

- 2 When to call SDCERA, RESDC
- 3 Purchasing service credit
- 4 Requirements following a divorce
- 5 Health Insurance Reimbursement reminders
- 6 Legislative Highlights
- 7 FAQs
- 8 Investment report

SDCERA  
Supporting The Membership

Summer 2005

# NEWS

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION

## Pension reform initiatives delayed but not over

After launching an aggressive campaign that proposed sweeping reform to public pension plans, Governor Schwarzenegger has put the reform measures on hold.

While the Governor recently confirmed that he will move forward with a special

election in November, none of the initiatives on the ballot are related to pension reform.

Earlier this year, the Governor had proposed a plan to put his reform initiative on this November's special election ballot, in an effort to abolish traditional



public pension plans and instead offer future employees a retirement plan similar to a 401(k).

In April, however, Schwarzenegger, along with Assemblyman Keith Richman, announced plans to delay these pension reform initiatives in hopes that perhaps a legislative solution could be found instead. Richman had been behind the introduction of several of the reform proposals.

In the months following his initial announcement of reform plans, the Governor faced harsh opposition from labor unions and employee groups. Police, firefighters and other law enforcement groups publicly protested the initiative. Of major concern was the possibility that

such reform could affect the disability benefits of Safety and General members.

In his April address, Governor Schwarzenegger disputed that interpretation. "I do not want the pension reform debate to be clouded by worries surrounding this issue," said Schwarzenegger. "Many of the state's legislators in both parties have come to me privately and told me they want to find a bipartisan solution to this problem -- the problem of our state's exploding pension costs. I am taking them at their word. I am ready to talk and negotiate with them. But should we not be able to reach an agreement in this building, then they should understand that our pension reform proposal will go to the ballot in June 2006."

## SDCERA Estate Planning Seminar

### You can't take it with you, so plan accordingly.

SDCERA encourages all members to enroll in one of our Estate Planning Seminars to learn how to create a living trust, how to title one's assets and much more. The seminars are taught by a professional financial education firm and cover a comprehensive range of advice and instruction on how to properly develop an effective estate plan.

To enroll in a seminar, print and complete the enrollment form from the Forms and Publications section of our web site, or request the enrollment form be sent to you by contacting our Call Center. Up-to-date information on which seminar dates still have room available can be viewed on our web site, under Communications/Seminars.

# SDCERA or RESDC: who to call for answers

Understanding the difference between SDCERA and the non-profit group for retirees known as RESDC (Retired Employees of San Diego County) can help assure you contact the appropriate group to answer your questions. The following charts direct members where to go for some of the most commonly asked questions. Contact SDCERA's Call Center for questions about SDCERA or contact RESDC for questions relating to their programs using the contact information provided.

Contact SDCERA for information about:
How to change your beneficiary
Working after retirement
Direct deposit
Obtaining a change of address form
Survivor benefits
Dissolution of marriage
Tax withholding form and information
Health allowance, health insurance reimbursement and SDCERA health plans and forms
STAR COLA

**Contact SDCERA:**  
 By phone: 619-515-0130 or 888-473-2372  
 By e-mail: [communications@sdcera.org](mailto:communications@sdcera.org)

Contact RESDC for information about:
RESDC membership
The RESDC Safeguard dental plan
The annual RESDC picnic
See's Candies discounts
<i>Network</i> , the monthly RESDC newsletter
RESDC scholarship program

**Contact RESDC:**  
 By phone, at (619) 688-9229 or (866)-688-9229  
 By e-mail, at [resdc@sdccu.net](mailto:resdc@sdccu.net)  
 Or write to: 7860 Mission Center Court, Suite 209  
 San Diego, CA 92108-1329

## Meet the Board: Laura DeMarco



Trustee Laura DeMarco, who was appointed to the Board of Retirement in May of 2004, brings more than 20 years of investment experience to the

Board following her work with large public pension funds nationwide. Laura says her decision to serve on the Board of Retirement was sparked in part by witnessing the downturn in the funding status of many public and corporate pension funds around the turn of the century.

