

San Diego City Employees' Retirement System

COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT

For The Fiscal Year Ended June 30, 2002

A RETIREMENT SYSTEM TRUST FUND OF THE CITY OF SAN DIEGO, CALIFORNIA



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# COMPREHENSIVE ANNUAL FINANCIAL REPORT

For The Fiscal Year Ended June 30, 2002

The San Diego City Employees' Retirement System (SDCERS) pledges to continually deliver accurate and timely benefits through prudent administration and safeguarding of the San Diego City Employees' Retirement System, while ensuring the Retirement System Trust Fund's maximum safety, integrity, and growth.

SDCERS is committed to excellence through:

Treating all participants with courtesy, dignity, respect and compassion.

Conducting business in an open, honest, fair, and efficient manner.

Maintaining the highest degree of ethics, fiscal responsibility and independence.

**ISSUED BY:**

Lawrence B. Grissom  
*Retirement Administrator*

Paul Barnett  
*Assistant Retirement  
Administrator*

**PREPARED BY:**

Executive Retirement Staff  
Douglas B. McCalla  
*Chief Investment Officer*

Lori Chapin  
*General Counsel*

David Arce  
*Division Manager*

Vincent Hayes, Jr.  
*Division Manager*

Patrick Lane  
*Division Manager*

**Investment Staff**

Dawne Clark  
*Assistant Investment Officer*

Robin Oleksow  
*Retirement Financial Specialist III*

Jamie Hamrick  
*Retirement Financial Specialist II*

**Office:** 401 B Street, Suite 400, San Diego, CA 92101-4298 (619) 525-3600

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# I. INTRODUCTORY SECTION



THE CITY OF SAN DIEGO  
City Employees' Retirement System  
401 B Street, Suite 400, MS 840 • San Diego, CA 92101-4227  
Tel (619) 533-4660 Fax (619) 533-4611 or 533-4629



Lawrence B. Grissom  
*Retirement Administrator*

### TRANSMITTAL LETTER

SDCERS' Board Members, Members, Retirees and Beneficiaries  
San Diego City Employees' Retirement System  
401 B Street, Suite 400  
San Diego, CA 92101-4298

#### Dear Board Members, Members, Retirees and Beneficiaries:

As Retirement Administrator of the San Diego City Employees' Retirement System (SDCERS), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002 (FY 2002).

FY 2002 marked the 75th year of SDCERS' operations providing retirement and health benefits to retirees and their beneficiaries. The Board has continued to demonstrate its commitment to SDCERS' membership by delivering accurate and timely benefits through the prudent administration and safeguarding of SDCERS, while ensuring the Retirement System Trust Fund's maximum safety, integrity and growth.

Over the past year, the Board managed the investment portfolio through a period of continued stock market volatility. The Board has adopted a long-term asset allocation strategy with an equity (stock) exposure that is more conservative than most public plans. Additionally, the target asset allocation is risk controlled with active rebalancing.

- As of June 30, 2002, Plan Net Assets totaled \$2.527 billion
- As of June 30, 2001, Plan Net Assets totaled \$2.599 billion
- This represents a current year reduction of \$71.8 million in Plan Net Assets

SDCERS is a multi-employer plan and continues to be well-funded. As of June 30, 2001 (the date of last actuarial valuation):

- City of San Diego's funded status was 89.9%
- San Diego Unified Port District's funded status was 118.0%

#### The Comprehensive Annual Financial Report

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation contained in this CAFR rests with SDCERS' management. It is SDCERS' intent to ensure that the financial information is accurate and fair, and all material disclosures have been made. This CAFR is divided into five sections:



**Introductory Section:**

This section contains a Transmittal Letter, the Certificate of Achievement, a list of Members of SDCERS' Board, SDCERS' Organization Chart, a narrative of each of SDCERS' Division's functional area of responsibility and a list of Professional Services provided to SDCERS.

**Financial Section:**

This section presents the Independent Auditors' Report prepared by Calderon, Jaham & Osborn, the audited financial statements of SDCERS, and, required supplemental schedules disclosing the funding progress of and employers' contributions to SDCERS.

**Investment Section:**

This section contains the Investment Consultant's Statement, prepared by Callan Associates, SDCERS' investment consultant, SDCERS' asset class returns, SDCERS' statement of investment objective, and, graphs and schedules depicting asset allocation, asset diversification, and ten-year historical asset holdings information.

**Actuarial Section:**

This section includes the Actuary's Certification Letter, prepared by SDCERS' actuary, Gabriel, Roeder, Smith & Co. and, supporting schedules and information that pertain to SDCERS' membership and benefits.

**Statistical Section:**

This section contains schedules of comparative data related to revenues and expenses, active and inactive members, retired members, average monthly retirement benefits, and participating employers.

**SDCERS' History and SDCERS' Board**

SDCERS was established in 1927 by the City of San Diego, and in accordance with the California State Constitution Article XVI, Section 17, the San Diego City Charter Article IX Sections 141 – 148.1 and Article X, Section 1, and the San Diego Municipal Code Sections 24.0100 *et seq.* SDCERS provides retirement, health insurance, disability, and death benefits to its members.

SDCERS, acting as agent of a multi-employer, defined benefit plan, provides vested members with a specified portion of their annual salaries when they retire. In order to attain the appropriate level of funding for each member, the plan specifies a formula to calculate the amount that would need to be contributed by participating employers and members each year until retirement. To maintain low levels of required contributions, SDCERS invests in equities (stocks), fixed income (bonds) and real estate, and reinvests dividends, interest earnings and gains from the sale of securities.

A thirteen member Board governs SDCERS:

<b>Board Composition</b>	<b>Representation</b>
Three Members	Elected by General Members
One Member	Elected by Fire / Safety Members
One Member	Elected by Police / Safety Members
One Member	Elected by Retirees
Three Members	Ex-Officio: City Manager, City Treasurer, City Auditor
Four Members	San Diego Citizens Appointed by City Council (including one local banker)

Board members who are elected or appointed serve six-year terms with no term limits. Ex-officio members serve SDCERS' Board for the period of their respective positions with the City of San Diego. A list of Board members as of June 30, 2002, appears in the Introductory Section of this CAFR.

SDCERS' Board oversees the Retirement Administrator and staff in the performance of their duties.

### **Member Benefits and Services**

Since SDCERS' inception 75 years ago, SDCERS' membership and number of retirees have continued to grow. In the most recent fiscal year, there was an increase of 650 members (active and inactive) and 130 retirees, and a decrease of 25 Deferred Retirement Option Program (DROP) participants. Continued growth in membership and retirees is projected over the coming years. To accommodate this growth in future liabilities, SDCERS has established a long-term investment strategy based on sound investment policies and risk reduction through the diversification of assets. By adhering to prudent investment principles, SDCERS' objective is to be able to fund the retirement benefits earned by current and future members.

Over the past fiscal year, SDCERS provided the following services to its membership, retirees and beneficiaries: processed 2,980 purchase of service credit contracts (PSC's); completed 315 service and disability retirements and 343 DROP applications; hosted 19 pre-retirement seminars; provided information at 27 new employee orientations; and, advised members in 1,629 counseling sessions.

### **Accomplishments and Enhancements**

A survey was conducted of active and retired San Diego City Employees' Retirement System members during March and April of 2002. This survey was conducted to insure that SDCERS is providing quality customer service. The results of this survey helped SDCERS to determine whether or not it is meeting the needs and expectations of its members, retirees and beneficiaries. The survey was conducted by an independent survey research organization, Reid Moomaugh Associates. Proper survey research methods were utilized and the survey was subjected to statistical tests of significance to ensure valid results. SDCERS' survey received a 19% response rate, almost one out of every five members, retirees and beneficiaries responded. This was considered an excellent response rate given that the average survey response rate is two to three percent of the group surveyed.

Overall, members are pleased with customer service and find SDCERS' newsletter to be an effective communication vehicle regarding their benefits. The general impression of SDCERS among the respondents to the survey has been positive, and most concurred that SDCERS has maintained a very good image. Only 4% of the respondents expressed a negative impression of SDCERS. It is recognized that there are those members, retirees or beneficiaries that may not have a satisfactory experience for whatever the reason. SDCERS understands that these positive survey results are meaningless to anyone who has had a bad experience. There is always room for improvement and SDCERS pledges never to become complacent and instead continues to work hard to deliver to our members a quality experience. SDCERS' staff is a hard working, dedicated group striving to make our members' experience with the complex world of retirement easy to understand.

Additionally, over the past fiscal year, SDCERS created a Training and Marketing Division to communicate with its members, retirees, beneficiaries and the public. This division will address internal SDCERS' staff training and development needs so that we can have the tools necessary to provide superior customer service to SDCERS' members. This division will: head up SDCERS' website development efforts; oversee SDCERS' quarterly newsletter production, Freespirit; prepare and distribute brochures; update member handbooks; develop a retiree handbook; and, produce other marketing materials to facilitate communication with SDCERS' membership and the public.

### Changes in SDCERS' Provisions

Legal action was taken against the San Diego City Employees' Retirement System (SDCERS) and the San Diego Unified Port District (District) in 2000, by Kenneth Lee Andrect, Loretta Dwyer Managan, Mark Brakebill, Stephen Byrd, Don Claypool, Salvador Colin, John W. Forsythe, Dave Garrity, Sheila Herron, Angela Innes, Mario Martinez, Columbus Offord, Joseph Parra, Pedro Quiroz, Jr., Cynthia A. Sarmiento-Markley, and Laura Tosatto, et. al (Andrecht), alleging that retirement benefits paid by SDCERS had not been calculated correctly in light of Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association. In the Ventura decision, the California Supreme Court ruled that the Retirement Board in that case was required to classify certain payments made by the County of Ventura to its employees over and above their basic salaries as "compensation earnable" and to include those payments in "final compensation" used to calculate the amount of monthly pension benefits payable to the retired employees under the County Employees' Retirement Law of 1937 ("CERL"). The Plaintiffs in the Andrect case alleged that the same rationale should be applied to certain payments made by the San Diego Unified Port District to its employees.

On September 19, 2001, the court approved a Notice of Class Action and Proposed Settlement, which was provided to all class participants. An election of the District's active membership and retirees of SDCERS to approve the settlement, as required by the San Diego City Charter, was conducted in November 2001. The District's active membership and retirees of SDCERS approved the settlement and the terms went into effect January 1, 2002. For further information regarding this benefit change, please contact SDCERS at (619) 525-3600.

### Accounting Systems and Reports

SDCERS' management is charged with establishing and maintaining an internal control structure designed to ensure that SDCERS' assets are protected from loss, theft or misuse. Responsibility for the accuracy, completeness and fair presentation of this information, and all disclosures, rests with SDCERS' management. The accounting firm of Calderon, Jaham & Osborn performs an annual audit of SDCERS' financial statements and internal controls. This CAFR was prepared in accordance with accounting principals generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB). The accompanying financial statements were prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred. Gains or losses are recognized based on current market value of the assets, on a trade date basis.

### Actuarial Funding Status

SDCERS' funding objective is to meet long-term benefit obligations by maintaining a well-funded plan, which is achieved by earning consistent investment returns to minimize employer and member (employee) contributions. The goal is for employer contributions to remain approximately level as a percentage of member payroll. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers. As of the date of the most recent actuarial valuation, June 30, 2001, SDCERS had a funded status of 89.9% for the City of San Diego (the City), and 118.0% for the San Diego Unified Port District (the District). A nine-year history of the funding progress for the City and the District is presented in the Notes to the Financial Statements in the Financial Section of this CAFR.

SDCERS retains an independent actuary firm, Gabriel, Roeder, Smith & Co., to conduct annual actuarial valuations. The actuary presents recommendations to SDCERS' Board for consideration each Spring. A full copy of the report can be obtained by calling SDCERS' Offices at (619) 525-3600.

The actuarial valuation of assets and actuarial accrued liabilities (as of the most recent actuarial valuations) for the City of San Diego and the San Diego Unified Port District were as follows (in millions):

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
<b>City of San Diego</b>		
Actuarial Valuation of Assets	\$2,525.6	\$2,459.8
Actuarial Accrued Liabilities	\$2,809.5	\$2,528.8
<b>San Diego Unified Port District</b>		
Actuarial Valuation of Assets	\$145.3	\$133.2
Actuarial Accrued Liabilities	\$123.1	\$97.2

The City is amortizing the unfunded actuarial accrued liability (resulting from liabilities exceeding assets) over a closed 30-year amortization period, which



began July 1, 1991, with 19 years remaining. The District does not presently have an unfunded actuarial accrued liability as their funded status exceeds 100%.

**Investments**

General Authority: Article XVI, Section 17, of the Constitution of the State of California provides that “Notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system ...” Article XVI, Section 17(a), of the Constitution of the State of California provides that “the Retirement Board of a public pension or retirement system shall have the sole exclusive fiduciary responsibility over the assets ...”

**Prudent Expert Rule:** Article XVI, Section 17(c), of the Constitution of the State of California, provides that “the members of the Retirement Board of a public pension or retirement system shall discharge their duties ... with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent expert acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aim.” By further diversifying the investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. SDCERS’ asset allocation appears in the Investment Section of this CAFR.

The Prudent Expert Rule permits the Board to establish an investment policy based upon professional advice and counsel, and to delegate investment authority to professional investment advisors. The Statement of Investment Objectives and Policy summarizes the Retirement System Trust Fund’s responsibilities and the appropriate degree of risk for the Retirement System Trust Fund. Investment advisors must execute the Investment Policy in accordance with specific investment guidelines incorporated in the investment management agreements between SDCERS and each of the investment managers. SDCERS’ had an annual total return as follows:

<u>June 30, 2002</u>	<u>June 30, 2001</u>
— 2.48%	— 0.45%

SDCERS’ annualized total return over the past three years was +3.69%, and over the past five years was +6.97%.

