



## **Fiscal Year 2017 Management Action Plan Results**

Each year, SDCERS' management team develops a list of high priority Action Plans to support the Priorities, Mission, and Vision of SDCERS as shown below. These Action Plans are 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 Vision**

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

### **SDCERS Mission**

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

## **SDCERS Fiscal Year 2017 Priorities and Supporting Action Plans**

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

Supporting Action Plans:

#### **a. Utilize Performance Benchmarks and Member Feedback to Improve Service Levels**

Based on member feedback regarding the effectiveness of the SDCERS Call Center, staff expended considerable effort to improve service levels. Skill-set requirements were upgraded, and training and performance measurement were increased. Call wait time was less than 20 seconds for the last nine months of FY 2017. All calls to the SDCERS Call Center are recorded for quality assurance and staff coaching. In addition, member feedback also indicated a need for updated voting options for Board of Administration elections. In order to convert SDCERS' outdated election process to a more efficient online process, the team interviewed and evaluated three election system vendors before making a final selection. Four elections were conducted this fiscal year, all successfully using the robust new system. Election updates and results were presented to the Business and Governance Committee, assuring transparency in the accurate and professional election process. Finally, members also requested additional features on the online Member Portal purchase of service calculator. Staff added new input fields to the calculator, allowing members to see their options based on multiple scenarios.

#### **b. Update Member Benefit Publications**

Utilizing member feedback, staff simplified and clarified plan benefit information. Members wanted a concise fact sheet to know the basics of their plan, including vesting requirements,

benefit formula and any benefit caps. Staff is replacing the old pdf format with HTML pages, enabling the use of links to access supplementary information shared by the plans. The new fact sheets outline all plan benefit information in a simple and easily updatable format. Drafts of the fact sheets are undergoing a final review and will be posted on the website by the end of August.

**c. Streamline Health Reimbursement Process**

Staff completed an extensive review of the reimbursement process for eligible City of San Diego retirees who opt not to use the health care plans offered by the City. The review identified a need to update system processing and associated documentation. Staff held several meetings with the City's Risk Management department staff (who administer the retiree health program) to clarify the process. Staff updated IRIS to reflect the improved process, and the new software module went live in June.

**d. Proactively Educate Members and the Public about SDCERS Vision, Mission and Services, and Key Issues Impacting the Plan**

SDCERS' long-term stability and excellent governance principles were the key messages presented at the annual membership meeting held October 14, 2016, at quarterly meetings with the Retiree Issues Task Force and plan sponsors, and at monthly retiree meetings. All media responses included reinforcement of these two key themes. Mark Hovey was featured on a Police Officers Association podcast, discussing pension misinformation alongside the facts. Regular staff meetings share these important messages with staff so that everyday contacts promote the same theme.

**e. Integrate Online Application Program**

Two years in the making, this program has transformed the retirement process, adding efficiency, accuracy and cost savings. Offered on the Member Portal, smart-form applications for retirement, Deferred Retirement Option Plan (DROP) entry, and DROP retirement become available to members when they are within six months of eligibility. Previously, members filled out an eight-page paper application, handwriting their name, address and other basic information already available in the SDCERS operating system. The online applications are pre-populated with the system information, and direct the member through the steps of adding beneficiary, direct deposit and tax withholding information. Upon submission, the member is contacted to arrange a personal counseling session that focuses on their retirement benefit selection. Every member is provided with a printed summary sheet in the counseling session, which they review and confirm for accuracy before signing and submitting.

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

Supporting Action Plans:

**a. Identify and Implement Additional IRIS Process Improvements**

The Information Technology (IT) Division worked with outside consultant Sagitec to implement our first, post-production framework upgrade. The framework is the technical foundation on which the IRIS software operates. Security enhancements were implemented to comply with Open Web Application Security Project (OWASP) guidelines; OWASP is an

internationally recognized, authoritative source of software security standards. In addition, IT worked with the Benefits Administration Division to improve the health coverage process by automating manual calculations, eliminating repetitive steps and streamlining the overall process.

**b. Identify and Implement New System-to-System Reconciliations**

Through analysis of IRIS transactions and pension payroll details, the Finance Division created new benefit payment reconciliation between IRIS and the Microsoft Dynamics accounting system. The reconciliations are performed each month and will be combined to create a fiscal year reconciliation for purposes of the annual audit.

