



# NETWORK

Newsletter of The Retired Employees of San Diego County Since 1961

Vol. 45, No. 10

Honoring Yesterday—Protecting Tomorrow

October 2014

## PRESIDENT'S MESSAGE

By Susan Mallett



Our retirement system's investment strategy, specifically the use of leverage, has drawn considerable media attention since mid-August. A few responses from SDCERA have been published but frankly these seem to have raised the alarm level of the media reports. RESDC board members have actively sought information and clarification of media commentary from both SDCERA staff and the Board of Retirement.

Many of you have called us and emailed with your concerns given the rather inflammatory nature of recent editorials in the San Diego Union-Tribune. Before describing our efforts to gain a layperson's understanding of leverage in investing and the extent to which leverage is being used in our retirement fund asset allocations, I would like to share my thoughts about our Board of Retirement (BOR).

As your president for the past four years, I have attended the monthly BOR meetings, held the first and third Thursdays. Each meeting agenda contains attached reports and documents often accompanied by a speaker's presentation. The second BOR meeting is designated for investment reports and discussion but, at times, these topics may appear on the first meeting agenda as well. For example, this year the BOR has had general presentations on risk based investing, market outlook, risk management in investing and specific investment presentations on private equity, credit opportunities, real estate and natural resources. As you can see, there is much reading material along with subject matter and expert presentations to inform BOR members before they actually vote on a recommendation or investment decision. Pursuant to the California government code related to the County Retirement Law, each BOR member must attend a minimum of 24 hours education related to Board responsibilities during the two-year term as a trustee. Additionally, each year the BOR holds a two day retreat that the public may attend and a number of RESDC representatives usually do so. The retreat is an opportunity for more in-depth discussion of BOR policies, investment topics as well as BOR governance and fiduciary responsibilities. Regarding that fiduciary responsibility, the Board's legal mandate is to control

the investment of the pension fund and to act in good faith on behalf of and with the best interest of the members, active and retired, and beneficiaries. Further, they must make prudent decisions regarding the management of the assets, that is, exercising good judgment in planning for the future of the retirement fund.

As I have monitored the BOR meetings over a considerable time, I have observed many thoughtful discussions and witnessed serious questioning of particular investment proposals or recommendations that have resulted in a continuance for more information and/or revisions. As your representative, I believe our BOR understands the importance of their responsibilities and weighs the ramification of their decisions carefully. A clear demonstration of their fiduciary responsibility in action was the tenor of the most recent BOR meeting held September 4<sup>th</sup>. At that three hour meeting, Board members sought clarification of the issues raised by the media and asked questions of CEO Brian White, Portfolio Strategist Lee Partridge and Investment Consultant Scott Whalen of Wurts & Associates. Essentially, they were advised that investment leveraging is not new and has been used in SDCERA's investments for many years. The intent still remains to balance risk across asset allocation categories. Ultimately, the BOR voted to continue this discussion at the regularly scheduled investment meeting on September 18<sup>th</sup>.

(President's Message Continued on Page 3)

## ALERT!

After the NETWORK deadline, the SDCERA Board of Retirement voted to consider terminating the Salient contract at their next meeting on 10/2/14 (action taken at 9/18/14 SDCERA Board meeting.)

## E-NEWS

As a reminder, be sure to take the opportunity to access our e-version of the Network, where you can find helpful links to pertinent information, additional event photos, and direct connections to the RESDC website and social media. Sign up for RESDC emails and you also receive the NETWORK electronically, where you can click on active links to pertinent information and connect directly to the RESDC website and social media.

## October Calendar of Events

**2—(Thurs.) SDCERA Board of Retirement Meeting**

2275 Rio Bonito Way, Suite 200, 8:30 am

**8—(Wed.) RESDC Health Fair/Picnic**

Admiral Baker Field, 10 am

**9—(Thurs.) RESDC Board of Directors Meeting**

8825 Aero Drive, Suite 205, 9:30 am

**16—(Thurs.) SDCERA Board of Retirement Meeting**

2275 Rio Bonito Way, Suite 200, 8:30 am

**19-22—(Sun.-Wed.) CRCEA Conference Sacramento**

## LET'S TURN DOWN THE VOLUME

*By Stan Coombs*

The seeds of contention were sown on July 17<sup>th</sup>, when the San Diego County Board of Retirement considered a six-page Investment Policy Statement, drafted by their Chief Investment Strategist, Lee Partridge, to confirm changes the Board wanted to make to their portfolio Asset Allocation Plan.