**Professional Services**

SDCERS’ Board retains consultants and investment managers to provide professional services essential to operate SDCERS effectively and efficiently. The Investment Consultant’s Statement can be found in the Investment Section of this CAFR.

An Opinion Letter from the independent outside auditor and a Certification Letter from the actuary are included in this CAFR in the Financial and Actuarial Sections of this CAFR, respectively. The Introductory Section of the CAFR contains a complete list of firms that provide professional services to SDCERS. Schedules of Fees Paid to Investment Professionals and Payments to Consultants appear in the Financial Section of this CAFR.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego City Employees' Retirement System for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious award that recognizes conformance with the highest standards for preparing state and local government financial reports.

To be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report, which conforms to program standards. The CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the second consecutive year that SDCERS applied for and received a Certificate of Achievement. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting this CAFR to GFOA for consideration.

### Acknowledgments

The compilation of this report reflects the combined effort of SDCERS' staff under the leadership of SDCERS' Board. It is intended to provide complete and reliable information with respect to the Board's stewardship of SDCERS. This full CAFR is available to all members and retirees, upon request, and is also available on the City of San Diego's website at <http://www.sandiego.gov/retirement/index.shtml>

We are mailing a summary of this CAFR to all of our members, retirees and beneficiaries. We hope our employers (plan sponsors), members, retirees and beneficiaries will find these reports informative.

On behalf of the SDCERS' Board, I would like to take this opportunity to express my gratitude to the staff, the advisors, and the many people who have worked so diligently to ensure the successful operation of SDCERS.

Respectfully submitted,



Lawrence B. Grissom  
Retirement Administrator  
November 1, 2002

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego City Employees'  
Retirement System,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Timothy D. Drew*  
President

*Jeffrey L. Essler*  
Executive Director

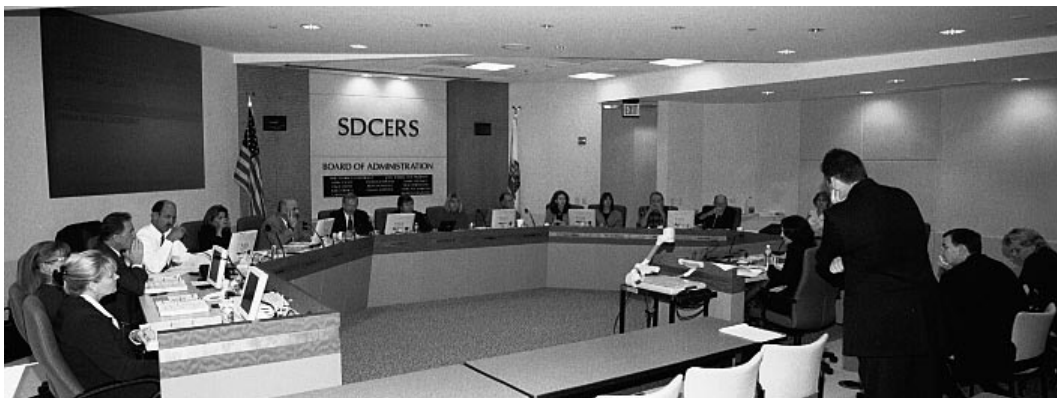
San Diego City Employees' Retirement System

**MEMBERS OF SDCERS' BOARD**

The 13-member Retirement Board is comprised of: the City Manager, the City Treasurer, the City Auditor, four San Diego citizens appointed by the Mayor and City Council (including one banker), three SDCERS members elected by general members, two SDCERS members elected by police and fire safety members and one retiree elected by the retired members.



**SDCERS' Board Members**  
(from left to right)  
Mary Vattimo, Sharon Wilkinson, Fred Pierce, Richard (Dick) Vortmann, Terri Webster, Tom Rhodes, John Torres, Ron Saatoff, Dave Crow, Cathy Lexin.  
Not pictured: John Casey, Diann Shipione.



SDCERS' Board meets monthly, on the third Friday of each month, at 1:30 P.M. Meetings are open to the public.



San Diego City Employees' Retirement System

MEMBERS OF SDCERS' BOARD (continued)

The following individuals served as members of SDCERS' Board, as of June 30, 2002:



Mr. Frederick W. Pierce, IV, President  
Council Appointee  
The Pierce Company  
Term Ends: December 7, 2002



Mr. John Torres, Vice-President  
General Member Representative  
City of San Diego, Police Dept. - Forensics  
Term Ends: June 21, 2007



Mr. John Casey  
General Member Representative  
City of San Diego, Planning and  
Development Review  
Term Ends: June 17, 2004



Mr. Ray Garnica  
Council Appointee  
United California Bank  
Wealth Management Division  
Term Ends: December 7, 2004



Mr. David Crow  
Retiree Representative  
Term Ends: December 18, 2004



Ms. Cathy Lexin  
Ex-Officio Member  
City of San Diego, HR Manager  
for Mr. Michael Uberaga, City Manager

## INTRODUCTORY SECTION

### San Diego City Employees' Retirement System

### MEMBERS OF SDCERS' BOARD (continued)



**Mr. Tom Rhodes**  
Safety/Police Representative  
City of San Diego, Police Dept.  
Term Ends: June 21, 2003



**Mr. Richard Vortmann**  
Council Appointee  
National Steel & Shipbuilding Co.  
Term Ends: December 7, 2002



**Mr. Ron Saathoff**  
Safety/Fire Representative  
City of San Diego, Fire Dept.  
Term Ends: June 21, 2003



**Ms. Terri Webster**  
Ex-Officio Member  
City of San Diego, Assistant Auditor  
for Mr. Ed Ryan, Auditor & Comptroller



**Ms. Diann Shipione**  
Council Appointee  
UBS/Paine Webber  
Term Ends: December 7, 2005



**Ms. Sharon Wilkinson**  
General Member Representative  
Qualcomm Stadium  
Term Ends: June 15, 2008



**Ms. Mary Vattimo**  
Ex-Officio Member  
City of San Diego, Treasurer

## San Diego City Employees' Retirement System

### BOARD COMMITTEES

In addition to regular Board duties, SDCERS' Board members also participate on one or more standing committees. The standing committees are responsible for reviewing policies and procedures related to the various areas of SDCERS administration, reporting their findings and making recommendations to SDCERS' Board. The responsibilities and composition of the standing committees as of June 30, 2002, were as follows:

#### Investment Committee

Mary Vattimo (Chair)

Dave Crow (Vice-Chair)

John Casey

Ray Garnica

Frederick W. Pierce, IV

Ron Saathoff

Diann Shipione

Richard Vortmann

Responsible for monitoring investment performance and market conditions and recommending changes to the Investment Policy as dictated by changes in the financial marketplace. This committee meets monthly at 3:00 P.M. on the Thursday before the Friday of the full SDCERS Board meeting.

#### Proxy Voting Committee

Mary Vattimo (Chair)

Terri Webster

Frederick W. Pierce, IV

Responsible for reviewing and updating the Proxy Voting Guidelines as well as overseeing the proxy voting function. This committee meets each March to report on annual voting activities and meets as needed to make recommendations to the full SDCERS Board.

San Diego City Employees' Retirement System

BOARD COMMITTEES (continued)

**Business Procedures Committee**

Ron Saathoff (Chair)

Dave Crow (Vice-Chair)

John Casey

Cathy Lexin

Frederick W. Pierce, IV

Tom Rhodes

John Torres

Terri Webster

Sharon Wilkinson

Responsible for reviewing SDCERS' procedures and making recommendations; reviewing and suggesting solutions to specific problems related to SDCERS administration; establishing, periodically reviewing and updating strategic planning; and, developing performance plans for SDCERS. This committee meets monthly at 9:30 A.M. on the third Friday of each month.

**Rules Committee**

John Torres (Chair)

Tom Rhodes (Vice Chair)

Dave Crow

Frederick W. Pierce, IV

Ron Saathoff

Sharon Wilkinson

Responsible for reviewing SDCERS' Board Rules and making recommendations for necessary changes as recommended by the Committee, the Retirement Administrator or General Counsel. This committee meets monthly at 2:00 P.M. on the Thursday before the Friday of the full SDCERS Board meeting

**Health Advisory Committee**

Dave Crow (Chair)

Stan Elmore (City of San Diego Retiree)

Tom Rhodes (POA) (Vice Chair)

Ron Saathoff (Local 145)

John Torres (MEA)

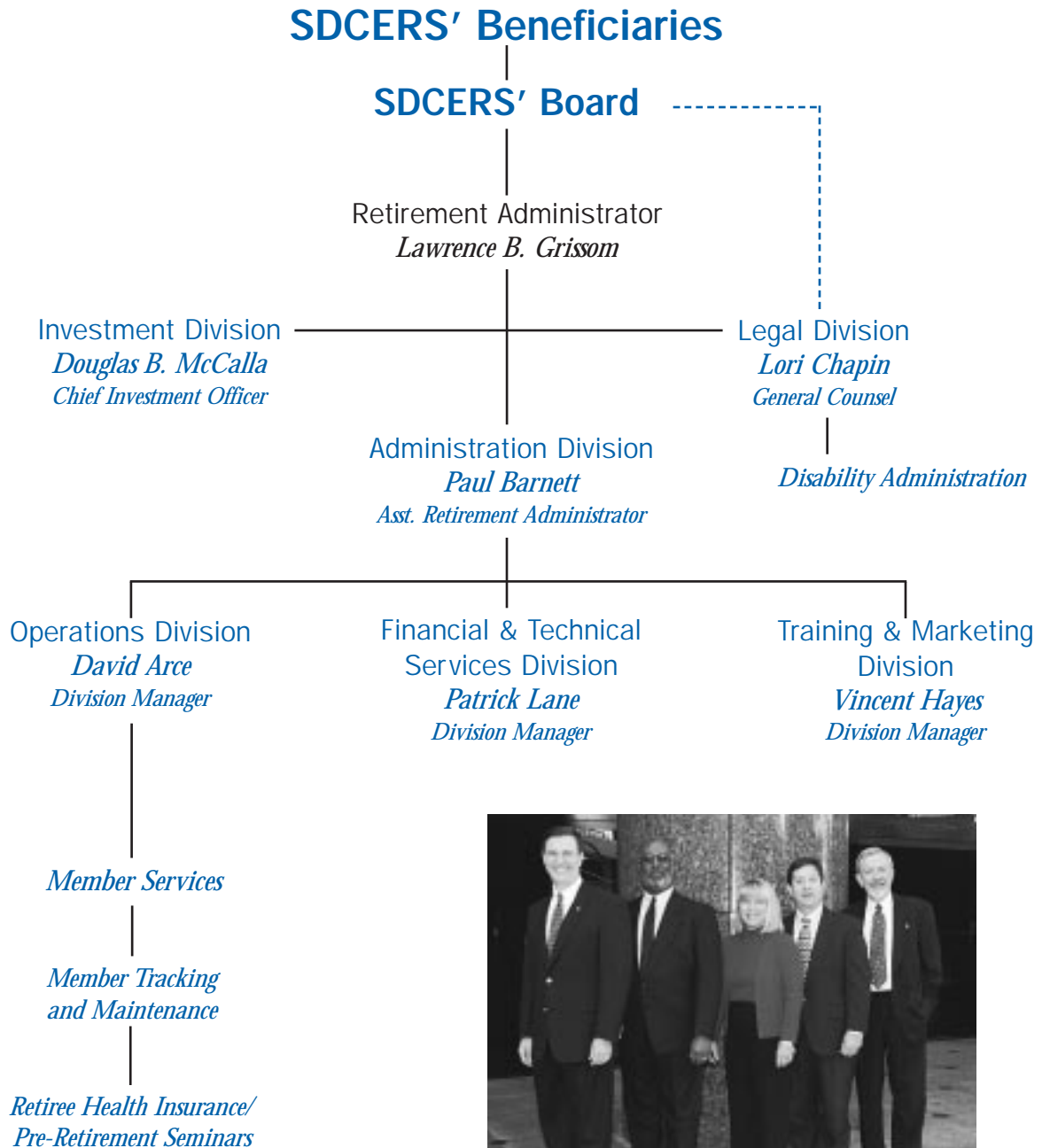
Robert West (City of San Diego Retiree)

Bill Flohr (City of San Diego Retiree)

Responsible for addressing retiree health-related issues and making recommendations to the Business Procedures Committee. This committee meets monthly at 8:30 A.M. on the third Friday of each month.



San Diego City Employees' Retirement System  
**ORGANIZATION CHART**



**SDCERS' Executive Management Team**  
 (from left to right): Doug McCalla, Vincent Hayes, Lori Chapin, Paul Barnett and Larry Grissom. Not pictured: Patrick Lane and David Arce.

### San Diego City Employees' Retirement System

## MANAGEMENT DIVISIONS

**The Investment Division** conducts the day-to-day investment and corporate governance functions in accordance with SDCERS' Board adopted investment objectives and policies; negotiates contracts with, reviews the performance of, and maintains positive relationships with external asset managers, consultants and other investment service providers; manages cash flows between SDCERS' external asset managers, the City and other parties; researches, analyzes, and recommends investment alternatives to the Investment Committee and SDCERS' Board; monitors investment activity of asset managers and the custodial bank; performs monthly asset reconciliation; and, assists with the preparation of the monthly and annual financial statements of the Retirement System Trust Fund.

**The Legal Services Division** provides legal advice and assistance to SDCERS' Board and staff in the areas of trust, tax, contract, community property, benefit interpretation/eligibility, investments, corporate governance and fiduciary responsibility. The Division drafts legal documents, including ordinances, resolutions, contracts, rules and pleadings and coordinates the use of outside counsel representing SDCERS' Board in all legal proceedings to which the Board is a party. The Legal Services Division also administers the disability application process. With respect to this process, this division evaluates disability claims and submits reports, to SDCERS' Board, which recommend approval, denial or judicial hearing of an applicant's claim for disability benefits; provides monthly reports related to status of all pending disability cases; and, represents SDCERS at all disability pre-hearings and hearings.

