



NETWORK

Newsletter of The Retired Employees of San Diego County Since 1961

Vol. 45, No. 11

Honoring Yesterday—Protecting Tomorrow November 2014

PRESIDENT'S MESSAGE

By Susan Mallett



During a lengthy meeting held October 2nd, the much anticipated Board of Retirement (BOR) vote to terminate the contract with investment consultant Lee Partridge and his firm Salient Partners fell short at 4-5 to terminate. You may have heard or read about the vote but the details and tenor of the meeting are important to understand. RESDC members on our email distribution received a summary of that

BOR action and related reactions from interested parties including RESDC. For the benefit of all members, that summary is included later in this article as well.

As noted last month, retirees have been calling and emailing RESDC with concerns about media reports of investment strategies approved by the BOR and the amount of risk related to specific investment methods such as leveraging. As the BOR reacted to the media spotlight, statements and actions of some BOR trustees caused concerns for retirees as well. Several members passionately expressed positions that each believed RESDC should take forward as recommendations and/or demands to the BOR. These opinions ranged from specific changes in investments to statements that we are paying too much money for investment management and Salient Partners should be fired.

Whenever I make a verbal or written statement to the BOR, on behalf of retirees, I am representing a collective opinion, not my personal opinion. Much thought and discussion goes into the ultimate statement made on a given issue being considered by the BOR. As I reported last month, a number of RESDC representatives met with SDCERA staff and investment consultants to gain a better understanding of investment leveraging. A group comprised of most of the RESDC board members and a number of knowledgeable RESDC members met and thoughtfully discussed what action should be taken on behalf of retirees. The entire RESDC Board of Directors reviewed the group's suggestions and endorsed the recommendations to be presented to the BOR trustees

in a letter as well as in a public statement during the October 2nd BOR meeting. The following is the summary of that meeting and resulting action.

Recent BOR meetings have been quite contentious and the remarks of some trustees have been described as "knee-jerk" reactions to media coverage of the use of investment strategies such as leveraging. During the initial phase of this meeting, there were several public statements from retirees, employee representatives as well as your RESDC president. Our concerns were also detailed in a letter sent to each BOR trustee prior to the October 2 meeting and you can read the letter on page 2 of this newsletter.

We acknowledged the BOR has the legal right to choose their top staff and consultants, since ultimately they are responsible for the success, or failure, of the retirement program. We emphasized our belief that they were not nearly prepared to make a major change, i.e., terminating the investment consultant contract so abruptly. We urged the BOR members to return to their prior practice of cohesive, mutually respectful and thoughtful discussion. Also to schedule as many public board sessions as necessary on the present subject so that they fully understand the risks in their chosen investment strategy, the real costs or savings of implementing that strategy.

We urged them to have a transition plan in place that insures that investment strategizing, investment operations and the monitoring of current investments are not compromised by hastily acting today. The SDCERA legal advisor, attorney Steve Rice, and their independent investment consultant, Scott Whalen of Wurts & Associates, shared similar views and cautions. Attorney Rice remarked that the BOR trustees would be in violation of their fiduciary responsibilities if they acted without due diligence, meaningful discussion and in a prudent manner as prescribed by the California retirement law.

The end result of the lengthy five hour discussion on these important investment decisions are two-fold; essentially half of the BOR has lost confidence in Salient Partners as the party responsible for our retirement fund investments, and the entire BOR directed staff to develop a transition plan that will ultimately change the management of investment operations in the coming months.

PRESIDENT MALLETT'S SEPTEMBER 29, 2014 LETTER TO SAN DIEGO COUNTY BOARD OF RETIREMENT

After RESDC representatives carefully followed the evolution of the San Diego County retirement fund strategy for many years, including risk and leverage issues, President Susan Mallett transmitted the following letter to the Board of Retirement. President Mallett also addressed the Board at their regular October 2, 2014 meeting. RESDC representatives were in the audience, as usual. That session can be viewed on-line, at SDCERA.net, click on Board of Retirement and the October 2, 2014 meeting date.