"Fortunately, the County historically has good fiscal discipline and as a result SDCERA is currently 82% funded," says DeMarco. "The experience of certain troubled pension funds, however, convinced me and many other investment professionals that our unique experience and vigilance was needed on pension boards and other investment committees."

DeMarco believes one of the most important goals the Board can aspire to is enhancing the advanced fiduciary education of both staff and trustees.

"The complexity of our investment program requires effective checks and balances between the staff, investment providers and our consultants for risk management, compliance and due diligence," she says. As trustees, Laura believes the Board is obligated to get up to speed quickly on investment strategies, especially with new trustees routinely coming aboard.

"This training helps us understand the policy issues we face and ask the right questions -- but not necessarily micro-manage our staff, who are accountable for SDCERA's performance."

Laura attributes the Fund's performance to the work of the current, as well as former, Boards and staff.

"SDCERA adopted the successful strategies of many of the top performing endowment and corporate pension funds," says Laura. "Our challenge now is to continue that success in less bullish financial markets with increased competition from other funds using similar strategies."

# Know the facts about purchasing service credit

As one of three factors used to determine your monthly retirement benefit, service credit is a key component to consider when planning for retirement.

One way to increase your service credit—and possibly increase your retirement benefit—is with a service credit purchase. You may be able to purchase eligible service credit prior to retirement.

## Weigh the options

Purchasing service credit is a personal decision and both cost and long-term benefits should be carefully considered. For some members it is financially beneficial and for others it may not be; in some cases purchasing service credit may not increase your SDCERA retirement benefit.

It is important that members:

- Determine how long it would take to recover the cost.
- Consider whether it is the best use of the money spent.
- Understand that a service credit purchase is an investment but not always advantageous.

## Types of Service Credit that can be purchased

### Redeposit of contributions

Some members who terminate from County service choose to take a refund of the contributions they made to the pension fund. Upon reentering service, the member may redeposit—or pay back—the amount of the original refund, plus interest.



### Service prior to membership

“Service prior to membership” refers to a period of time that you worked for the County in a classification that did not qualify you for SDCERA membership or service credit. Examples include temporary, seasonal, hourly and student worker time. Upon becoming an SDCERA member (in a permanent position working at least 20 hours per week) you may purchase that time.

### Sick leave without pay

Members may purchase up to one year of unpaid sick leave due to personal illness or injury.

### Prior public agency

You may purchase service credit from a prior public agency (PPA) if you are not going to receive a retirement benefit from that agency for the time you wish to purchase, and provided the agency will not allow you to purchase the time through their system.

To purchase PPA service credit you must pay two times the full employee contribution amount that would be required if you earned the service as an SDCERA member, plus interest and without an employer-paid offset.

## The first step

If you are considering a service credit purchase and wish to evaluate the cost and benefits, you may download our *Service Credit Fact Sheet* (on our web site in the Forms and Publications section), which includes a request for service credit costs form. Once you receive the cost information, you can decide if a service credit purchase is right for you.

## Board of Retirement election results, plus two new trustees appointed

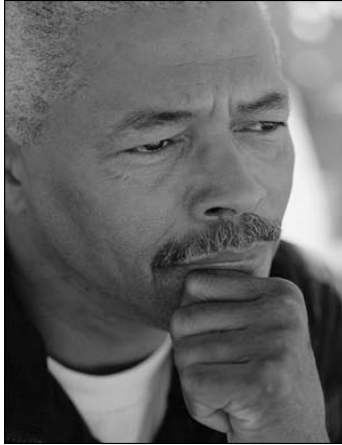
Elections were held in May for three Board of Retirement seats. The General membership reelected Douglas Rose to the Board's second seat for a second term. The retired membership reelected James Feeley to the eighth seat; this will be Feeley's fifth term in office representing retirees and his eighth term overall. Retirees also voted E.F. “Skip” Murphy to the alternate retired member seat, replacing George Shoemaker. Murphy previously served on the Board for 19 years representing the Safety membership. All three newly elected members will serve a three-year term beginning July 1st.

The Board of Supervisors also appointed John Arnold as the fourth member, replacing Natalya Smith Gonzalez, and Marc Doss as the 5th member, replacing Frank Russell.