**The Administration Division** manages the daily affairs of SDCERS and oversees all other Divisions. The Operations, Financial and Technical Services, and Training and Marketing Divisions report directly to the Assistant Retirement Administrator. In addition, the Administration Division interfaces with SDCERS' Board, orientates new Board members, facilitates on-going education for existing Board members, directs and encourages professional development of SDCERS' staff, and prepares and maintains agendas and minutes of Committee and Board meetings.

**The Operations Division** performs the day-to-day delivery of services and benefits to SDCERS' members, which includes individual and group counseling sessions and calculating benefit payments. The major programs operated by this Division are:

**Member Services** assists and counsels members, on a one-on-one basis, concerning retirement benefits, including Deferred Retirement Option Program (DROP), and Disability and Service Retirements. In addition, this group makes presentations at new employee orientations and payroll specialists' training sessions.

**Member Tracking and Maintenance** processes and enrolls new members into SDCERS and tracks a member's retirement account from the time a member enters SDCERS until the member terminates employment, retires, or dies. This area also calculates and processes all benefits offered by SDCERS. This includes Purchase of Service Credit

## San Diego City Employees' Retirement System MANAGEMENT DIVISIONS (continued)

(PSC's) calculations, retirement allowance estimates, and the issuance of pension payroll checks.

**Retiree Health Insurance/Pre-Retirement Seminars** administers the health benefits program for retired members and conducts financial planning and pre-retirement seminars for mid-career members and members approaching retirement.

### **The Financial & Technical Services**

**Division** conducts all necessary internal audits, administers SDCERS' operational budget, and provides internal information technology services. Internal audit staff is responsible for: evaluating operational efficiencies and implementing sound internal controls; managing the member contribution tracking system; developing and monitoring budget activities; processing department payroll; and, conducting special studies as requested by the Retirement Administrator. Information Technology staff coordinate new systems development and mainframe application enhancements, and support necessary payroll interface requirements, local and wide area network administration, internal systems support, phone and data infrastructure requirements and hardware and software procurement.

### **The Training and Marketing Division**

creates and maintains procedures for all tasks associated with benefit administration, and trains staff on how to accomplish each task. In addition, this Division creates and develops brochures, handbooks, newsletters, and other marketing materials used to communicate to SDCERS' members and the public.

San Diego City Employees' Retirement System

PROFESSIONAL SERVICES

As of June 30, 2002

**ACTUARY**

Gabriel, Roeder, Smith & Co.  
*San Diego, CA*

**CONSULTING SERVICES**

Buck Consultants  
*Los Angeles, CA*

JPI Printing, Inc.  
*San Diego, CA*

Levi, Ray & Shoup  
*Springfield, IL*

Reid Moomaugh Associates  
*Boulder City, NV*

San Diego Data Processing Corporation  
*San Diego, CA*

William M. Mercer, Inc.  
*San Francisco, CA*

**CUSTODIAN**

State Street Bank & Trust Co.  
*Alameda, CA*

**INDEPENDENT AUDITOR**

Calderon, Jaham & Osborn  
*San Diego, CA*

**INVESTMENT CONSULTANT**

Callan Associates  
*San Francisco, CA*

**INVESTMENT MANAGERS**

*Domestic Equity*

Delta Asset Management  
*Los Angeles, CA*

Dimensional Fund Advisors  
*Santa Monica, CA*

Globeflex Capital, L.P.  
*San Diego, CA*



San Diego City Employees' Retirement System  
**PROFESSIONAL SERVICES** (continued)

As of June 30, 2002

*Domestic Equity (continued)*

Putnam Investments  
*Boston, MA*

Sector Capital  
*Memphis, TN*

Trinity Investment Management Corp.  
*Englewood, CO*

Wall Street Associates  
*La Jolla, CA*

*Domestic Fixed Income*

Metropolitan West Asset Management  
*Los Angeles, CA*

Nicholas-Applegate Capital Management  
*San Diego, CA*

Pacific Investment Management Company (PIMCO)  
*Newport Beach, CA*

Salus Capital Management, Inc.  
*Los Angeles, CA*

SSI Investment Management, Inc.  
*Beverly Hills, CA*

*International Equity*

Brandes Investment Partners  
*San Diego, CA*

Capital Guardian Trust Company  
*Los Angeles, CA*

Nicholas-Applegate Capital Management  
*San Diego, CA*

Putnam Investments  
*Boston, MA*

*International Fixed Income*

Rogge Global Partners  
*London, England*

San Diego City Employees' Retirement System

PROFESSIONAL SERVICES (continued)

As of June 30, 2002

*Real Estate*

PMRealty Advisors  
*Newport Beach, CA*

RREEF Funds  
*San Francisco, CA*

RREEF Funds (REITs)  
*Chicago, IL*

SSR Realty Advisors  
*San Francisco, CA*

TA Associates Realty  
*Boston, MA*

TCW Associates Realty / Westmark  
*Los Angeles, CA*

U.S. Realty Advisors  
*New York, NY*

**LEGAL SERVICES**

Branton & Wilson  
*San Diego, CA*

Hanson, Bridgett, Marcus, Vlahos Rudy, LLP  
*San Francisco, CA*

Hillyer & Irwin  
*San Diego, CA*

JAMS (Judicial Arbitration Services)  
*San Diego, CA*

Peterson & Associates (Court Reporters)  
*San Diego, CA*

Vail Christians & Associates (Court Reporters)  
*Los Angeles, CA*

**REAL ESTATE CONSULTANT**

Russell Real Estate Advisors  
*San Diego, CA*



THE CITY OF SAN DIEGO

City Employees' Retirement System

401 B Street, Suite 400, MS 840 • San Diego, CA 92101-4227  
Tel (619) 533-4660 Fax (619) 533-4611 or 533-4629

Frederick W. Pierce, IV  
*SDCERS' Board  
President*

## REPORT FROM SDCERS' BOARD PRESIDENT

Dear Members:

On behalf of the members of SDCERS' Board, I am pleased to present the San Diego City Employees' Retirement System (SDCERS) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002.

As with the majority of investors in the current financial markets, the Retirement System Trust Fund experienced a net reduction in Plan Net Assets of \$71.8 million for the fiscal year ended June 30, 2002. This reduction was due to declines in the financial markets over the past year and increases in benefit payments to SDCERS' retirees. Total Plan Net Assets were \$2.527 billion as of June 30, 2002, as compared to Total Plan Net Assets of \$2.599 billion as of June 30, 2001.

While SDCERS experienced an investment loss for the year, SDCERS' Board effectively managed the financial market volatility with a conservative target asset allocation policy and active rebalancing strategy. SDCERS' total fund return for the year ending June 30, 2002, of -2.48%, ranked in the 14th percentile as compared to the investment performance of public pension plans in the Callan Associates database universe.

In spite of the increased benefit payments and adverse investment performance, SDCERS' funded status, as of the most recent actuarial valuation (June 30, 2001), was 89.9% for the City of San Diego, and 118.0% for the San Diego Unified Port District. A funded status in the range of 90% indicates sound financial health for a defined benefit plan, such as SDCERS.

In Spring 2002, SDCERS' Board conducted a customer service survey that was performed by an independent survey research firm, Reid Moomaugh Associates. SDCERS' survey received a 19% response rate, almost one out of every five members, retirees and beneficiaries responded. The general impression of SDCERS among survey respondents was positive; most respondents concurred that SDCERS has maintained a very good image. Only 4% of the survey respondents expressed a negative impression of SDCERS. It is recognized that there are those members, retirees or beneficiaries that may not have had a satisfactory experience for whatever the reason. SDCERS understands that these

positive survey results are meaningless to anyone who has had a bad experience. SDCERS' Board and staff pledges to continue working to deliver a quality experience to all SDCERS' members, retirees and beneficiaries with respect to understanding their retirement benefits.

Located in the Introductory Section of this CAFR is a complete list of SDCERS' Board representatives and their participation in respective Committees. SDCERS' Board and its Committees convene for two full days each month to efficiently administer SDCERS and provide for the effective delivery of benefits to SDCERS' retirees and beneficiaries.

These dedicated volunteers contribute an immense amount of time for the benefit of the members and plan sponsors and I extend my heart felt thanks to each of them for their continued commitment. I thank the committee chairs for their dedicated service to SDCERS: *Mr. John Torres* (Board Vice President and Rules Committee Chair), *Ms. Mary Vattimo* (Investment Committee Chair and Proxy Voting Committee Chair), *Mr. Ron Saathoff* (Business Procedures Committee Chair), and *Mr. Dave Crow* (Health Advisory Committee Chair).

SDCERS' Board cannot deliver service to its members without the support of SDCERS' executive management team, including *Lawrence B. Grissom*, *Paul Barnett*, *Doug McCalla*, *Lori Chapin*, *Vincent Hayes*, *Patrick Lane* and *David Arce*. These individuals, together with their talented staff, have worked to implement various benefit enhancements, counsel members, steam line the disability application process, process purchase of service credit contracts for members, and review the investment manager structure and SDCERS' asset allocation strategy. The committed and professional work of SDCERS' staff continues to be focused on serving the best interests of SDCERS' membership.

In closing, SDCERS' Board members and staff wish to express appreciation to the active and retired members for your continued support and confidence in us as we celebrate our 75th year of service. If you should ever have any questions or would like to provide input, please do not hesitate to contact us. We remain committed to providing the best service possible.

Sincerely,  
San Diego City Employees' Retirement System



Frederick W. Pierce, IV  
SDCERS' Board President  
November 1, 2002



## II. FINANCIAL SECTION





**CALDERON, JAHAM & OSBORN**

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

www.cjo.com

INDEPENDENT AUDITORS' REPORT

The Board of Administration  
San Diego City Employees' Retirement System  
San Diego, California

We have audited the accompanying statements of plan net assets of the San Diego City Employees' Retirement System ("SDCERS") as of June 30, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of SDCERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of SDCERS as of June 30, 2002 and 2001, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The City adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*. This resulted in the addition of the Management's Discussion and Analysis found on pages 26-30.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information and schedules presented in Section II in the accompanying Annual Financial Report are not a requirement of the

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Comerica Bank Tower  
600 "B" Street, Suite 1900  
San Diego, CA 92101  
Phone: (619) 234-5137  
Fax: (619) 234-5162  
E-mail: cjo@cjo.com

P.O. Box 1039  
1236 State Street  
El Centro, CA 92243  
Phone: (760) 352-6022  
Fax: (760) 352-2492  
E-mail: cjo@cpas@thegrid.net

basic financial statements and are presented for the purpose of additional analysis. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedules in Sections III through V are not required parts of the basic financial statements of SDCERS but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

November 8, 2002

Caldron, Isham + Osborn



THE CITY OF SAN DIEGO

City Employees' Retirement System

401 B Street, Suite 400, MS 840 • San Diego, CA 92101-4227  
Tel (619) 533-4660 Fax (619) 533-4611 or 533-4629



Douglas B. McCalla  
*Chief Investment Officer*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Dear Members:

We are pleased to provide this overview and analysis of the financial activities of SDCERS for the fiscal year ended June 30, 2002 (FY 2002). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the Transmittal Letter in the Introductory Section of this Comprehensive Annual Financial Report (CAFR).

### Financial Highlights

- As of June 30, 2002, \$2,527,459,719 in Plan Net Assets was held in Trust for the payment of benefits. All of the Plan Net Assets are available to meet SDCERS' ongoing obligations to its members, retirees and beneficiaries.
- SDCERS' Plan Net Assets held in Trust for the payment of benefits decreased by \$71,821,613, or 2.8%, from the prior year due to increased benefit payments and declines in the financial markets which impacted SDCERS' investment performance.
- Revenues (Additions to Plan Assets) for the year were \$86,711,249, which includes employer and member contributions totaling \$162,195,363, net investment losses of \$77,241,753 and miscellaneous income of \$450,646. As compared to FY 2001, in which additions totaled \$109,125,819, FY 2002 additions of \$86,711,249 were down by \$22,414,570, or 20.5% from the prior year.
- Expenses (Deductions from Plan Assets) fell slightly in FY 2002 as compared to FY 2001. Expenses in FY 2002 totaled \$158,541,303 as compared to \$162,336,721 in FY 2001, a decrease of \$3,795,418 or 2.3%.

SDCERS' funding objective is to meet its long-term benefit obligations through contributions and investment income. As of June 30, 2001, the date of the last actuarial valuation, the funded ratio for the City of San Diego (City) was 89.9%. In general, this means that for every dollar of benefits due, the City (SDCERS) has approximately \$0.90 in assets available for payment. As of June 30, 2001, the date of the last actuarial valuation, the funded ratio for the San Diego Unified Port District (District) was 118.0%. In general, this means that for every dollar of benefits due, the District (SDCERS) has approximately \$1.18 in assets available for payment.

## Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to SDCERS' financial statements, which are comprised of the following items:

1. Comparative Statements of Plan Net Assets
2. Comparative Statements of Changes in Plan Net Assets
3. Notes to the Financial Statements
4. Required Supplementary Information
5. Supporting Schedules

The [Comparative Statements of Plan Net Assets](#) is a snapshot of assets and liabilities at year-end. It discloses the assets available for future payments to retirees and current liabilities that are owed as of June 30.

The [Comparative Statements of Changes in Plan Net Assets](#) on the other hand, provides a view of current year additions to and deductions from Plan Assets.

Both statements are in compliance with Governmental Accounting Standards Board (GASB) Statements No.'s 3, 5, 25, 26, 28, and 31. These pronouncements require certain disclosures and require State and Local Governments to use the full accrual method of accounting. SDCERS complies with all material requirements of these pronouncements.

The Comparative Statements of Plan Net Assets and the Comparative Statements of Changes in Plan Net Assets report information about SDCERS' activities. These statements include all assets and liabilities, using the accrual basis of accounting. All investment gains and losses are shown on a trade date basis, using market values, and all fixed assets are depreciated over their useful lives. (See SDCERS' Financial Statements in the Financial Section of this CAFR.)