**c. Verify and Update Member Demographic Information**

Staff completed a multi-year project focused on verifying and updating member demographic information. Much of the review was a direct result of potential issues identified during the implementation of IRIS. This included a review and correction of contribution age rates, reciprocity information, and member contribution history. SDCERS member data is now the most accurate it has ever been, and safeguards implemented within IRIS will continue to keep our data correct.

**d. Update Policies and Process Narratives Incorporating IRIS Implementation**

Staff completed the process narrative documentation project for those divisions with operational responsibility for IRIS and Microsoft Dynamics. The project involved the Benefits Administration, Member Services, Disability, Legal and Finance divisions and resulted in the creation of 146 unique process narrative documents. These documents provide a detailed framework to ensure the accuracy, completeness and consistency of process documentation and to assist with staff training.

**e. Complete Document Back File Conversion**

A few years ago, SDCERS had storage areas filled to capacity with more than 600 boxes of old paper files. Each box contained approximately 1,000 pages of documents that needed to be reviewed to determine if they should be scanned to the electronic records system or shredded. Since then, more than 400,000 pages have been scanned to the electronic filing system and the originals shredded. Nearly 200 boxes were deemed unneeded and recycled, and the two conference rooms and storage areas were cleared.

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

Supporting Action Plans:

**a. Perform an Independent Investment Division Policy and Procedure Review**

Outside Investment Legal Counsel, K&L Gates (Firm), was tasked to conduct an independent review of SDCERS' Investment Division policies. This marks the first time a third party has reviewed Investment Division policies. The Firm focused on the Investment Policy Statement, the overarching policy document governing the investment function at SDCERS. The Firm also reviewed additional materials related to the investment function and made recommendations based upon fiduciary principles and best governance practices. These recommendations were incorporated into the Investment Policy Statement and

approved by the SDCERS Board in September 2016. Additionally, the Firm drafted a new Insider and Personal Trading Policy and updated SDCERS' Conflict of Interest Policy, both of which were approved by the Board in May 2017.

**b. Conduct an Independent Review of Custodial Bank Services and Fee Structure**

An analysis of SDCERS' custodial bank fee schedule was conducted by an independent third party firm, Amaces, which specializes in providing analytical and benchmarking services to institutional investors. Amaces analyzed various metrics using SDCERS' actual asset allocation, transaction volumes, and number/type of reports against a peer group ranging in asset size from \$5 billion to \$40 billion. Amaces concluded the majority of fees paid by SDCERS are below or well below the peer average.

**c. Conduct a Real Estate Consultant Search**

Staff issued a Request for Proposal for Real Estate Consulting Services in May 2016. Staff evaluated responses from nine firms and narrowed the list to five semi-finalists based on search criteria. In July 2016, the Investment staff and CEO participated in five in-house presentations. Based on those presentations, staff then conducted due diligence visits to three firms. Two firms were invited to present their capabilities to the Investment Committee in September 2016. The Board re-selected Aon Hewitt, the incumbent consultant, based on firm experience, thoroughness of the investment process, clarity of advice, stability of the firm, and the ability to effectively deliver the necessary services.

**d. Complete an Independent Analysis of Returns to Optimize Risk Posture**

Investment staff and general investment consultant Aon Hewitt undertook a review of SDCERS' risk-adjusted returns. The purpose of the review was to determine how SDCERS' returns compared to our peers, to appropriate benchmarks, and how SDCERS could improve the risk-adjusted return going forward. On a historical basis, SDCERS' strategic asset allocation had a higher risk-adjusted return than its peer universe over three, five, and ten year periods. On a forward looking basis, SDCERS appears to be well positioned compared to peers due to greater allocations to real estate, infrastructure, and emerging market debt. The analysis of returns compared to the benchmarks, however, identified several issues which had dampened performance, such as the small cap bias in US and Non-US stocks; these issues were addressed by the Board over the last few years and have helped recent performance. Staff and Aon Hewitt continue to look for opportunities to add return to the portfolio on a risk-adjusted basis; a recent example is the addition of the Allianz Structured Alpha US 500 strategy.

