Classic Values, Innovative Advice

San Diego City
Employees' Retirement System

June 30, 2005
Actuarial Valuation for the

City of San Diego

Produced by Cheiron

May 2006

Table of Contents

May 16, 2006

Board of Administration
San Diego City Employees' Retirement System
401 B Street, Suite 400
San Diego, CA 92101

Dear Members of the Board:

At your request, we performed the June 30, 2005 actuarial valuation of the San Diego City Employees' Retirement System (SDCERS). The valuation results with respect to the City of San Diego are contained in this report. Below are the key results of the valuation, the Unfunded Actuarial Liability and Funding Ratio at 6/30/2005, and the contribution rate percentages for Fiscal Year (FY) 2007, as compared to 6/30/2004 and FY06, respectively. In addition, we show the Governmental Accounting Standards Board Statement No. 25 annual required contribution (ARC) for FY 07.

Table I-1
SDCERS - City of San Diego

Valuation Date	**6/30/2005**	**6/30/2004**
Unfunded Actuarial Liability (millions)	$ 1,394.0	$ 1,368.65
Funding Ratio-using assets smoothed	68.2%	65.8%
Fiscal Year	**2007**	**2006**
City Contribution Rate during year	28.06%	27.91%
City Contribution Rate start of year	27.00%	26.86%
Annual Required Contribution (GASB):		
-if paid at the beginning of the year	$ 162 million	NA
-if paid throughout the year	$ 168 million	NA

These results are based on the same methods and assumptions used in the prior valuation. In addition, the contribution rates and dollar amounts shown above are in full compliance with Governmental Accounting Standards Board (GASB) Statement No. 25 as far as determining the annual required contributions (ARC). Finally, the City contribution rate also reflects our understanding of the 2004 "Gleason legal settlement" that SDCERS entered into which mandates a twenty-eight year amortization of the unfunded actuarial liability for this June 30, 2005 actuarial valuation.

I certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable actuarial standards set out by the Actuarial Standards Board and Actuarial Standards of Practice (ASOPs) Nos. 4, 27 and 35. As such, it reflects the actuary's responsibility under Section 5.8 of ASOP No. 4 "for assessing the implications of the overall results, in terms of short- and long-range benefit security and expected cost progression."

In preparing our report, we relied without audit, on information supplied by the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

Finally, in our best professional judgment, the assumptions and methodologies as adopted by the SDCERS Board of Administration are reasonably related to the experience and expectations for the Plan. In our opinion, their employment for this June 30, 2005 actuarial valuation will not, in and of itself, expose the Retirement System to unsound financial risk.

Sincerely,
Cheiron

Gene Kalwarski, FSA, EA, MAAA
Consulting Actuary

SECTION I
BOARD SUMMARY

The primary purpose of the actuarial valuation and this report is to measure, describe and identify as of the valuation date:

- The financial condition of the System,
- Past and expected trends in the financial condition of the System,
- The City's contribution rates for Fiscal Year 2007, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section we present a summary of the principal valuation results. This includes the basis upon which this year's valuation was completed and an examination of the current financial condition of SDCERS-City of San Diego. In addition, we present a review of the key historical trends followed by the projected financial outlook for the System.

A. Valuation Basis

This valuation represents Cheiron's first valuation performed for SDCERS. Before completing this valuation, it was necessary to recalculate the prior year's valuation performed by Gabriel Roeder Smith (GRS) and be able to replicate those results within tolerable limits. Our recalculation produced costs and liabilities within 1.5% of GRS' valuation results. This is well within the range of permitted tolerance required by the IRS (5%) for matching a prior actuary's valuation work in the private sector.

Our next step in performing the June 30, 2005 valuation was to evaluate the methods and assumptions used and benefits valued in the prior valuation. In making this evaluation we considered the following:

- Our independent assessment of the reasonableness of the actuarial assumptions and methods,
- Whether the methods and assumptions used would produce annual required contributions (ARC) meeting the parameters set forth by GASB Statement No. 25,
- Whether the methods and assumptions are reasonable when compared to other similar large public sector retirement systems,
- The results of experience studies performed by GRS in 2001 and 2005, and actuarial audits performed by Mercer in 2004 and Milliman in 1999,
- Recommendations on related issues made by other SDCERS advisors including Navigant, Sunlin Consulting, and outside legal counsel, and
- The amortization basis and assumptions mandated by the Gleason settlement for determining the City's contribution rates for fiscal years 2007 and 2008.

Our analyses of these factors lead us to conclude and recommend to the Board that this June 30, 2005 actuarial valuation be performed on the same basis as the June 30, 2004 valuation. Our reasons for this recommendation are as follows:

SECTION I
BOARD SUMMARY

- In our best professional judgment, the current assumptions and methodologies, individually and in combination, are reasonably related to the experience of and the expectations for the System. This same conclusion was reached by two other major actuarial firms who reviewed SDCERS in prior audits of the System.

- Based on advice provided by the Board's fiduciary counsel, we understand that until the June 30, 2006 valuation, the Gleason settlement mandates the SDCERS funding method and amortization period.

- The methods and assumptions used in the current valuation are also in full compliance with the requirements of GASB Statement Number 25 for determining the Annual Required Contribution (ARC).

- The methodology (level percent of pay funding) and assumptions used to pay off the Unfunded Actuarial Liability (UAL) are consistent with those used by the majority of other large public sector retirement systems nationwide, including Los Angeles City Employees' Retirement System, CALPERS, and CalSTRS.

Notwithstanding all the above, we do recommend that before the June 30, 2006 valuation is completed that the Board authorize the actuary to immediately commence a study of the following items for possible change in the future valuations:

1) The asset smoothing method
2) The method to apportion assets among contributing SDCERS employers
3) The current treatment of calculating disability benefits in connection with the Corbett Settlement
4) Continued use of the "waterfall" concept and the manner in which the Surplus Undistributed Earnings Reserve and other book reserves are maintained
5) Valuation of benefits that exceed the limits prescribed by Internal Revenue Code Section 415
6) Fully reflecting in the valuation for on-going contribution purposes, "contingent liabilities" such as Corbett, and the 13th check
7) The actuarial funding method: Projected Unit Credit vs. Entry Age Normal
8) The amortization basis used to amortize unfunded actuarial liabilities.

With respect to the funding method and UAL amortization, we understand that under the terms of the Gleason settlement these methods cannot be changed until the June 30, 2007 valuation.

Finally, the computed City contribution rate and dollar amounts shown in this valuation are constrained by the terms of the Gleason settlement. This does not mean that the City should not consider contributing a larger amount for FY 2007. Any amounts contributed in excess of the amounts computed here would serve to improve the funding status of the System and reduce what otherwise would become City computed contributions in the future.

SECTION I
BOARD SUMMARY

B. Current Financial Condition of SDCERS-City Employees

On the following pages we summarize the key results of the June 30, 2005 valuation and how they compare to the results from the June 30, 2004 valuation.

1. City Membership:

Table I-2
SDCERS - City of San Diego - Membership Total

Item	June 30, 2005	June 30, 2004	% Change
Active Counts	9,436	9,749	-3.2%
Terminated Vesteds	1,998	1,884	6.1%
Disabled	1,239	1,247	-0.6%
Retirees	3,728	3,480	7.1%
Beneficiaries	1,028	996	3.2%
Total City Members	17,429	17,356	0.4%
Active Member Payroll	$ 557,630,735	$ 540,180,941	3.2%
Average Pay per Active Member	59,096	55,409	6.7%
Annual Benefits Paid	$ 188,991,695	N/A	N/A

Total membership in SDCERS-City of San Diego increased from 2004 to 2005 by 0.4%. However, active membership declined by 3.2%. In addition, while total payroll increased by 3.2% (the assumption used for valuation purposes is 4.25%), the average pay per active member increased by 6.7%.

2. City Assets and Liabilities:

Table I-3
SDCERS - City of San Diego - Assets & Liabilities

Item	June 30, 2005	June 30, 2004	% Change
Actives	$ 2,058,660,269	$ 1,950,338,311	5.6%
Terminated Vesteds	135,169,560	100,329,445	34.7%
Disabled	344,346,695	*	NA
Retirees	1,737,804,362	1,946,660,328	12.2%
Beneficiaries	101,112,062	*	NA
Total Actuarial Liability	4,377,092,948	3,997,328,084	9.5%
Market Value Assets	$ 3,205,721,975	$ 2,847,479,155	12.6%
Actuarial Value Assets	2,983,079,852	2,628,680,052	13.5%
Unfunded Actuarial Liability	$ 1,394,013,096	$ 1,368,648,032	1.9%
Funding Ratio-Actuarial Value	68.2%	65.8%	3.6%

* Amount is included in the liabilities for retirees.

SECTION I
BOARD SUMMARY

Between June 30, 2004 and June 30, 2005, SDCERS-City of San Diego unfunded actuarial liabilities increased by 1.9%, from $1,368.6 million to $1,394.0 million, or $25.4 million. This increase was slightly less, by $0.9 million, than what was expected as of the prior valuation. With respect to investments, the System realized a gain of $82.5 million due to recognized earnings in excess of the assumed 8%. Offsetting this on the liability side was (1) a liability experience loss of $45.7, million and (2) a shortfall of $35.8 million between total contributions made in FY 2005 versus those determined actuarially in the 2004 valuation. More details on the components of these liabilities are shown in Section III of this report.

It is important to note that the current amortization basis used to pay off the UAL is based on increasing payments which are a level percent of payroll. As a result, absent any experience gains or losses, it is anticipated that the UAL will increase in the earlier years and then decrease in the later years, until the payments fully fund the UAL in 28 years. This expected increase in the UAL in the early years is an acceptable and common method used by many large public sector retirement systems, and specifically accepted by GASB in Statement No. 25. This is commonly acceptable because the schedule of increasing payments, both fully amortize the UAL, and remain level as a percent of payroll, thus resulting in an equal tax burden to all generations of taxpayers.

Finally, the previous table shows the SDCERS-City of San Diego funding ratio. This is the ratio of assets smoothed (actuarial value of assets) over total actuarial liabilities. For the first time since June 30, 1999, this ratio has improved from 65.8% to 68.2%.

3. City Contributions:

Table I-4
SDCERS - City of San Diego - Contributions

Item	June 30, 2005	June 30, 2004	% Change
Gross Normal Cost %	24.90%	24.98%	-0.3%
Member Cost %	10.61%	11.33%	-6.4%
Employer Normal Cost%	14.29%	13.65%	4.7%
Employer Unfunded Liability Cost	13.77%	14.26%	-3.4%
Total Employer Cost %	28.06%	27.91%	0.5%
Employer Cost% Beginning of Year	27.00%	26.86%	0.5%

With respect to the City's contribution for FY 2007, as stated earlier, the legal advice we have received indicates that the Gleason settlement mandates key components of the methods and assumptions used to determine the City's contribution for fiscal years 2006 through 2008. Specifically, the settlement mandates the contribution be based on the Projected Unit Credit (PUC) method of funding using a 28-year amortization for FY 2007. In addition, the agreement spells out that the City's contribution amount "shall be exclusive of the payments of employee contributions paid by the City." Based on that requirement, the City's fiscal year 2007 contribution rate is 28.06%, which is slightly up from the 27.91% required contribution for the prior year.

In dollars, the contribution rates shown here translate to a FY 2007 City contribution of **$162 million,** if paid in full as of July 1, 2006. If that amount is paid evenly throughout FY 2007, we would expect a payment of about $168 million, or $14 million per month, totaling $168 million over the 12-month period. In Section IV of this report we provide considerably more detail on the development of this contribution rate.

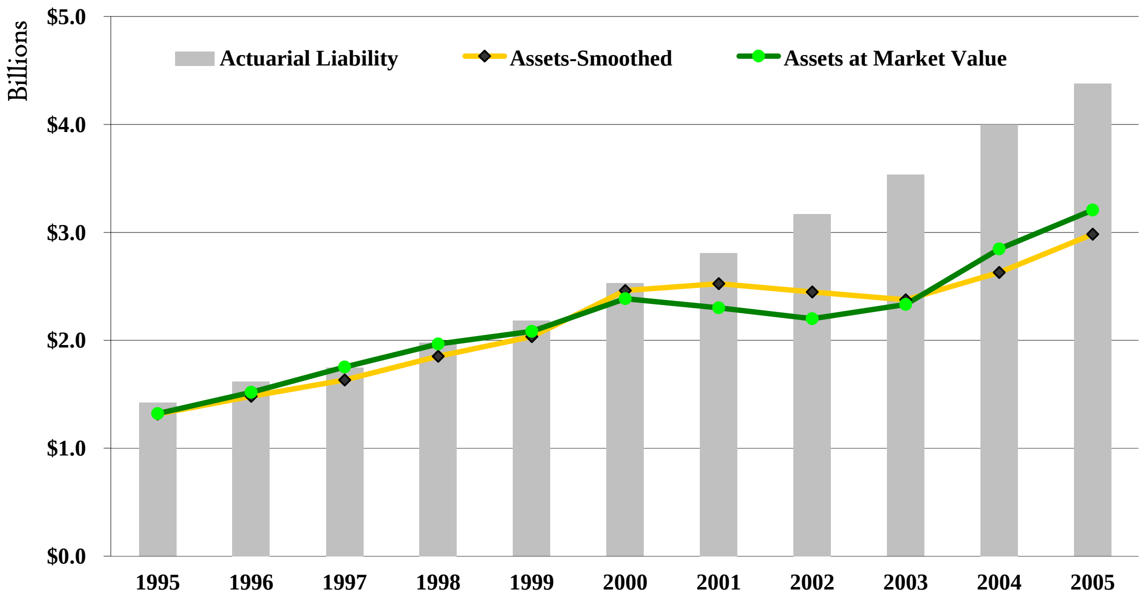
SECTION I
BOARD SUMMARY

C. Historical Trends SDCERS-City of San Diego

Despite the fact that most of the attention given to the valuation results has always been with respect to the most recently computed unfunded actuarial liability, funding ratio, and the City's contribution, it is important to remember that each valuation is merely a snapshot in the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of the System's funding ratios since 1995.

