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Press Release

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SDCERA Board of Retirement adopts 8% annual assumed rate of return

SAN DIEGO — A new 8% annual assumed rate of return for the County's pension program was adopted today by the San Diego County Employees Retirement Association (SDCERA) Board of Retirement. The Board's vote is a proactive step to benefit its members by adopting an overall financial plan that will strengthen the pension portfolio.

The new 8% annual rate of return acknowledges changes in the financial markets that reduce the likelihood of returns at the 8.25% rate, the assumed rate SDCERA used for the past 13 years. The Board's decision today balances the fluctuations in the current economic market and the fund's historical ability to generate strong returns—averaging 10.4% over a 25 year period. The adjustment will mean that the County and active County employees will increase their contributions to the pension fund.

"In the current economic environment, it is important the Board of Retirement implement sound financial decisions that will ensure the future retirement benefits for our members," said Brian White, Chief Executive Officer. "The vote to adopt an assumed rate of return of 8% is supported by extensive research and calculations that were used by the Board to help implement the most prudent financial strategy."

In keeping with the Board's responsibility to make sound investment decisions, the Board adopted a new asset allocation model earlier this year. The new model and the adopted 8% assumed rate of return are proactive measures: the asset allocation model is designed to generate returns higher than the previous portfolio while minimizing exposure to potential losses from market fluctuations; and, the assumed rate of return sets a prudent target that recognizes the portfolio's ability to generate returns in a variety of economic environments.

The asset allocation model adopted by the Board earlier this year was designed to improve diversification and protect against losses by decreasing the allocation to equity and increasing the allocation to U.S. Treasuries. Typically if the stock market goes down, then the opposite is true of Treasuries. By further diversifying assets, there is greater opportunity for SDCERA's portfolio to reach its goals.

The Segal Group, an independent actuarial firm, prepared the 2009 Actuarial Experience Study and presented it at the June 3 Board of Retirement meeting. The purpose of the Experience Study is to conduct an overall review of the assumptions the Board uses when considering whether the contribution paid by members and their employer will be sufficient to pay the retirement benefits for all current and future SDCERA members.

The assumptions the Board uses, which are reviewed every three years as part of the Experience Study, are based on demographic such as retirement age, salary growth, life expectancy in retirement and economic factors such as how much the plan's investments will earn. The Board recognizes that past performance is not an indicator of future results, and as such, will continue to regularly assess the fund's performance and make any necessary modifications in the future.

SDCERA is an independent association established by the County Employees Retirement law of 1937, which governs 20 California county retirement systems. SDCERA provides retirement benefits for approximately 36,000 eligible current and former employees, and retirees of the County of San Diego.