The Board of Retirement and SDCERA would like to thank outgoing Trustees Natalya Smith Gonzalez, Frank Russell and George Shoemaker for their service and dedication to the Board of Retirement, and wish them well in the future.

# What to submit to SDCERA in the event of divorce

Retirement benefits earned during marriage are considered community property assets and must be considered in the property settlement agreement. These benefits are also subject to disposition by the court.



When an SDCERA member is involved in a dissolution of marriage, it is imperative that the member and/or other parties notify SDCERA of the pending action to avoid any unnecessary delay in the processing of the member's retirement benefit.

## What does SDCERA need from me?

SDCERA must receive a legal document called a Domestic Relations Order (DRO) prior to a member's retirement date in order to split the benefit accurately and process the retirement. A DRO is a separate legal order, a stipulation signed by all parties and executed by a judge identifying how retirement benefits are to be divided.

To avoid delays, a draft DRO should be submitted to SDCERA for pre-approval before obtaining the signatures of the member and nonmember.

## If I provide a marital settlement agreement, isn't that enough?

No. Even though a settlement agreement may include information on how a retirement benefit is to be split between the member and their spouse, SDCERA must receive a DRO to comply with the 1937 Act.

## What happens if I fail to provide a Domestic Relations Order to SDCERA?

The DRO provides SDCERA with a resolution for the division of retirement benefits under the 1937 Act and community property law. Without the DRO, a member's retirement benefit cannot be divided and the member's receipt of his or her portion of the retirement benefit will be delayed.

## When should I notify SDCERA of my divorce?

You should notify SDCERA about your divorce as soon as possible, even if you are not planning to retire for many years. Allowing as much time as possible for any issue that may come up ensures that you will begin receiving your retirement benefit on time. Additionally, SDCERA must be legally "joined" as a party to the proceedings and time must be allowed for that to occur.

## Is a separate action required for a deferred compensation plan?

Yes. Contact the County's Deferred Compensation office at 619-531-5840 or 800-922-7529. This program is administered separately.

## Methods of Dividing Community Property

### Separate account

Under this method the member's retirement service credit and accumulated employee contributions accrued during the marriage are divided into two separate accounts—one in the name of the member and one in the name of the nonmember. Each makes independent decisions on when to apply for and begin collecting the retirement benefit; the member and nonmember also make independent elections for benefit options. The nonmember is eligible to apply for retirement benefits either when he/she meets the age and service credit requirements or when the member meets the age and service credit requirements.

### Shared payment

With this method, the member and nonmember begin receiving monthly benefits when the member retires. The member must select Option 4, which provides the nonmember with a lifetime benefit based on his/her percentage interest in the member's retirement.

### For retired members

The retirement benefit option a member chooses at retirement cannot be changed. If the member's marriage is dissolved after retirement, the member's retirement benefit is reduced to provide retirement income to the nonmember based on the percentage or formula provided in the Domestic Relations Order (DRO). If the retired member dies first, the nonmember is no longer eligible to receive a retirement benefit.

You may obtain our *Dividing Community Property* booklet from our web site's Forms and Publications section, or contact the Call Center to receive a copy by mail.

## Health Insurance Reimbursement program

# Important information for all HIR participants

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With Open Enrollment for 2006 just around the corner, it's important for those members enrolled in the Health Insurance Reimbursement program (HIR) to understand the specific annual requirements for the program.

Members enroll in the HIR program when they first elect health and/or dental coverage outside of an SDCERA plan and use their health allowance to help offset the cost of the premium. However, members must reenroll in the HIR program each year, regardless of whether or not they make changes to their health coverage. Read the important points below to further understand the annual requirements for the HIR program.

### **Annual reenrollment is required for HIR (during Open Enrollment)**

If you are enrolled in the HIR program, you must reenroll every year during SDCERA's Open Enrollment in the month of November, *even if you make no changes to your plan*. The exception is for those members enrolled in COBRA through the County of San Diego; you are not required to reenroll in HIR each year after your initial HIR request (filed concurrent with your County of San Diego COBRA enrollment). This exception also applies to members enrolled in the Safeguard dental plan through RESDC.

