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SDCERA

Supporting The Membership

Summer 2004

NEWS

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

**Details
from the
2003 report
on the
state of the
pension fund**

Financial portrait

To ensure that retirement benefits remain available to all eligible members now and in the future, SDCERA is committed to prudent management of the retirement fund.

One tool used to monitor the fund is a yearly report called an actuarial valuation. This report determines whether the contributions paid by employers and members, coupled with investment earnings, are sufficient to pay the retirement benefits for all current and future SDCERA retired members. This annual accounting allows the Board of Retirement to examine the fund each year and determine if changes are needed to ensure its future stability.

Valuation results

The 2003 valuation, recently completed by The Segal Company, indicates an increase in the unfunded actuarial accrued liability (the extent to which the plan's liabilities exceed its assets) due to several factors.

Key statistics from the 2003 valuation appear in the chart below.

By the numbers

32,629	Total active, inactive and retired members as of June 30, 2003
43.9	Average age of active members
9.7	Average years of service credit for active members
\$49,071	Average annual salary of active members
10,253	Total number of retirees and beneficiaries receiving benefits
\$20,028	Amount of the average annual retirement benefit
27.64%	Recommended employer contribution rate, up from 22.49% of payroll
9.89%	Average recommended member contribution rate, up from 8.94% of payroll

The facts

It's important to look at the valuation results in context to understand the reasons for the increase in unfunded actuarial accrued liability. It's also essential to understand that the valuation does not mean the fund cannot pay the benefits of current or future retired members. This report helps SDCERA prepare for the future and manage the fund accordingly.

Continued on page 4

Top five estate planning mistakes

NUMBER 5 » Not keeping beneficiary forms up to date

Many people fill out these forms and then forget about them. It's important to review your estate planning documents every few years to be certain nothing has changed.

NUMBER 4 » Attempting to write your own will

Preparing estate planning documents is not necessarily a do-it-yourself job. Consulting with an attorney who specializes in estate planning to help you develop your documents is a critical step.

NUMBER 3 » Not discussing your decisions with family members

Be certain everyone in your family knows whom you have named for your power of attorney, guardianship of your children, and as trustee or executor of your estate. Open communication now can eliminate misunderstandings and delays later.

NUMBER 2 » Not being organized


You should keep all important estate documents, a list of assets and account numbers, and your safe deposit box key in one location. Be sure the person who will be managing your estate knows where these items are kept.

NUMBER 1 » Procrastination

The only way to be certain your estate is distributed according to your wishes is to

have a solid estate plan in place. It's never too early to start planning.

How SDCERA can help

SDCERA is now offering a seminar for retired members and their beneficiaries: *Estate Planning: Understanding the Basics*. Visit the web site or contact the Call Center for more information about the seminar and how to register. 

2004 seminar dates still open

July 7, 28	October 6, 27
August 4, 25	November 3, 17
September 1, 15, 29	December 1, 8, 15


CalPERS LTC insurance available

The CalPERS Long-Term Care Program continues to offer a variety of long-term care insurance options to SDCERA members. You may purchase insurance for yourself, your spouse, parents, parents-in-law—and now siblings—through the CalPERS program. The application period this year is May 1 through August 31, 2004. For more information about the program or to request an application, visit www.calpers.ca.gov or call 800-266-1050.

Symposium is a hit with members

The SDCERA *Financial and Investment Educational Symposium* held in May was another great success. Local financial expert and radio host George Chamberlin was the keynote speaker. Chamberlin's presentation, *Investing with Your Eyes Open*, covered investment basics and how various investments fit into life-cycle financial planning.

In addition, professionals from firms such as The Hartford, Morgan Stanley and the CalPERS Long-Term Care Insurance Program were on hand to educate members. Topics included basic points to consider when investing in mutual funds, how to begin estate planning with a will or trust, understanding life insurance policies and the importance of long-term care insurance.

The next symposium will be held October 23, 2004. Visit the web site in September for details on how to enroll in the next of these popular events. Each symposium covers important financial and investment topics, which are relevant whether you're still working or have already retired. 