SDCERS-City of San Diego Assets and Liabilities 1995-2005



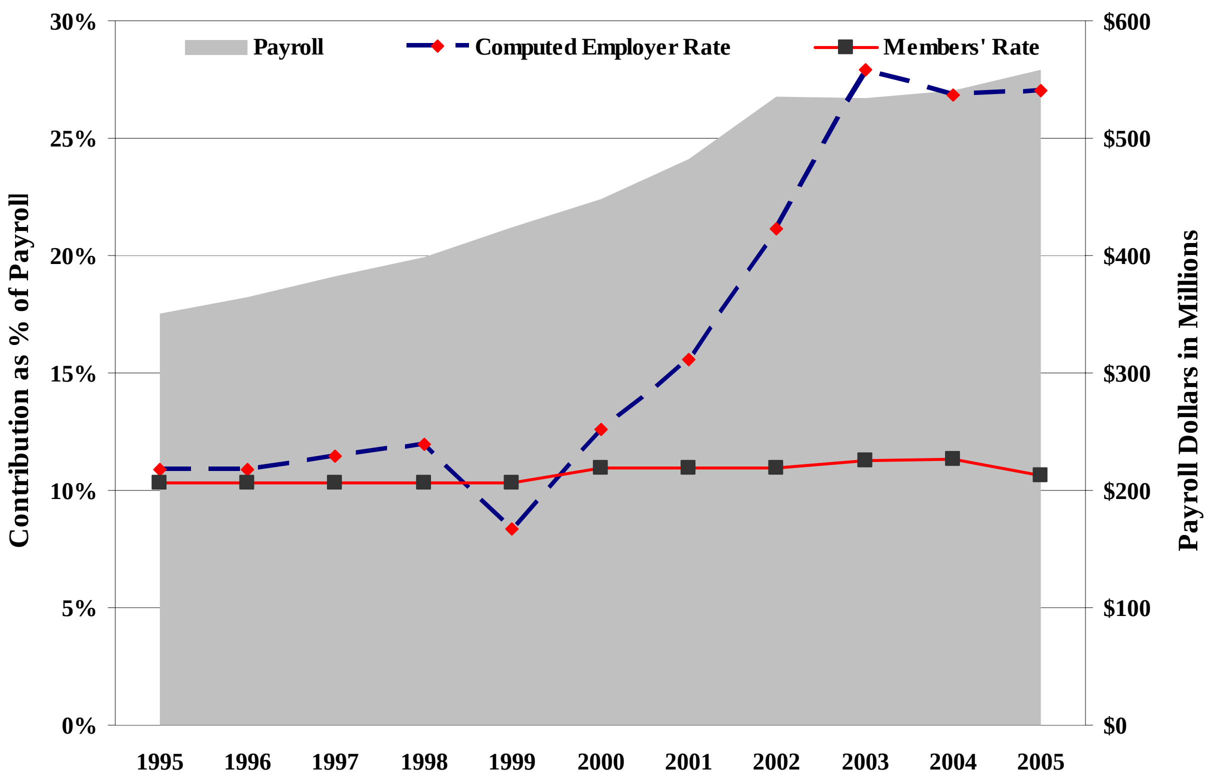
Funded Ratio	92.7%	91.4%	93.3%	93.6%	93.2%	97.3%	89.9%	77.3%	67.2%	65.8%	68.2%
UAL	$ 0.10	$ 0.14	$ 0.12	$ 0.13	$ 0.15	$ 0.07	$ 0.28	$ 0.72	$ 1.16	$ 1.37	$ 1.39

The chart above indicates that from 1995 to 2000, SDCERS maintained a strong funding ratio. However, from 2000 to 2003 the funding ratios significantly declined but then slightly improved in 2005.

SECTION I
BOARD SUMMARY

In the next chart below, we present the historical trends for the SDCERS-City of San Diego contribution rates and membership payroll since 1995. Please note that the chart below does not show the actual contribution rate made by the City, but rather, the rate calculated in each of the prior valuations. Starting with the June 30, 2006 valuation, we will begin to compare on a historical basis the actual contributions made by the City based upon what was expected in the preceding valuation. In this way, we can monitor over time the degree to which the City is meeting the actuarial required contributions, as determined by the SDCERS actuary.

SDCERS-City of San Diego City and Member Contribution Rates 1995-2005

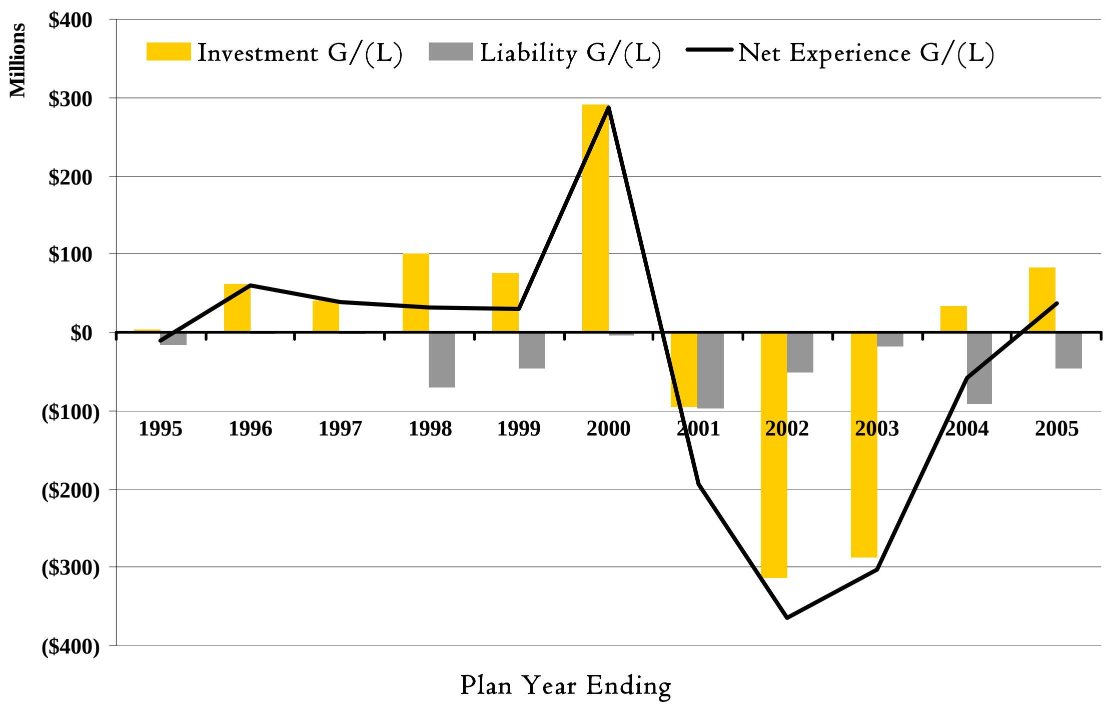


The key, and most striking information indicated by the chart above, is the escalation in the computed employer contribution rate between 1999 and the year 2003. Since then the rate has stabilized. In addition, this chart shows the escalation of the City's total payroll from 1995 through 2002, and the stabilization of payroll growth after 2002. Finally, the chart indicates that the members' rate has remained relatively stable throughout the period 1995 through 2005.

SECTION I
BOARD SUMMARY

The last historical chart below for SDCERS- City of San Diego presents the pattern of annual gains and losses, broken into the investment and liability components. What is not included in the chart are gains or losses attributable to contributions varying from those actuarially determined. Starting with the 2006 valuation, such historical differences will be shown. Finally, in the chart below, the experience shown prior to 1999 is for SDCERS-All Employers.

SDCERS-City of San Diego Historical Gain/(Loss) 1995-2005



The key insights from this chart are:

- Investment gains (gold bars) from 1995 through 2000 were significantly offset by investment losses from 2001through 2003.

- The System has recently turned the investment trend back to positive, as there have been investment gains for both 2004 and 2005. It is likely that this trend will continue in 2006 as there are over $200 million of unrecognized investment gains from the past still to be phased in over the next several years, and the first ten months of the current fiscal year (July 1, 2005 through May 12, 2006) have produced returns well in excess of the assumed 8% return.

- On the liability side prior to 2001, there was a pattern of relatively small losses. However, since 2001 those liability losses have significantly increased. Losses generally occur if members retire earlier than expected, receive pay increases higher

SECTION I
BOARD SUMMARY

than expected, or live longer. Losses also result when participants have purchased service credits, and when surplus undistributed earnings are used to pay benefits not reflected in the valuation (e.g. Corbett and 13th check).

The pattern of steady liability losses is an important concern. In future valuations, we expect to closely monitor this trend and as suggested earlier, make recommendations to address this pattern of consistent liability experience losses.

SECTION I
BOARD SUMMARY

D. Projected Financial Trends

Our analysis of SDCERS' projected financial trends is perhaps the most important part of this valuation. In this Section we present our assessment of the implications of the June 30, 2005 valuation results on the future outlook of the System in terms of benefit security (assets over liabilities) and the City's expected cost progression. In addition, given the concern regarding unfunded liabilities, we also show their expected future write down.

Our projections are shown on four different bases, current and shortened UAL amortization periods, each shown with level and volatile investment returns. We show shorter UAL amortization periods, because the Board is likely to be studying that in the coming months. More importantly, however, we also show volatile investment returns, which happen to average 8% over the projection period. We do this because SDCERS returns will never be level each and every year.

In the three set of charts that follow, we project the System's assets and liabilities, the write down of UAL, and the City's contributions as a percent of payroll on four different bases:

1) Assuming 8% returns each and every year, and the continuation of the write down of the UAL over 28 years as of June 30, 2005,

2) Assuming 8% returns each and every year, but moving to 15-year amortization as of July 1, 2008, and writing it down until 2023,

3) Assuming returns that vary each year but over the projection period equals on average the assumed 8% return, and the continuation of the 28-year UAL write down, and

4) Same as 3) (varying returns) but using a 15-year UAL write down starting in 2008.

The following table shows the assumed rate of return for each projected valuation year under the varying return exhibits. These rates average 8% over the 30-year period.

Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Return	8%	12%	16%	20%	16%	12%	8%	4%	0%	-4%

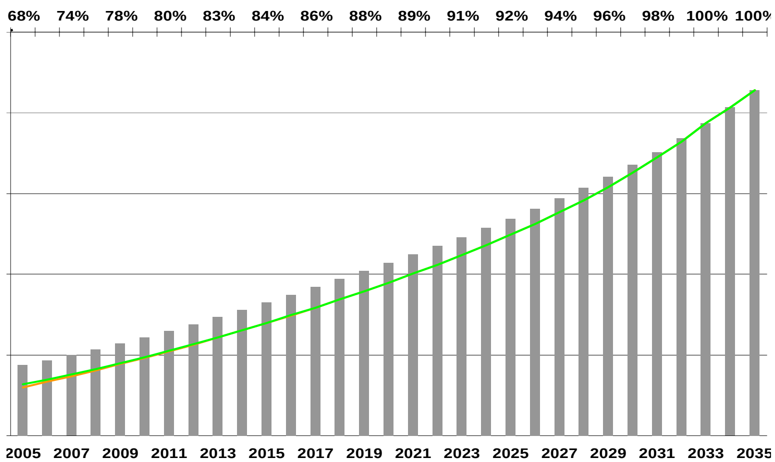
Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return	0%	4%	8%	8%	12%	16%	20%	16%	12%	8%

Fiscal Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Return	4%	0%	-4%	0%	4%	8%	4%	0%	12%	16%

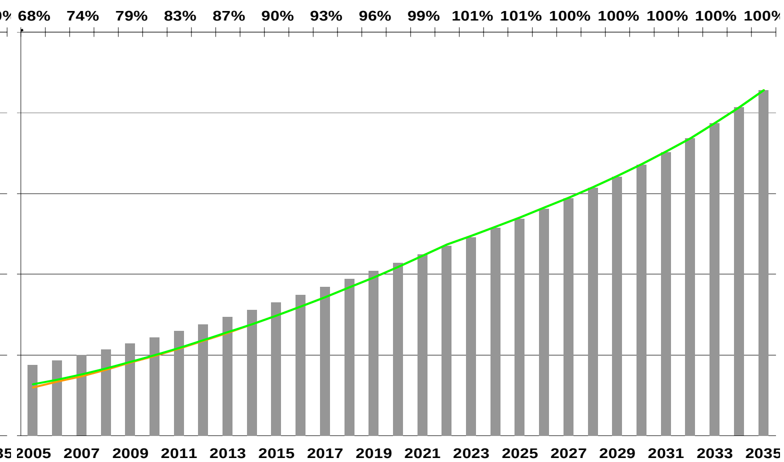
SECTION I
BOARD SUMMARY
Projection Set 1: Assets and Liabilities - City of San Diego

The charts below show asset measures (green and gold lines) compared to liabilities (grey bars). At the top of each chart is the progression of the System's funding ratios. The most revealing insight from these four charts is how varying investment returns can impact the Plan's unfunded liabilities and how little the amortization period affects the unfunded liabilities. This is ironic, because more attention is paid to the amortization period.

