Police Association. In this fiscal year, Member Services presented 21 seminars, providing retirement information to more than 700 employees of the City of San Diego (City), Port of San Diego (Port) and the San Diego County Regional Airport Authority (Airport).

b. **Redesign Website to Improve Member Access to Online Services and Information**

The www.sdcers.org website is reviewed on a regular basis to ensure it is user-friendly, up-to-date, compliant with the Americans with Disabilities Act, and growing with the membership’s needs. Our efforts to assess the website’s usability and functionality identified three goals: 1) make the homepage more inviting, current, and less stagnant, 2) highlight the newly created member benefit fact sheets, and 3) add more graphics and images.

The various ideas brainstormed between staff, the website administrator, and the website developers were transformed into draft homepage templates. Once those templates were created, focus groups were held with staff to solicit feedback. The new homepage design is now complete and will include: scrolling background images to keep the look fresh, condensed and simplified menu options, click-through featured news stories, drop-down member benefit information, easily accessible Board information, new calendar layout, additional colors and icons, and an overall updated modern look. As part of the fiscal year 2019 Priorities and Action Plan, we will be implementing the web redesign.

c. **Increase Member Portal Registrations by 25%**

SDCERS’ secure Member Portal provides members with online access to their retirement account and the ability to conduct a number of retirement benefit transactions. Three of the most important features are retiree access to their monthly pension payment summary, a benefit calculator, and a retirement application for those preparing to retire. Major improvements have been added to the Member Portal in the last two years, and this service is a great resource to our members. In July 2017, there were 10,505 members registered on the Member Portal, which is 54% of the membership. We set a very high goal of increasing registrations by 25%. The Portal was promoted at all pre-retirement seminars, personal counseling sessions, and in outreach materials. We sent promotional postcards to all retirees promoting the Portal’s new and improved monthly pension payment summary, and to all non-retired members promoting the benefit calculator. With this effort, an additional 972 members, or 5% of our membership, registered their portal accounts for a total of 59% of members being registered. Evaluating the progress and the importance of this goal, we decided to continue this as a multi-year goal, increasing
registrations by 10% each year for the next three years to achieve 90% of our membership registered on the Member Portal.

d. **Utilize Performance Benchmarks in Reporting Member Benefit Processing**
   The Benefits Administration Division developed performance benchmark metrics and communicated these benchmarks to staff. These metrics will be captured from the workflow process. A cross-departmental team is currently engaged in review of all workflows including updates to capture and generate benchmark metrics reports.

2. **Continued Focus on Data Accuracy and System Integrity**

   Supporting Action Plans:

   a. **Implement Recommendations from Information Technology Risk Assessment**
      Using an RFP search process, SDCERS hired an independent technology consulting firm with expertise in information technology and privacy to perform an Information Technology Risk Assessment. The Risk Assessment identified various recommendations to improve SDCERS’ technology environment and workplace security, including establishing a Privacy Program. The Privacy Program is a significant, leading-edge effort that must be built from the ground up, including the creation of a Privacy Officer position. Working with expert consultants, management has dedicated staff and resources to create the governance framework for the Privacy Program, which focuses on education, awareness, security, and best practices for data and third parties. While the majority of the Risk Assessment technology recommendations have been implemented, the remaining technology, privacy and workplace security recommendations will be implemented as part of the fiscal year 2019 Priorities and Action Plan.

   b. **Identify and Implement Process Improvements for Retiree Health and Internal Workflow**
      Significant improvements were made in the areas of retiree healthcare enrollment, reimbursement of healthcare premiums, maintenance of healthcare allowances, and reporting on healthcare information. Specifically, there was significant automation in the maintenance and tracking of City retiree healthcare allowances and uploading deduction files. The revised retiree health insurance enrollment process improves staff’s ability to update member records accurately and timely. The improved deductions and reimbursements reporting allow staff to clearly see the “whole picture” for retirees. All of these changes have resulted in faster processing times, increased data accuracy, and improved reporting.
c. **Transition Employer Reporting Submission to Plan Sponsors**

Accurate and timely employer payroll updates into SDCERS’ data base is critical to meet our mission to provide accurate and timely service. Historically, SDCERS staff managed the payroll transmittal process whereby the employer payroll file was uploaded into the Employer Portal for validation prior to being accepted into SDCERS data base. The SDCERS’ pension administration system, IRIS, was designed for the employer to upload and validate their own bi-weekly payroll transmittal records. We are pleased to report the payroll validation process has been successfully assumed by the City, the Port and the Airport employers. This change improves data control, accuracy, and insight into how the employers can further leverage their payroll system to make the transmission process more efficient. The transition plan included pre-testing IRIS functionality and approximately two to three hands-on payroll period training sessions with each employer’s staff.

d. **Update Non-Financial Membership Data**

The Benefits Administration Division made considerable progress to ensure member data accuracy via the update of non-financial membership data. The bulk of the data corrections completed during this period were the investigation and resolution of unidentified service credit records. Another significant correction area was updating payee benefit option data that was converted into our previous pension software system from the legacy system mainframe. To ensure data was updated accurately, staff did a thorough review of historical member documentation. Staff successfully updated 14,500 IRIS member data points in fiscal year 2018.