[Notes to the Financial Statements](#) provide additional information that is essential to a full understanding of the data provided in the financial statements. (Please see the Notes to the Financial Statements in the Financial Section of this CAFR.)

[Required Supplementary Information](#) provides additional information and detail concerning SDCERS' progress in funding its obligations, the history of employers' contributions and Notes to the Schedules of Trend Information. (Please see the Required Supplementary Information in the Financial Section of this CAFR.)

[Supporting Schedules](#) section includes the schedules of administrative expenses (SDCERS' organizational expenses), fees paid to investment professionals, and payments to consultants. (See Supporting Schedules in the Financial Section of this CAFR.)

Financial Analysis

SDCERS' financial position is measured in several ways. One way is to determine the Plan Net Assets (difference between total assets and total liabilities) available to pay benefits. Over time, increases and decreases in SDCERS' Plan Net Assets is one indicator of whether its financial health is improving or deteriorating. Other factors, such as financial market conditions, should also be taken into consideration when measuring SDCERS' overall health.

SDCERS' Plan Net Assets as of June 30, 2002, totaled \$2,527,459,719. All of the Plan Net Assets are available to meet SDCERS' ongoing obligations to members, retirees and beneficiaries (See Table 1 below).

SDCERS' Plan Net Assets held in Trust for the payment of benefits has steadily increased over the past decade. However, in the year ending June 30, 2002, Plan Net Assets decreased by \$71,821,613, or 2.8%, due to declines in the market value of invested assets and increases in benefit payments.

Despite volatility in the financial markets, SDCERS' management and actuary concur that SDCERS remains in a strong financial position to meet its obligations to SDCERS' members, retirees and beneficiaries. The current financial position is a result of diligent strategic planning by SDCERS' Board and a successful investment program.

**Table 1: SDCERS' Plan Net Assets**

	2002	2001	Increase/ (Decrease)	Change
Current Assets	\$314,847,645	\$275,929,702	\$38,917,943	+14.1%
Investments, at Fair Value	2,294,484,890	2,531,252,338	(236,767,448)	-9.4%
Securities Lending Collateral	163,484,036	180,088,057	(16,604,021)	-9.2%
Fixed Assets	290,737	264,578	26,159	+9.9%
<b>Total Assets</b>	<b>2,773,107,308</b>	<b>2,987,534,675</b>	<b>(214,427,367)</b>	<b>-7.2%</b>
Current Liabilities	3,718,996	4,019,270	(300,274)	-7.5%
Securities Purchased	78,444,557	204,146,016	(125,701,459)	-61.6%
Securities Lending Obligations	163,484,036	180,088,057	(16,604,021)	-9.2%
<b>Total Liabilities</b>	<b>245,647,589</b>	<b>388,253,343</b>	<b>(142,605,754)</b>	<b>-36.7%</b>
<b>SDCERS' Plan Net Assets</b>	<b>\$2,527,459,719</b>	<b>\$2,599,281,332</b>	<b>\$(71,821,613)</b>	<b>-2.8%</b>

Reserves

All retirement systems establish reserve accounts to earmark Plan Net Assets to fund future anticipated liabilities. SDCERS' Reserves are established from contributions and the accumulation of investment earnings, after satisfying administrative and investment expenses. A complete listing of SDCERS' Reserve balances for years ending June 30, 2002, and June 30, 2001, can be found in the Notes to the Financial Statements.



SDCERS' Reserve categories have remained the same over the past several years. However in FY 2001, SDCERS' Board allocated funds to a new reserve, Reserve for Contingencies. This reserve was established to fund benefit changes resulting from the City of San Diego's 2002 Meet and Confer process (labor and management negotiations). As a result of these negotiations and subsequent benefit enhancements, this Reserve was closed as of June 30, 2002, and all available funds were allocated to the Reserve for Employers' Contributions. See Notes to the Financial Statements, Item 6, Retirement System Trust Fund – Reserves.

### SDCERS' Activities

Declines in the market value of invested assets and increases in benefit payments decreased Plan Net Assets as of June 30, 2002, by \$71,821,613. This accounted for a 2.8% decrease in Plan Net Assets from June 30, 2001. Key elements of this decrease are described in the sections that follow.

### Revenues – Additions to Plan Assets

The revenues needed to finance retirement benefits are accumulated through the collection of employer and member contributions and earnings on investments (net of investment expenses). Revenues for the fiscal year ended June 30, 2002, totaled \$86,711,249. (See Table 2 below.)

As a result of lower investment income and declines in the market value of invested assets, net revenues decreased by \$22,414,570, or 20.5%, from the prior year. There was a significant increase in member contributions of 51.2% in FY 2002, over FY 2001, from purchases of service credit by members. Investment earnings were down by 202.2%, in FY 2002, over FY 2001, due to further declines in the financial markets and continued investment losses. As compared to other public plans, SDCERS continues to have top quintile (top 20% of public funds) investment performance over one, three and five years. The Investment Section of this CAFR provides detail concerning the investment activity for the fiscal year ended June 30, 2002.

**Table 2: Contributions and Investment Earnings**

	2002	2001	Increase/ (Decrease)	Change
Employer Contributions	\$49,962,365	\$44,598,473	\$5,363,892	+12.0%
Member Contributions Paid by Employer	28,794,143	25,566,207	3,227,936	+12.6%
Member Contributions	53,546,085	35,413,089	18,132,996	+51.2%
DROP Contributions	29,892,770	28,303,009	1,589,761	+5.6%
Investment Earnings*	(75,934,760)	(25,126,082)	(50,808,678)	-202.2%
Miscellaneous	450,646	371,123	79,523	+21.4%
<b>Total Additions</b>	<b>\$86,711,249</b>	<b>\$109,125,819</b>	<b>\$(22,414,570)</b>	<b>-20.5%</b>

\* Net of investment expenses of \$11,273,944 and \$11,212,248 for June 30, 2002, and June 30, 2001, respectively.

Expenses – Deductions from Plan Assets

SDCERS was created to provide lifetime retirement annuities, survivor benefits, permanent disability benefits and retiree health insurance to qualified SDCERS' members. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering SDCERS. For the fiscal year ending June 30, 2002, these costs totaled \$158,541,303, a decrease of 1.2% over June 30, 2001 (see Table 3 below). This was slightly offset by a gain on the sale/retirement of fixed assets totaling \$8,441.

Deductions of \$158,541,303 exceeded additions of \$86,711,249, resulting in a reduction of \$71,821,613 in Plan Net Assets (which includes non-operating revenue of \$8,441) for the fiscal year ended June 30, 2002.

**Table 3: Benefit Payments and Other Expenses**

	2002	2001	Increase/ (Decrease)	Change
Benefit Payments	\$141,037,774	\$145,991,812	\$(4,954,038)	-3.4%
Health Insurance Payments	8,882,138	7,207,618	1,674,520	+23.2%
Refund of Members' Contributions	994,740	1,462,746	(468,006)	-32.0%
Administrative Expenses	7,591,273	7,645,839	(54,566)	-0.7%
Other Expenses	35,378	28,706	6,672	+23.2%
<b>Total Deductions</b>	<b>\$158,541,303</b>	<b>\$162,336,721</b>	<b>\$(3,795,418)</b>	<b>-2.3%</b>

Requests for Information

This CAFR is designed to provide SDCERS' Board, our membership, taxpayers, investment managers and creditors with a general overview of SDCERS' financial position and to show accountability for the funds it receives.

This CAFR is also available in its entirety on the City of San Diego's web site (in Adobe Acrobat) at [www.sandiego.gov/retirement/index.shtml](http://www.sandiego.gov/retirement/index.shtml)

Questions concerning any of the information provided in this CAFR or requests for additional information should be addressed to:

San Diego City Employees' Retirement System (SDCERS)  
 401 B Street, Suite 400  
 San Diego, California 92101-4298

Respectfully submitted,



Douglas B. McCalla  
 Chief Investment Officer  
 November 1, 2002

**San Diego City Employees' Retirement System**  
**COMPARATIVE STATEMENTS OF PLAN NET ASSETS**  
For the Years Ended June 30, 2002, and June 30, 2001

	2002	2001
<b>ASSETS</b>		
<b>Cash and Cash Equivalents</b>		
Cash or Equity in Pooled Cash and Investments with City of San Diego	\$2,719,260	\$2,088,990
Cash on Deposit with Custodial Bank	178,172,346	109,951,889
Cash Equivalents on Deposit with Custodial Bank	62,705,187	122,153,791
<b>Total Cash and Cash Equivalents</b>	<b>243,596,793</b>	<b>234,194,670</b>
<b>Receivables</b>		
Employer Contributions	6,185,846	5,179,847
Plan Members - Purchased Service	6,577,586	3,386,133
Accrued Interest Receivable	9,743,589	11,250,100
Accrued Interest on Investments Purchased	1,365,282	1,170,406
Securities Sold	47,377,501	20,708,770
<b>Total Receivables</b>	<b>71,249,804</b>	<b>41,695,256</b>
<b>Investments, at Fair Value</b>		
Short Term Investments	23,004,166	11,864,163
Domestic Fixed Income Securities (Bonds)	560,284,211	688,257,352
International Fixed Income Securities (Bonds)	126,953,432	115,499,233
Domestic Equity Securities (Stocks)	935,859,657	1,093,158,064
International Equity Securities (Stocks)	379,798,539	353,605,176
Mortgages	1,515,530	1,617,777
Real Estate Equity and Real Estate Securities	267,069,355	267,250,573
<b>Total Investments</b>	<b>2,294,484,890</b>	<b>2,531,252,338</b>
Securities Lending Collateral	163,484,036	180,088,057
<b>Total Investments including Securities Lending Collateral</b>	<b>2,457,968,926</b>	<b>2,711,340,395</b>
Prepaid Expenses	1,048	39,776
Fixed Assets (at cost, net of accumulated depreciation of \$184,776 and \$288,632, respectively)	290,737	264,578
<b>Total Assets</b>	<b>2,773,107,308</b>	<b>2,987,534,675</b>
<b>LIABILITIES</b>		
Accounts Payable	296,130	813,460
Investment Related Fees Payable	2,644,247	2,531,836
Accrued Payroll	172,334	127,468
Accrued Annual Leave and Sick Leave	264,335	214,193
PPE Conversion Liability	242,886	257,168
Pension Liability	99,064	75,145
Securities Lending Obligations	163,484,036	180,088,057
Securities Purchased	78,444,557	204,146,016
<b>Total Liabilities</b>	<b>\$245,647,589</b>	<b>\$388,253,343</b>
<b>Net Assets Held in Trust for the Payment of Benefits</b>	<b>\$2,527,459,719</b>	<b>\$2,599,281,332</b>

See accompanying Notes to the Financial Statements. (A Schedule of Funding Progress for each plan is presented on page 48.)

San Diego City Employees' Retirement System

COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 2002, and June 30, 2001

	2002	2001
<b>ADDITIONS</b>		
Contributions		
City of San Diego		
Employer	\$49,743,747	\$43,385,069
Member Portion Paid By Employer	25,896,431	23,271,129
DROP - Employer	28,740,248	27,326,074
DROP - Member	1,091,054	945,633
Member	51,804,940	34,570,802
San Diego Unified Port District		
Employer	218,618	1,213,404
Member Portion Paid by Employer	2,897,712	2,295,078
DROP - Employer	57,690	29,054
DROP - Member	3,778	2,248
Member	1,741,145	842,287
<b>Total Contributions</b>	<b>162,195,363</b>	<b>133,880,778</b>
Investment Income		
Equity (Stocks) - Dividends, Gains & Losses	(143,713,832)	(110,214,520)
Fixed Income (Bonds) - Interest, Gains & Losses	54,933,650	48,938,421
Mortgages - Income	132,606	107,380
Real Estate - Income, Dividends, Gains & Losses	22,679,767	46,061,008
Less Investment Expenses	(11,273,944)	(11,212,248)
<b>Net Investment Income (Loss)</b>	<b>(77,241,753)</b>	<b>(26,319,959)</b>
Securities Lending		
Gross Earnings	5,246,361	12,866,190
Borrow Rebates	(3,392,906)	(11,170,600)
Administrative Expenses (Lending Agent)	(546,462)	(501,713)
<b>Net Securities Lending Income</b>	<b>1,306,993</b>	<b>1,193,877</b>
<b>Total Investment Income (Loss)</b>	<b>(75,934,760)</b>	<b>(25,126,082)</b>
Miscellaneous Income	450,646	371,123
<b>Total Additions</b>	<b>\$86,711,249</b>	<b>\$109,125,819</b>

## San Diego City Employees' Retirement System

## COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS (cont'd)

For the Years Ended June 30, 2002, and June 30, 2001

	2002	2001
<b>DEDUCTIONS</b>		
<b>Benefit Payments</b>		
Monthly Retirement Allowances	\$128,596,099	\$117,511,739
Health Insurance Payments	8,882,138	7,207,618
Corbett/Andrecht Benefit Payments	6,813,042	23,630,603
DROP Payments	5,260,951	4,324,380
Death Benefit Payments	367,682	525,090
<b>Total Benefit Payments</b>	<b>149,919,912</b>	<b>153,199,430</b>
Refund of Members' Contributions	994,740	1,462,746
Administrative Expenses	7,591,273	7,645,839
Depreciation Expenses	35,378	28,706
<b>Total Deductions</b>	<b>\$158,541,303</b>	<b>\$162,336,721</b>
Non-Operating Revenue (Expenses)		
Gain (Loss) on Sale/Retirement of Fixed Assets	8,441	—
<b>Net Assets Held in Trust for Pension Benefits</b>		
Beginning of Year	\$2,599,281,332	\$2,652,492,234
Net Increase (Decrease)	(71,821,613)	(53,210,902)
<b>End of Year</b>	<b>\$2,527,459,719</b>	<b>\$2,599,281,332</b>

See accompanying Notes to the Financial Statements.