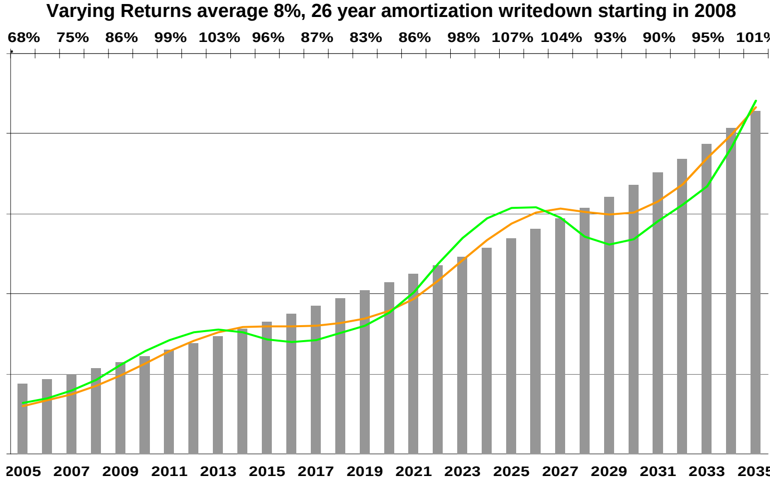
8% Return Every Year, 26 year amortization writedown starting in 2008



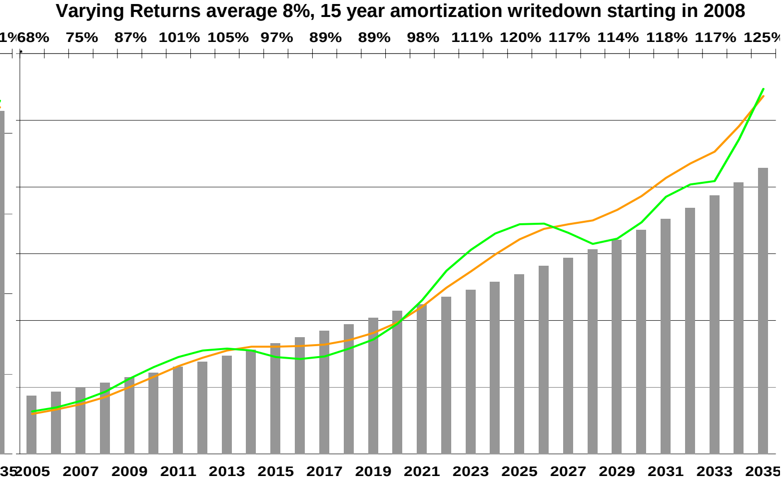
8% Return Every Year, 15 year amortization writedown starting in 2008



Varying Returns average 8%, 26 year amortization writedown starting in 2008



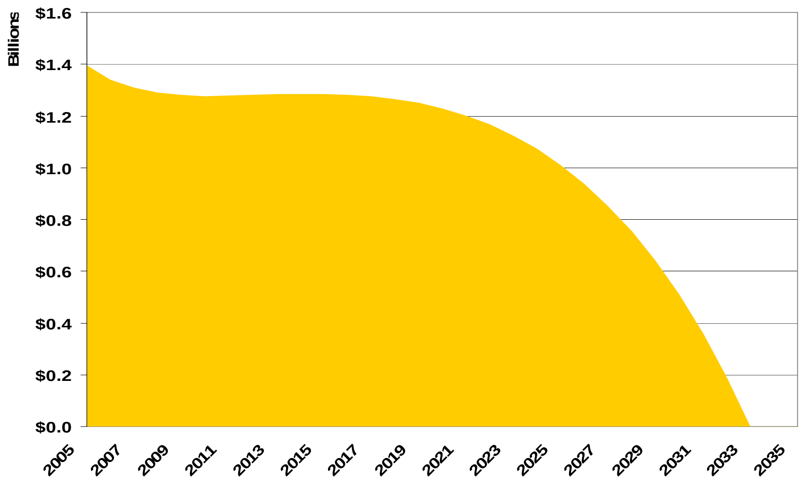
Varying Returns average 8%, 15 year amortization writedown starting in 2008



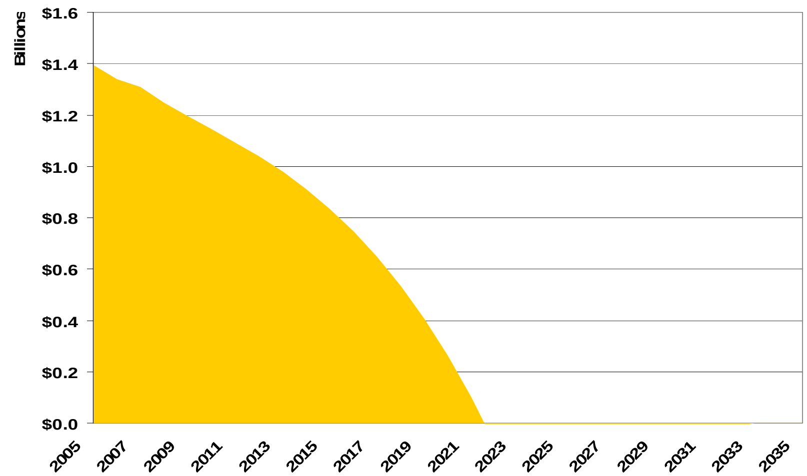
SECTION I
BOARD SUMMARY
Projection Set 2: Write down of the Unfunded Actuarial Liability (UAL) – City of San Diego

Choice of an amortization period is significant when viewing the projected write down of the UAL, especially when one is assuming level returns. The lower set of charts demonstrates that varying returns, which will occur, mean that there will always be dramatic swings in the annually computed UAL.

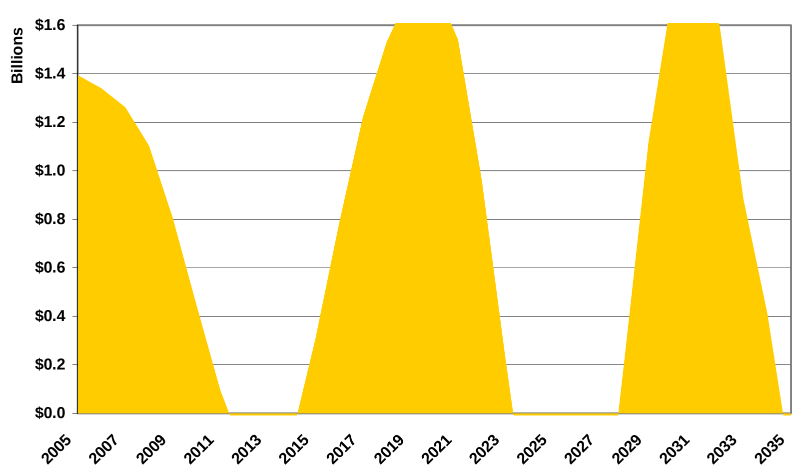
8% Return Every Year, 26 year amortization writedown starting in 2008



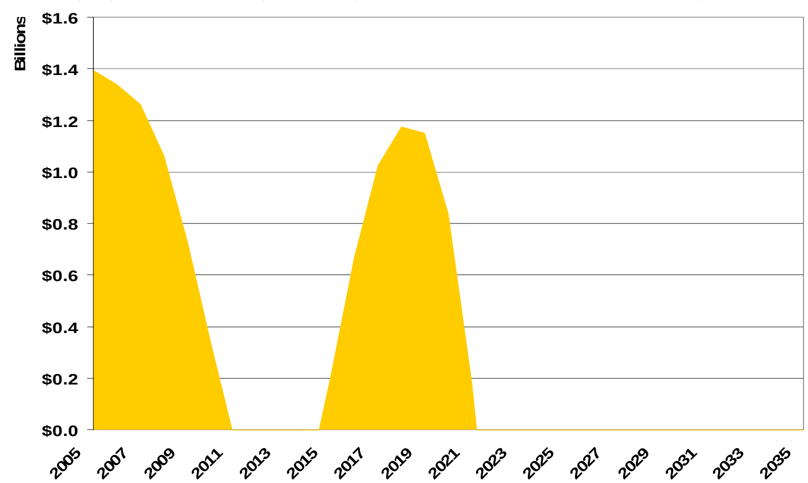
8% Return Every Year, 15 year amortization writedown starting in 2008



Varying Returns average 8%, 26 year amortization writedown starting in 2008



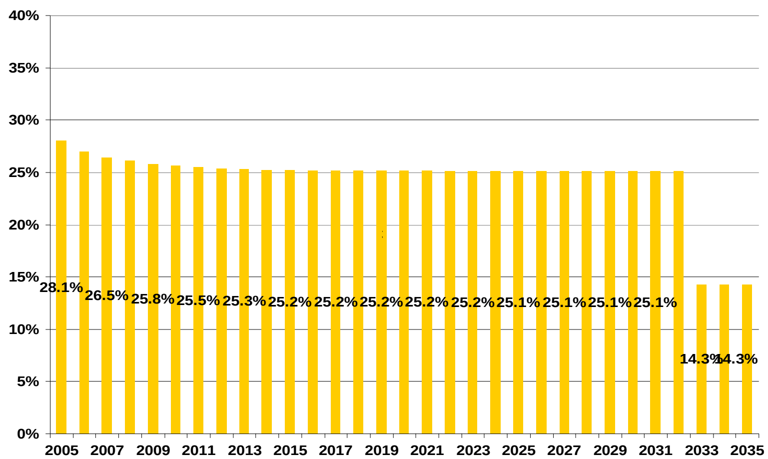
Varying Returns average 8%, 15 year amortization writedown starting in 2008



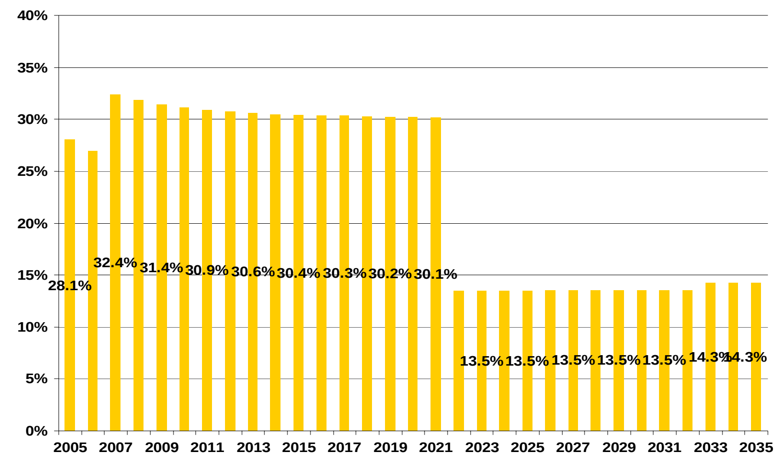
SECTION I
BOARD SUMMARY
Projection Set 3: Projected City Contribution Rate

Choice of an amortization period and varying returns all have a significant impact on the actuarially computed City contribution rate. Note how with varying returns (bottom set of charts) that the shorter the amortization period, the more dramatic the volatility in contribution rates. For example, between 2021 and 2022 in the lower right chart, the City's contribution rate would go from 37.4% of payroll to zero, within a one year period.

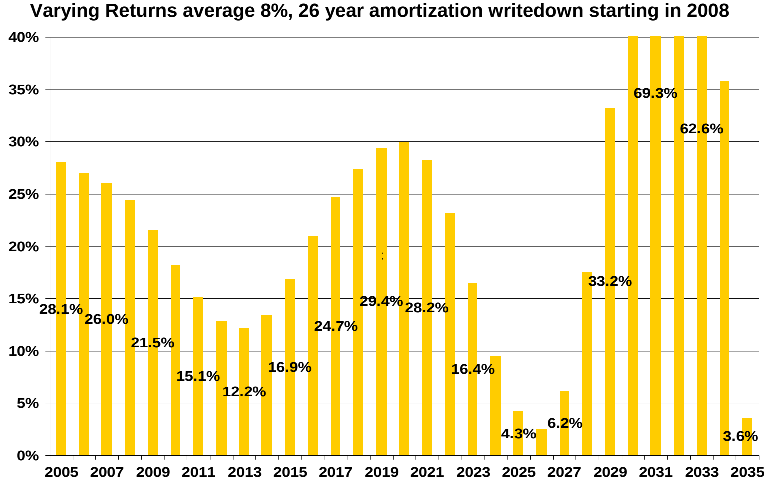
8% Return Every Year, 26 year amortization writedown starting in 2008



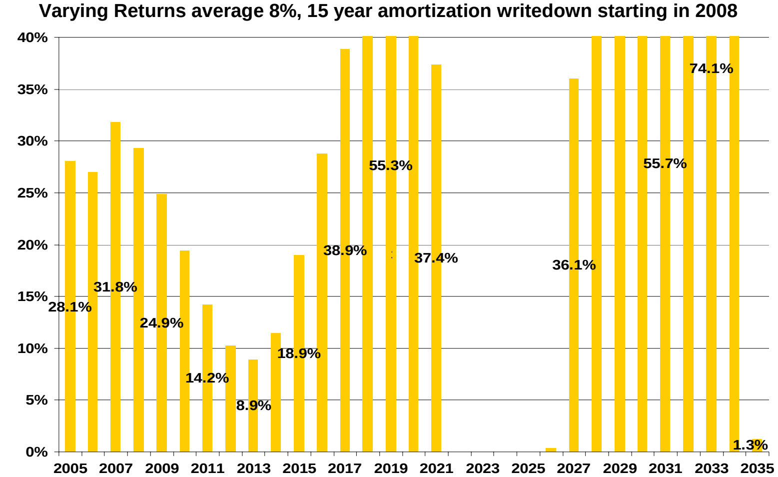
8% Return Every Year, 15 year amortization writedown starting in 2008



Varying Returns average 8%, 26 year amortization writedown starting in 2008



Varying Returns average 8%, 15 year amortization writedown starting in 2008



SECTION II
ASSETS

SDCERS has historically used and disclosed three different asset measurements which are presented in this Section of the report: market value, book value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The book value of assets, used for little if any actuarial purpose, measures assets based on their value when they were first purchased (cost value), plus earnings that have been realized such as interest and dividends and less depreciation for certain fixed assets. The actuarial value of assets is a value that attempts to smooth annual investment return performance, and is used in determining SDCERS contributions for each employer.

SDCERS has three contributing employers, and each receive separate actuarial valuation reports and cost determinations. However, the assets of all three employers are pooled for investment purposes. The apportionment of the assets between the employers directly impacts each employer's costs. Therefore, in the interest of ensuring transparency, we disclose in this section of the report information on the total assets of the System for all three employers. How those assets are apportioned to the City of San Diego, the Unified Port District, and the Airport Authority is explained here.

On the following pages we present detailed information on Plan assets:

- **Disclosure** of Plan assets at June 30, 2004 and June 30, 2005,
- **Statement of Cash Flows** during the year,
- Development of the **Actuarial Value of Assets**,
- **Apportionment** of Assets to Contributing Employers, and Member Groups within each, and
- Disclosure of **investment performance** for the year.

SECTION II
ASSETS

A. Disclosure

The market value of assets represents a "snap-shot" or "cash-out" value which provides the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace, because these fluctuations would result in volatility in the resulting contributions if the market value were used, unadjusted, in the valuation process, an actuarial value is developed. Table II-1 below discloses the market value by asset class of SDCERS – All employers gross assets on June 30, 2005. Table II-2 which follows, discloses the book value of gross assets, by type of book reserve.

