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In 1981, the City of San Diego decided to opt out of Social Security. In its place the City established the Supplemental Pension Savings Plan, referred to as SPSP. This is a mandatory defined contribution program for the majority of City employees. Police officers and firefighters are excluded as they didn't participate in Social Security prior to the City opting out. All other employees are required to contribute 3% of their salary biweekly. Employees hired before July 1986 are eligible to contribute an additional 4.5% of their salary and those hired after that date may contribute an additional 3.05% of salary. The employee contributions are made on an after-tax basis. Employees are fully vested in their mandatory and voluntary contributions. The City matches 100% of the employee's contribution for both mandatory and voluntary contributions. The employer contributions are made on a pre-tax basis. Participants earn vesting of the City's match at 20% intervals per year of participation in the plan. After five years, a participant has full ownership of all the assets in their account.

When SPSP was first established all monies were invested by the city treasurer in low-risk investment products such as U.S. government securities and money markets. In October 1996, after approval by the plan's participants, the City contracted with a third party administrator to handle the daily operation and investment functions of the plan. This change allowed participants to invest their account, both employee and employer contributions, in a variety of options. Recognizing that change can be difficult and not wanting to overwhelm employees with little to no knowledge about investing, only 5 investment funds were offered initially. One of the investment options, called the Managed Income Fund, was created specifically for the City and is very similar to the investment philosophy of the city treasurer. Upon implementation of the third party administrator, all of the monies were transferred from the City to this fund. Participants then had the option to transfer all or a part of their monies to the other 4 options. If employees don't make an investment choice when first enrolling, all contributions are invested in the Managed Income Fund. Over the past 5 years since implementation, the number of investment options has expanded to 14. Of these, 3 are diversified portfolios called lifestyle funds. This allows participants to be invested in different types of investment categories without having to worry about selecting the proper mix of investment funds or rebalancing their portfolio. All investment options are selected and monitored by a 5 member trustee board and the board's investment consultant.

With 14 investment options, how do City employees invest? The average number of funds per participant is 2.3. This takes into account that over half of all participants remain fully invested in the Managed Income Fund. As of June 30<sup>th</sup>, 2001, 49% of the SPSP assets are invested in the Managed Income Fund. This fund's performance since inception is 6.33%. 28% of the

assets are invested in 2 other funds with 16% in one and 12% in another. The performance of these funds for the past five years is 14.23% and 15.21% respectively. The performance of the other 11 funds for the same period ranges from 4.7% to 16.58%.

As you have heard, there are a number of plan provisions and investment options that employees must understand in order to fully enjoy the benefits of the plan, be comfortable with investing and be prepared for retirement. The City, and its administrator, educate participants in a number of ways. All new employees receive written materials about the plan and investment options. This package provides general information about the investment options, including risk profile and performance history and provides examples of ways to diversify a portfolio. They also attend an orientation where they hear about the plan provisions and investment options and have the opportunity to ask questions prior to enrolling. In addition, education sessions are conducted on a quarterly basis by financial advisors to provide employees a vast array of information that includes the importance of diversifying investments; what to consider when diversifying; specific information on each of the investment options; how to read the quarterly statement; and market outlooks which includes economic updates to allow employees to turn information into opportunities for maximizing the SPSP investments. The latest education tool to be offered to participants is on-line information sessions available 24 hours a day via their personal computer. The on-line sessions are conducted through a video presentation and supporting visuals. The information is presented in 5 separate video clips that participants can watch individually at their leisure. The clips present information on the plan provisions, the importance of saving for retirement, investment options and diversification. The on-line education website also links to the third party administrator's website so that participant's can access their individual account information and/or other financial planning and education tools.

The SPSP plan not only provides employees ownership of their contributions and control over how to invest their assets it also provides control to access their assets in different ways and at different times throughout their life. While working for the City, participants may access the contributions in two ways. The first is by taking a loan of up to 50% of their vested account balance and repaying this over a period not to exceed 5 years. The other is by withdrawing their employee contributions plus earnings. A withdrawal is allowed once per calendar year for any reason. Hardship withdrawals are also permitted if the participant meets the criteria. Upon termination, participants have the option to take a lump sum distribution, rollover their assets into an eligible plan, annuitize or continue to keep their assets invested with the third party administrator and receive systematic withdrawals.

The City of San Diego and its employees are pleased with the SPSP program and excited about the opportunities it provides for a sound retirement.