Board of Retirement Chairman Dan McAllister greets participants. (top)

Keynote speaker George Chamberlin, NBC 7/39's Money Advisor and host of KOGO's Money in the Morning, discusses the basics of investing. (bottom)



How the new Medicare-approved drug discount card program affects you



The new Medicare-approved drug discount cards became effective on June 1, 2004. The following questions and answers will help you understand what the card is and whether it makes sense for you.

What is the Medicare-approved drug discount card?

Medicare-approved drug discount cards provide a discount off the full retail price of certain prescription drugs. The cards are offered by private companies that have been approved by Medicare. As a result, there are many different drug discount cards and not all cards will be available to SDCERA members.

How do the drug discount cards work?

Generally, you will take the card to a participating pharmacy and receive a discount on the cost of your prescription. However, the amount of the discount, the types of drugs that are discounted and the participating pharmacies will vary by card.

Will I be able to get a drug discount card?

SDCERA members enrolled in Health Net Seniority Plus and

Secure Horizons will automatically receive a card from their medical plans. SDCERA members enrolled in Kaiser Senior Advantage are not eligible for a card.

How much does a drug discount card cost and what kind of discounts will I receive?


By law, no drug discount card can cost more than \$30 a year, and some cards may cost less. The discounts will vary between 10% and 25%, depending on the drug you need and the card you choose.

How should I decide if I need a drug card?

Before signing up for a Medicare-approved drug discount card, take some time to compare the prescription drug coverage you receive from your SDCERA medical plan to the discounts available through a Medicare-

approved drug discount card. You may find that the benefits offered by the card are minimal because your SDCERA medical plan provides comprehensive prescription drug coverage. When you fill a prescription at a pharmacy through your SDCERA medical plan, you pay a \$10 to \$20 copay, depending on the type of drug. With a Medicare-approved drug discount card, you pay the full retail cost of the drug less a discount of between 10% and 25% if your card offers a discount on that drug.

Where can I get more information?

More detailed information is available at www.sdcera.org (click on Health Care) and from your medical plan. You may also obtain information from the Centers for Medicare and Medicaid Services (CMS) by calling 800-633-4227 or visiting the CMS web site at www.medicare.gov. 



FRANK RUSSELL JR.

Meet the Board: Frank Russell Jr.

“Long-term strategic planning that covers a period of two to five years is a top priority for our Board,” explains Frank Russell Jr., who has been a member of the Board of Retirement for three years.

During his tenure, Mr. Russell has been a member of the Legal Affairs Committee and was Chairman of the Equity

Committee in 2002 and 2003. But he is most proud of his participation as chair of the CIO (Chief Investment Officer) Search Committee, which resulted in bringing current CIO David Deutsch to SDCERA. “Every time

I hear David speak at one of our Board meetings, I know we made the right decision in bringing him to SDCERA,” says Mr. Russell.

When asked about his approach to handling fiduciary issues, Mr. Russell relates his role as an appointed SDCERA trustee to a general life lesson: “Patience, persistence and diligence certainly have a positive impact on plan performance.”

In the future, Mr. Russell would like the Board to focus on oversight and policies; budget and expense management; and supporting diversity among money managers, staff and vendors.

Financial portrait



Details from the 2003 report on the state of the pension fund

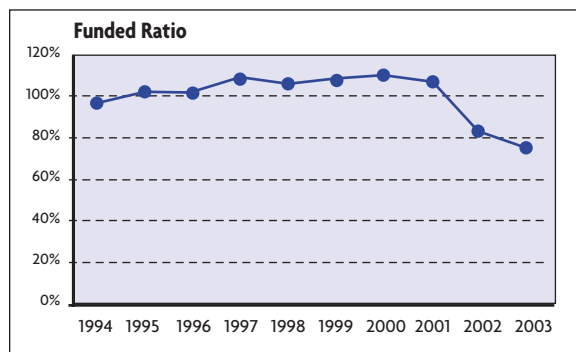
Continued from page 1

The primary factors that have contributed to the increase in the unfunded actuarial accrued liability are:

- The past several years have seen a decline in the equity markets, affecting virtually all investors—including government retirement systems such as ours. For planning purposes, SDCERA projects returns of 8.25% on its investments. Actual returns in the past few years have fallen short of this: 3.68% in 2003 and -4.58% in 2002. The good news, however, is that the fund's performance in 2004 has been positive so far (see chart on page 8).