Table II-1
SDCERS – All Employers
Summary of Reported Market Value of Total Defined Benefit Plan Assets

Cash	$ 439,955,832
US Stocks	1,408,723,587
International Stocks	580,214,627
Bonds	816,966,124
Mortgages	9,153
Real Estate	317,941,072
Receivables	135,143,522
Short Term Investments	148,312,263
Fixed Assets	141,380
Miscellaneous	300
Accounts Payable	(167,922,823)
Market Value of Assets – June 30, 2005	**$ 3,679,485,037**

Table II-2
SDCERS – All Employers
Summary of Book Value of Reserves of Total Defined Benefit Plan Assets

Member Deposit Reserve	$ 538,320,944
DROP Reserve	228,514,263
Employer Reserve	451,050,443
Retired Members Reserve	1,562,088,465
Undistributed Reserve	368,812,231
Encumbrance Reserve	1,030,778
Receivables Reserve	23,232,804
Fixed Assets Reserve	141,380
Retiree Health 401(h) Reserve	0
Supplemental COLA Reserve	17,839,967
Employee Contribution Rate Inc. Reserve	8,905,418
Other	17,158
Book Value of Reserves – June 30, 2005	**$ 3,199,953,851**
Unrealized Appreciation	**479,531,186**
Market Value of Reserves – June 30, 2005	**$ 3,679,485,037**

SECTION II
ASSETS

Table II-3 below develops both the net market value and net book value of System assets. Net assets are those assets available to fund the liabilities valued in determining the System's contribution requirements.

Table II-3
SDCERS – All Employers
Summary of Assets Available for Total Defined Benefit Plan

	Book Value	Market Value
1. Total Value of Assets – June 30, 2005	**$ 3,199,953,851**	**$ 3,679,485,037**
2. Less reserves and liabilities excluded from valuation		
a. Contingent benefits payable from distributed Earnings Reserve	$ 11,912,682	$ 11,912,682
b. Reserve for Retiree Health Insurance	0	0
c. Reserve for DROP contributions	228,514,263	228,514,263
d. Reserve for Employee Contribution Rate Increase	8,905,418	8,905,418
e. Reserve for Supplemental Cola	17,839,967	17,839,967
f. Total Excludable: Sum of a. through e.	267,172,329	267,172,329
3. Net Value of Assets – June 30, 2005: (1 – 2f)	**$ 2,932,781,522**	**$ 3,412,312,708**

SECTION II
ASSETS

B. System Cash Flows Year June 30, 2004 through June 30, 2005

Table II-4
SDCERS – All Employers
SDCERS Cash Flows

Market Value as of June 30, 2004				**$ 3,278,015,068** [1]
Additions				
Contributions:				
Employees' Contributions	$	69,876,512		
Employees' DROP Contributions		1,784,795		
Employer Contributions		144,238,133		
Employer DROP Contributions		1,795,935		
Offset Contributions		34,143,790		
DROP Monthly Pension Allowances		44,929,870		
DROP Supplemental Benefits		662,772		
Total Contributions			$	297,431,807
Investment Income:			$	367,527,114
Total Additions			$	664,958,921
Deductions				
Monthly Retirement Allowances	$	(131,417,246)		
Monthly Retirement Allowances - DROP		(44,929,870)		
Monthly Retirement Allowances – Supp COLA		(3,899,449)		
Health Insurance Payments		(7,910,366)		
Supplemental Benefit Payments		(4,139,464)		
Corbett Retro Payment		(16,023,644)		
DROP Payments to Members		(22,287,183)		
Death Benefit Payments		(597,142)		
Refunds of Member Contributions		(2,802,986)		
Administrative, Operating Expenses & Investment Expenses		(29,432,033)		
Depreciation Expense		(49,569)		
Total Deductions			$	(263,488,952)
Total Net Increase (Decrease)			**$**	**401,469,969**
Market Value as of June 30, 2005				**$ 3,679,485,037**

[1] This differs from the June 30, 2004 actuarial valuation by $441,270 – which reflects changes to receivables/payables made after last year's valuation was produced.

SECTION II
ASSETS

C. Actuarial Value of Assets

The Actuarial Value of Assets is usually the actuary's best estimate of long-term asset values and is used for evaluating the Plan's ongoing ability to meet its obligations. This value is developed by the actuary to reduce the impact volatile investment performance has on the resulting employer contribution rates.

The Actuarial Value has been calculated by using the average over the past 5 years of the ratio of net book value to net market value. The current book value is then multiplied by this average percentage. The following table illustrates the calculation of Actuarial Value of Assets for the June 30, 2005 valuation. The Actuarial Value of Assets on June 30, 2004 was $2,786,279,488.

Table II-5
Development of Actuarial Value of Assets
as of June 30, 2005

	(a) Net Market Value	(b) Net Book Value	(a)/(b) Ratio
1. Market Value as percentage of book value at assets:			
a. June 30, 2005	$ 3,412,312,708	$ 2,932,781,522	116.35%
b. June 30, 2004	3,018,048,094 [1]	2,594,301,199	116.33%
c. June 30, 2003	2,463,926,769	2,332,055,458	105.65%
d. June 30, 2002	2,326,417,315	2,348,350,495	99.07%
f. June 30, 2001	2,433,217,521	2,341,407,593	103.92%
2. Average Percentage for most recent 5-year period			108.27%
3. Current net book value of assets			$ 2,932,781,522
4. Preliminary actuarial value of assets: (2)*(3)			$ 3,175,322,553
5. Actuarial value of assets: (4) adjusted to be within 20% of market value			$ 3,175,322,553

[1] This differs from the June 30, 2004 actuarial valuation by $441,270 – which reflects changes to receivables/payables made after last year's valuation was produced.

SECTION II
ASSETS

D. Apportionment of Actuarial Value of Assets

The assets for all contributing employers are pooled for investment purposes. Below we show the assets apportioned amongst the three contributing employers, and then amongst the different member groups for the City.

Table II-6
Summary of Actuarial Assets Available for Each Member Group
As of June 30, 2005

Member Groups	Market Value Total Net Assets	Book Value Designated Reserves	Actuarial Value Total Net Assets
General	$ 1,655,133,812	$ 1,359,688,561	$ 1,540,182,326
Elected Officers	4,419,233	3,630,390	4,112,311
Safety	1,546,168,929	1,270,174,164	1,438,785,215
Total City	***$ 3,205,721,975***	***$ 2,633,493,114***	***$ 2,983,079,852***
Unified Port District	175,908,318	144,508,273	163,691,226
Airport Authority	30,682,414	25,205,532	28,551,475
Total-SDCERS	**$ 3,412,312,708**	**$ 2,803,206,919**	**$ 3,175,322,553**

The book value of reserves for each member group is equal to the sum of the following designated book reserves maintained by each employer: (1) the Member Contribution Reserve, (2) the Purchased Service Receivables Reserve, (3) the DROP reserve, (4) the Employer Contribution Reserve, and (5) the Retired Members Reserve.

The actuarial value of assets assigned to each employer is based on multiplying each employer's total designated reserve by a ratio. The ratio is the total SDCERS actuarial value of assets for all employers over the sum of the designated book reserves for all employers. The market value of assets for each employer is arrived at in a similar fashion, by multiplying each employer's actuarial value of assets by the ratio of total SDCERS market value of assets over the total actuarial value of assets.

The assets apportioned to each member group were based on the proportion of that member group's actuarial liability to the total actuarial liability for the employer.

E. Investment Performance

The Market Value of Assets returned 10.21% for the year ending June 30, 2005. This is compared to an assumed return of 8% and represents the second consecutive year that the return was above the assumed rate. The return in FY 2004 was 20.33%.

On an actuarial value of assets basis, the return for FY 2005 was 11.36%. This return produced for the Total System all employers, an overall investment gain of $86.9 million for the year ending June 30, 2005. (Note this reported gain is different than the investment gain of $82.5 million reported on page 5 in this report. The latter is the gain only for the City of San Diego.)

SECTION III
LIABILITIES

In this section, we present detailed information on System liabilities for SDCERS-City of San Diego including:

- **Disclosure** of System liabilities at June 30, 2004 and June 30, 2005;
- Statement of **changes** in the unfunded actuarial liabilities during the year; and
- Disclosure of certain **contingent liabilities** not reflected in determining the System's costs and liabilities, and how they have been funded.

A. Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of all Future Benefits:** Used for measuring all future System obligations, represents the amount of money needed today to fully pay off all benefits of the System both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.

- **Actuarial Liability-Projected Unit Credit (PUC):** Used for determining employer contributions and GASB accounting disclosures, this liability is calculated taking the Present Value of Future Benefits based on service as of the valuation date, but including future salaries growth.

- **Actuarial Liability-Entry Age Normal (EAN):** Used in this report purely for informational purposes here. This liability is calculated taking the Present Value of all Future Benefits and subtracting the present value of future Member Contributions and future Employer Normal Costs as determined under the EAN actuarial funding method.

- **Present Value of Accrued Benefits:** Disclosed in Section V of this report for accounting statement purposes (FASB 35). This liability represents the present value of future benefits payable to all plan participants if the Plan were terminated as of the valuation date, and future accruals and contributions stopped.

Table III-1 on the following page discloses the first three of these liabilities for the current and prior years' valuations. With respect to the Actuarial Liability a subtraction of the actuarial value of assets yields a **net surplus** or an **unfunded actuarial liability (UAL)**.

SECTION III
LIABILITIES

Table III-1
SDCERS - City of San Diego - Total

Item	June 30, 2005		June 30, 2004		
Present Value of Future Benefits					
Active	$	3,639,468,040	$	3,420,458,170	
Terminated Vesteds		135,169,560		100,329,445	
Disabled		344,346,695		N/A	
Retirees		1,737,804,362		1,946,660,328	*
Beneficiaries		101,112,062		N/A	
Total City	$	5,957,900,719	$	5,467,447,943	
Actuarial Liability - PUC					
Active	$	2,058,660,269	$	1,950,338,311	
Terminated Vesteds		135,169,560		100,329,445	
Disabled		344,346,695		N/A	
Retirees		1,737,804,362		1,946,660,328	*
Beneficiaries		101,112,062		N/A	
Total City	$	4,377,092,948	$	3,997,328,084	
Market Value of Assets	$	3,205,721,975	$	2,847,479,155	
Actuarial Value of Assets	$	2,983,079,852	$	2,628,680,052	
Unfunded Actuarial Liability	$	1,394,013,096	$	1,368,648,032	
Actuarial Liability - EAN					
Total Present Value of Benefits	$	5,957,900,719	$	5,467,447,943	
Present Value of Future Normal Costs					
Employer Portion		743,299,479		N/A	
Employee Portion		612,559,471		N/A	
Actuarial Liability - EAN	$	4,602,041,768		N/A	
Actuarial Value of Assets	$	2,983,079,852	$	2,628,680,052	
Unfunded EAN Actuarial Liability	$	1,618,961,916		N/A	

* The June 30, 2004 reported retiree liability includes the liability for disabled members, retirees and beneficiaries.

The retired member liability for purposes of adjusting the Retired Member Book Reserve as of June 30, 2005, is $ 2,183,263,119. (This figure reflects liabilities for beneficiaries and disabled retirees.)

SECTION III
LIABILITIES

Table III-2 which follows shows actuarial liability as of June 30, 2005 for general and elected members of SDCERS-City of San Diego.

Table III-2
SDCERS - City of San Diego - General & Elected

Item	June 30, 2005	June 30, 2005	June 30, 2005
Present Value of Future Benefits	**Total**	**General**	**Elected**
Active	$ 2,038,278,561	$ 2,033,809,109	$ 4,469,452
Terminated Vesteds	99,549,127	98,990,699	558,428
Disabled	65,857,304	65,857,304	-
Retirees	857,683,641	852,351,577	5,332,064
Beneficiaries	45,542,598	45,503,060	39,538
Total City General & Elected	**$ 3,106,911,231**	**$ 3,096,511,749**	**$ 10,399,482**
Actuarial Liability - PUC			
Active	$ 1,125,073,162	$ 1,123,039,242	$ 2,033,920
Terminated Vesteds	99,549,127	98,990,699	558,428
Disabled	65,857,304	65,857,304	-
Retirees	857,683,641	852,351,577	5,332,064
Beneficiaries	45,542,598	45,503,060	39,538
Total City General & Elected	**$ 2,193,705,832**	**$ 2,185,741,882**	**$ 7,963,950**

In Table III-3 below we show actuarial liability as of June 30, 2005 for safety members of SDCERS-City of San Diego.

Table III-3
SDCERS - City of San Diego - Safety

Item	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
Present Value of Benefits	**Total**	**Police**	**Fire**	**Lifeguard**
Active	$ 1,601,189,479	$ 1,108,161,526	$ 453,499,269	$ 39,528,684
Terminated Vesteds	35,620,433	29,426,196	3,945,506	2,248,731
Disabled	278,489,391	181,814,388	88,110,475	8,564,528
Retirees	880,120,721	491,332,830	380,265,448	8,522,443
Beneficiaries	55,569,464	33,934,959	21,424,658	209,847
Total City Safety	$ 2,850,989,488	$ 1,844,669,899	$ 947,245,356	$ 59,074,233
Actuarial Liability - PUC				
Active	$ 933,587,107	$ 639,670,655	$ 273,464,995	$ 20,451,457
Terminated Vesteds	35,620,433	29,426,196	3,945,506	2,248,731
Disabled	278,489,391	181,814,388	88,110,475	8,564,528
Retirees	880,120,721	491,332,830	380,265,448	8,522,443
Beneficiaries	55,569,464	33,934,959	21,424,658	209,847
Total City Safety	$ 2,183,387,116	$ 1,376,179,028	$ 767,211,082	$ 39,997,006

SECTION III
LIABILITIES

B. Changes in Unfunded Actuarial Liabilities

In general, the UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we will report on those elements of change in the UAL which are of particular significance, potentially affecting the long-term financial outlook of the Plan. Below we present key changes in liabilities since the last valuation.