**San Diego City Employees' Retirement System**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the Years Ended June 30, 2002, and June 30, 2001

**1. PLAN DESCRIPTION**

The following description of the San Diego City Employees' Retirement System (SDCERS) provides only general information. Participants should refer to SDCERS' plan documents for a more complete description of the various provisions.

**General**

SDCERS is the agent of a multi-employer, defined benefit retirement system that was established in 1927 by the City of San Diego (City). It is administered by SDCERS' Board to provide service retirement, disability retirement, and death and survivor benefits to its members. Employees of the San Diego Unified Port District (District) became members of SDCERS in 1963, through an agreement between the City and the District. The provisions applicable to the City's general members are generally applicable to the District's general members, and those provisions applicable to the City's lifeguard members are generally applicable to the District's safety members.

SDCERS, as agent of a multiple-employer defined benefit retirement system, acts as a

common and independent investment and administrative agent for the City and the District and covers all eligible employees of the City and the District. As a defined benefit plan, retirement benefits are determined primarily by a member's age at retirement, length of membership service and final compensation, based on the highest salary earned over a consecutive one-year period.

SDCERS is considered part of the City of San Diego's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a Retirement System Trust Fund.

**Membership**

All benefited (40, 60 and 80 hours bi-weekly standard) City and District employees are eligible to participate in SDCERS. Salaried classified employees and salaried unclassified members hired on or after August 11, 1993, become members of SDCERS upon employment.

SDCERS' membership consists of: active members; inactive members entitled to benefits but not yet receiving them (deferred vested members), active and inactive non-vested members; and, retired members:

**Members**  
 2002: 13,082  
 2001: 12,423  
 +650

**Retirees**  
 2002: 5,352  
 2001: 5,247  
 +105

**Total Members & Retirees**  
 2002: 18,434  
 2001: 17,679  
 +755

	As of June 30, 2002			As of June 30, 2001		
	City General Members	City Safety Members	District All Members	City General Members	City Safety Members	District All Members
Active Vested	3,781	1,758	287	3,642	1,811	292
Deferred Vested	411	74	14	306	60	14
Active & Inactive Non-Vested	4,951	1,156	650	4,687	996	624
Retired	2,784	1,785	259	2,736	1,717	245
DROP Participants	186	335	3	198	349	2
<b>Totals</b>	<b>12,113</b>	<b>5,108</b>	<b>1,213</b>	<b>11,569</b>	<b>4,933</b>	<b>1,177</b>

## San Diego City Employees' Retirement System

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

As of June 30, 2002, SDCERS' increased by 650 members. Retirees increased by 130, while DROP participants decreased by 25, for a net retiree increase of 105. The total number of members and retirees continues to increase year over year at SDCERS, with the most recent year witnessing an increase of 755 in membership.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

SDCERS' Financial Statements are prepared using the accrual basis of accounting. Employer and member contributions are recognized as revenues in the period in which the employee services are performed and expenses are recorded when the corresponding liabilities are incurred. Gains or losses are recognized as earned when securities have been sold, on a trade date basis, based on the market value of the assets.

### Cash or Equity in Pooled Cash and Investments on Deposit with the City of San Diego

The City maintains a cash and investment pool that is available for use by all funds of the City and other related entities for which the City is the depository. The credit risk for this pool is disclosed in the Notes to the City's Comprehensive Annual Financial Report. Interest is earned on the pooled funds each accounting period (13 periods each fiscal year). SDCERS had a total of \$2,719,260 and \$2,088,990 on deposit in the pool as of June 30, 2002, and June 30, 2001, respectively.

### Investments

SDCERS operates under the "Prudent Expert Rule". Under the California State Constitution and other relevant authority, SDCERS' Board may, at its discretion, invest funds in any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board. SDCERS' agent, in SDCERS' name, holds all investments. SDCERS' investments are stated at fair value in the accompanying Comparative Statements of Plan Net Assets. The custodian, State Street Bank & Trust Company, provides the market values of SDCERS' invested assets.

### Receivables

Included in SDCERS' receivables are accounts receivable representing employee contributions due as well as matching contributions including retirement buybacks under various plans.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, securities sold represents a receivable of cash under trade date accounting which is received as of settlement date.

### Fixed Assets

Purchased fixed assets are recorded at historical cost. Assets are depreciated using the straight line method over the following useful lives:

Office Equipment	10-15 years
Computer Equipment	3 years

San Diego City Employees' Retirement System  
NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

Expenses

SDCERS is an independent entity. The entire expense of SDCERS' administration is charged against the earnings and assets of SDCERS. Fees for investment management, actuarial services, custodial bank and travel costs for investment related activities are netted against annual additions to plan assets to arrive at Plan Net Assets at the end of the year as provided for in Sections 24.1501 and 24.1502 of the San Diego Municipal Code.

Income Taxes

SDCERS operates as a Retirement System Trust Fund under Section 401(a) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the Retirement System Trust Fund is considered exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 401, and California Revenue and Taxation Code Section 23701.

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

3. KEY ACTUARIAL ASSUMPTIONS

The most recent actuarial valuations for the City of San Diego and the San Diego Unified Port District were performed as of June 30, 2001. Key assumptions that were used in these valuations are as follows:

- Investment rate of return: 8.0%
- Inflation rate: 4.25%
- Real rate of return on investments: 3.75%
- Actuarial discount rate: 8.0%

The actuarial value of assets was determined using the net market value and net book value of plan assets. Taking the gross values and deducting liabilities as indicated in the financial statements arrives at net values available for benefits. The percentage differences between net market value and net book value over the most recent five-year period were calculated. The resulting percentages were averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at the actuarial value of plan assets.

Active member payroll was assumed to increase annually, as follows:

- Inflation rate: 4.25%
- Salary increases: 0.5%
- Total member payroll increase: 4.75%

The projected unit credit actuarial cost method (adopted as of July 1, 1993) was used in determining age and service allowance actuarial liabilities at normal cost. The City of San Diego's unfunded actuarial accrued liability (UAAL) is being funded over a 30-year, closed amortization period as of July 1, 1991 (19 years remaining). The San Diego Unified Port District does not have an unfunded actuarial accrued liability as of the June, 30, 2001, valuation.

The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded. There is a closed group of special safety officers with an annual adjustment equal to inflation (4.25% per year).

## San Diego City Employees' Retirement System

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

The member statistical data on which the valuation was based was furnished by SDCERS, together with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the Academy of Actuaries (M.A.A.A.).

#### 4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

SDCERS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using the projected unit credit actuarial funding method.

In addition to employer contributions, the City of San Diego's unfunded actuarial accrued liability (UAAL) is being funded as a level percent of payroll over a 30-year, closed amortization, which began July 1, 1991 (19 years remaining).

Members are required to contribute a percentage of their annual salary to SDCERS. Contributions vary according to age at entry into SDCERS and salary. The City and the District contribute a portion of the members' share and the remaining amount necessary to fund the Retirement System Trust Fund based on an actuarial valuation at the end of the preceding year under the projected unit credit method of actuarial valuation. Before June 30, 1993, contributions were based on the entry age normal cost method of valuation.

Computed City and District contribution rates as of June 30, 2001, which applied to fiscal year 2002 (which began July 1, 2001), and rates as of June 30, 2000, which applied to fiscal year 2001 (which began July 1, 2000), were as follows, on the next page, (expressed as percentages of active payroll):

**San Diego City Employees' Retirement System**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2002, and June 30, 2001

**City of San Diego\*\***

Employer General Member Contribution Rates, Based on Valuation of:	As of June 30, 2001 (FY 2002)		As of June 30, 2000 (FY 2001)	
	General	Legislative	General	Legislative
Normal Cost*	9.12%	21.65%	8.92%	28.86%
Amortization Payment*	2.25	44.95	(0.02)	25.42
SUBTOTAL	11.37	66.60	8.90	54.28
Adjusted for payment at the beginning of the year	10.94	64.09	8.56	52.23
<b>Total City Contribution Rates</b>	<b>10.94%</b>	<b>64.09%</b>	<b>8.56%</b>	<b>52.23%</b>

Employer Safety Member Contribution Rates, Based on Valuation of:	As of June 30, 2001 (FY 2002)			As of June 30, 2000 (FY 2001)		
	Police	Fire	Life Guard	Police	Fire	Life Guard
Normal Cost*	17.06%	19.17%	16.40%	17.04%	19.43%	16.70%
Amortization Payment*	7.83	7.83	7.83	2.95	2.95	2.95
SUBTOTAL	24.88	27.00	24.23	19.99	22.38	19.65
Adjusted for payment at the beginning of the year	23.94	25.98	23.32	19.24	21.54	18.91
<b>Total City Contribution Rates</b>	<b>23.94%</b>	<b>25.98%</b>	<b>23.32%</b>	<b>19.24%</b>	<b>21.54%</b>	<b>18.91%</b>

\* Rates assume that contributions are made uniformly during the plan year.

\*\* Contribution rates do not reflect the 1996 City Manager's proposal. Rates in this schedule are actuarially determined. See the Schedule of Employers' Contributions on page 49 for the City of San Diego's actual historic and future contribution rates.



**San Diego City Employees' Retirement System**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
 For the Years Ended June 30, 2002, and June 30, 2001

**San Diego Unified Port District**

Employer General Member Contribution Rates, Based on Valuation of:	As of June 30, 2001 (FY 2002)		As of June 30, 2000 (FY 2001)	
	General	Safety	General	Safety
Normal Cost*	9.05%	15.33%	7.70%	13.78%
Amortization Payment*	(3.85)	(6.54)	(0.02)	25.42
SUBTOTAL	5.20	8.79	(0.57)	6.38
Adjusted for payment at the beginning of the year	5.00	8.46	(0.55)	6.13
<b>Total District Contribution Rates</b>	<b>5.00%</b>	<b>8.46%</b>	<b>(0.55%)</b>	<b>6.13%</b>

\* Rates assume that contributions are made uniformly during the plan year.

Average employees' contribution rates for each member group are shown below. Averages shown apply to salary amounts over \$400 per month in the case of employees with social security integrated benefits.

	Average Employees' Contribution Rates as of June 30, 2001 (FY 2002)	Average Employees' Contribution Rates as of June 30, 2000 (FY 2001)
<u>City of San Diego</u>		
General Members	10.01%	9.97%
Safety Members	12.84%	12.83%
<u>San Diego Unified Port District</u>		
General Members	10.27%	9.64%
Safety Members	12.96%	10.65%

All or part of the employee rate is subject to potential offset (or pickup) by the employer. The rates above (actuarially determined amounts) are shown before any applicable offset. Such offset and related accumulated interest are not refunded to members at termination.

The City has reported offset amounts of compensation as follows: 5.0% for represented general members, 6.0% for unclassified general members, 6.9% for legislative members, 6.5% for lifeguard members and 7.3% for police and fire safety members. The City's employer pickup contributed to

San Diego City Employees' Retirement System  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Years Ended June 30, 2002, and June 30, 2001

SDCERS is reduced (prior to being contributed) by the anticipated savings from member (employee) terminations prior to being vested in SDCERS. The City has decided to reduce the discounts applied to offsets for anticipated saved refunds, over a four year period. The discount will be reduced from 22% to 5% for General Members and from 7% to 1% for Safety Members. The District has reported offset amounts of 7% of compensation for all members except for safety members at an offset amount of 8% and management members at an offset amount of 8.5%.

The significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**5. CASH, INVESTMENTS AND SECURITIES LENDING**

SDCERS' cash or equity in the pooled cash and investments, cash and cash equivalents, and investments were as follows at June 30, 2002, and June 30, 2001:

	June 30, 2002	June 30, 2001
Cash or equity in pooled cash and investments on deposit with City of San Diego	\$2,719,260	\$2,088,990
Cash and cash equivalents on deposit with Custodial Bank	240,877,533	232,105,680
Investments (including accrued interest receivable, plus accrued interest on investments purchased, plus receivable for securities sold less liability for securities purchased)	2,274,526,705	2,360,235,598
<b>Totals</b>	<b>\$2,518,123,498</b>	<b>\$2,594,430,268</b>

## San Diego City Employees' Retirement System

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

## Securities Lending

SDCERS has agreed with a fiscal agent, currently SDCERS' custodial bank, State Street Bank and Trust Company, to lend domestic and international equity and fixed income securities to various borrowers for collateral that will be returned in the future for the same securities plus a fee. The fiscal agent manages the securities lending program and receives cash and securities as collateral. Collateral is pledged at no less than 102% of the market value of the lent securities for domestic fixed income, domestic equity and international fixed income securities, and no less than 105% of the market value of the lent securities for international equity securities, marked to market on a daily basis.

The cash collateral received on each loan was invested by State Street Bank & Trust Company, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of June 30, 2002, such investment pool had an average duration of 64 days and an average weighted maturity of 405 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with the cash collateral.

As with other extensions of credit, SDCERS may encounter various risks related to securities lending agreements. However, the fiscal agent is required to maintain its securities lending program in compliance with applicable laws of the United States and all countries in which lending activities take place, and all rules, regulations and exemptions from time to time promulgated and issued under the authority of those laws. At year-end, SDCERS had no credit risk exposure to borrowers because the amounts provided to SDCERS, in the form of collateral, exceeded the amounts the borrowers owed SDCERS for the securities borrowed. SDCERS' securities lending activity as of June 30, was as follows:

	2002	2001
Securities Lending Gross Earnings	\$5,246,361	\$12,866,190
Expenses		
Borrower Rebates	3,392,906	11,170,600
Fees Paid to Securities Lending Agent	546,462	501,713
Total Expenses	3,939,368	11,672,313
<b>Net Income from Securities Lending</b>	<b>\$1,306,993</b>	<b>\$1,193,877</b>

### San Diego City Employees' Retirement System

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

### Investments

The SDCERS' Board has exclusive control over the administration and investment of SDCERS' assets pursuant to Section 144 of the Charter of the City of San Diego (Charter) and pursuant to California Constitution Article XVI, Section 17.