3. **Continued Pursuit of Investment Program Excellence**

Supporting Action Plans:

a. **Review of Fee Adjusted Performance**

The purposed of this review was to assess if SDCERS earned more than the benchmark return after subtracting investment fees. The methodology for the analysis was to calculate an excess return over the benchmark (alpha) to fee ratio for each active investment manager in public markets. The ratio is the unit of excess return per unit of fees paid. Using median fee and return statistics from a universe of comparable public market strategies, SDCERS compared favorably over one-year and five-year time frames. This fee-adjusted perspective is an additional lens to analyze the value of active management in SDCERS’ portfolio.

b. **Review and Update Investment Policy Statement**

The Investment Policy Statement (IPS) is the document that outlines investment goals, objectives and policies. A review of the IPS is conducted annually. This year’s review
delved into additional supporting policies which included: a review of SDCERS’ rebalancing range targets for each asset class, a review of the mix of passive to active strategies, a review of the manager monitoring policy which outlines the hiring and firing of investment managers, and the role of staff and the Consultant in overseeing and monitoring investment managers.

c. **Conduct Custodial Bank Search**
   As a regular course of practice, SDCERS conducts a search for Custodial Banking services every five to seven years. A Custodial Bank performs key operational functions such as recordkeeping, Securities lending and compliance monitoring. The search was led by the General Investment Consultant (Aon). SDCERS’ staff and Aon evaluated three responses to the Request for Proposal, held in-house presentations, and conducted on-site due diligence visits. State Street Bank (the incumbent) was selected as the finalist based on key strengths which included: significant depth of experience in servicing large complex public plans, a dedication to technology, and a fully integrated custody and accounting system. The Board approved State Street Bank as SDCERS’ Custodial Bank at the May 11, 2018 meeting.

d. **Continue to Evaluate New Ideas for the Opportunity Fund**
   The Opportunity Fund was created to provide implementation flexibility and to take advantage of interesting investment strategies created by market dislocations or strategies that did not fit neatly in other asset classes. The goal for evaluating new strategies is to look for diversifying strategies or strategies that can generate risk adjusted higher returns than those expected for the portfolio as a whole. Staff and Consultant (Aon) reviewed a number of strategies that included: water-centric funds, multi-strategy funds, and inflation-protected strategies. After researching and discussing these strategies, none of them were compelling enough to bring forward to the Investment Committee. Staff and Aon continue to evaluate ideas for the Opportunity Fund and will be exploring Managed Futures and Alternative Risk Premia strategies in the fiscal year 2019 Priorities and Action Plan.

4. **Continued Leadership in Pension System Governance**
   Supporting Action Plans:

   a. **Implement Best practices for Office Security**
      SDCERS is committed to providing its employees a safe, secure, and efficient workplace. The Information Technology Risk Assessment identified procedural and physical work area improvements to better secure member information and the overall workspace. The process improvements have been implemented and the workspace designs are being
evaluated. This action plan will be carried over for completion in the fiscal year 2019
Priorities and Action Plan.

b. Develop Key Performance Indicator Analysis for Board Financial Reporting
New graphical elements are included in the Annual Budget and Quarterly Budget reports
to provide clarity, improve transparency, and present a historical trend perspective.

c. Provide Plan Sponsors Compliance Education
Staff set out to improve its compliance outreach efforts with the plan sponsors. This year,
staff addressed complicated issues concerning reciprocity, working after retirement,
felony forfeiture, disability, and death benefits. Engaging the plan sponsors on these
issues has improved understanding and operation of the plans.

d. Conduct Employee Opinion Survey
The ETC Institute administered a Citywide Employee Satisfaction Survey (ESS) during
this fiscal year. The ESS measured engagement and satisfaction in the workplace and
gathered input on six major areas. Overall SDCERS’ responses were excellent and
scored higher than the average rating for all City employees in every category.
SDCERS’ highest rating was in Teamwork and Job Satisfaction.

e. Optimize and Realign Organizational Staffing
This year’s focus was reclassifying Legal Division positions as well as specified
managerial positions. SDCERS was successful in the reclassifications and
implementation of these new titles and changes in duties and responsibilities. SDCERS
has also embarked in ensuring the Health Section positions are appropriately classified.
Fiscal Year 2018
Other Notable and Significant Accomplishments
by Division

Due to the committed and dedicated work of SDCERS staff, there were other notable and significant accomplishments during Fiscal Year 2018 that are in addition to the Action Plan.