Table III-4
Development of 2005 Experience Gain/(Loss) SDCERS - City of San Diego

1.	Unfunded Actuarial Liability at June 30, 2004	$	1,368,648,032
2.	Beginning of year accrued liability payment		(77,040,177)
3.	Interest accrued ((1+2) x .08)		103,328,628
4.	Expected Unfunded Actuarial Liability at June 30, 2005 (1+2+3)		1,394,936,484
5.	Actual Unfunded Liability at June 30, 2005		1,394,013,096
6.	Difference: (4 - 5)		923,388
7.	Portion of difference (6) due to experience Gain/(Loss)		36,775,882
8.	Portion of difference (6) due to contributions less than expected	$	(35,852,494)

Elements of Experience Gain/(Loss)

1.	G(L) due to investment experience	$	82,500,398
2.	G(L) due to purchased service credit		(7,570,308)
3.	G/(L) due to demographic and payroll experience		(34,818,266)
4.	G/(L) due to payments towards benefits not reflected in valuation		(11,743,844)
5.	Other Gain/(Loss)		8,407,902
6.	Total Estimated Experience Gain/(Loss): sum 1 through 5	**$**	**36,775,882**

On the following page, in Table III-5, we show the history of past experience gains and losses.

SECTION III
LIABILITIES

Table III-5
Experience Gain/(Loss) - Historical SDCERS City of San Diego*

Valuation Date		Gain/(Loss)	Beginning-of-Year Actuarial Liabilities	Gain/(Loss) Percentage
6/30/1992		$ 57,952,320	$ 1,006,299,729	5.8%
6/30/1993		(42,605,778)	1,057,238,917	(4.0)
6/30/1994		(6,744,850)	1,220,830,059	(0.6)
6/30/1995		(11,370,990)	1,338,279,541	(0.8)
6/30/1996		59,592,960	1,476,710,662	4.0
6/30/1997		38,473,993	1,682,604,532	2.3
6/30/1998		31,086,010	1,822,432,018	1.7
6/30/1999	*	29,750,299	1,979,668,038	1.5
6/30/2000		286,639,160	2,181,547,453	13.1
6/30/2001		(193,168,984)	2,528,773,900	(7.6)
6/30/2002		(364,815,155)	2,809,537,745	(13.0)
6/30/2003		(303,699,305)	3,168,921,175	(9.6)
6/30/2004		(58,123,874)	3,532,625,521	(1.6)
6/30/2005		36,775,882	3,997,328,084	0.9

* Beginning with June 30, 1999 valuation, experience is City only, prior years included all employers

SECTION III
LIABILITIES

C. Other Liabilities

At the request of the Board, we disclose here certain liabilities that are not reflected in the determination of costs and liabilities disclosed elsewhere in this report. These liabilities are attributable to either prior legal settlements, provisions within the San Diego Municipal Code (SDMC), or already funded and are simply being disclosed here (e.g. DROP). All liabilities shown in this part are SDCERS-City of San Diego.

1. **Corbett Actuarial Liabilities** .... $ 58,923,978
   FY2006 estimated payment .... $ 5.4 million

   The Corbett settlement which became effective on July 1, 2000, is a legal settlement between SDCERS-City of San Diego and former and current participants of the retirement system to resolve a legal dispute over the definition of what constituted eligible compensation upon which retirement benefits were calculated. Depending upon which membership group one belonged to (general or safety), and which membership category one belonged to (active or inactive) on July 1, 2000, participants would be eligible to receive an increase in benefits ranging from 7-10%. However, payments of such additional benefits were "contingent" and could only be made each year if there were sufficient "*Surplus Undistributed Earnings*" to pay them.

2. **"13th Check" Liabilities** .... $ 56,686,313
   FY2006 estimated payment .... $ 4.0 million

   The 13th Check resulted from a legal settlement between the City and retirees back in the 1980's. The benefit was designed as an alternate method of dividing and sharing realized gains between the retirees and the Retirement System. The 13th Check benefit for most retirees consists of $30 per year of service credit, payable in November of each year. A small group of retirees receive $45, $60 or $75 for each year of service credit, depending on their dates of retirement. The City's 13th Check benefit is projected at just over $4.0 million. The 13th Check benefit is closed to new hires after June 30, 2005. Like the Corbett payments discussed above, payment of the "13th check" benefits can only be made if there are sufficient surplus undistributed earnings available.

3. **Supplemental Cola** .... $ 17,839,967
   FY2006 estimated payment .... $ 3.8 million

   In 1998, a Supplemental Cola benefit was established to augment the retirement benefit of those members who retired on or before June 30, 1982. This group of retirees had seen significant decline in the purchasing power of their retirement benefits due to the very high inflation that occurred a few decades ago. The Supplemental Cola benefit consisted of increasing the benefit level of those eligible retirees who had fallen below 75% of the purchasing power of their original benefit level, back to the 75% level. This benefit was funded by a reserve initially established at $35 million which came from Surplus Undistributed Earnings from FY 1998. This reserve is to be credited interest each year by the Board if sufficient earnings are available. As of June 30, 2005, this reserve had approximately $17.8 million. If this reserve should be exhausted, payment of the Supplemental Cola would cease.

SECTION III
LIABILITIES

4. Employee Contribution Rate Increase Liability.. $ 8,905,418
FY2006 estimated payment .... $ 8,905,418

This liability represents the outstanding balance of a reserve that had been set up pursuant to Manager's Proposal I to help defray the member's portion of the cost to fund various benefit increases. We understand that by June 30, 2006, the reserve will have been fully extinguished.

5. DROP Account Balance... $ 227,223,791

This represents as of June 30, 2005 the total amounts deposited in the DROP Reserves plus credited interest. These amounts will be paid when DROP participants enter into pay status. The amounts are not included in either the liabilities or assets used to determine the costs of the System.

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use a funding method that will result in a pattern of contributions that are both stable and predictable.

For this Plan, the funding methodology employed is the **Projected Unit Credit Cost Method**. Under this method, there are two components to the total contribution: the **normal cost**, and the **unfunded actuarial liability contribution**. The normal cost represents for each active participant, the present value as of the valuation date of that portion of the projected benefit assigned to the current year. Subtracting from the normal cost the expected employee contribution for the year yields the employer's normal cost contribution. The difference between the PUC Actuarial Liability and the actuarial value of assets is the unfunded actuarial liability. Under the terms of the Gleason settlement, the UAL for FY 2007 is to be amortized over 28 years.

Table V-1 on the following page shows how the City's contribution rate for the System for FY 2007 is developed. This methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

SECTION IV
CONTRIBUTIONS

Table IV-1
SDCERS - City of San Diego
Development of the City's Contribution as of June 30, 2005, For (FY 2007)
(dollars in millions)

	WEIGHTED TOTAL CITY	Non Safety			Safety			
		Weighted Total	General	Elected	Weighted Total	Police	Fire	Lifeguard
1. Total Normal Cost Rate	**24.90%**	21.14%	21.12%	28.81%	31.81%	31.75%	32.17%	29.61%
2. Member Contribution Rate	**10.61%**	9.86%	9.86%	8.88%	12.07%	12.14%	11.88%	11.96%
3. Employer Normal Cost Rate (1-2)	**14.29%**	11.28%	11.26%	19.93%	19.74%	19.61%	20.29%	17.65%
4. June 30, 2005 Payroll	**$ 557.6**	$ 361.1	$ 360.4	$ 0.7	$ 196.5	$ 136.6	$ 54.5	$ 5.4
5. Present Value Future Payroll	**5,816.6**	3,850.9	3,843.5	7.4	1,965.7	1,380.4	526.4	58.9
6. Present Value Future Normal Costs (1 x 5)	**1,438.9**	813.9	811.8	2.1	625.0	438.2	169.3	17.4
7. Actuarial Liability	**$ 4,377.1**	$ 2,193.7	$ 2,185.7	$ 8.0	$ 2,183.4	$ 1,376.2	$ 767.2	$ 40.0
8. Actuarial Assets[1]	**2,983.1**	1,544.3	1,540.2	4.1	1,438.8	906.8	505.6	26.4
9. Unfunded Actuarial Liability (7-8)	**$ 1,394.0**	$ 649.4	$ 645.5	$ 3.9	$ 744.6	$ 469.4	$ 261.6	$ 13.6
10. Unfunded Actuarial Liability Rate	**13.77%**	9.91%	9.87%	30.28%	20.88%	18.93%	26.42%	13.97%
11. Total Contribution Rate (3+10)	**28.06%**	21.19%	21.13%	50.21%	40.62%	38.54%	46.71%	31.62%
12. Total Contribution Rate Beginning of Year	**27.00%**	20.39%	20.33%	48.31%	39.08%	37.09%	44.95%	30.43%
13. Beginning of Year FY 2007 Contribution	**$ 162.0**	$ 79.3	$ 78.9	$ 0.4	$ 82.7	$ 54.5	$ 26.4	$ 1.8
14. FY 2007 Contribution if Paid During Year.	**$ 168.4**	$ 82.4	$ 82.0	$ 0.4	$ 86.0	$ 56.7	$ 27.4	$ 1.9

[1] Assets are allocated to subset member groups within Non Safety and Safety proportionately to each group's liabilities in row 7

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board (FASB) requires the Plan to disclose certain information regarding its funding status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a “snap shot” view of how the System’s assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes, that is, the PUC Actuarial Liability.

Both the present value of accrued benefits (FASB-35) and the actuarial liability (GASB-25) are determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 8% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2004 and June 30, 2005 are exhibited in Table V-1 and Table V-2.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1
SDCERS - City of San Diego - Total

Item	June 30, 2005	June 30, 2004 [1]	% Change
FASB No. 35 Basis			
1. Present Value of Benefits Accrued and Vested to Date			
a. Members Currently Receiving Payments	$ 2,183,263,118	$ 1,946,660,328	12.2%
b. Vested Terminated and Inactive Members	135,169,560	100,329,445	34.7%
c. Active Members	1,054,065,631	980,000,000	7.6%
d. Total PVAB	$ 3,372,498,309	$ 3,026,989,773	11.4%
2. Assets at Market Value	3,205,721,975	2,847,479,155	12.6%
3. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	$ 166,776,334	$ 179,510,618	-7.1%
4. Ratio of Assets to Value of Benefits (2)/(1)(d)	95.05%	94.07%	1.0%
GASB No. 25 Basis			
1. Actuarial Liabilities			
a. Members Currently Receiving Payments	$ 2,183,263,119	$ 1,946,660,328	12.2%
b. Vested Terminated and Inactive Members	135,169,560	100,329,445	34.7%
c. Active Members	2,058,660,269	1,950,338,311	5.6%
d. Total PVAB	$ 4,377,092,948	$ 3,997,328,084	9.5%
2. Actuarial Value of Assets	$ 2,983,079,852	$ 2,628,680,052	13.5%
3. Unfunded Actuarial Liability	$ 1,394,013,096	$ 1,368,648,032	1.9%
4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d)	68.15%	65.76%	3.6%

[1] The June 20, 2004 FASB No. 35 active member liability was estimated by Cheiron.

Table V-2
SDCERS - City of San Diego - Total

Item	Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2004	**$ 3,026,989,773**
Increase (Decrease) During Year Attributable to:	
Passage of Time	233,222,520
Benefits Paid - FY 2005	(223,416,535)
Assumption Change	-
Plan Amendment	-
Benefits Accrued, Other Gains/Losses	335,702,551
Net Increase (Decrease)	$ 345,508,536
Actuarial Present Value of Benefits Accrued and Vested as of June 30, 2005	**$ 3,372,498,309**

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-3 through V-5 are exhibits required for the City's Comprehensive Annual Financial Report (CAFR). The GFOA recommends showing at least 6 years of experience in each of these exhibits. Table V-3 shows the Notes to Required Supplementary Information. Table V-4 is a history of gains and losses in Actuarial Liability, and Table V-5 is the Solvency Test which shows the portion of Actuarial Liability covered by Assets.

Table V-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2005
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent closed
Remaining amortization period	28 years
Asset valuation method	5-Year ratio market to book value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases due to inflation*	4.25%
Cost-of-living adjustments	2.0%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Administration based on the most recent review of the System's experience, completed in 2000.

The rate of employer contributions to the System is composed of the normal cost and an amortization of the unfunded actuarial liability. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability.