Chairman Murphy and Members of the Board;

The Retired Employees of San Diego County (RESDC) believes the San Diego County Employees Retirement Association (SDCERA) is at a critical point in your history. You are considering an abrupt transfer of investment planning, operations and monitoring for \$10 billion of retiree, employee and taxpayer money to where?

Last week, despite years of lengthy presentations, thoughtful discussions and unanimous votes in support of a very sophisticated \$10 billion investment strategy, your board suddenly moved to consider reversing much of that strategy and firing your investment strategist, by a split and contentious vote.

We don't see the current strategy as a failure or unacceptably risky, and urge you not to cancel the Salient contract today. Even if such an action ultimately proves necessary, we think that the proposed reduction of investment leverage, and possible termination of your investment strategist, are two separate issues and you are not properly prepared for either.

We assure you, there are no stakeholders more concerned with the safety and dependability of the retirement system than our member retirees. Each one depends on it for crucial income, most without alternative income sources to turn to at this point in their lives. We all want the fund to be safe.

We are hearing the concerns of some retirees, many of whom don't understand the broad and alarming statements in the press, statements which don't always match our experience at your board meetings. We agree that there must be simpler explanations of these investment issues. Explanations being provided, even to us, are not effective enough, leaving enough of a vacuum for wild claims to root.

Interestingly, since your two recent board meetings, we find about as many retirees concerned with the actions of the Board as with the investment leverage/risk issue.

RESDC representatives have attended all public Board of Retirement meetings for many years, for hours at a time. We are not investment professionals, but have a good layman's understanding of your investment strategy and earlier Board efforts to make the right investment decisions.

We believe the real crisis you face is a crisis of confidence, not of investment risk or lack of investment performance. We ask that the following steps be undertaken before cancellation of the Salient contract is considered:

- Return to a cohesive, mutually respectful deliberation of this important issue so that no detail is lost in the intensity of the debate. You are considering a very major change, which should not be made impulsively.
 - Insist that consultants, staff and board members alike address investment issues in the simplest terms, banning jargon and duplicate terms in those sessions. Remember, you have a lot of worried retirees listening.
 - Schedule as many detailed Board sessions as necessary, with investment professionals present, to ensure you fully understand the many implications of your strategy, particularly the elements of risk and the principal characteristics of each risk element in SDCERA's and typically in other large funds. These latter explanations, in particular, have never been clear, and now are at the center of the controversy.
 - Re-examine your risk tolerance and adjust that Board policy, if necessary, to provide an accurate basis for adjusting the strategy.
 - Direct staff to develop an estimate of all direct and indirect costs of changing investment strategists at this time, including revisiting cost comparisons between the various governance arrangements previously considered, and any off-setting operational savings resulting from the Salient contract.
 - Please make sure you are collectively on the same page regarding the performance required from your strategist and the comparisons that will be used to measure that. Although, the strategist's performance should be primarily measured against your Board's policy directions and goals, there is also value in knowing your performance against peer retirement system performance too. That provides another measure of your Board's overall policy leadership compared to your peers.
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If, after careful re-examination of facts your Board decides to consider cancelling the Salient contract, direct staff to immediately develop a well-thought-out transition plan to ensure careful transfer of your investment strategizing, operations and monitoring, from Salient to the next organizational arrangement you choose.

Thank you for your attention to our concerns. Please contact me, at (619) 688-9229 for any additional clarification required.