**BENEFITS ADMINISTRATION**
Staff continues to focus on actuarial valuation education for the Board and plan sponsors. Cheiron facilitated “Actuary 101” training designed specifically for newer Board members. The training was so successful the City of San Diego asked that the same presentation be made to the City Council. A review of systems with funding ratios better than 90% resulted in a presentation to the Board and City Council identifying differences in assumptions and methodologies and a conclusion there was not any significant changes to be made based on this review. The Airport Authority Board received a presentation on their actuarial valuation results.

The KPMG compliance audit affirmed that staff does an excellent job of ensuring compliance with applicable Internal Revenue Service rules regarding monitoring of member contributions, payment of benefits, and distribution of inactive accounts.

The Health Division successfully completed a very challenging open enrollment when the City replaced HealthNet with Cigna and SCAN Health Plan, impacting almost 2,000 retirees—the first change of providers in 10 years. The health open enrollment kick-off meeting had over 500 attendees, more than double the previous year. All members who were using HealthNet were enrolled in a comparative program and there were no lapses in coverage.

**INVESTMENTS**
SDCERS continued to de-risk the Real Estate portfolio. During the fiscal year, SDCERS sold six individually held properties and redeployed the proceeds into large, well-diversified core open-end real estate funds. An additional three properties were swapped for shares of the AEW Core Property Trust Fund; Commitments of $120 million were made to real estate debt funds. Given the maturity of the real estate cycle, it was appropriate to invest in real estate debt which can offer downside protection during the next down turn in the real estate market.

**FINANCE**
Staff continued to evaluate operational efficiency for budget preparation, pension payroll reconciliation, investment accounting, and accounting system reconciliations. The KPMG
compliance audit affirmed the year-end tax reporting was completed correctly and in accordance with Internal Revenue Service rules and regulations.

The June 30, 2017 Comprehensive Annual Financial Report was awarded the Certificate of Achievement for Excellence in Financial Reporting. This award marks the tenth consecutive year and fourteenth overall that SDCERS has received this honor.

**HUMAN RESOURCES**
The Human Resources Division worked diligently to ensure SDCERS has the right employees in the appropriate classifications and focused on improving the quality of performance. This was done by reclassifying several jobs and recruiting great talent to the SDCERS team. Training continues to be an extremely important investment for staff development and career growth. This year’s training included a partnership with Speech Skills where staff was provided The Credibility Quest training sessions to assist with speech, presentation, and communication skills, as well as internal technical training. Staff believes performance management is critical to our long-term success and ended the year with every performance appraisal being completed timely.

**INFORMATION TECHNOLOGY**
The Boardroom audio video system was upgraded from standard definition to high definition. Boardroom lighting was also upgraded to meet television broadcast standards. The Storage Area Network which houses all of our data was replaced. IT partnered with the Chief Internal Auditor to secure an information system penetration test vendor with the penetration test results being reviewed with the Audit Committee. SDCERS’ email system was migrated from Exchange 2010 to Exchange 2016. Core network switch equipment connecting SDCERS to the City and internet was successfully upgraded. SDCERS and the City successfully migrated to a new voice and data network service provider.

**LEGAL SERVICES**
The Legal Division was instrumental in facilitating KPMG’s tax compliance review and implementing KPMG’s recommendations. The Division analyzed SDCERS’ insurance needs and obtained coverage when prudent, and led an effort to identify Members with missing or incorrect beneficiary forms. The Division has been at the forefront of establishing SDCERS’ privacy program and with resolving the majority of the litigation brought against SDCERS.

**MEMBER SERVICES**
A much-improved design for retirees’ monthly pension statements debuted on the Member Portal. For nearly a decade, retirees have been viewing their monthly statements on the Member Portal, and when the new benefit administration system, IRIS, went live in 2014, SDCERS used a template provided by our software vendor. The pension statement was sufficient but certainly
not ideal. However, redesigning the statements to be easier to read and understand was not as high a priority as many other monthly programming enhancements required for daily operations.

The new pension statement design was a challenge to implement. For example, an extensive list of “payment item” names had been used for years with an internal naming convention and abbreviations that did not clearly describe the payment item to our members. And, a complete review of hundreds of payment items had to be conducted to ensure which items were credits, deductions or potentially both, so the computer coding would correctly populate the monthly pension statements. With the review and testing completed, the greatly improved pension statements are now available on the SDCERS Member Portal and a postcard promoting this tool was sent to all retirees.

We each take responsibility for the summary of SDCERS’ Fiscal Year 2018 Action Plan results. We are proud of these accomplishments, none of which could have been achieved without the sustained efforts of all our SDCERS colleagues.

Respectfully submitted on August, 2018

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