



SDCERScoop

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM 2024 EDITION | Winter 2024

Update Regarding the Invalidation of Proposition B

The City of San Diego has begun "Phase III" of the process to reverse Proposition B – the ballot measure that closed the City's pension plan to most new hires back in 2012. Phases I and II, which revolved around reopening the plan to new City hires and allowing active City employees who were hired during the Prop B period (and therefore initially excluded from the pension plan) to retroactively join SDCERS, were completed within the last few years. Phase III is the next step, in which the City takes care of those employees who were hired during the Prop B period but then terminated their City employment before Phase II was completed (July 2022).



In January 2024, the City sent these separated Prop B employees letters via U.S. mail with additional information regarding their options and a specific election window during which they must make their choice as to whether or not they want to purchase 100% of their missed service credit (the time they were employed by the City but wrongfully excluded from the Plan). If a separated Prop B employee chooses to do so, they will work with SDCERS to fund this purchase and retroactively become an SDCERS member, potentially allowing them to establish reciprocity with another California public agency, if eligible, and also to leave their contributions on account with SDCERS, where they will continue to earn annual compounded interest. Separated Prop B employees should contact the City's Risk Management Department via PropB@sandiego.gov if they have any questions or concerns, and also visit the City's website dedicated to this topic: www.sandiego.gov/riskmanagement/services/propb.

SDCERS' Fiscal Year 2023 Investment Returns



SDCERS reported a final return of 5.2% (net of fees) for fiscal year 2023. As of June 30, 2023, the trust fund's assets totaled approximately \$10.6 billion – a net year-over-year increase of approximately \$612 million. SDCERS' annualized rate of return over the past 10 years is 7.7%, and its return since inception is 8.7%. (Note: The value of the trust fund as of June 30, 2023 includes the funds contributed on behalf of the City and City employees who retroactively joined SDCERS in July of 2022 due to the invalidation of Proposition B).

SDCERS' net return for fiscal year 2023 was less than its actuarial rate of return (6.5%), and also below the policy benchmark. The benchmark is a measure of how the total fund would have performed if it had been completely invested in index funds and if the private portions of the portfolio achieved stated benchmark returns. Allocations away from the policy benchmark, in other words, relative over- and underweights to specific asset classes, as well as selection effects within specific asset classes, hurt SDCERS' relative returns. Specifically, SDCERS underperformed its benchmark for FY 2023 primarily due to the fund's overweight in Private Equity, which underperformed other asset classes on a relative basis, as well as underperformance of the Opportunity Fund investments. The Opportunity Fund underperformed its benchmark by 13.9%, and the majority of this underperformance is explained by the difference between the policy benchmark return, which is a mix of global equity and fixed income, and the strategy-specific benchmark returns.

Performance can also be measured in comparison to other public pension plans, although it is important to remember that different plans have a variety of sizes, circumstances, and funding statuses, all of which impact their asset allocations and, in turn, their return targets. Over the past fiscal year, SDCERS' total fund net return lagged the majority of similarly sized plans in the peer group. This is because SDCERS has a relatively lower allocation to public equities compared to many of its peers, and public equities had strong performance over the past year. However, during periods of equity market stress, SDCERS' lower relative allocation has benefitted the plan. SDCERS' risk-adjusted returns are in the top quartile over the past 3, 5, and 10-year periods compared to similarly-sized public pension plans.

If you have not already done so, please register on the SDCERS Member Portal, where you can utilize retirement planning tools, update beneficiaries, and access important retirement-related documents.

 MEMBER PORTAL

Visit SDCERS' website and subscribe to receive future issues of our newsletters delivered directly to your inbox by clicking on "Email Signup" in the top right corner of the screen. You can also sign up to receive alerts and agendas for upcoming Board and Committee meetings!

 Email Signup

Retirees: Consider Joining A Retiree Association!
Check out the City of San Diego Retired Employees' Association here: <https://www.csdrea.org>
And the Retired Fire & Police Association of San Diego here: <https://www.retiredfp.com>

Farewell, Marcelle

SDCERS began 2024 with a bittersweet goodbye to our Deputy Chief Executive Officer, Marcelle Voorhies Rossman, who retired on January 12, 2024. Marcelle gave more than 23 years of her career to the City of San Diego, and about 10 of those years were spent on SDCERS' team. After many years leading our Benefits Administration Division, Marcelle spent the last six years as our Deputy CEO, overseeing not only Benefits Administration, but also Member Services, Finance, Retiree Health, Disability Retirement, and Death Benefits. Her knowledge of actuarial science and her expertise when it comes to organizing and analyzing spreadsheets is unparalleled. In recent years, Marcelle took the lead working with the City to facilitate the reversal of Proposition B, and she was essential in revising the Port's plan document to create a new plan tier.