* Additional merit salary increases of 0.50% to 4.50% based on a participant's years of service, and membership group are also assumed. These increases are not used in the amortization of SDCERS Unfunded Actuarial Liabilities.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Actuarial Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience
and Actual Experience

Type of Activity	*Gain (or Loss) for Year ending June 30, 2005*
Investment Income	$ 82,500.398
Combined Liability Experience	$ (45,724,516)
Gain (or Loss) During Year from Financial Experience	$ 36,775,882
Non-Recurring Gain (or Loss) Items	$ 8,407,902
Composite Gain (or Loss) During Year	**$ 28,367,980**

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-5
GASB SOLVENCY TEST
Actuarial Liabilities For
($ in thousands)

Valuation Date June 30,	(A) Active Member Contributions	(B) Retirees And Beneficiaries	(C) Remaining Active Members' Liabilities	Reported Assets [1]	Portion of Actuarial Liabilities Covered by Reported Assets (A)	(B)	(C)
2005	$ 457,550	$ 2,183,263	$ 1,736,279	$ 2,983,080	100%	100%	19.71%
2004	414,986 *	1,946,660	1,635,681	2,628,680	100	100	16.33
2003	375,000 *	1,741,490	1,416,126	2,375,431	100	100	18.28
2002	353,686	1,440,392	1,374,742	2,448,208	100	100	47.58
2001	296,851	1,337,799	1,174,888	2,525,646	100	100	75.84
2000 [3]	276,352	1,170,075	1,082,347	2,459,815	100	100	93.63
1999	238,278	1,026,395	916,874	2,033,153	100	100	83.82
1998 [2]	220,415	885,586	873,667	1,852,151	100	100	85.40
1997	210,888	699,535	838,445	1,632,361	100	100	86.10

[1] Actuarial Value of Assets
[2] Reflects revised actuarial and economic assumptions
[3] Reflects non-contingent Corbett benefit increases
* estimated

APPENDIX A
MEMBERSHIP INFORMATION

Table A-1
SDCERS - City of San Diego
Active Member Data

	June 30, 2005	June 30, 2004	% Change
Total			
Count	9,436	9,749	-3.2%
Average Current Age	43.0	42.8	0.4%
Average Service	12.9	12.7	2.2%
Average Valuation Pay	$ 59,096	$ 55,409	6.7%
Annual Compensation	$ 557,630,735	$ 540,180,940	3.2%
Service Without Permissive Service Purchased	11.3	11.3	-0.1%
Members with Purchased Service	3,442	2,983	15.4%
Amount of Service Purchased	15,244	13,302	14.6%
General			
Count	6,808	7,117	-4.3%
Average Current Age	44.1	43.8	0.8%
Average Service	12.7	12.4	2.5%
Average Valuation Pay	$ 53,042	$ 50,112	5.8%
Annual Compensation	$ 361,111,714	$ 356,650,622	1.3%
Service Without Permissive Service Purchased	10.7	10.8	-0.6%
Members with Purchased Service	2,760	2,485	11.1%
Amount of Service Purchased	13,510	11,587	16.6%
Safety			
Count	2,628	2,632	-0.2%
Average Current Age	40.1	40.2	-0.2%
Average Service	13.5	13.4	1.0%
Average Valuation Pay	$ 74,779	$ 69,730	7.2%
Annual Compensation	$ 196,519,021	$ 183,530,318	7.1%
Service Without Permissive Service Purchased	12.9	12.8	0.6%
Members with Purchased Service	682	498	36.9%
Amount of Service Purchased	1,734	1,715	1.1%

APPENDIX A
MEMBERSHIP INFORMATION

Table A-2
SDCERS - City of San Diego
Non-Active Member Data

	Count			Average Age		
	June 30, 2005	June 30, 2004	%Change	June 30, 2005	June 30, 2004	%Change
Total						
Retired	3,728	3,480	7.1%	67.0	67.5	-0.6%
Disabled	1,239	1,247	-0.6%	60.7	60.3	0.7%
Beneficiaries	1,028	996	3.2%	75.2	74.7	0.7%
Payee Total	5,995	5,723	4.8%	67.1	67.2	-0.1%
DROP Participants	838	781	7.3%	57.8	57.8	0.1%
Deferred Vested [1]	1,998	1,884	6.1%	44.1	43.7	0.8%
Vested < 10 yrs svc	1,421	1,364	4.2%			
General						
Retired	2,487	2,318	7.3%	69.2	69.8	-0.9%
Disabled	429	435	-1.4%	60.0	59.7	0.4%
Beneficiaries	664	646	2.8%	77.3	76.8	0.6%
Payee Total	3,580	3,399	5.3%	69.6	69.9	-0.4%
DROP Participants	478	410	16.6%	59.8	60.0	-0.3%
Deferred Vested [1]	1,732	1,651	4.9%	44.6	44.1	1.2%
Vested < 10 yrs svc	1,256	1,218	3.1%			
Safety						
Retired	1,241	1,162	6.8%	62.7	62.7	0.0%
Disabled	810	812	-0.2%	61.0	60.5	0.8%
Beneficiaries	364	350	4.0%	71.3	70.6	0.9%
Payee Total	2,415	2,324	3.9%	63.5	63.2	0.5%
DROP Participants	360	371	-3.0%	55.2	55.4	-0.3%
Deferred Vested [1]	266	233	14.2%	40.3	40.9	-1.5%
Vested < 10 yrs svc	165	146	13.0%			

1 Includes all members having a contribution balance still on account with SDCERS.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-3
SDCERS - City of San Diego
Non-Active Member Data

	Total Annual Benefit			Average Annual Benefit		
	June 30, 2005	June 30, 2004	%Change	June 30, 2005	June 30, 2004	%Change
Total						
Retired	$ 141,153,674	$ 123,675,151	14.1%	$ 37,863	$ 35,539	6.5%
Disabled	29,094,290	28,351,092	2.6%	23,482	22,735	3.3%
Beneficiaries	9,941,063	9,268,375	7.3%	9,670	9,306	3.9%
Payee Total	$ 180,189,027	$ 161,294,618	11.7%	$ 30,057	$ 28,184	6.6%
DROP Participants	$ 45,246,893	$ 41,896,136	8.0%	$ 53,994	$ 53,644	0.7%
Deferred Vested [1]	$ 50,420,350	$ 39,051,767	29.1%	$ 25,235	$ 20,728	21.7%
General						
Retired	$ 72,836,675	$ 62,465,890	16.6%	$ 29,287	$ 26,948	8.7%
Disabled	5,730,694	5,635,700	1.7%	13,358	12,956	3.1%
Beneficiaries	4,894,940	4,533,191	8.0%	7,372	7,017	5.1%
Payee Total	$ 83,462,309	$ 72,634,781	14.9%	$ 23,313	$ 21,369	9.1%
DROP Participants	$ 20,467,739	$ 17,347,798	18.0%	$ 42,820	$ 42,312	1.2%
Deferred Vested [1]	$ 40,135,911	$ 30,964,222	29.6%	$ 23,173	$ 18,755	23.6%
Safety						
Retired	$ 68,316,999	$ 61,209,261	11.6%	$ 55,050	$ 52,676	4.5%
Disabled	23,363,596	22,715,392	2.9%	28,844	27,975	3.1%
Beneficiaries	5,046,123	4,735,184	6.6%	13,863	13,529	2.5%
Payee Total	$ 96,726,718	$ 88,659,837	9.1%	$ 40,052	$ 38,150	5.0%
DROP Participants	$ 24,779,154	$ 24,548,338	0.9%	$ 68,831	$ 66,168	4.0%
Deferred Vested [1]	$ 10,284,439	$ 8,087,545	27.2%	$ 38,663	$ 34,710	11.4%

1 Includes all members having a contribution balance still on account with SDCERS. Annual Benefit for deferred vested members is the total Contribution Balance on account as of June 30, 2005.

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
Total City

	Years of Service Accrued										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	78	84	2	-	-	-	-	-	-	-	164
25 to 29	118	400	108	6	-	-	-	-	-	-	632
30 to 34	79	425	413	109	7	-	-	-	-	-	1,033
35 to 39	51	307	479	439	244	19	-	-	-	-	1,539
40 to 44	34	233	340	467	613	287	26	-	-	-	2,000
45 to 49	36	159	271	283	463	452	282	33	-	-	1,979
50 to 54	25	108	169	175	246	299	201	146	53	-	1,422
55 to 59	10	59	94	70	127	61	35	18	11	1	486
60 to 64	9	24	25	26	37	13	7	3	1	-	145
65 to 69	1	1	11	9	4	-	1	-	-	-	27
70 and up	-	2	2	1	2	-	-	2	-	-	9
Total Count	441	1,802	1,914	1,585	1,743	1,131	552	202	65	1	9,436

Table A-5
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
Total City

	Average Salary Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	38,801	39,727	38,990	-	-	-	-	-	-	-	39,278
25 to 29	42,825	51,214	57,186	39,971	-	-	-	-	-	-	50,561
30 to 34	44,647	54,288	61,557	58,714	54,072	-	-	-	-	-	56,922
35 to 39	39,443	50,501	57,284	64,922	65,032	57,241	-	-	-	-	58,746
40 to 44	43,602	47,051	55,259	62,034	68,733	71,345	65,129	-	-	-	62,253
45 to 49	39,484	46,887	52,423	57,852	61,946	70,745	74,068	59,987	-	-	62,142
50 to 54	53,862	54,650	53,415	57,507	59,025	62,861	66,977	63,925	63,230	-	60,339
55 to 59	52,672	47,733	51,378	56,759	55,991	58,718	71,688	64,321	62,484	58,115	56,071
60 to 64	75,646	62,159	47,583	47,526	52,684	68,292	46,733	74,578	95,451	-	55,733
65 to 69	59,238	18,127	35,485	43,162	49,731	-	44,658	-	-	-	40,731
70 and up	-	37,970	17,264	33,654	39,135	-	-	40,716	-	-	33,758
Avg. Salary	43,392	50,567	56,208	60,680	63,636	67,909	70,514	63,245	63,599	58,115	59,096

APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
General

	Years of Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	39	67	2	-	-	-	-	-	-	-	108
25 to 29	58	259	66	6	-	-	-	-	-	-	389
30 to 34	47	286	224	75	7	-	-	-	-	-	639
35 to 39	44	236	332	244	147	19	-	-	-	-	1,022
40 to 44	28	212	277	300	323	182	21	-	-	-	1,343
45 to 49	34	149	243	232	318	267	131	31	-	-	1,405
50 to 54	25	102	160	159	211	249	159	135	52	-	1,252
55 to 59	10	58	94	68	125	59	28	17	11	1	471
60 to 64	9	23	25	26	36	13	7	3	1	-	143
65 to 69	1	1	11	9	4	-	1	-	-	-	27
70 and up	-	2	2	1	2	-	-	2	-	-	9
Total Count	295	1,395	1,436	1,120	1,173	789	347	188	64	1	6,808

Table A-7
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
General

	Average Salary Years of Service										
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	33,281	35,586	38,990	-	-	-	-	-	-	-	34,817
25 to 29	40,451	43,938	48,169	39,971	-	-	-	-	-	-	44,075
30 to 34	42,940	48,117	52,402	51,151	54,072	-	-	-	-	-	49,660
35 to 39	38,162	45,800	50,538	55,392	56,422	57,241	-	-	-	-	51,041
40 to 44	41,856	45,387	51,051	54,236	58,466	63,329	57,414	-	-	-	54,223
45 to 49	39,101	45,341	50,162	54,085	54,462	62,112	60,171	58,292	-	-	54,388
50 to 54	53,862	52,759	52,296	55,818	55,857	58,703	62,593	61,709	62,685	-	57,441
55 to 59	52,672	47,333	51,378	56,213	55,616	57,219	67,499	61,572	62,484	58,115	55,062
60 to 64	75,646	56,614	47,583	47,526	52,140	68,292	46,733	74,578	95,451	-	54,681
65 to 69	59,238	18,127	35,485	43,162	49,731	-	44,658	-	-	-	40,731
70 and up	-	37,970	17,264	33,654	39,135	-	-	40,716	-	-	33,758
Avg. Salary	42,224	46,047	50,777	54,255	56,068	60,936	61,390	61,115	63,162	58,115	53,042

APPENDIX A
MEMBERSHIP INFORMATION

Table A-8
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
Safety

	Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	39	17	-	-	-	-	-	-	-	-	56
25 to 29	60	141	42	-	-	-	-	-	-	-	243
30 to 34	32	139	189	34	-	-	-	-	-	-	394
35 to 39	7	71	147	195	97	-	-	-	-	-	517
40 to 44	6	21	63	167	290	105	5	-	-	-	657
45 to 49	2	10	28	51	145	185	151	2	-	-	574
50 to 54	-	6	9	16	35	50	42	11	1	-	170
55 to 59	-	1	-	2	2	2	7	1	-	-	15
60 to 64	-	1	-	-	1	-	-	-	-	-	2
65 to 69	-	-	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-	-	-
Total Count	146	407	478	465	570	342	205	14	1	-	2,628

Table A-9
SDCERS - City of San Diego
Distribution of Active Members (Excludes DROP Participants) as of June 30, 2005
Safety

	Average Salary Years of Service										
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and up	Total
Under 25	44,322	56,049	-	-	-	-	-	-	-	-	47,882
25 to 29	45,120	64,579	71,354	-	-	-	-	-	-	-	60,945
30 to 34	47,156	66,983	72,406	75,397	-	-	-	-	-	-	68,700
35 to 39	47,498	66,125	72,520	76,847	78,080	-	-	-	-	-	73,978
40 to 44	51,754	63,840	73,763	76,042	80,168	85,240	97,529	-	-	-	78,666
45 to 49	45,989	69,924	72,047	74,989	78,358	83,205	86,124	86,258	-	-	81,124
50 to 54	-	86,799	73,308	74,292	78,125	83,569	83,572	91,119	91,578	-	81,682
55 to 59	-	70,928	-	75,324	79,402	102,962	88,446	111,064	-	-	87,766
60 to 64	-	189,692	-	-	72,245	-	-	-	-	-	130,968
65 to 69	-	-	-	-	-	-	-	-	-	-	-
70 and up	-	-	-	-	-	-	-	-	-	-	-
Avg. Salary	45,752	66,057	72,524	76,153	79,210	83,998	85,959	91,849	91,578	-	74,779

APPENDIX A
MEMBERSHIP INFORMATION

Table A-10
SDCERS - City of San Diego
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
Total City

	Age										
Plan Year	**Under 50**	**50 to 54**	**55 to 59**	**60 to 64**	**65 to 69**	**70 to 74**	**75 to 79**	**80 to 84**	**85 to 89**	**90 and up**	**Total**
pre-1986	8	17	95	73	85	101	177	248	211	99	1,114
1986	2	5	2	9	5	15	37	29	7	1	112
1987	1	5	4	5	8	16	23	28	8	4	102
1988	2	5	2	6	6	20	22	26	4	4	97
1989	1	3	6	7	25	35	31	26	6	3	143
1990	8	6	9	7	20	46	46	30	2	2	176
1991	8	4	9	5	20	34	34	13	10	2	139
1992	8	4	10	7	24	21	43	12	5	-	134
1993	20	7	11	31	104	67	46	19	6	3	314
1994	22	12	14	10	26	20	17	11	6	-	138
1995	19	12	3	20	30	26	15	7	4	4	140
1996	22	11	9	31	32	32	12	14	11	6	180
1997	22	9	34	106	44	38	10	9	7	2	281
1998	24	5	42	102	64	16	15	13	7	2	290
1999	23	13	70	119	53	22	14	15	-	4	333
2000	24	6	86	89	43	15	16	14	8	3	304
2001	24	41	132	83	60	18	11	10	5	2	386
2002	14	35	101	38	25	14	9	11	6	6	259
2003	13	64	244	110	45	19	12	15	6	2	530
2004	15	66	170	71	34	11	6	17	5	1	396
2005	10	77	201	73	27	7	6	10	11	5	427
Total	290	407	1,254	1,002	780	593	602	577	335	155	5,995

Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

Average Age at Retirement/Disability	54.7
Average Current Age	67.1
Average Annual Pension	30,057

APPENDIX A
MEMBERSHIP INFORMATION

Table A-11
SDCERS - City of San Diego
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
General

	Age										
Plan Year	**Under 50**	**50 to 54**	**55 to 59**	**60 to 64**	**65 to 69**	**70 to 74**	**75 to 79**	**80 to 84**	**85 to 89**	**90 and up**	**Total**
pre-1986	4	2	19	16	22	30	63	165	155	76	552
1986	1	-	1	2	-	4	28	27	6	1	70
1987	-	1	1	1	2	7	17	27	7	2	65
1988	-	2	1	2	2	18	22	23	3	4	77
1989	-	-	-	1	3	18	27	22	4	3	78
1990	2	1	4	2	3	28	44	29	1	2	116
1991	2	3	2	-	4	22	34	11	7	1	86
1992	3	1	2	2	12	19	42	11	4	-	96
1993	7	2	1	8	24	44	43	15	4	-	148
1994	5	6	5	4	17	18	16	8	4	-	83
1995	10	5	1	2	19	26	13	7	4	2	89
1996	6	7	3	12	25	26	10	9	8	6	112
1997	10	3	8	21	25	31	10	7	4	2	121
1998	12	3	8	45	56	15	14	10	6	1	170
1999	7	6	5	69	48	20	13	8	-	4	180
2000	13	5	12	66	42	14	13	10	5	2	182
2001	10	18	44	72	58	17	7	9	5	1	241
2002	7	4	45	29	23	13	8	11	6	3	149
2003	8	5	190	99	44	16	10	13	2	2	389
2004	5	2	142	63	28	8	5	13	3	1	270
2005	3	2	177	68	25	6	3	7	10	5	306
Total	115	78	671	584	482	400	442	442	248	118	3,580

Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

Average Age at Retirement/Disability	58.0
Average Current Age	69.6
Average Annual Pension	23,313

APPENDIX A
MEMBERSHIP INFORMATION

Table A-12
SDCERS - City of San Diego
Retirees (Includes DROP Participants), Disabled, and Beneficiaries Tabulate by Attained Age/Benefit Effective Date
Safety

Plan Year	Age										Total
	Under 50	50 to 54	55 to 59	60 to 64	65 to 69	70 to 74	75 to 79	80 to 84	85 to 89	90 and up	
pre-1986	4	15	76	57	63	71	114	83	56	23	562
1986	1	5	1	7	5	11	9	2	1	-	42
1987	1	4	3	4	6	9	6	1	1	2	37
1988	2	3	1	4	4	2	-	3	1	-	20
1989	1	3	6	6	22	17	4	4	2	-	65
1990	6	5	5	5	17	18	2	1	1	-	60
1991	6	1	7	5	16	12	-	2	3	1	53
1992	5	3	8	5	12	2	1	1	1	-	38
1993	13	5	10	23	80	23	3	4	2	3	166
1994	17	6	9	6	9	2	1	3	2	-	55
1995	9	7	2	18	11	-	2	-	-	2	51
1996	16	4	6	19	7	6	2	5	3	-	68
1997	12	6	26	85	19	7	-	2	3	-	160
1998	12	2	34	57	8	1	1	3	1	1	120
1999	16	7	65	50	5	2	1	7	-	-	153
2000	11	1	74	23	1	1	3	4	3	1	122
2001	14	23	88	11	2	1	4	1	-	1	145
2002	7	31	56	9	2	1	1	-	-	3	110
2003	5	59	54	11	1	3	2	2	4	-	141
2004	10	64	28	8	6	3	1	4	2	-	126
2005	7	75	24	5	2	1	3	3	1	-	121
Total	175	329	583	418	298	193	160	135	87	37	2,415

Surviving Spouses Benefit Effective Date no longer based on member's original date of retirement.

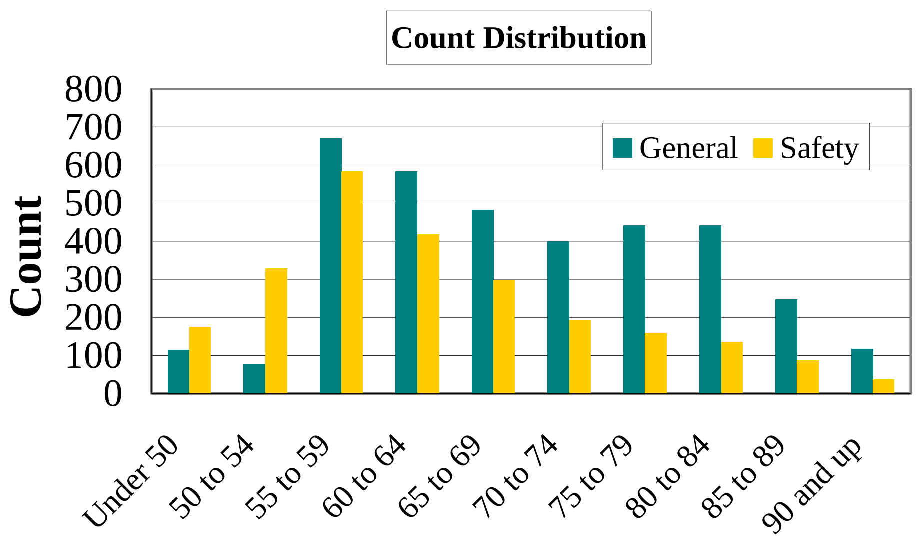
Average Age at Retirement/Disability	50.1
Average Current Age	63.5
Average Annual Pension	40,052

APPENDIX A
MEMBERSHIP INFORMATION

Table A-13
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members, Beneficiaries and Survivors
as of June 30, 2005

	Count		
Age	**General**	**Safety**	**Total**
Under 50	115	175	290
50 to 54	78	329	407
55 to 59	671	583	1,254
60 to 64	584	418	1,002
65 to 69	482	298	780
70 to 74	400	193	593
75 to 79	442	160	602
80 to 84	442	135	577
85 to 89	248	87	335
90 and up	118	37	155
Total	3,580	2,415	5,995

Chart A-1

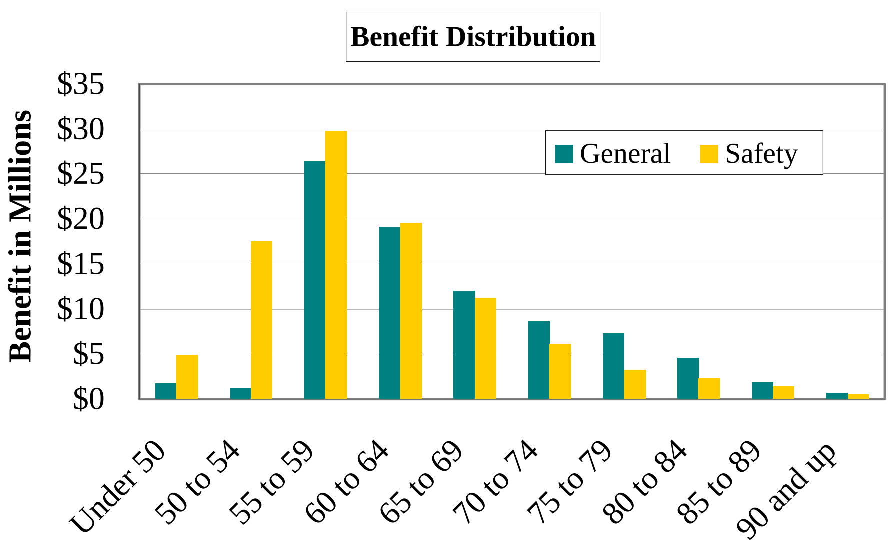


APPENDIX A
MEMBERSHIP INFORMATION

Table A-14
SDCERS - City of San Diego
Distribution of Retirees, Disabled Members, Beneficiaries and Survivors
as of June 30, 2005

	Annual Benefit		
Age	**General**	**Safety**	**Total**
Under 50	$ 1,762,961	$ 4,925,946	$ 6,688,907
50 to 54	1,158,381	17,534,737	18,693,118
55 to 59	26,395,797	29,791,516	56,187,313
60 to 64	19,111,825	19,549,945	38,661,770
65 to 69	12,004,168	11,272,725	23,276,893
70 to 74	8,618,401	6,146,757	14,765,159
75 to 79	7,268,120	3,246,212	10,514,332
80 to 84	4,581,057	2,313,372	6,894,429
85 to 89	1,897,480	1,405,588	3,303,068
90 and up	664,117	539,919	1,204,037
Total	$ 83,462,309	$ 96,726,717	$ 180,189,027

Chart A-2



APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Practices

In preparing our data, we relied without audit, on information (some oral and some written) supplied by the SDCERS staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Service used in the valuation is the benefit service field supplied by the retirement system. We assumed that purchased service that has been paid for is included in this field. Additional purchased service—to be paid in the future—will be added in future valuations after they occur.

- Valuation Salary is based on the maximum of “Current Annual Pensionable Salary” and annualized “Average Compensation.”

- For accounts having duplicate records, we assume that any records with the same Social Security Number and “Mandatory Employee Contributions” are duplicates and value only one copy.

- For accounts having duplicate records in the Actives and Inactives by Social Security Number, but having different “Mandatory Employee Contribution” amounts, the information from the latest payroll date is regarded as most up-to-date and “Mandatory Employee Contributions” and “Mandatory Employee Contribution Interest” were summed together for each person.

- For members in payment having duplicate records, we valued only one copy. With the exception of any retiree who had two records with different benefit start dates, different plans and different benefit amounts. We added these records together to make one copy.

- Records on the provided “Member” file are considered to be Actives if they have no “Date of Death” and no “Date of Separation” and they received pay in the last pay period (Last Pay Period = 26) of the current fiscal year.

- Records on the “Member” file are considered to be Inactives if they do not have a “Date of Death” and do not fit the Active criteria list above.

- Pension Benefit for retirees for each plan was calculated by summing “Monthly Pension”, “Monthly Annuity”, “Cola Annuity”, “Surviving Spouse Annuity”, and “Cola Pension” and subtracting “Non-Cola Adjustments.” “Non-Cola Adjustments” field is mainly for QDRO purposes.

- Members may retire and receive benefits from multiple Plan IDs (e.g., a City police member could have also worked for the airport); however for the valuation, they are counted as one retiree and their total benefits are applied towards whichever plan they receive the most benefit.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

System assets are assumed to earn 8% net of expenses.

2. Inflation Rate

An inflation assumption of 4.25% compounded annually is used for projecting the total annual payroll growth for amortization of the UAL. It also represents the difference between the investment return rate and the assumed real rate of return.

3. Interest Credited to Member Contributions

8.0%, compounded annually.

4. Salary Increase Rate

Inflation component 4.25%

The additional merit component:

Table B-1

Years of Service at Valuation Date	General	Safety
0	4.50%	7.50%
1	3.50%	6.50%
2	2.50%	5.50%
3	1.50%	3.00%
4	0.50%	1.50%
5+	0.50%	0.50%

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

5. Cost-of-Living Increase in Benefits

Assumed to be 2% per annum, compounded annually.

There is a closed group of 98 Special Safety Officers for whom we assume an annual adjustment equal to inflation (4.25% per year.)

6. COLA Annuity Benefit

For active members, there is a 2.5% load on valued benefits to anticipate the impact of the annuitized employee COLA contributions at retirement.

7. Member Refunds

All or part of the employee contribution rate is subject to potential “pick up” by the employer. That “pick up” and the related accumulated interest are not to be refunded to employees at termination. The liability for potential refunds is reduced to reflect this.

8. Rates of Termination

Table B-2
SDCERS - City of San Diego
Rates of Termination at Selected Ages and Service
(number becoming non-active per 10,000 members)

Service	Age	General	Safety
0	All	563	220
1	All	553	220
2	All	433	215
3	All	433	205
4	All	424	200
5 & Over	20	462	212
	25	462	212
	30	313	148
	35	232	93
	40	160	39
	45	134	20
	50	103	7
	55	77	3
	60	0	0

20% of terminating employees, with 10+ years of service at termination, are assumed to subsequently work for a reciprocal employer and receive 4.75% pay increases per year.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Disability

Table B-3
SDCERS - City of San Diego
Rates of Disability at Selected Ages
(members becoming disabled per 10,000 members)

Age	General	Safety
20	6	54
25	8	60
30	10	65
35	16	71
40	22	90
45	33	115
50	50	125
55	75	150
60	97	--

70% of the General disabilities and 85% of the Safety disabilities are assumed to be industrial disability retirements. Non-industrial disability retirement is subject to a service requirement.

10. Rates of Mortality for Active Lives

General members follow the Uninsured Pensioner 1994 (UP1994) set back 5 years (male and female). Set back 5 years is when a member currently age 50 uses the age 45 mortality rate.
Safety members follow the Male UP 1994 set back 5 years.

Table B-4
SDCERS - City of San Diego
Rates of Mortality for Active Lives at Selected Ages
(number of deaths per 10,000 members)

	General		Safety
Age	Male	Female	
20	4	2	4
25	5	3	5
30	7	3	7
35	9	4	9
40	9	5	9
45	12	8	12
50	17	10	17
55	28	15	28
60	48	25	48
65	86	48	86
70	156	93	156

All active member deaths are assumed to be duty-related for Safety members and not duty-related for other members.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

11. Rates of Mortality for Retired Healthy Lives

All retired healthy members use the Uninsured Pensioner 1994 (UP1994) table set back 2 years (male and female).

Table B-5
SDCERS - City of San Diego
Rates of Mortality for Retired Healthy Lives at Selected Ages
(number of deaths per 10,000 members)

Age	Male	Female
40	10	6
45	15	9
50	23	13
55	39	21
60	68	36
65	123	72
70	214	126
75	335	197
80	540	341
85	887	590
90	1365	1009

12. Rates of Mortality for Retired Disabled Lives

Disabled General members use Uninsured Pensioner 1994 (UP1994) male only table set forward five years. Disabled Safety members use Uninsured Pensioner 1994 (UP1994) male only table set forward two years.