The Asset Allocation Plan is a list of investment categories, including equities, bonds, commodities, real estate, etc., and the amounts the Board allows to be invested in each for diversification and growth. Investments may also be arranged within overlying investment strategies.

There was Board discussion about the rationale and risks in various categories, including the level of investment "leverage" that might result, and why. Defined leverage could reach 200% of the portfolio, they were told.

For several weeks there was silence. Then, on August 9<sup>th</sup> the San Diego Union-Tribune published Dan McSwain's, "County Bets All-In At Pension Casino" column, vividly criticizing the leveraging, as he understood it.

The item was picked up in an extensive, anti-leveraging Wall Street Journal article, on August 14<sup>th</sup>, and followed by a critical Union-Tribune Editorial on August 16<sup>th</sup>. It concluded, "So be very nervous, county taxpayers and pensioners – very nervous." Other publications jumped on board, implying that any investment leverage is dangerous, foolish and potentially disastrous, and should be avoided by retirement portfolios at all costs.

Some outside portfolio managers were claimed to use no leverage, which is puzzling when the prevalence of leveraging is understood, and some of the illustrative statistics used in the criticisms seemed a bit off the mark and out of context.

As one would expect, this fracas has some county retirees a bit off-balance. What is the truth? Is our county retirement program off-track?

The Board of Retirement, which approved this investment strategy unanimously, includes nine members. The County Treasurer, a member of the Board of Supervisors, three county employees and a retiree have all earned pensions that depend on the stability of the system. They have no motivation to be careless.

The Board also includes three "outsiders" - professional financial types - and the retired CEO of a major San Diego corporation, who are all capable. And, the entire Board knows they are liable under the State Constitution to be "prudent investors." The Board also employs a second, independent financial consultant, Wurts Associates, to monitor and evaluate Partridge's recommendations. Are they all so very wrong?

The truth is, we don't know. Successful investing depends on future events and we don't know the future. Most of us would like absolutely no risk, but investment earnings are necessary and investments carry risk. The risk has to be reasonable and managed, with earnings sufficient to warrant the risk. That's the goal of the investment strategy.

Several things are clear. Balancing a \$10 billion portfolio across many types of investments carrying different kinds and levels of risk is a complicated business within a complicated industry. There are plenty of disagreements between professional equals as to how it should be done.

Right or wrong, the Board of Retirement hasn't impulsively invested. They've hired professional advisors and spent hours understanding the options provided them.

All leverage is not equal. Some leverage is less risky than other leverage, and many allegedly unleveraged portfolios are, indeed, leveraged in ways that aren't obvious to the casual observer.

A hypothetical investor paying cash for stock, is leveraged to the extent debt is carried by the underlying, stock-issuing companies. If you have stock, you're probably leveraged. A conservative investor making a \$50,000 down payment and carrying a \$50,000 mortgage is leveraged. A retirement fund enters a \$10 million derivatives contract, which requires no initial cash input, and is leveraged. All these could count in SDCERA's leverage ratio.

**(Continued on Page 5)**



The holidays are right around the corner and with a little planning you can save money and reduce stress to ensure a fun-filled holiday season. San Diego County Credit Union's products and services make saving easier than ever. It could be as simple as setting up a new special savings account, using our 30,000 surcharge-FREE CO-OP ATMs, refinancing to a lower interest rate or saving money on postage by paying your bills online.

Start saving for your goals today. Visit [sdccu.com](http://sdccu.com), call (877) 732-2848 or com into any of our more than 30 convenient branch locations.

## President's Message (Continued from Page 1)

When the media blitz began during the week of August 10 through the 16th, the RESDC Board was understandably concerned about what we were reading about the security of our retirement fund investments. We also felt ill prepared to answer our members' questions and concerns but also felt an obligation to seek answers as leaders of our retiree association. We asked for and received a meeting with SDCERA staff and investment representatives from Salient Partners. We sought clarification of the media reports and an understanding of investment leverage in layperson terms. We came away from that meeting with a preliminary understanding of the concept of leveraging but not how and when it is being used in our investment strategy. Therefore, I addressed the BOR on September 4<sup>th</sup>, sharing our concerns and urging the Board to seek the clarification we all need, in lay terms, regarding these important details of our investment strategy. They agreed and shared our desire for "common English" and the Board Chair even asked that responses be "dummied down" so that regular retirees might understand. No doubt financial investments are complex endeavors and are necessary to ensure the health of our retirement fund but risks must be balanced with potential earnings. This has been the standard practice of the SDCERA Board of Retirement and I trust they will act responsibly going forward. As always, we will keep you informed of future actions and results.