The Board is authorized to invest in any securities that are allowed by general law for savings banks. The Board is further permitted to invest in additional classes or types of investments, as approved by resolution of the Council of the City of San Diego. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "Prudent Expert Rule" as set forth in state law. These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stock, preferred stock and pooled vehicles.

Investment policies permit SDCERS to invest in financial futures contracts provided the contracts do not leverage the Retirement System Trust Fund's portfolio. Financial futures contracts, which are recorded at market value each day, must be settled at expiration date. Thus, changes in the market value of the contract will result in the recognition of a gain or loss at the expiration date of the futures contract.

A copy of SDCERS' investment objectives and policies may be obtained from SDCERS' Office. Through its investment objectives and policies, SDCERS has placed considerable importance on generating a reasonable rate of return above inflation in order to insure payment of benefits to retirees. SDCERS also

places considerable importance on the preservation of capital. Therefore, any investment opportunity considered may be entered into only after the associated risk is clearly understood.

SDCERS attempts to preserve capital through the following risk control methods:

**Credit Risk** is mitigated by diversifying the investment portfolio so that failure of any one issuer will not unduly harm SDCERS. This is accomplished by the following restrictions on the size of investments in non-U.S. government securities: not more than 5% of the equity portfolio can be invested in any one stock and, at the time of initial investment, not more than 10% of the fixed income portfolio can be invested in any one corporate bond issue.

**Market Risk** is mitigated by diversifying the investment portfolio among the asset classes of stocks, bonds and real estate. Further diversification within the asset classes of stocks and bonds is achieved by investing in both domestic and international markets. Additional real estate diversification is achieved by investing in various property types in different geographic regions of the United States.

SDCERS' investments at June 30, 2002, and June 30, 2001, that can be specifically identified as to credit risk, are categorized as follows:

## San Diego City Employees' Retirement System

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

**Category 1:** Insured or registered, or securities held by SDCERS or its agent in SDCERS' name.

**Category 2:** Uninsured and unregistered, with securities held by the counter party's Trust department or agent in SDCERS' name.

**Category 3:** Uninsured and unregistered, with securities held by the counter party, by its Trust department, or agent but not in SDCERS' name.

Investments that are not subject to credit risk categorization, but whose carrying amounts and fair values are required to be disclosed, are also presented below with required disclosures for securities lending.

**Investment Risk as of June 30, 2002**

	Risk Category	June 30, 2002 Fair Value	June 30, 2001 Fair Value
<b>Investments - Categorized</b>			
Short - Term Investments	1	\$23,004,166	\$11,864,163
Domestic Fixed Income - U.S. Government Bonds	1	135,414,544	319,105,408
Domestic Fixed Income - U.S. Corporate Bonds	1	376,285,847	354,454,329
Domestic Equity - U.S. Corporate Stocks	1	887,985,784	999,629,701
International Fixed Income - Bonds	1	126,953,432	111,610,063
International Equity - Stocks	1	317,590,639	290,914,027
Real Estate Investment Trust Securities (REITs)	1	90,995,418	111,240,128
Investments Made with Securities Lending Cash Collateral			
Pooled investment vehicle with State Street Bank and Trust Co. (See Notes to the Financial Statements, 5. Securities Lending for pooled investment characteristics)	3	163,484,036	180,088,057
<b>Total Categorized Investments</b>		<b>2,121,713,866</b>	<b>2,378,905,876</b>
<b>Investments - Non-Categorized</b>			
Cash and Cash Equivalents with State Street (Pooled)		240,877,533	232,105,680
Cash and Investments with City of San Diego (Pooled)		2,719,260	2,088,990
Total Securities on Loan for Securities Collateral			
Domestic Fixed Income - U.S. Government Bonds		31,210,473	7,474,070
Domestic Fixed Income - U.S. Corporate Bonds		17,373,347	7,223,545
Domestic Equity - U.S. Corporate Stocks		47,873,873	93,528,363
International Fixed Income - Bonds		-	3,889,170
International Equity - Stocks		62,207,900	62,691,149
Real Estate Equity Holdings		176,073,937	156,010,445
Mortgage Notes		1,515,530	1,617,777
<b>Total Non-Categorized Investments</b>		<b>579,851,853</b>	<b>566,629,189</b>
<b>Total Cash, Cash Equivalents, and Investments</b>		<b>\$2,701,565,719</b>	<b>\$2,945,535,065</b>



San Diego City Employees' Retirement System  
 NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

6. FIXED ASSETS

The following is a summary of fixed assets at June 30, 2002:

	Balance July 1, 2001	Additions	Adjustments and Transfers	Deletions	Balance June 30, 2002
Equipment	\$553,210	\$53,096	\$0	\$(130,793)	\$475,513
Accumulated Depreciation	(288,632)	(35,378)	0	139,234	(184,776)
<b>Totals</b>	<b>\$264,578</b>	<b>\$17,718</b>	<b>\$0</b>	<b>\$8,441</b>	<b>\$290,737</b>

7. RETIREMENT SYSTEM TRUST FUND - RESERVES

The San Diego Municipal Code authorizes the SDCERS' Board to establish reserve accounts based on the advice of its actuary. Annual adjustments to the fund are a result of investment gains or losses and employee and employer contributions. These changes are distributed in the order below in accordance with San Diego Municipal Code. Reserves are adjusted annually by allocating fund assets valued at cost.

*Reserve Balances at June 30 Each Year:*

	2002	2001
Reserved for Investments in Fixed Assets	\$290,737	\$264,578
Receivables Reserve	6,577,586	3,386,133
Reserved for Encumbrances	1,266,265	157,526
Reserved for Members' Contributions	372,129,066	316,365,007
Reserved for Employers' Contributions	459,073,155	439,122,663
Reserved for DROP Contributions	97,430,035	66,373,564
Reserved for Retired Members	1,289,713,478	1,139,754,674
Reserved for Supplemental Benefit Payments	3,714,211	3,713,427
General Reserve	109,160,143	109,160,143
Reserve for Retiree Health Insurance	32,190,468	26,755,533
Supplemental COLA Reserve	29,944,109	31,530,240
Reserve for Retirement Changes – City	82,498,325	82,498,325
Reserve for Retirement Changes – District	4,272,283	4,272,283
Reserve for Employee Contribution Rate Increase	40,650,714	40,490,052
Reserve for Contingencies	---	105,848,108
Reserve for Net Pension Obligation	39,230,748	30,983,989
Undistributed Earnings Reserve	(18,748,424)	106,795,160
Liabilities	245,647,589	388,253,343
<b>Total Fund Balance and Liabilities*</b>	<b>\$2,795,040,488</b>	<b>\$2,895,724,748</b>

\* Reserves are established using cash, receivables, and other assets added to invested assets valued on a cost basis of: \$2,557,295,603 as of June 30, 2002, and \$2,671,548,090, as of June 30, 2001.

## San Diego City Employees' Retirement System

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

**Reserved for Investment in Fixed Assets -**

Depreciated cost of office equipment owned by SDCERS.

**Receivables Reserve -** Balance of receivables expected to be received in the future.

**Reserved for Encumbrances -** Balance of contractual liabilities incurred but not yet paid at year-end.

**Reserved for Members' Contributions -** Funds representing the accumulated contributions, plus accumulated allocated interest, held on account for all active and inactive members.

**Reserved for Employers' Contributions -** Funds representing the otherwise unallocated accumulated contributions, plus accumulated allocated interest, of all participating agencies.

**Reserved for Deferred Retirement Option Program (DROP) Contributions -** Contributions representing accumulated deferred retirement benefits, plus accumulated allocated interest, held on account for members participating in DROP.

**Reserved for Retired Members -** Funds sufficient based upon advice of the actuary, to pay present and future benefits of current retired members. Upon retirement, employees' funds are transferred from the Reserve for Employees' Contributions to this reserve, along with sufficient funds from the Employers' Contributions Reserve, to fund the expected present and future cost of benefits for existing retirees.

**Reserved for Supplemental Benefit Payments -**

Funds sufficient to provide for an unvested supplemental benefit "13th check" to qualified retirees when annual realized earnings and gains are sufficient to fund all other reserves of higher priority in accordance with the San Diego Municipal Code.

**General Reserve -** An amount representing 4% of total plan assets at cost, which may be reallocated by SDCERS' Board.

**Reserve for Retiree Health Insurance -** Funds set aside in a 401(h) trust to provide health benefits to Health Eligible and Non-Health Eligible Retirees.

**Supplemental COLA Reserve -** Funds sufficient to pay this benefit to retirees whose effective date of retirement was prior to June 30, 1983, for the rest of their lives (until the fund is depleted).

**Reserve for Retirement Changes (City) -** Funds sufficient to satisfy the additional cost to SDCERS associated with benefit enhancements adopted by the City Council, effective January 1, 1997.

**Reserve for Retirement Changes (District) -** Funds sufficient to satisfy the additional cost to SDCERS associated with benefit enhancements effective January 1, 1997, pursuant to the Third Amendment to the Agreement with City Council.

**Reserve for Employee Contribution Rate Increase Payments -** Funds sufficient to satisfy the 0.49% contribution rate increase (beginning July 1, 1998) to active members associated with benefit enhancements adopted by the City Council, effective January 1, 1997.

San Diego City Employees' Retirement System  
 NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

**Reserve for Contingencies** - Established in FY 2001 to fund future benefit changes as a result of the FY 2002 Meet and Confer process (labor and management negotiations). This expired June 30, 2002, and funds in this reserve were transferred to Reserved for Employers' Contributions.

**Reserve for Net Pension Obligation** - Funds sufficient to supplement the City of San Diego employer contributions to equal total City contributions as recommended by the actuary.

**Surplus Undistributed Earnings Reserve** - This reserve represents the balance of earnings remaining after the annual distribution to the employees' and employers' reserve accounts in accordance with SDCERS' Board established assumed rate of interest. At the beginning of each fiscal year, the SDCERS' Board shall credit all Surplus Undistributed Earnings to the Reserve for Employers' Contributions in order to reduce SDCERS' current liabilities.

**Liabilities Reserve** - These are funds sufficient to pay liabilities as of June 30, 2002. Payables includes a large liability (90%+ of payables) classified as "Securities Purchased" which recognizes investments purchased and booked as an asset on a trade date basis per Governmental Accounting Standards Board Statement No. 25. Additionally, a liability for the repayment of cash collateral is identified as "Securities Lending Obligations" in accordance with Governmental Accounting Standards Board Statement No. 28.

8. SUBSEQUENT EVENT DISCLOSURE

**Benefit Enhancements**

As the result of the City of San Diego's collective bargaining process known as Meet and Confer, the retirement benefits for General Members were increased effective July 1, 2002 (FY 2003). The Retirement Benefit Calculation factor was increased from 2.25% to 2.50% per year of creditable service. The new rates, effective July 1, 2002, are as follows:

Retirement Age	Retirement Calculation Factor
55-59	2.50%
60	2.55%
61	2.60%
62	2.65%
63	2.70%
64	2.75%
65	2.80%

In conjunction with the new Retirement Calculation Factor, a maximum of 90% of a member's high one-year salary will be paid as a Service Retirement, based on the years of service calculation for the City's General Members. The 90% "cap" will be applicable to all City General Members hired or rehired on or after July 1, 2002. In addition, the 90% cap will also apply to City General Members hired on or before June 30, 2002, with *some exceptions*.

Further, the payment of the retirement contribution offset was increased for City Safety Members from 7.3% to 9.0%, effective July 6, 2002. The increase to this payment will be paid out of Reserved for Employers' Contributions.

## San Diego City Employees' Retirement System

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Years Ended June 30, 2002, and June 30, 2001

In addition, the maximum amount to be paid on behalf of, or reimbursed to, a Health Eligible Retiree for retiree-only Medicare eligible or non-Medicare eligible health insurance premiums, for coverage effective August 1, 2002, was increased from the HMO rate to the PPO rate. The rate is adjusted annually thereafter based on the Centers for Medicare and Medicaid Services, Office of the Actuary, projected increase for National Health Expenditures for the full year period ending in the January preceding the start of the new plan year, with such adjustment not to exceed 10% for any given year.

The actuarial valuation to be performed as of June 30, 2002, will incorporate these benefit enhancements and will include any associated liability of SDCERS.

#### Employer Contribution Increases

The City of San Diego has agreed to increase their annual employer contribution rate to fund the increased benefits discussed above beginning in FY 2004; payment will be advance funded to SDCERS July 1, 2003.

Furthermore, the percentage contribution rates in the "City Paid Rate" schedule, as identified in the Schedule of Employers' Contributions, beginning on page 49 of this CAFR, will be increased beginning in FY 2004. Exact contribution rates are being finalized with the City and SDCERS. For the City's current employer contribution rates, please refer to the Schedule of Employer Contributions.

The actuarial valuation to be performed as of June 30, 2002, will incorporate these increased contributions and any impact on the funded status of SDCERS for the City of San Diego.

For further information regarding benefit enhancements or employer contribution increases, please call SDCERS' Offices at (619) 525-3600.