If you enroll in the Cal-COBRA extension program you must reapply for HIR to be reimbursed for your new Cal-COBRA plan, as it is a separate plan from COBRA and managed by your medical provider. You must also provide supporting proof of coverage and payment and reapply each year at Open Enrollment.

Retired members will receive their Open Enrollment packets in the month of November; the reenrollment submitted during November becomes effective January 1 of the following year.

Once members receive their packets, HIR participants will need to reenroll by completing the 2006 HIR form. Members must also provide current documentation such as proof of payment, proof of coverage and a rates breakdown (unless you are enrolled in COBRA through the County). Specific documentation requirements are listed on the HIR form.

### **If your premiums change, notify SDCERA at any time of the year**

If your current plan or premium amount changes during the year, you must report the change to SDCERA immediately following your notification of the change, as your reimbursement amount may be adjusted. This adjustment request can be made at any time of the year; do not wait for Open Enrollment to notify SDCERA of a premium change that occurred

earlier in the year. The HIR request form may be obtained from the SDCERA web site, under Forms and Publications, or members may request the form by contacting the Call Center.



### **No retroactive reimbursement**

Members who begin paying their premiums for a health and/or dental plan (other than through SDCERA) and do not enroll in the HIR program immediately will not be reimbursed for the out-of-pocket expense they incurred before enrolling in the program. Remember, SDCERA will only reimburse you in the month (and the months thereafter) that your HIR form and supporting documents are received; you will not receive any retroactive reimbursement for the months prior to the month in which SDCERA first received your HIR form and documentation.



# Legislative Highlights

For more information, visit the California legislative information site at [www.leginfo.ca.gov](http://www.leginfo.ca.gov)

As reported in the front page article, Governor Schwarzenegger announced plans in April to delay the pension reform proposals to abolish traditional public pension plans for future employees in hopes that legislative solutions can be found instead. As a result, a number of major reform bills have been introduced in the legislature. Some of the active reform bills are listed below.

**ABX 4** would establish a Taxpayer Risk Reduction Account for the purpose of smoothing out the employer contribution rates and avoiding high peaks and contribution holidays.

**ABX 5** would increase penalties for fraud in connection with retirement from public systems. Criminal prosecution is punishable by up to one year in a county jail, or a fine, or both; or for a term of two, three or four years in a state prison, or a fine, or both plus restitution.

**ABX 6** addresses the issue of pension ‘spiking’ through new definitions of final compensation.

**SBX 3** increases the authority to require reexaminations after disability retirement begins. Members who are granted a disability retirement after the age of 50 and who have been receiving a retirement benefit for

less than 36 months would be required to submit to a medical re-evaluation upon request.

**SBX 4** would allow increased access to information maintained by the Employment Development Department (EDD) or by workers’ compensation insurers with respect to an investigation of benefit eligibility or unlawful application or for receipt of disability retirement benefits.

**SBX 5** would revise the terms “compensation” and “compensation earnable” for the purposes of the County Employees Retirement Law of 1937 and would be modeled after PERS.

[www.sdcera.org](http://www.sdcera.org)

## On the Web

### Links

SDCERA's web site offers a **Links** section where members can find valuable web site links to a variety of helpful information. Social Security, AARP, the 1937 Act and individual SDCERA retiree health plan providers are just a few of the links you will find in this section.



# Answers to Frequently Asked Questions

## I don't recall who I named as my beneficiary when I first entered SDCERA membership. What should I do?

If you are uncertain as to who you have named as your beneficiary, the best solution is to redesignate your beneficiary by submitting a new form. The Beneficiary Designation form can be obtained from our web site's Forms and Publications section or by requesting the form be sent to you by contacting our Call Center. Remember, SDCERA does not give out beneficiary information over the phone, so the best way to be sure your beneficiary designation is up to date is to simply complete a new form and mail it to SDCERA.

## I am a deferred member planning to return to County service. How does this affect me as an SDCERA member?

If you previously terminated employment, requested a deferred retirement, are rehired in a position which qualifies for SDCERA membership and again become an active member of SDCERA, keep several things in mind. First, remember that you must notify SDCERA in writing of your return to work from deferred status. At that point, your original entry age and entry date will be reactivated. Your SDCERA contributions resume with your rehire date and will be based on your original entry age. Finally, remember to update your beneficiary designation if that information has changed since your original entry date.