Sincerely,

Susan Mallett
President

WELCOME NEW MEMBERS

Guy R. Allingham	Agriculture	Sandra Krugen	Assessor
Mary L. Alvarado		Rosemarie Kurupas	Sheriff
Mary Avastu	Environmental Health	Janet Lake	Health & Human Services
Suzanne W. Baker	Public Health	Kathryn Lee	Health & Human Services
Primo M. Basabe	Sheriff	Donna Mackrille	Sheriff
Arthur E. Bauer		Editha C. Magsanoc	Health & Human Services
Janis Harris Bellinger	Health & Human Services	John L. Miller	Environmental Health
Christine Bermudes	Superior Court	Linda S. Miller	Communications
Marilyn Ann Brennan	Health & Human Services	Joe Molina	Health & Human Services
Charles Browning	Sheriff	Maura K. Monahan	Probation
Nancy L. Candelaria	Superior Court	Phyllis S. Morris	Health & Human Services
Betty L. Carter	Child Support Services	Helen V. Norman	
Elsa Castaneda-Koches	Health & Human Services	George C. Oloan	Nursing
Mihlin Chin	Social Services	Jeffrey J. Ortiz	Superior Court
Laurent J. Comeau	Public Defenders	Twan Quang Pham	Health & Human Services
Lourdes Contreras	Aging & Independence	Beverly J. Price	Probation
Maria S. Cornax		Karen Reinker	Superior Court
McCarter R. Cosby		Lillian M. Ritt	Superior Court
Jack H. Dawes	Child Support	Robert Roberto	Probation
Susana Delgado	Health & Human Services	Stephen Ron	Public Works
Dolores Diaz	Housing & Community Devel.	Margaret A. Sanfilippo	Sheriff
Kelly Dittman	Public Defenders	Mark Savey	Probation
Annette J. Draper	Superior Court	Cynthia C. Scheevel	Superior Court
Susan Esqueda	Superior Court	Cindy Schmidt	Superior Court
Gregory A. Felder	Sheriff	Michael G. Schuster	
Jaime Freitas	Sheriff	Jeanne Shelton	Superior Court
Ken Freshwater	District Attorney	Klaus Steuermann	Superior Court
Kim Frink	Health & Human Services	Ralph E. Thielicke	
Victoria L. Gallagher	Public Works	Ron Thill	District Attorney
Olivia J. Gilliam	Public Defenders	George P. Tolnay	Health & Human Services
Tammie Glowacki	Probation	Margaret Trivison	Library
Valerie M. Gulyas	District Attorney	Kenneth J. Umbarger	General Services
Lisa M. Harris	Sheriff	Jimmy Vanmiddlesworth	Sheriff
Steven R. Hart	Probation	Guillermo Vasquez	Public Works
Jerrilee Henderson	Health & Human Services	Susan Vaughn	Environmental Health
Cornelius L. Hill	General Services	Maria Ana Walker-Garcia	Health & Human Services
William A. James	Health & Human Services	Srisuda N. Walsh	Health & Human Services
Thomas Jennings	Aging & Independence	Janet Warner	Aging & Independence
Juliann Johnson	Sheriff	Cynthia Gail Whitt	Health & Human Services
Harold Kosakoff	Superior Court	Vanessa R. Yates	

PENSION FACTS AT A GLANCE

**72% of all SDCERA retired members
live in San Diego County**

That's more than 11,500 retired members supporting the San Diego economy by spending their retirement benefits on local goods and services.

FROM THE DESK OF THE EXECUTIVE DIRECTOR

Dear Members:

As we all head into the holiday season, I think most of us would welcome a change in the weather that fall and winter brings! One of RESDC's goals as an organization is to provide information to our members on research related to Public Sector Defined Benefit (DB) pension plans.

A new national economic impact study release by the National Institute on Retirement Security finds that DB pension benefits have a significant economic impact: 6.2 million American jobs and \$943 billion in economic output.

Pensionomics 2014: Measuring the Economic Impact of Defined Benefit Pension Expenditures reports the national economic impacts of public and private pension plans, as well as the impact of state and local plans on a state-by-state basis. The study measures the economic ripple effect of retiree spending of pension benefit income, which typically is a stable source of income that lasts through retirement. The analysis finds that the benefits provided by state and local government pension plans have a sizable impact that ripples through every state and industry across the nation.

The Full Report, State Fact Sheets and webinar are accessible at www.nirsonline.org.

Here's wishing you and yours a safe and happy holiday season!

Mark Nanzer
Executive Director



NOVEMBER RESDC OFFICE SCHEDULE

The Retired Employees of San Diego County office will be closed on Tuesday, November 11 in observance of Veterans Day. RESDC will also be closed on Thursday and Friday, November 27 and 28 for the Thanksgiving holiday.