- The enhanced retirement benefits introduced in 2002 provide a higher level of benefits for retirees, which increased the liability of the fund by \$1.1 billion.

- Assumptions such as life expectancy, early retirement, higher salaries, an increased number of disability cases and employee turnover have changed.



The combination of these factors has resulted in a lower funding ratio. The ratio of the actuarial value of assets to actuarial accrued liability is 75.5% (as of June 30, 2003), compared to 82.5% in 2002. Translated to actual dollars, the total unfunded actuarial accrued liability is \$1.4 billion, up from \$905.1 million in the prior year.

The unfunded ratio does not represent a debt that is due and payable today. Think of SDCERA's unfunded liabilities as equivalent to

paying off a mortgage. The amount of money is typically amortized (or paid back) over 20 or 30 years. SDCERA currently uses a 15-year amortization as determined by the Board of Retirement, but that amortization period is subject to change.

What it means for members

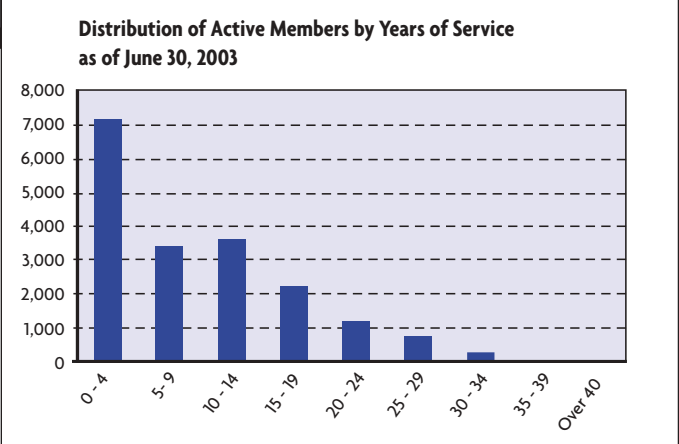
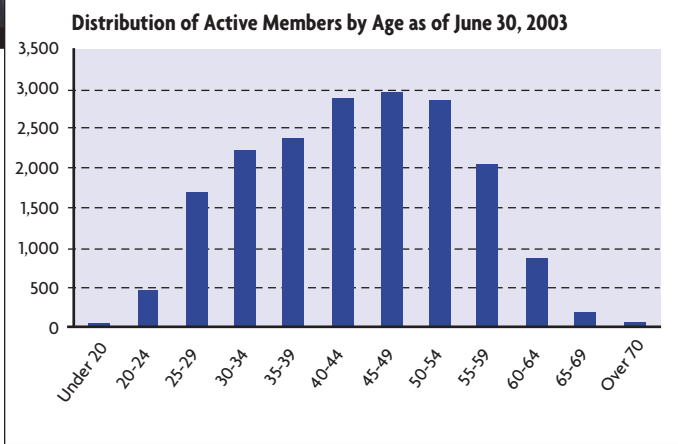
The employer contribution rate will increase significantly, from 22.49% to 27.64%, to pay the amortization on the unfunded liability. The Board of Retirement recently adopted new contribution rates as a result of changes made to several actuarial assumptions recommended to the Board by the plan's actuary. In addition to the increased employer contribution rate, member contribution rates also will increase as follows:

New contribution rates

These charts show each membership category's new contribution rates, which take effect July 1, 2004. You will see the new rate reflected in your July 16, 2004, paycheck.