## OPEN ENROLLMENT FOR THE EXCLUSIVE RESDC BENEFIT PLANS

*Dental, Vision, Pet, Car, Home, Legal, Life, Travel, Accident, & More*

Near the end of October, all RESDC members will receive their 2015 RESDC Benefits Open Enrollment package. The benefits outlined in this package are available exclusively to RESDC members. ***There is an exciting new Dental HMO plan being offered this year. Every covered procedure, including crowns, dentures, and implants, will have a \$0 member copay!***

SDCERA strictly enforces the Open Enrollment deadline for the dental and medical plans, so don't delay! If you are currently enrolled in one of the dental or other benefit plans, your coverage will automatically continue for 2015. **You do not need to do anything if you are not making changes to your coverage.**

At the RESDC Health Fair Picnic, on Wednesday, October 8, our benefit plans administrator, Pacific Group Agencies, will have insurance company representatives there to answer your questions.

## IN MEMORIAM

Franklin E. Allee	Parks & Recreation
Jesse J. Bragg	Registrar of Voters
Genevieve Calescibetta	Sheriff
Mary D. Comer	Surviving Spouse
Carole Davies	District Attorney
F. Lynn Drake	Superior Court
Wilburn L. Eades	Fleet Maint. & Support
Edward L Eddy	Surviving Spouse
J.D. Goodman	Surviving Spouse
Kathleen Grantham	Health & Human Services
Dewitt A. Graybill	Air Pollution Control
Cynthia A. Griffin	Library
Linda Hardenberg Diaz	Health & Human Services
Janice J. Harris	Information Services
Marilyn J. Holo	Health & Human Services
Barbara J. Lynch	Superior Court
Reginald A. Maynard	Dept. of Transportation
Margaret J. Morris	Health & Human Services
Leonora R. Nelson	Health & Human Services
Paul Pickering	Public Defender
David Piner	Fleet Maint. & Support
Esther Radovich	Probation
Alice Reimschissel	Health & Human Services
Teceia J. Roper	Health & Human Services
Etherl Rowe	Health & Human Services
Severiano M. Sanchez	General Services
Rita Seymour	Health & Human Services
Teodoro Silva	Social Services
Garold Walker	Facilities Management
Judith N. Whitman	

### \*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 does not 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.

## WELCOME NEW MEMBERS

Judith S. Hughes  
Yilandra C. Jackson  
Judy Long Pharaoh  
Betty Jean Smith



## PENSION FACTS

By Chris Heiserman, RESDC Director



Our local newspaper doesn't like public pensions and publishes editorials and commentary regularly attacking them. During August, opinion pieces in the paper inferred the San Diego County Employees Retirement Association (SDCERA) was gambling on risky investment strategies and pointed out that the County pension fund was underperforming compared to other public retirement funds.

Since the newspaper wears blinders in "reporting" on public pension issues, it only uses numbers and crafts headlines that reflect negatively on public retirement systems. For example, when the County's pension fund reported earnings for last year of almost twice its assumed rate of return, the newspaper decided the "story" was all about how the healthy returns "lagged" behind other retirement systems. The headline: "County Pension Fund Return Lags".

It makes sense to attempt comparisons of pension system track records; however, the challenge in evaluating a wide array of funds of different sizes, varying expected return assumption rates and complicated mixtures of investments is beyond the grasp of most of us. Our local paper oversimplifies the task of sizing up pension funds by looking at the most recent year and stating that SDCERA's results don't measure up.

The newspaper's editorial board wasn't buying the explanation from SDCERA CEO Brian White that the investment strategy employed was deliberately designed to produce more consistent returns. In short, the results SDCERA expects from its investments are that the returns in an up market economy may be a bit less than its peers, but the returns in a down cycle should be higher than sister funds.

While it is not easy to compare apples to apples in this field, here is data from the summary information in the Comprehensive Annual Financial Reports (CAFR) of four county pension funds for FY2012 and FY2013.