## I am a retired member and will soon turn 65 and be eligible for Medicare. How do I enroll?

If you are eligible for Medicare, contact Social Security approximately three months prior to your 65th birthday to enroll in Medicare Part A (Hospital) and Part B (Medical). If you do not enroll within the time frame established by Medicare, it may result in a higher cost for Medicare Part B.

SDCERA will send you a letter prior to your 65th birthday as a reminder of what you need to do. Once you enroll in Medicare and receive your Medicare ID card, you must send SDCERA a copy of the signed card (please do not send the original). If you have 10 or more years of SDCERA service credit, SDCERA will reimburse the cost of your Medicare Part B premium (currently \$78.20 per month); therefore, it is important to forward a copy of the card as soon as possible. If you are not eligible for Medicare, please notify SDCERA in writing; if you are not certain about your eligibility, contact Social Security for a final determination.



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](mailto:communications@sdcera.org) or contact:

### SDCERA

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[www.sdcera.org](http://www.sdcera.org)

### Chief Executive Officer

Brian P. White

### Board of Retirement

Dan McAllister

*Chairman*

John Arnold

Laura Stanley DeMarco

Marc Doss

James W. Feeley

Dianne Jacob

David A. Myers

Douglas Rose

Garry Soback

Warren L. Gibson II

(alternate Board member)

E.F. "Skip" Murphy

(alternate retired Board member)

### Retirement Board Meetings

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

July 7, August 4, September 1

### Investment Board Meetings

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

July 21, August 18, September 15

### Electronic Deposit Retirement Payment Dates

July 29

August 31

September 30

**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**

**Expected rate of return will remain the same**

The Board of Retirement took an in-depth look recently into lowering the expected rate of return of SDCERA's investments from the present 8.25% to 8%. This rate is called the "interest rate assumption" and is used by the plan's actuary to value the overall plan. Given the assumption, the actuary can calculate how much in contributions from the County and the members will be needed to meet the promised payments of the plan over time. Typically, the lowering of assumption rates means higher contributions are necessary.

At the Board meeting on June 2, the Board chose to maintain the current rate for several reasons. The Segal Company, SDCERA's actuary, recommended lowering the rate to 8%, but stated they would be comfortable with any rate between 8.0% and 8.25%.

The Board determined, however, that 8.0% did not fully recognize the estimate of future returns; 8.0% represents only passive investing, or the outcome from investing only in passive index funds such as the S&P 500, and does not reflect additional return from "active" investing.

SDCERA CIO David Deutsch suggested that a piece be added to the actuary's recommended 8.0% to reflect the investment program's consistent extra performance in earning excess return over the past decade. Deutsch recommended that at least 0.25% could be

conservatively added to the recommended 8.0% to represent the fund's excess return. Segal's Paul Angelo stated that because the rate falls within Segal's recommended range, it is acceptable by actuarial standards of practice.

"If any plan ever qualified to add expected excess return to an interest rate assumption, it would be San Diego," said Deutsch. "The investment program has earned excess return over the past 10 years of 1.0% to 2.0%. There is a 90%+ chance that these results are due to skill and not chance."

Given this high confidence, the Board decided to retain the 8.25% assumption as the estimate of future long-term returns for the time being.

**Returns for 1st Quarter 2005 (net of fees)**

<b>SDCERA RETURNS</b>	<b>1st quarter</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>Total fund</b>	<b>-0.9%</b>	<b>9.3%</b>	<b>10.1%</b>	<b>3.6%</b>
Domestic equities	-2.3%	7.3%	5.0%	-0.7%
S&P 500 Domestic Benchmark Indices	-2.2%	6.7%	2.7%	-3.2%
International equities	1.7%	17.2%	14.7%	1.3%
Citigroup PMI - International Benchmark Indices	0.1%	15.5%	12.3%	-0.3%
Fixed Income	-1.2%	6.2%	11.0%	8.0%
Lehman Aggregate - Fixed Income Benchmark Indices	-0.5%	1.2%	6.0%	7.1%

*Total assets under management as of March 2005 were \$6,222,999.*