**4. Continued Leadership in Pension System Governance**

Supporting Action Plans:

**a. Create and Implement a Comprehensive Technical Training Plan for Staff**

SDCERS conducted staff-wide training on matters vital to the proper administration of SDCERS' three plans: the City of San Diego, the San Diego Unified Port District, and the San Diego County Regional Airport Authority. The key topics included service, disability, and death benefit calculations; membership in the system; contributions; reciprocity; and

City retiree healthcare. This training is essential to ensure all staff are aware of the crucial aspects of pension administration.

**b. Enhance SDCERS' Leadership Role through Involvement in Conferences and Professional Organizations**

SDCERS continues to be viewed as a leader in pension reform and governance matters, with Management Team members often asked to present at conferences:

- Mark Hovey presented at the California Association of Public Retirement Systems (CALAPRS) Management Academy in July 2016, was on the planning committee and presented at the CALAPRS Principles of Pension Management for New Trustees conference in August 2016, and continues his role as Board President of CALAPRS in 2017
- Liza Crisafi was a panelist at the National Association of Real Estate Investment Managers Executive Officers Leadership Retreat in March 2017, and presented at the National Association of Security Professionals Annual Pension Conference in June 2017
- Marcelle Rossman was a panelist at the CALAPRS Reciprocity Roundtable in April 2017
- Johnny Tran presented at the CALAPRS Attorneys Roundtable in September 2016
- Dave Bond presented at the CALAPRS Information Technology Roundtable in April 2017
- Susan Youngflesh moderated a CALAPRS Attorneys Roundtable in September 2016 and presented at the National Association of Public Pension Attorneys in June 2017

**c. Research, Design, and Implement a Wellness Program**

In FY 2017, SDCERS created and implemented a Wellness Program for all staff. Developed with assistance from University of California San Diego and Strive2Bfit Consultants, the Wellness Program kick-off included a staff survey to assure SDCERS Wellness Committee members that all goals and objectives were being met. Strive2Bfit conducted initial screenings, and shortly thereafter, yoga classes funded by a County of San Diego/UCSD grant began onsite. In addition, a walking club was created that included a weekly challenge to motivate participants, and wellness was promoted at staff meetings and through department communications. SDCERS continues to support work/life balance as well as healthy initiatives to maintain a great working environment.

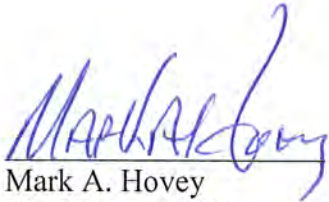
**d. Issue an RFP for Actuarial Services/Audit**

Cheiron has served as SDCERS' actuary since October 2005. As required by SDCERS' Board Policy, a Request for Proposals was issued for two contracts: actuarial consulting services for the next five years and an actuarial audit. Given that Cheiron cannot audit their own work, their bid was only for actuarial consulting services. Another actuarial firm, Segal Consulting, bid on both contracts. Both firms were interviewed by the Board. The Board voted to grant Cheiron a five-year actuarial consulting contract and to grant Segal Consulting a contract to perform an actuarial audit of Cheiron's June 30, 2016 valuation and experience study.


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We each take responsibility for the summary of SDCERS' Fiscal Year 2017 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 July 14, 2017



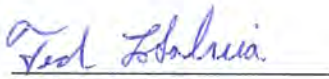
Mark A. Hovey  
*Chief Executive Officer*




David A. Bond  
*Chief Information Officer*



Liza A. Crisafi  
*Chief Investment Officer*



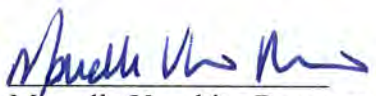
Ted A. LaSalvia  
*Controller*



Lee M. Parravano  
*Internal Auditor*



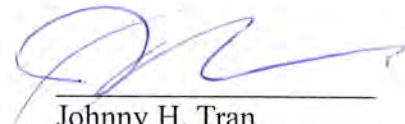
Cynthia A. Queen  
*Member Services Director*



Marcelle Voorhies Rossman  
*Chief Benefits Officer*



Lourdes N. Silva  
*Human Resources Manager*



Johnny H. Tran  
*General Counsel/  
Chief Compliance Officer*