Table B-6
SDCERS - City of San Diego
Rates of Mortality for Disabled Lives at Selected Ages
(number of deaths per 10,000 members)

Age	General	Safety
20	7	6
25	9	8
30	9	9
35	12	10
40	17	13
45	28	20
50	48	35
55	86	60
60	156	109
65	255	194
70	400	306

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

13. Rates of Retirement

Table B-7
SDCERS - City of San Diego
Rates of Retirement at Selected Ages
(number retiring per 100 members)

Age	General	Elected Officials	Safety
50	--	--	10
51	--	--	10
52	--	--	10
53	--	15	10
54	--	1	20
55	20	5	40
56	10	3	40
57	10	4	40
58	15	5	50
59	15	6	80
60	20	60	85
61	25	25	90
62	50	37	100
63	40	23	100
64	25	34	100
65	50	68	100
66	40	69	100
67	40	74	100
68	40	80	100
69	40	90	100
70	100	100	100

In addition, if a Safety member has both attained age 55 and completed at least 30 years of service, 100% retirement is assumed.

For vested deferred members, we assume that retirement will occur provided they have at least 10 years of service (4 years for Elected Officers) on the later of attained age or:

General Members: Earlier of age 62 or age 55 and 20+ years of service.

Elected Officers: Earlier at age 55 or age 53 and 8+ years of service.

Safety Members: Earlier of age 55 or age 50 and 20+ years of service.

If the inactive member is not vested, the liability is the member’s contributions with interest.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

14. Family Composite Assumptions

80% of men and 50% of women were assumed married at retirement. Female spouse is assumed to be 4 years younger than the male spouse.

15. Member Contributions for Spousal Continuance

All active members contribute towards a 50% survivor continuance. However, members who are unmarried at retirement may either be refunded that specific part of their contributions, or they may leave such contributions on account and receive an incremental benefit that is the actuarial equivalent of such contributions.

16. Deferred Member Benefit

For the Deferred Vested and Non Vested participants, the benefit was estimated based on information provided by SDCERS staff. The data used to value the estimated deferred benefit were date of birth, date of hire, date of termination, and last pay. Based on the data provided, service credit, highest average salary, and deferred retirement age were estimated. The estimates were used to compute the retirement benefit, upon which the liabilities are based. For those members without sufficient data or service, accumulated member contribution balances, with interest, were used as the actuarial accrued liability.

17. Other

The contribution requirements and benefit values of the Plan are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described in the following section.

Actual experience of the System will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Funding Method

The Projected Unit Credit Method is used to determine costs. Under this funding method, a total contribution rate is determined which consists of two elements: the normal cost rate and the unfunded actuarial liability (UAL) rate.

The normal cost is the present value of the amount of benefits allocated to the participant during the year. This amount is the increase in all participants' accumulated plan benefit during the year. For the City, the normal cost rate is determined by taking the sum of the normal cost for all participants divided by the total annual payroll and subtracting that expected member contributions.

In addition to contributions required to meet the Plan's normal cost, contributions are required to fund the System's unfunded actuarial liability. The actuarial liability is defined as the total of the cumulative benefit allocated to each participant on the date of the valuation. The unfunded actuarial liability is the actuarial liability for all members less the actuarial value of the System's assets.

The unfunded actuarial liability is amortized by annual payments. The payments are determined so that they will be a level percentage of pay, assuming payroll increases 4.25% per year. The UAL measured as of June 30, 2005 is amortized over a 28-year period as mandated by the "Gleason" legal settlement.

2. Asset Valuation Method

For the purposes of determining the City of San Diego's contribution to the System, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

In determining the actuarial value of assets, we calculate the average over the past 5 years of the ratio of net book value to net market value. The current book value is then multiplied by this average percentage. The assets for all contributing employers are pooled for investment purposes. The assets are apportioned amongst the three contributing employers, and then amongst the different member groups.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Salaried Employees – immediate eligibility upon employment (compulsory). (§ 24.0104)

2. Monthly Salary Base for Benefits

Highest consecutive 12 month average in any employment with a California governmental jurisdiction (§ 24.0103), subject to a 10% increase, if the General or Safety Member elects such increase in lieu of an increased benefit formula.

3. Service Retirement

<u>Eligibility</u>

General Members:
Age 62 with 10 years of service, or age 55 with 20 years of service (§ 141 of City Charter).

Safety Members:
Age 55 with 10 years of service, or age 50 with 20 years of service (§ 141 of City Charter).

Elected Officers:
Age 55 with 4 years of service. Reduced retirement with 8 years of service regardless of age (§ 24.0545).

<u>Benefit</u>

General and Safety Members:
Member choice of formula in place on June 30, 2000 or "Corbett" formula effective as of July 1, 2000 or for General Members "Option 3" with a benefit cap of 90% of Final Average Compensation (§ 24.0402). See Appendix D.

Elected Officers:
(Formerly designated as legislative) 3.5% (§ 24.0546). A 2% annual reduction factor applies to benefits for members retiring prior to age 55.

For all employees, there is an additional amount equal to the annuitized member COLA contributions at retirement date.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Member Service Retirement Calculation Factors

Table C-1
SDCERS - City of San Diego
Member Service Retirement Calculation Factors

Retirement Age	General Option 1	General Option 2	General Option 3	Police & Fire Option 1	Lifeguard Option 1	Safety Option 2
50	--	--	--	2.50%	2.20%	3.00%
51	--	--	--	2.60%	2.32%	3.00%
52	--	--	--	2.70%	2.44%	3.00%
53	--	--	--	2.80%	2.57%	3.00%
54	--	--	--	2.90%	2.72%	3.00%
55	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
56	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
57	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
58	2.00%	2.25%	2.50%	2.99%	2.77%	3.00%
59	2.08%	2.25%	2.50%	2.99%	2.77%	3.00%
60	2.16%	2.30%	2.55%	2.99%	2.77%	3.00%
61	2.24%	2.35%	2.60%	2.99%	2.77%	3.00%
62	2.31%	2.40%	2.65%	2.99%	2.77%	3.00%
63	2.39%	2.45%	2.70%	2.99%	2.77%	3.00%
64	2.47%	2.50%	2.75%	2.99%	2.77%	3.00%
65 and up	2.55%	2.55%	2.80%	2.99%	2.77%	3.00%

GENERAL:

Table C-2
SDCERS – City of San Diego

For Vested Members who terminated--	--the calculation factors are--
Prior to January 1, 1997	See Pre-1997 Factors on next page
January 1, 1997 - June 30, 2000	Option 1 without 10% increase in Final Average Compensation
July 1, 2000 - June 30, 2002	Option 1 with 10% increase in Final Average Compensation; or Option 2
July 1, 2002 – Present	Option 3

SAFETY:

Table C-3
SDCERS – City of San Diego

For Vested Members who terminated--	--the calculation factors are--
Prior to January 1, 1997	See Pre-1997 Factors on next page
January 1, 1997 - June 30, 2000	Option 1 without 10% increase in Final Average Compensation
July 1, 2000 – Present	Option 1 with 10% increase in Final Average Compensation; or Option 2

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Table C-4
SDCERS - City of San Diego
Pre-1997 Member Service Retirement Calculation Factors

Age	General	Safety Police	Safety Fire	Safety Lifeguard
50	--	2.50%	2.20%	2.00%
51	--	2.54%	2.32%	2.10%
52	--	2.58%	2.44%	2.22%
53	--	2.62%	2.57%	2.34%
54	--	2.66%	2.72%	2.47%
55	1.48%	2.70%	2.77%	2.62%
56	1.55%	2.77%	2.77%	2.62%
57	1.63%	2.77%	2.77%	2.62%
58	1.72%	2.77%	2.77%	2.62%
59	1.81%	2.77%	2.77%	2.62%
60	1.92%	2.77%	2.77%	2.62%
61	1.99%	2.77%	2.77%	2.62%
62	2.09%	2.77%	2.77%	2.62%
63	2.20%	2.77%	2.77%	2.62%
64	2.31%	2.77%	2.77%	2.62%
65 and up	2.43%	2.77%	2.77%	2.62%

Maximum Benefit

Safety Members: 90% of Final Average Compensation (subject to 10% increase).

General: 90% of Final Average compensation if Option 3 is chosen.

Elected Officers: None.

Unmodified Form of Payment

Monthly payments continued for the life of the member, with 50% continuance to the eligible spouse upon member's death (§ 24.0521).

Note: City employees withdrew from Social Security January 1, 1982 (§ 24.0104). We are assuming that all future benefits for active members will be determined on a non-integrated basis.

Note: Effective July 1, 1991, credited service earned under the 1981 Pension System will be considered equivalent to SDCERS service for the purpose of benefit calculation (i.e., the above formulas will apply to 1981 Pension System service).

APPENDIX C
SUMMARY OF PLAN PROVISIONS

4. Non-Industrial Disability

Eligibility

Ten years of service (§ 24.0501).

Benefit

General Members:
Greater of 1.5% per year of service, one-third of final compensation (subject to 10% increase), or the earned service retirement benefit (§24.0502, §34.0505.1).

Safety Members:
Greater of 1.8% per year of service, one-third of final compensation (subject to 10% increase), or the earned service retirement benefit (§24.0502, §24.0503.1).

5. Industrial Disability

Eligibility

No age or service requirement (§24.0501).

Benefit

General Members:
Greater of one-half of final compensation (subject to 10% increase), or the earned service retirement benefit (§24.0502, §24.0504.1).

Safety Members:
Greater of one-half of final compensation (subject to 10% increase), or the earned service retirement benefit (§24.0502, §24.0503).

Elected Officers:
Earned service retirement benefit (§24.0547).

6. Non-Industrial Death Before Eligible to Retire

Refund of employee contributions with interest, plus one month's salary for each completed year of service, to a maximum of six months salary (§24.0703).

APPENDIX C
SUMMARY OF PLAN PROVISIONS

7. Non-Industrial Death After Eligible to Retire for Service

50% of earned benefit payable to surviving eligible spouse (§24.0704.2).

8. Industrial Death

50% of the final average compensation (subject to 10% increase) preceding death, payable to eligible spouse (§24.0710.2, §24.0706).

9. Death After Retirement

50% of member's unmodified allowance continued to eligible spouse (§24.0521).
$2,000 payable in lump sum to the beneficiary or the estate of the retiree.

10. Withdrawal Benefits (§24.0206, §24.0503.1)

Pre-12/8/76 Hires

If contributions left on deposit, entitled to earned benefits, commencing anytime after eligible to retire.

Post-12/7/76 Hires

Less than ten years of service:
Refund of accumulated employee contributions with interest, or may keep deposits in the System and earn additional interest.

Ten or more years of service:
If contributions left on deposit, entitled to earned benefits commencing anytime after eligible to retire.

11. Post-retirement Cost-of-Living Benefit

General and Safety Members:
Based on changes in Consumer Price Index, to a maximum of 2% per year (§24.0531).

APPENDIX C
SUMMARY OF PLAN PROVISIONS

12. Member Contributions

Vary by age at time of entrance into the system. (§24.0201, §24.0301). While a significant portion of these contributions are "picked up", such pick ups are not directly reflected in either the employee contributions or related refund calculations. These are the rates in effect for the June 30, 2006 valuation year.

Table C-5
SDCERS - City of San Diego
Employee Contribution Rates[1]

Entry Age	General	Police	Fire	Lifeguard
20	9.18%	11.86%	11.55%	11.20%
21	9.28	12.02	11.71	11.36
22	9.39	12.16	11.85	11.50
23	9.50	12.32	12.01	11.66
24	9.60	12.47	12.16	11.81
25	9.73	12.64	12.33	11.98
26	9.85	12.79	12.48	12.13
27	9.96	12.96	12.65	12.30
28	10.08	13.12	12.81	12.46
29	10.20	13.29	12.98	12.63
30	10.32	13.45	13.14	12.79
31	10.45	13.62	13.31	12.96
32	10.57	13.78	13.47	13.12
33	10.69	13.95	13.64	13.29
34	10.81	14.13	13.82	13.47
35	10.95	14.31	14.00	13.65
36	11.08	14.48	14.17	13.82
37	11.22	14.66	14.35	14.00
38	11.35	14.85	14.54	14.19
39	11.48	15.03	14.72	14.37
40	11.62	15.22	14.91	14.56
41	11.76	15.41	15.10	14.75
42	11.89	15.59	15.28	14.93
43	12.03	15.79	15.48	15.13
44	12.18	15.99	15.68	15.33
45	12.32	16.17	15.86	15.51
46	12.46	16.40	16.07	15.72
47	12.61	16.58	16.27	15.92
48	12.76	16.77	16.46	16.11
49	12.91	16.97	16.66	16.31
50	13.05			
51	13.22			
52	13.37			
53	13.53			
54	13.69			
55	13.85			
56	14.01			
57	14.21			

[1]Contribution Rate = Normal Cost + Cost-of-Living Rate

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Interest:	8.00%
Salary:	5.00%
Mortality:	83 Group Annuity Mortality (GAM) male (Males set back 2 years, Females set back 8 years)

Rates include cost of providing spouse's continuance and cost of funding final one-year average in lieu of final three-year average. Changes to the salary scale and mortality table effective with the June 30, 1994 valuation were applied to the then existing member rates.

Elected Officers (General) contribute 9.05% of total salary, regardless of entry age.

The rates above include 0.65% currently paid from the Employee Contribution Rate Increase Reserve.

13. Internal Revenue Code Limitation

Benefits provided by the Plan are subject to the limitations set forth in Section 415 of the Internal Revenue Code in accordance with the "grandfather" election in Section 415(b)(10) of the Code.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the SDCERS staff should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

APPENDIX D
GLOSSARY OF TERMS

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial liability."

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the System which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Cost Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

APPENDIX D
GLOSSARY OF TERMS

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SDCERS-City of San Diego's computed contribution rate for FY 2007 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.

11. Unfunded Actuarial Liability (UAL)

The difference between actuarial liability and valuation assets. Sometimes referred to as "unfunded actuarial accrued liability."

Most retirement systems have unfunded actuarial accrued liability. They arise each time new benefits are added and each time an actuarial loss is realized.

The existence of unfunded actuarial accrued liability is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liability does not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liability and the trend in its amount (after due allowance for devaluation of the dollar).