SAFETY MEMBERS (Employed in Active Law Enforcement Positions) 3% @ 50—MEMBER CONTRIBUTION RATES Effective July 1, 2004

ENTRY AGE	CONTRIBUTION RATE		ENTRY AGE	CONTRIBUTION RATE	
	Current	Effective July 1, 2004		Current	Effective July 1, 2004
18	7.91%	10.46%	34	10.91%	13.16%
19	8.08%	10.46%	35	11.12%	13.41%
20	8.25%	10.46%	36	11.34%	13.65%
21	8.42%	10.46%	37	11.55%	13.91%
22	8.59%	10.64%	38	11.78%	14.17%
23	8.77%	10.84%	39	12.00%	14.44%
24	8.95%	11.02%	40	12.23%	14.73%
25	9.14%	11.22%	41	12.46%	15.03%
26	9.32%	11.43%	42	12.69%	15.37%
27	9.51%	11.63%	43	12.92%	15.72%
28	9.70%	11.84%	44	13.16%	16.11%
29	9.90%	12.06%	45	13.40%	16.35%
30	10.09%	12.27%	46	13.65%	16.51%
31	10.29%	12.48%	47	13.90%	16.54%
32	10.50%	12.71%	48	14.15%	16.43%
33	10.70%	12.94%	49+	14.40%	16.22%



Membership **Average increase***

General Tier A/Tier I **.78%**
Safety **2.34%**

**These are averages; please refer to the charts below to find your new contribution rate.*

Remember that retirement contributions are taken before payroll taxes are computed. Therefore, an increase in contributions means a reduction in taxable income and may result in slightly lower withholding taxes. The County Board of Supervisors is

responsible for determining the level of benefits and fully funding the retirement system. Likewise, the SDCERA Board of Retirement has a fiduciary responsibility to administer benefits, continue prudent management of the fund and ensure that investment strategies are sound. Above all, SDCERA never loses sight of the fact that this is your retirement plan and it must remain viable and stable for you and your beneficiaries as well as future generations of SDCERA members. 🌊

GENERAL MEMBERS (Employed in Non-Law Enforcement Positions)
TIER A—MEMBER CONTRIBUTION RATES Effective July 1, 2004

ENTRY AGE	CONTRIBUTION RATE		ENTRY AGE	CONTRIBUTION RATE	
	Current	Effective July 1, 2004		Current	Effective July 1, 2004
16	6.61%	7.52%	36	9.98%	10.74%
17	6.76%	7.67%	37	10.17%	10.92%
18	6.90%	7.81%	38	10.37%	11.11%
19	7.05%	7.95%	39	10.58%	11.31%
20	7.20%	8.10%	40	10.78%	11.50%
21	7.35%	8.25%	41	10.99%	11.71%
22	7.51%	8.40%	42	11.20%	11.91%
23	7.67%	8.55%	43	11.41%	12.13%
24	7.83%	8.70%	44	11.63%	12.35%
25	8.00%	8.86%	45	11.85%	12.57%
26	8.16%	9.01%	46	12.07%	12.80%
27	8.33%	9.17%	47	12.30%	13.04%
28	8.50%	9.34%	48	12.53%	13.30%
29	8.68%	9.50%	49	12.76%	13.59%
30	8.86%	9.68%	50	12.99%	13.78%
31	9.04%	9.84%	51	13.23%	13.93%
32	9.22%	10.02%	52	13.47%	14.02%
33	9.40%	10.19%	53	13.71%	14.09%
34	9.59%	10.37%	54+	13.96%	14.11%
35	9.78%	10.55%			

GENERAL MEMBERS (Employed in Non-Law Enforcement Positions)
TIER I—MEMBER CONTRIBUTION RATES Effective July 1, 2004

ENTRY AGE	CONTRIBUTION RATE		ENTRY AGE	CONTRIBUTION RATE	
	Current	Effective July 1, 2004		Current	Effective July 1, 2004
16	5.30%	6.18%	38	8.41%	9.17%
17	5.42%	6.29%	39	8.57%	9.33%
18	5.54%	6.41%	40	8.75%	9.50%
19	5.66%	6.53%	41	8.92%	9.66%
20	5.78%	6.65%	42	9.09%	9.83%
21	5.91%	6.78%	43	9.27%	10.00%
22	6.04%	6.90%	44	9.45%	10.18%
23	6.17%	7.03%	45	9.64%	10.35%
24	6.30%	7.16%	46	9.82%	10.54%
25	6.44%	7.29%	47	10.01%	10.72%
26	6.57%	7.42%	48	10.20%	10.91%
27	6.71%	7.55%	49	10.40%	11.11%
28	6.86%	7.70%	50	10.59%	11.31%
29	7.00%	7.83%	51	10.79%	11.52%
30	7.15%	7.97%	52	10.99%	11.74%
31	7.30%	8.11%	53	11.20%	11.97%
32	7.45%	8.26%	54	11.41%	12.24%
33	7.60%	8.40%	55	11.61%	12.41%
34	7.76%	8.56%	56	11.83%	12.54%
35	7.92%	8.70%	57	12.04%	12.63%
36	8.08%	8.86%	58	12.26%	12.68%
37	8.24%	9.02%	59+	12.48%	12.69%