While Marcelle's upbeat attitude, motivational leadership style, and institutional knowledge will be sorely missed, we know she has trained her team well and prepared SDCERS staff to fill in the hole she leaves behind. Please join us as, with mixed emotions, we congratulate our esteemed Deputy CEO on her well-earned retirement.



SDCERS staff at January 23, 2024 City Council meeting where Marcelle was honored for her service to the City. From left to right: Michelle Wegner-Maleki, Chief Information Officer; Sarah Dickson, Chief Internal Auditor; Colin Brazile, Human Resources Manager; Ted Lasalvia, Finance Director; Cynthia Queen, Member Services Director; Marcelle Voorhies Rossman, Retired Deputy CEO; Gregg Rademacher, CEO; Johnny Tran, General Counsel; Melanie Peter, Compliance Program Coordinator; and Susan St. John, Associate General Counsel.

8th Amendment to the San Diego Unified Port District's Plan Document

Effective January 1, 2024, the Port created a new plan tier that will generally apply to: 1) all new Port hires; 2) all Port General Members hired since January 1, 2013 who are represented by Teamsters Local 911 and made an irrevocable decision to join the new General 2024 plan tier; and 3) all Port employees who were initially hired since January 1, 2013, left Port employment, and then subsequently are rehired by the Port on or after January 1, 2024. This new plan tier adopts a modified pension benefit calculation using a different set of retirement factors, and it has a flat contribution rate that applies to all of its members, regardless of entry age. For more details, check out the plan summary for this new plan tier on the Port's Retirement Plan Summaries page, which can be found under the "Resources" tab at www.sdcers.org.

10th Amendment to the San Diego County Regional Airport Authority's Plan Document

The Airport has amended its plan document for all unclassified new hires with a start date on or after January 1, 2024, who will have to make an irrevocable choice before their first day: to participate in the Airport's pension plan, or to participate in the Airport's 457(b)/401(a) Deferred Compensation Combination Plan. Once a new unclassified employee has made their choice between the two retirement plans, they are locked into the plan they chose. If they fail to make an election before their first day of employment, they will default into the deferred compensation plan and can never join the Airport's pension plan. However, participation in SDCERS for represented new hires will continue to be mandatory. This revision to the Airport's Plan does not affect any past Airport Members or current Airport Members who were hired before 2024.

DROP Rates for Calendar Year 2024

Every November, SDCERS' Board sets DROP account and DROP annuity interest rates that will be effective the following January 1st. The **DROP account** rate is the annual interest rate, compounded quarterly, used by SDCERS while a Member is in DROP. The **DROP annuity** rate is the interest rate used by SDCERS to annuitize the DROP monies of a Member who chooses to receive their DROP funds in monthly increments over a set number of months when they exit DROP and fully retire. These rates are calculated annually using publicly available indexes as of September 30th of each year.

For calendar year 2024, the **DROP account rate** increased to **4.2%**, and the **DROP annuity rate** increased to **4.6%**. For more information about DROP and how these rates work, please review the DROP Fact Sheet on our website at www.sdcers.org under the "Resources" tab, on the "Learn About..." page.

The DROP rates are calculated primarily using U.S. Treasury and corporate bond rate averages, which approximate the investment period for DROP funds. SDCERS calculates DROP rates in this manner because these rates are intended to reflect a reasonable market rate of return for the anticipated investment periods and avoid shifting investment risk to non-DROP members and plan sponsors. While a member's biweekly pension contributions are likely to remain invested with SDCERS for multiple decades, the funds in a member's DROP account are typically in SDCERS' trust fund for a much shorter time period. Therefore, the DROP rates are calculated with shorter investment timeframes in mind. The shortest, simplest explanation as to why the DROP rates increased in 2024 is because the rolling average of the relevant *bond rate indexes* between October 1, 2022 and September 30, 2023 was higher, compared to the previous year.

2023 1099-R Forms

All retirees and beneficiaries who received a payment from SDCERS in 2023 were mailed their 2023 1099-R form on January 16th.



Remember, SDCERS always strives to provide tax forms to all payees as timely as possible, but taking the time to ensure the forms are accurate is even more important!

If you still haven't received a hard copy of your 1099-R form in the mail and you know you received a payment from SDCERS last year, please contact SDCERS to find out what happened – it's possible you need to update your address in our records. You can also download and print a copy of your 2023 1099-R form, as well as forms from previous years, via your Member Portal. Visit www.sdcers.org, click on "Member Portal," log in, and navigate to the "Tax Reporting" page, which can be found in the menu on the left side of the screen. You can also update your tax withholding preferences at any time via your Member Portal by clicking on "Tax Withholding."

Member Account Details
Benefit Summary
DROP Summary
Payment History
Cost Of Living Adjustments (COLA)
Annual Supplemental Benefit
Tax Reporting
Health Insurance