\* \* \*

**San Diego City Employees' Retirement System**  
**SCHEDULE OF FUNDING PROGRESS**

For the Years Ended June 30

**City of San Diego**  
(\$ in Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
<b>6/30/01</b>	<b>\$2,525,645</b>	<b>\$2,809,538</b>	<b>89.9%</b>	<b>\$283,893</b>	<b>\$481,864</b>	<b>58.9%</b>
6/30/00 <sup>3</sup>	2,459,815	2,528,774	97.3	68,959	448,502	15.4
6/30/99	2,033,153	2,181,547	93.2	148,394	424,516	35.0
6/30/98 <sup>1</sup>	1,852,151	1,979,668	93.6	127,517	399,035	32.0
6/30/97	1,632,361	1,748,868	93.3	116,507	382,715	30.4
6/30/96 <sup>2</sup>	1,480,772	1,620,373	91.4	139,602	365,089	38.2
6/30/95	1,316,903	1,421,150	92.7	104,247	350,584	29.7
6/30/94 <sup>1</sup>	1,216,063	1,290,927	94.2	74,864	338,440	22.1
6/30/93	1,137,019	1,178,311	96.5	41,292	320,624	12.9

AAL - Actuarial Accrued Liability      UAAL - Unfunded Actuarial Accrued Liability

<sup>1</sup> Reflects revised actuarial and economic assumptions    <sup>2</sup> After Manager's Proposal    <sup>3</sup> Reflects non-contingent Corbett benefit increases

**NOTE:** Actuarial gains and losses reduce or increase the unfunded actuarial accrued liability which is being amortized over a closed 30-year period which began July 1, 1991 (19 years remaining).

**San Diego Unified Port District**  
(\$ in Thousands)

Valuation Date	Valuation Assets	Continuation Indicators				
		AAL	Funded Ratio	UAAL	Member Payroll	UAAL Ratio to Member Payroll
<b>6/30/01<sup>3</sup></b>	<b>\$145,278</b>	<b>\$123,126</b>	<b>118.0%</b>	<b>\$(22,152)</b>	<b>\$36,425</b>	<b>(60.8)%</b>
6/30/00	133,183	97,160	137.1	(36,023)	30,621	(117.6)
6/30/99	110,310	89,809	122.8	(20,501)	30,035	(68.3)
6/30/98 <sup>2</sup>	98,007	81,633	120.1	(16,374)	26,672	(61.4)
6/30/97 <sup>1</sup>	84,511	73,564	114.9	(10,947)	25,390	(43.1)
6/30/96	72,511	62,231	116.5	(10,280)	23,557	(43.6)
6/30/95	63,533	55,560	114.4	(7,973)	22,383	(35.6)
6/30/94	57,765	47,353	122.0	(10,412)	21,733	(47.9)
6/30/93	52,164	42,519	122.7	(9,645)	20,108	(48.0)

AAL - Actuarial Accrued Liability      UAAL - Unfunded Actuarial Accrued Liability

<sup>1</sup> Reflects benefit increase for District General Members    <sup>2</sup> Reflects revised actuarial assumptions    <sup>3</sup> Reflects Andrecht Settlement



**San Diego City Employees' Retirement System**  
**SCHEDULE OF EMPLOYERS' CONTRIBUTIONS**  
 For the Years Ended June 30

**City of San Diego**

	2002	2001	2000	1999	1998	1997
Actuarially Calculated, Required Contributions	\$56,421,530	\$50,772,110	\$45,809,229	\$41,562,858	\$39,685,147	\$33,480,756
Contributions Made to SDCERS	49,743,747	43,385,069	39,364,162	34,467,454	30,979,325	28,060,503
Difference - Over/(Under) Contributed	(6,677,783)	(7,387,041)	(6,445,067)	(7,095,394)	(8,705,822)	(5,420,253)
Percentage Contributed	88.16%	85.45%	85.93%	82.93%	78.06%	83.81%

Pursuant to the City Manager's proposal of 1996, the City of San Diego has agreed to pay the following rates. (Please note an agreement between the City and SDCERS to amend this payment schedule beginning in FY 2004, effective July 1, 2003, as of this report printing, has not been finalized):

<u>Fiscal Year End</u>	<u>City-Paid Rate*</u>	
2001	9.33%	
2002	9.83	
2003	10.33	
2004	10.83	
2005	11.33	
2006	11.83	* Note: City-Paid Rate is
2007	12.18	stated as a percentage of
2008	13.00	active payroll.

This rate schedule will remain in place unless the City of San Diego's funded ratio falls below 82.3% or there are insufficient monies from Surplus Undistributed Earnings to cover the shortfall between the City-Paid Rate and the actuarially computed rate.

Since this funding method is not one of the six approved funding methods under rules set by the Governmental Accounting Standards Board (GASB), a pension expense in the City of San Diego's Financial Statements will result. A reserve account, Net Pension Obligation, has been established to supplement the City of San Diego employer contributions to equal total City contributions as recommended by the actuary.

**San Diego Unified Port District**

	2002	2001	2000	1999	1998	1997
Actuarially Calculated, Required Contributions	\$229,659	\$1,117,298	\$1,109,560	\$1,277,140	\$996,473	\$837,117
Contributions Made to SDCERS	218,618	1,213,404	1,301,929	1,433,903	1,518,004	1,105,081
Difference - Over/(Under) Contributed	(11,041)	96,106	192,369	156,763	521,531	267,964
Percentage Contributed	95.19%	108.60%	117.34%	112.27%	152.34%	132.01%

### San Diego City Employees' Retirement System

## NOTES TO THE SCHEDULES OF TREND INFORMATION

For the Years Ended June 30

### SCHEDULE OF FUNDING PROGRESS

A schedule of funding progress presents a consolidated snapshot of a retirement system's ability to meet current and future liabilities with the assets of a plan. Of particular interest to most is the funded status ratio. This ratio quickly conveys a retirement system's level of assets to liabilities, which is important in determining the financial health of a retirement system. The closer a retirement system is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

As of June 30, 2001, the date of the last actuarial valuation, the City of San Diego (City) had an 89.9% funded status. The San Diego Unified Port District (District) had a 118.0% funded status. Overall, the financial condition of SDCERS continues to be in sound condition in accordance with the actuarial principles of level-cost funding.

#### City of San Diego (City)

In this schedule, nine years of historical information is presented with respect to the funding progress of the City, a participating employer of SDCERS. The City has maintained, on average, a 93.5% funded status over the past nine years. This is an important accomplishment for the City as a consistent funded status provides for level and predictable employer contributions from year to year. This consistency has been achieved through solid earnings on invested assets provided by a well-diversified investment program as administered by SDCERS' Board. This consistent funded ratio has also been achieved during a time when the City's employee base has increased to meet the service needs of San Diego citizens, which increases the

liabilities of SDCERS to provide future benefits to an increased number of SDCERS' members.

The City currently has an unfunded actuarial accrued liability (UAAL), resulting from actuarial accrued liabilities (AAL) exceeding the actuarially determined value of assets. The UAAL is being funded by the City over a closed 30-year amortization period, which began July 1, 1991 (19 years remaining). A majority of retirement systems have a UAAL, as they are not at a 100% funded status. In the opinion of most actuarial firms, a funded status in excess of 90% indicates that a retirement system is in a strong financial position to meet its current and future liabilities to its members.

#### San Diego Unified Port District (District)

In this schedule, nine years of historical information is presented with respect to the funding progress of the San Diego Unified Port District (District), a participating employer of SDCERS. The District has maintained a funded status in excess of 100% in every year over the past nine years. This funded status indicates that the District is currently in a position to fund all current and future member and retiree liabilities resulting from their participation in SDCERS. A strong funded status in excess of 100% provides the District with a cushion in which to weather volatile financial markets without having to anticipate increases in employer contributions over the next several years. Retirement systems with funded status in excess of 100% are in a favorable position to offer enhanced benefits to their current and future members if they are negotiated between the employer (plan sponsor) and its employees (SDCERS' members). They are also in a position to take

## San Diego City Employees' Retirement System

### NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)

For the Years Ended June 30

a contribution holiday in a future year if they so choose. Finally, a stable, funded status provides for level and predictable employer contributions year to year. This funded status has also been strengthened by solid earnings on invested assets provided by a well-diversified investment program administered by SDCERS' Board.

#### SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

The sources of revenues that fund a retirement system are: employer contributions, member contributions and investment earnings on plan assets. Each year, SDCERS' actuary determines the amount of employer contributions required to fund a given schedule of benefits (current and future liabilities). This benefit schedule is calculated from: SDCERS' benefit structure for the City or District, statistical data about the City's or District's employees that are members of SDCERS and current and predicted future retirees and beneficiaries of SDCERS. Assumptions must be made to estimate how many employees (SDCERS' members): terminate employment; leave on a disability retirement or service retirement; and, the average ages of employees (members) at retirement and at mortality. Finally, the preceding data is combined with an actuarially assumed investment rate of return and assumed salary increases of the City's and District's employees (members). All of this information taken together is presented in an annual actuarial valuation in which the actuary recommends an employer contribution rate (percentage) to the participating employers. This contribution rate percentage is applied to the valuation payroll for each of the participating employers' employees (SDCERS' members). The resulting dollar amounts, as

depicted in this schedule, are the actuarially calculated required employer contributions necessary to fund the promised benefits to SDCERS' members.

#### City of San Diego (City)

This schedule contains six years of historical information with respect to the City's actuarially calculated, required contributions versus the actual employer contributions made by the City, on an annual basis. Over the past six years, the City has contributed, on average, approximately 84% of the amount recommended by the actuary. This 16% difference is due in part to the City assuming that more employees will terminate employment with the City prior to vesting in SDCERS than has been estimated by the actuary. Since employer contributions are not refundable to the employer if an employee (SDCERS' member) terminates, the City discounts their actuarially calculated, required contributions to account for this assumption variance.

Beginning in 1996, the City negotiated with SDCERS to contribute a "City-Paid Rate" which is essentially a fixed contribution rate schedule. The annual fixed contribution rates through 2008 are depicted in a schedule on page 49. Because this fixed rate arrangement is not one of the six approved funding methods under the rules set forth by the Governmental Accounting Standards Board (GASB), a pension expense in the City of San Diego's annual financial statements results. The advantage of a fixed schedule of employer contributions is that the City can effectively budget for annual employer contributions while continuing to provide cost-effective services to San Diego citizens without adversely

San Diego City Employees' Retirement System

NOTES TO THE SCHEDULES OF TREND INFORMATION (continued)

For the Years Ended June 30

impacting taxpayers. Since the City currently has an 89.9% funded status, this fixed rate contribution arrangement benefits City's employees (SDCERS' members) by keeping SDCERS' funded and at the same time benefits San Diego taxpayers by minimizing employer contributions paid from City tax revenues. Should the City's funded status fall below 82.3%, the City has agreed to make the necessary contributions, over time, to bring the funded status back to an acceptable level.

Beginning in FY 2004, July 1, 2003, the City has agreed to increase the "City-Paid Rate" annual contributions. The actual year by year details of the rate schedule have not yet been finalized.

San Diego Unified Port District (District)

This schedule contains six years of historical information with respect to the District's actuarially calculated, required contributions versus the actual employer contributions made by the District on an annual basis. Over the past six years, the District has contributed, on average, approximately 120% of the amount recommended by the actuary. Choosing to contribute more than is actuarially recommended provides the District with the flexibility to grow its employee workforce to provide services to the region's citizens without having to increase its annual employer contribution to SDCERS for an increase in District employees (SDCERS' members).

Additionally, the District currently has a funded status well in excess of 100% which means that the District is in a position to fund benefit changes, if negotiated between management and employees. Finally, contributing more than is actuarially recommended positions the District to take an employer contribution holiday if funds were needed in any year to pay for services provided by the District.

San Diego City Employees' Retirement System  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
 For the Year Ended June 30, 2002

	2002
<b>Personnel Services</b>	
Salaries	\$2,609,057
Fringe Benefits	302,061
CERS Retirement	269,228
Defined Contribution Plan (SPSP)	158,015
<b>Total Personnel Services</b>	<b>3,338,361</b>
<b>Professional Services</b>	
Actuary Services	226,595
Contracted Services	695,150
Member Benefits System Development Services	678,118
Legal Fees	414,395
Data Processing/Computer Services	1,124,501
Accounting Department Charges	201,690
<b>Total Professional Services</b>	<b>3,340,447</b>
<b>Communication</b>	
Postage	74,464
Telephone	55,636
Travel	67,644
<b>Total Communication</b>	<b>197,744</b>
<b>Rentals</b>	
Office Space	458,494
Equipment	15,738
<b>Total Rentals</b>	<b>474,232</b>
<b>Office Operations</b>	
Office Supplies & Administration	133,526
Training, Memberships & Tuition Reimbursement	64,733
Miscellaneous Fees & Charges	42,229
<b>Total Operations</b>	<b>240,488</b>
<b>Total Administrative Expenses</b>	<b>\$7,591,273</b>



**San Diego City Employees' Retirement System**  
**SCHEDULE OF FEES PAID TO INVESTMENT PROFESSIONALS**  
 For the Year Ended June 30, 2002

	Market Value of Assets Under Management as of June 30, 2002	Total Fees Paid in FY 2002	Basis Points
<b>Investment Manager Fees</b>			
Domestic Equity Managers	\$883,827,495	\$3,897,093	44.09
International Equity Managers	404,236,603	1,729,235	42.78
Domestic Fixed Income Managers	843,223,029	2,679,581	31.78
International Fixed Income Managers	132,999,736	383,093	28.80
Real Estate Managers	271,029,406	1,991,845	73.49
<b>Total Investment Manager Fees</b>	<b>\$2,535,316,269</b>	<b>\$10,680,846<sup>1</sup></b>	<b>42.13</b>
<b>Other Investment Service Fees</b>			
Custodian Services	N/A	\$202,361	0.81 <sup>2</sup>
Investment Consultant Fees	N/A	351,958	1.40 <sup>2</sup>
Investment Accounting Application Fees	N/A	38,779	0.15 <sup>2</sup>
<b>Total Other Investment Service Fees</b>		<b>\$593,098</b>	<b>2.37<sup>2</sup></b>
<b>Total Fees Paid to Investment Professionals</b>		<b>\$11,273,944</b>	<b>44.97<sup>2</sup></b>

<sup>1</sup> Market values as of June 30, 2002, for SDCERS' investment managers includes total assets under management, which includes any cash in a manager's portfolio. The financial statements separate out cash from investments (securities).