2004 Legislative Highlights

For more information, visit the California legislative information site at www.leginfo.ca.gov.

Go to the Legislation section of SDCERA's web site to read a short description and progress update of these and other retirement bills that may not be listed here.

Bills under consideration


SB 1601 would allow a member to elect to receive retirement benefits in a lump sum payment at retirement if the monthly benefit is \$100 or less. The lump sum payment would be equivalent to the present value of the accrued retirement benefit.

AB 2234 would authorize the Board of Retirement to contract with a third party to temporarily administer the retirement system when the Board is unable to do so following a catastrophic event.

AB 2956 would change the time period during which the Board of Retirement must make recommendations to the Board of Supervisors. Although existing law requires that a triannual valuation of the retirement plan be conducted, SDCERA makes recommendations to the Board of Supervisors on an annual basis. AB 2956 would require that any recommended changes (e.g., interest rates, contribution rates, appropriations, etc.) by the Board of Retirement to the Board of Supervisors must occur at least 60 days prior (instead of 45 days) to the beginning of the next fiscal year.

AB 2982 would affect members seeking disability retirement. The

bill would require the Board of Retirement to request that the member's employer initiate an alternate work analysis under federal accommodation standards and place the member in the alternate work position before the Board's finding of disability.

If a member refuses an offer of alternative work, AB 2982 would extend the period that an employer may discontinue the member's disability benefits from within one year to *within two years* after the member is determined to be eligible for disability retirement. If passed, this bill would take effect immediately as an urgency statute. 

On the Web

If you would like information regarding what happens to your retirement benefits when you leave your job or if your employment is terminated, we can help.

1. Click on Benefits.
2. Click on Deferred Membership on the left-hand side.
3. There are separate links to follow depending on whether you are vested or non-vested.
4. In addition, there is a fact sheet that explains your options if you are terminated due to layoff.

The image shows three overlapping screenshots of the SDCERA website. The top screenshot shows the homepage with a 'Benefits' link highlighted by a red circle and arrow labeled '1'. The middle screenshot shows the 'Benefits' page with a 'Deferred Membership' link highlighted by a red circle and arrow labeled '2'. The bottom screenshot shows the 'Deferred Membership' page with two links: 'I am a vested member' and 'I am a non-vested member', both highlighted by red circles and arrows labeled '3'. A red circle and arrow labeled '4' points to a 'Fact Sheet' link at the bottom right of the page.



Answers to Frequently Asked Questions

What is a COLA bank?

The COLA bank applies to retired members currently receiving monthly benefits. Any changes in the Consumer Price Index (CPI) over the 3% maximum are tracked in the COLA bank and applied to your retirement benefit in a future year when the CPI change is less than the maximum. In a future year when the CPI increase is less than 3% and you have accumulated enough in your COLA bank (from previous years when the CPI exceeded 3%), the percentage necessary to equal 3% is drawn from your COLA bank.

Is a monthly survivor benefit payable to any family member?

Although you may name anyone as your designated beneficiary, the rights of your surviving spouse and/or eligible children will be superior to the rights of any other beneficiary. A monthly survivor benefit generally is available only to a member's surviving spouse or surviving eligible children. For example, if the member dies before retirement, only a surviving spouse or eligible children qualify for a monthly benefit. If a member dies after retirement, a lump sum benefit is available to any designated beneficiary, but a monthly survivor benefit is not available to a designated beneficiary other than a surviving spouse or eligible children unless the retired member elected an option other than the Unmodified Option.