<u>County</u>		<u>Net Position (restricted for benefits)</u>	<u>% Change from previous FY</u>
Los Angeles (LACERA)	2013	\$41.8 Billion	9.1%
	2012	\$38.3 Billion	-2.9%
San Diego (SDCERA)	2013	\$9.1 Billion	7.8%
	2012	\$8.5 Billion	5.9%
Sacramento (SCERS)	2013	\$6.8 Billion	11.8%
	2012	\$6.07 Billion	-1.1%
Santa Barbara (SBCERS)	2013	\$2.19 Billion	8.5%
	2012	\$2.02 Billion	2.2%

It appears from this small sample over the past two years that SDCERA's strategy is working.



## VOLUNTEER OF THE QUARTER

By President Susan Mallett

Our volunteer recognition for the third quarter goes to **George Shoemaker**, someone well known to many in RESDC. Although George serves on the current Board as a director, he devotes many hours a month to our technology efforts. Following the move into our new office space, he helped to insure all computers and related electronic accessories were installed properly. He has chaired the Computer/Technology committee for the past three years and has been instrumental in moving the redesign efforts of our website from the discussion phase to the actual selection of a web designer that resulted in the launch of a more dynamic and engaging website for our association. George and his committee have broadened their focus by developing a technology strategic plan that complements the broader goals of the association. Details of both plans will be described in a future newsletter.

George has been an active member of the RESDC board since 1998 and served as the President from 2007 to 2010. When health concerns led him to step down from the Presidency in mid term, Stan Coombs wrote, "He has probably attended more meetings of the Board of Retirement than any other RESDC representative in decades. He truly has a 'heart' for the problems of the small pensioner." That dedication has not subsided over the past four years. George is an active member of our statewide organization, California Retired County Employees Association (CRCEA). He serves on an important committee, the Retirement Security Committee that has conducted research and compiled a comprehensive database of pension studies and articles. They frequently distribute material to local associations in response to negative pension media coverage as a way to refute myths and misunderstandings associated with current pension reform proposals. George stays well versed in these topics and regularly reports on activities of this invaluable state committee. In light of his tireless efforts on behalf of County retirees in San Diego and through out our state, we are pleased to select George as our Volunteer of the Quarter.

## SDCERA NEWS

### HEALTH CARE IN RETIREMENT: OPTIONS, TOOLS, AND QUESTIONS YOU NEED TO ASK!



### HOLIDAY LUNCHEON 2014 WE'RE GOING BACK TO THE BAHIA!

With the new availability of Covered California, your access to medical plans has expanded. For some SDCERA members, these medical plans and others available in the marketplace might be a good fit. SDCERA is offering seminars to help explain the types of questions members should ask when choosing a medical plan. This will allow you to better compare plans and make the best choice. Below is a schedule of available meetings.

**Bonita-Sunnyside Library**, 4375 Bonita Road, Bonita, Thursday, Oct. 2: 3 p.m.—4 p.m.

**Point Loma/Hervey Library**, 3701 Voltaire Street, San Diego, Tuesday, Oct. 7: 1 p.m.—2 p.m.

**El Cajon Library**, 201 E. Douglas, El Cajon, Tuesday, Oct. 14: 3 p.m.—4 p.m.

**HESA North Inland Regional Center**, 600 East Valley Parkway, Escondido, Monday, Oct. 20: 10 a.m.—11 a.m.

**SDCERA (Mission Valley)**, 2275 Rio Bonito Way, San Diego, Tuesday, Oct. 28: 9 a.m.—10 a.m.

To enroll in the Health Care in Retirement seminar, or if you have any questions or need assistance, please contact the SDCERA Call Center at (619) 515-6800 or toll free at 888.4.SDCERA.

**SAVE THE DATE:** The annual RESDC Holiday Luncheon will be held on Tuesday, **December 16th**, at **The Bahia Resort Hotel, 998 West Mission Bay Drive**. Mark your calendars now. The reservation form and directions to the Bahia Resort Hotel will be in the November and December issues of the NETWORK.

For the past few years, we have had more reserved tables at the lunch than open tables. It has become increasingly difficult for those without reserved tables to find seats. **Our new policy for a reserved table is you must have ten people to reserve a table and all ten must be paid for on one check and one reservation form.** This should make it easier to accommodate smaller groups to find seats.