PENSION FACTS

By Chris Heiserman, Director

Our county retirement system board meetings, traditionally plodding affairs with thick analytical reports full of colorful graphs, intricate data-driven "scorecards" and replete with stock market acronyms and investment jargon, got very exciting this fall. One could almost say the San Diego County Employee Retirement Association (SDCERA) Board slipped into panic mode – except the word "panic" carries a very unfortunate negative connotation in the investment world.

A room full of active County employees and retirees showed up at the SDCERA Board's October 2nd meeting to passionately express their concerns about the safety of their pensions. The big draw was an agenda item proposing to fire the pension system's investment consultant, Salient Partners. The proposal to terminate the multi million dollar investment contract came from a heated discussion at a September SDCERA meeting where some Trustees were surprised by the level of financial market risk contained in the investment strategy unanimously agreed to by the Board in April.

After lengthy public testimony and more than an hour of often acrimonious debate between Trustees, the SDCERA Board narrowly voted 4-5 not to fire Salient. Observers who regularly attend SDCERA's twice-monthly meetings labeled the nearly day-long October 2nd session the most contentious they had ever witnessed.

RESDC President Susan Mallett opened public testimony at the meeting, urging the Trustees not to hastily cancel the investment contract with no detailed alternative available. She urged the SDCERA Board to return to "mutually respectful deliberation" in carrying out their fiduciary responsibilities on important issues affecting the nearly \$10.2 Billion pension fund.

There are obviously confidence and trust issues at SDCERA swirling around investment policy issues and management of the organization. The Board will schedule a two-day work shop in November to review concerns and hopefully begin developing a meaningful consensus on a reasonable path forward.

Finally, despite all the apparent current controversy linked to the SDCERA system, we need to step back and look at the Big Picture. The facts are the organization and its pension fund have performed well for decades and remain strong and healthy. Some highlights:

- The SDCERA fund added \$273 million in August reaching an all-time total high of \$10.185 Billion;
- SDCERA portfolio's 25-year returns of 9.3% as of June 30, 2014 exceed the fund's current assumed rate of return of 7.75%;
- In a down market period in FY2012, SDCERA posted a 6.4% return when many public pension peers were close to 0% or negative;
- Changes in SDCERA's public market portfolio have decreased investment management fees annually by more than the cost of the Salient contract.

ASSOCIATION OFFICERS

President.....Susan Mallett
 1st Vice Pres.....Stan Coombs
 2nd Vice Pres.....Merrilyn Carpenter
 Secretary.....Joan Wright
 Treasurer....Frank Bittner

ASSOCIATION DIRECTORS

Carlos Gonzalez, Chris Heiserman
 Chris Hinshaw, Joe McGuire
 John McTighe, Janel Pehau,
 George Shoemaker, Mila Thurber

EXECUTIVE DIRECTOR

Mark Nanzer

OFFICE STAFF.....Karen Hazel
Benjamin Hemmings

NETWORK EDITOR...Karen Hazel



**SEE'S CANDY CERTIFICATES
 GREAT HOLIDAY GIFTS!
 PURCHASE FROM RESDC
 FOR LESS!**

See's Candy is now priced at \$18.00 per pound if you buy it at one of their stores. RESDC members can purchase See's gift certificate from us at \$15.00 each.

If you would like to order certificates from our office, please address an envelope to RESDC, 8825 Aero Dr., Suite 205, San Diego, CA 92123. Enclose a check for \$15.00 for each certificate.

Also enclose a business size (#10) self-addressed stamped 49¢ envelope as the certificates will not fit in a small envelope. If you order over five certificates, please put 70¢ postage on the self-addressed enclosed envelope. Please include a stamped envelope for every 10 certificates. Candy certificates are redeemable at any of the See's retail stores for ready-packed or specially packed boxes.

Incidentally, there is no expiration date on these certificates.

See's Candy Certificates are available through RESDC all year long.