I was recently laid off with four years of retirement service credit and do not know what happens to my member contributions.

Where can I find more information?

Go to the SDCERA web site and click on Benefits, then Deferred Membership. Click on the link for a non-vested member (less than five years of SDCERA/reciprocal service credit) to learn more about your options. You may also read the *Termination Due to Layoff Fact Sheet* for more information.

New Board members

SDCERA is pleased to welcome three new Board members to the Board of Retirement: Dianne Jacob, Laura Stanley DeMarco, and Garry Sobeck. Dianne Jacob was appointed by the County Board of Supervisors to replace Ralph B. "Skip" Coomber III. Laura Stanley DeMarco was appointed to replace Greg Cox. Garry Sobeck was elected by the general membership to replace Marilyn Wiczynski, whose term ends June 30. His three-year term will begin July 1, 2004.



Published for members of the San Diego County Employees Retirement Association

Member comments and suggestions should be directed to Robyn Bullard, Communications Officer.

E-mail: communications@sdcera.org or contact:

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Board of Retirement

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Secretary

Laura Stanley DeMarco

James W. Feeley

Natalya Smith Gonzalez

Dianne Jacob

David A. Myers

Douglas Rose

Frank Russell Jr.

Retirement Board Meetings

First Thursday of each month at the SDCERA office Board Room 14th Floor, 8:30 a.m.

July 1, August 5, and September 2, 2004

Investment Board Meetings

Third Thursday of each month at the SDCERA office Board Room 14th Floor, 8:30 a.m.

July 15, August 19, and September 16, 2004

Electronic Deposit Retirement Payment Dates

June	June 30, 2004
July	July 30, 2004
August	August 31, 2004
September	September 30, 2004

SDCERA makes every effort to meet this schedule; however, please verify with your financial institution that each deposit has been made to your account.

This newsletter provides disclosure of certain terms and conditions of SDCERA membership and benefits available to members. It is designed to give you this information as simply and as accurately as possible as of the date of publication. SDCERA is governed by the County Employees Retirement Law of 1937 (Government Code Section 31450 et. seq.) as it has been adopted and implemented by the San Diego County Board of Supervisors and the SDCERA Board of Retirement. If there is any inconsistency between this newsletter and the governing law, the law will govern. Decisions relating to the plan will be made after reference to the statutes and any resolutions, regulations and policies governing administration of SDCERA as they exist at the same time of the decisions.



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INVESTMENT REPORT – Fund Performance

Although the long bear market caused investors—including the SDCERA fund—losses in 2002 and 2003, the current fiscal year has been very strong so far. While it doesn't negate the poor performance of the past few years, returns in 2004 are showing promising results.

The fund's assets grew by \$45.4 million in March 2004, which was the 13th consecutive month of growth. This growth is primarily from investment income, which has seen steady positive returns since March 2003. During this period, investment income has contributed \$1.6 billion to the fund—\$1 billion

of which occurred in fiscal year 2004. Also contributing to the fund's growth is an increase in total contributions.

SDCERA's actuary expects that there will be swings in the market value of the fund's assets

from year to year. Good periods, as we are currently experiencing, help to offset the bad periods. Over the long run, SDCERA expects the fund to earn an average of 8.25%. 

Returns for 1st Quarter 2004 (net of fees)

SDCERA RETURNS	1st Quarter	1 Year	3 Year	5 Year
Total fund	4.9%	39.3%	8.0%	6.7%
Domestic equities	3.4%	41.8%	3.8%	3.6%
International equities	7.5%	74.1%	10.8%	5.5%
Fixed income	2.9%	14.8%	9.6%	9.9%
INDICES	1st Quarter	1 Year	3 Year	5 Year
S&P 500	1.7%	35.1%	0.6%	-1.2%
EAFE	4.3%	57.5%	3.4%	0.5%
Lehman Aggregate	2.7%	5.4%	7.4%	7.3%

Total assets under management as of March 31, 2004, were \$5,181,200,000.