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### CRCEA JOINS IN ACTION TO BAN SO-CALLED "PENSION REFORM" BALLOT MEASURE

*By Skip Murphy, CRCEA President*

As many of our members are aware, a recent ballot initiative to eliminate Defined Benefit pension plans has been ordered removed from the ballot in the November election. CRCEA (California Retired County Employees Association) was the only state-wide retiree group to participate with San Diego, San Joaquin, Ventura County Retirement Associations and the Retired Employees of San Diego County (RESDC) in the court case by filing an Amicus Brief (friend of the court) which argued against allowing the initiative a place on the ballot.

The Judge in the case ultimately ruled that placing the initiative on the ballot was "a waste of public resources." He also stated that putting this measure before voters would have been an enormous waste of taxpayer money because it only would have been ruled unlawful. CRCEA's immediate move to "jump into the action" demonstrates that the voices and votes of 160,000 retirees is a strong force in the protection of public employee benefits, a force which CRCEA will continue to assert whenever the need arises.

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### Let's Turn Down The Volume (Continued from Pg. 2)

On September 4<sup>th</sup>, the Board of Retirement revisited this issue with their investment strategist and financial consultant, addressing the questions raised. They detailed the nuances of balancing leverage, earnings, risks and liquidity, the retirement fund's 30-year history of managed leverage, and the possibility of utilizing a new "pooled fund" arrangement to limit the potential for losses. The concepts were complicated, but not impossible for those sincerely interested to follow.

**That session may still be viewed at SDCERA.net. Click on "Board of Retirement," the appropriate meeting date and "Item Number 7."** Observers can decide the efficacy of the Board's investment strategy for themselves.

RESDC representatives have been monitoring all Board of Retirement discussions for years, and meeting with SDCERA officials and consultants privately to improve our understanding. Some cynicism is healthy, but it's good policy to learn and evaluate before panicking. We will continue to monitor, let the Board of Retirement know of our concerns and keep RESDC members up to date.

San Diego County retirement net assets increased \$110 million during the month of June, ending the fiscal year with a net annual increase of \$1.12 billion, or 13.44%, and increasing total net assets to \$10.19 billion.

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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.

**Directions to Admiral Baker Field for the Health Fair/Picnic**

Take Route 8 East to Mission Gorge Road, take Friars Road going west (left). Turn right on Santo Road. Turn right on Admiral Baker Road, turn right at the first stop. Proceed to the second kiosk and turn left. **Upon entering the park, there will be signs to direct you.** If using Route 15, turn east onto Friars Road and left on Santo Road, right on Admiral Baker Road and follow directions involving the signs and arrows.

**ANNUAL PICNIC/HEALTH FAIR**

**Sponsored by:** Ameritas Dental Plan, CIGNA Dental, Health Net, Kaiser Permanente, Pacific Group Agencies, Inc., United HealthCare, and San Diego County Credit Union.



**Date:** Wednesday, October 8, 2014, 10 am - 2 pm  
**Location:** Admiral Baker Field

**All members, spouses and/or guests must pay \$5.00 each.** The member's picnic fee will be refunded/returned at the registration desk upon checking in, thus making the member attending the picnic **free of charge**. Picnic is held rain or shine.

The menu will be barbecued beef, barbecued beans, coleslaw, rolls, beverages, and dessert. **Lunch will be served until 12:30 pm.**

To make reservations for the picnic, please complete the form below, indicating the names of those attending and include payment. Make your check payable to RESDC, enclose it with the reservation form and mail to: RESDC, 8825 Aero Drive, Suite 205, San Diego, CA 92123. Reservation forms and payment must be received in the RESDC office by **Friday, October 3.** Badge and raffle ticket packets should be picked up at the registration table at the picnic. They will not be mailed. **Cancellations will not be accepted after October 3.**

Cut Here

**HEALTH FAIR/PICNIC RESERVATION FORM**

Cut Here

We need your reservation in advance to know how much food to order and to prepare envelopes with name tag(s) and raffle ticket(s). Charge for members, spouses and/or guests is \$5.00 each. **Members' fee will be returned if he/she attends.**

Member Name \_\_\_\_\_ Telephone # \_\_\_\_\_

Name of Spouse or Guest \_\_\_\_\_

Member, Spouse or Guest(s) at \$5.00 each \_\_\_\_\_ Total Enclosed \_\_\_\_\_ E-mail Address \_\_\_\_\_

Department and Year Retired \_\_\_\_\_