IN MEMORIAM

Oscar Anderson
 Gary L. Andrews
 Richard W. Baker
 Bruce R. Boland
 Ada Cicalo
 Kimball Daun
 Viola Demarce
 Jacqueline A. Dion
 Elisa L. Escandon*
 Marcella Flint
 Joan E. Fransen
 Howard F. Germo
 Seymour Goodman
 Catherine Grove
 Herminia Guerrero
 Jo Herrin
 Guilford Johnston
 Helen Knight
 Pearl C. Leonard
 Betty Lightstone
 Herman R. Love
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 Scott McLennan
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 Melvin W. Modisher
 Khahn Nguyen
 Barbara Pettingell
 H. West Rockie
 Lawrence F. Siems
 Violet Slojkowski
 Evalyn Smith
 Gina Spragg
 Ernesto F. Ugalde
 Patsy G. Watters
 Mary J. Weisman

Assessors
 Public Works
 Parks & Recreation
 Public Works
 Surviving Spouse
 Marshall
 Social Services
 Health & Human Services
 Environmental Health
 Health & Human Services
 Probation
 Surviving Spouse
 Social Services

Health & Human Services
 Superior Court
 Marshall
 Surviving Spouse
 Surviving Spouse
 Health & Human Services
 Health & Human Services
 Health & Human Services
 Sheriff
 Board of Education
 Health & Human Services
 Social Services
 Health & Human Services
 District Attorney
 Medical Institution
 Surviving Spouse
 Surviving Spouse
 Municipal Court
 Health & Human Services
 Public Works
 Health & Human Services
 Surviving Spouse

*Active

**Gone from our sight, but never our memories.
 Gone from our touch, but never our hearts.**

The surviving spouse of a member is eligible for RESDC membership. For enrollment assistance, call (866) 688-9229.

MEMBER PRIVACY

Any retiree or surviving spouse who doesn't want his/her death notice published in the "In Memoriam" section of this newsletter may notify the RESDC office and your privacy will be maintained.





Office Hours: 9 a.m. to 2 p.m. Monday through Friday
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NETWORK is the official monthly newsletter of the Retired Employees of San Diego County, Inc. (RESDC), a private non-profit organization.

Business and Inquiries: Business matters and address changes may be recorded on the office voice mail at any time, call (866) 688-9229. Please spell your last name so the correct member record can be located.

The information printed in the NETWORK is believed to be from reliable sources. However, no responsibility is assumed by the NETWORK for inaccuracies contained herein.

Retired Employees of San Diego County, Inc.
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ANNUAL HOLIDAY LUNCHEON

Tuesday, December 16, 2014
Social Time 11 am-11:30 am
Lunch will be served at 11:30 am
Bahia Resort Hotel
998 West Mission Bay Drive, Mission Beach
Cost—\$22 per person



**WE'RE
GOING BACK
TO
THE BAHIA!!**

Menu: Roast Turkey Dinner or Vegetarian meal.

Program: Entertainment provided by **Thurgood Marshall Middle School Choir**, President's Welcome, Introduction of guests, and approval of the 2015 budget.

Reservations: Reservation forms and payment must be in our office by **Friday, December 12**. Cancellations must be received by **December 12**; no refunds can be made after that date. **Reserved tables will be provided only for groups of ten. No Exceptions. All ten names must be on one reservation form with payment for all ten on one check.** Indicate on the reservation form below the names of those in your party and include payment for all. Please make your check payable to RESDC, enclose it along with the form and mail to: **RESDC, 8825 Aero Dr., Suite 205, San Diego, CA 92123**. Badge and raffle ticket packets should be picked up at the registration table at the event. They will not be mailed. If handicapped seating is required, please call our office at (866) 688-9229.

Directions: From I-5 South, take Sea World Drive to West Mission Bay Drive. From I-5 North and I-8 West, take "Beaches" to Sports Arena/West Mission Bay Drive. Bahia is on north side of West Mission Bay Drive.

ANNUAL HOLIDAY LUNCHEON RESERVATION FORM

Member Name(s) _____ Telephone # _____

Name of Spouse or Guest(s) _____

Number of Reservations at \$22 each _____ Total Enclosed _____

Menu Selection: Roast Turkey _____ Vegetarian meal _____

Please check menu selections for each person.

Department and Year Retired _____ E-mail address _____