<sup>2</sup> Basis Points calculation based on Total Net Investments plus Cash and Cash Equivalents of \$2,507,014,627. (Total Investments of \$2,294,484,890 plus cash of \$243,596,793 plus cash receivable for Securities Sold of \$47,377,501 less cash payable for Securities Purchased of \$78,444,557.)

**San Diego City Employees' Retirement System**  
**SCHEDULE OF PAYMENTS TO CONSULTANTS**  
 For the Year Ended June 30, 2002

Individual or Firm	Commission/Fee	Nature of Service
Buck Consultants	\$103,700	Retirement Seminars
Doctors (See below for full listing)	111,819	Medical Consulting
Gabriel, Roeder, Smith & Company	226,595	Actuary
Levi, Ray & Shoup	612,568	Systems Development
Reid Moomaugh Associates	46,166	Retirement System Survey
Legal Firms & Professional Legal Services (See below for full listing)	158,669	Legal, Arbitration, Mediation, Court Reporting
San Diego Data Processing Corporation	598,718	Computer/Applications Support
William M. Mercer, Inc.	61,312	Tax Consulting/Strategic Planning
Various Other Providers	76,640	Various
<b>Total Professional Fees</b>	<b>\$1,996,187</b>	

Additional information on fees paid to investment professionals is provided on the previous page.

**Doctors paid by SDCERS in FY 2002:**

- Open Air MRI of South Bay  
Kent Thompson, M.D.
- Radiology Medical Group, Inc
- San Dieguito Orthopaedic Medical Group, Inc.  
Richard A. Brown, M.D.  
Robert I. Gelb, M.D.  
Daniel A. Green, M.D.  
David R. Hackley, M.D.  
Raymond J. Linovitz, M.D.  
Stephen Shoemaker, M.D.
- San Diego Cardiovascular Research Associates  
George W. Dennish, II, M.D., F.A.C.C.
- San Diego Nerve Study Center  
Jonathan Schleimer, M.D.
- Southern California Cardiology Medical Group, Inc.  
Steven A. Gross, M.D.
- California Orthopaedic Institute Medical Associates, Inc.  
William Adsit, M.D.  
Jerome C. Hall, M.D.

**Others**

- Daniel J. Bressler, M.D.
- William P. Cerran, Jr., M.D.
- Calvin A. Colarusso, M.D.
- Roy A. Kaplan, M.D.
- Robert E. Neveln, M.D.

**Legal Firms & Professional Services paid by SDCERS in FY 2002:**

- Branton & Wilson, APC
- Hanson, Bridgett, Marcus, Vlahos & Rudy, LLP
- Hillyer & Irwin
- JAMS (Judicial Arbitration Services)
- Peterson & Associates (Court Reporters)

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### III. INVESTMENT SECTION

# CALLAN ASSOCIATES.

JAMES A. CALLAHAN, CFA



October 8, 2002

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

Mr. Lawrence B. Grissom  
Retirement Administrator  
San Diego City Employees' Retirement System  
401 B Street Suite 400  
San Diego, CA 92101

Dear Mr. Grissom:

This letter reviews the investment performance of the San Diego City Employees' Retirement System (SDCERS) for the fiscal year ended June 30, 2002.

During fiscal year 2002, SDCERS' custodian, State Street Bank and Trust Company, independently prepared the underlying performance data. The performance calculations were made in compliance with AIMR Performance Presentation Standards. Callan Associates Inc. serves as SDCERS' independent investment consultant and evaluates SDCERS' performance in relation to market indices, appropriate manager peer groups, and other public funds.

SDCERS' primary investment objective is to prudently and expertly invest SDCERS' assets, in accordance with governing law and industry practices, in a manner that will ensure SDCERS' ability to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, SDCERS' Board periodically evaluates SDCERS' liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment strategies. The Board selects a strategic investment policy that balances growth potential and acceptable risk. A policy benchmark is constructed that mirrors SDCERS' strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income and real estate market indices weighted in the same proportions as SDCERS' investment policy.

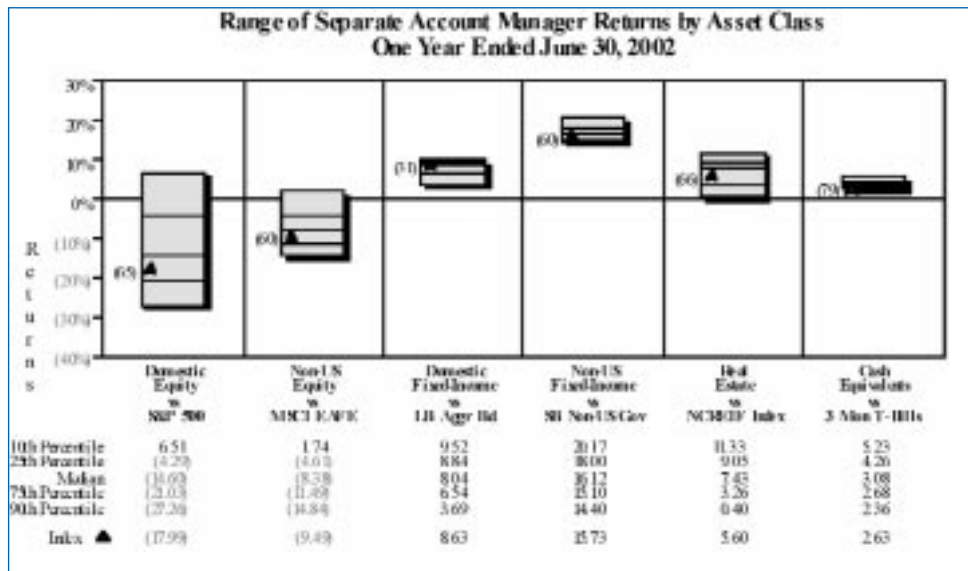
The financial markets continued to be extremely volatile for the year ended June 30, 2002, as the result of a weak economy, augmented by the impact of the September 11 terrorist attacks, and the corporate accounting scandals surrounding several companies. Domestic equities posted a wide variety of results for the period. In general, value oriented stocks significantly outperformed growth oriented stocks during the year. Additionally, small company stocks outperformed larger company stocks. International equities, on balance, achieved negative results, but on average did outperform domestic equities in dollar terms as both the Euro and Yen appreciated.

71 STEVENSON STREET, SUITE 1300, SAN FRANCISCO, CALIFORNIA 94102 TELEPHONE 415.974.5060 FACSIMILE 415.975.6702 



Domestic fixed income securities, in aggregate, posted solid positive returns while the global stock markets suffered. The credit markets in the U.S. underperformed as investors fled to the safety of government bonds. A weak U.S. dollar created an attractive investment environment for international fixed income securities.

The graph below depicts the performance of Callan’s large manager database by asset category for the year ended June 30, 2002. The performance of the major market indices is also plotted. A review of the graph illustrates that the median active manager in all assets classes, with the exception of domestic fixed income, outperformed popular market indices during this period.



SDCERS’ FY 2002 Investment Performance

For the year ended June 30, 2002, SDCERS’ total fund had a time-weighted total return of –2.5%. This return falls short of SDCERS’ actuarial return assumption of 8.0% and SDCERS’ policy benchmark return of –2.0%. The custom policy benchmark is comprised of the following market indices, in the percentages indicated: 22.8% S&P 500, 7.6% S&P 400 Mid Cap, 7.6 % Russell 2000, 10.2% MSCI EAFE, 1.8% MSCI Emerging Markets Free, 3.0% EMI World Ex-U.S., 22.4% Lehman Aggregate, 6.4% Merrill Lynch 1-5 Year Government/Corporate, 3.2% First Boston Convertible, 5% Salomon Non-U.S. Government Bond, 7.5% NCREIF, and 2.5% NAREIT. Despite underperforming its policy benchmark, SDCERS’ handsomely outperformed the median public pension plan in the Callan database. Over longer term time periods, SDCERS’ total fund return is well ahead of its policy benchmark return. For example, SDCERS’ five-year total fund return of +7.0% annualized is 91 basis points ahead of its policy benchmark return.

Domestic Equity Performance

SDCERS’ domestic equity composite fell a substantial –13.7% during the year ended June 30, 2002. This slightly underperformed SDCERS’ blended domestic equity

benchmark return of -13.5%, but outperformed the median domestic equity portfolio return in Callan's universe of public pension plans. The median public pension plan's domestic equity portfolio returned -14.8% for the trailing year. SDCERS' domestic equity returns exceed its blended domestic equity benchmark returns for the trailing three-year and five-year periods and rank in the top quartile among public pension plans.

### International Equity Performance

SDCERS' international equity composite returned -6.4% during the year ended June 30, 2002. This return trails SDCERS' blended international equity benchmark return of -5.9% during this period, but is above the median public pension plan international equity portfolio return of -7.4%. Longer term results for international equities are well in excess of SDCERS' blended international equity benchmark returns and rank in the top quartile of the peer universe.

### Domestic Fixed Income Performance

For the trailing year, SDCERS' domestic fixed income composite returned +6.6%, which was ahead SDCERS' blended domestic fixed index return of +6.3%. Over the trailing five years, SDCERS' domestic fixed income composite's annualized return of +7.6% is above the target benchmark return of +7.5% and also exceeds the median public pension plan domestic fixed income portfolio return of +7.3%.

### International Fixed Income

Despite being the best performing asset class in absolute terms during the trailing year, SDCERS' international fixed income portfolio exhibited sub-par relative results for the trailing year. SDCERS' portfolio underperformed its international fixed income benchmark return and ranked below the median return among public pension plans. Longer term performance is the opposite of the trailing year; since inception of SDCERS' international fixed income allocation in June 1996, the portfolio has performed well relative to its benchmark returns but has substantially underperformed the returns earned by SDCERS' domestic fixed income portfolio.

In summary, the year ended June 30, 2002, was characterized by continued volatility and sharp declines in the global equity markets. Despite the volatility and the wide disparity in returns among investment approaches experienced since the bursting of the technology-driven bubble of the late 1990's, SDCERS' disciplined and diversified investment approach compares quite favorably to SDCERS' policy benchmark return as well as to its public pension plan peers. These admirable results achieved during this period of sharp market decline were driven by SDCERS' superb absolute and relative performance of its real estate portfolio and strong relative performance within its domestic and international equity portfolios.

Sincerely,



James A. Callahan, CFA  
Senior Vice President

## San Diego City Employees' Retirement System

## ASSET CLASS RETURNS

As of June 30, 2002

	Last Year	Last 3 Years (Annualized)	Last 5 Years (Annualized)
<b>SDCERS' Domestic Equity Performance</b>	<b>-13.66%</b>	<b>-1.03%</b>	<b>+5.89%</b>
<b><i>Blended Domestic Equity Benchmark</i></b>	<b><i>-13.48</i></b>	<b><i>-3.91</i></b>	<b><i>+5.76</i></b>
(60% S&P 500; 20% S&P MidCap; 20% Russell 2000)			
Standard & Poor's 500	-17.99	-9.18	+3.66
Standard & Poor's MidCap 400	-4.72	+6.66	+12.58
Russell 2000	-8.60	+2.10	+4.44
<b>SDCERS' International Equity Performance</b>	<b>-6.38%</b>	<b>+1.61%</b>	<b>+5.09%</b>
<b><i>Blended International Equity Benchmark</i></b>	<b><i>-5.89</i></b>	<b><i>-5.14</i></b>	<b><i>-1.71</i></b>
(68% MSCI EAFE Index; 12% MSCI Emerging Markets Free Index; 20% Salomon EMI World ex - US Index)			
MSCI EAFE	-9.49	-6.78	-1.55
MSCI Emerging Markets Free	+1.31	-6.30	-8.40
Salomon EMI World ex - US	-0.97	-1.23	-0.06
<b>SDCERS' Domestic Fixed Income Performance</b>	<b>+6.56%</b>	<b>+6.95%</b>	<b>+7.56%</b>
<b><i>Blended Domestic Fixed Income Benchmark</i></b>	<b><i>+6.33</i></b>	<b><i>+7.42</i></b>	<b><i>+7.45</i></b>
(70% Lehman Aggregate Bond Index; 20% Merrill Lynch 1-5 Govt/Corp; 10% First Boston Convertible Securities Index)			
Lehman Aggregate	+8.63	+8.10	+7.57
Merrill 1-5 Year Govt/Corp	+7.62	+7.44	+6.96
First Boston Convertible Index	-12.44	+0.11	+5.01
<b>SDCERS' International Fixed Income Performance</b>	<b>+14.86%</b>	<b>+2.22%</b>	<b>+3.40%</b>
<b><i>International Fixed Income Benchmark</i></b>	<b><i>+15.73</i></b>	<b><i>+3.14</i></b>	<b><i>+3.03</i></b>
(Salomon Brothers Non-U.S. Govt. Bond)			
<b>SDCERS' Real Estate Performance</b>	<b>+12.19%</b>	<b>+13.82%</b>	<b>+10.07%</b>
<b><i>Blended Real Estate Benchmark</i></b>	<b><i>+10.34</i></b>	<b><i>+12.38</i></b>	<b><i>+9.66</i></b>
(25% NAREIT Index; 75% NCREIF Index)			
NCREIF Index	+6.40	+9.89	+11.99
NAREIT Index	+20.00	+16.53	+10.53
<b>Total Fund Performance</b>	<b>-2.48%</b>	<b>+3.69%</b>	<b>+6.97%</b>
<b><i>Custom Blended Total Fund Performance Benchmark</i></b>	<b><i>-1.97</i></b>	<b><i>+1.79</i></b>	<b><i>+6.06</i></b>
(7.6% Russell 2000; 22.8% S&P 500; 7.6% S&P MidCap 400; 3.2% First Boston Conv Index; 6.4% ML 1-5 GC; 22.4% L/B Agg; 2.5% NAREIT; 7.5% NCREIF; 10.2% EAFE; 1.8% MSCI Emg Mkt Fr; 3.0% Salomon EMI World ex-US; and, 5.0% Salomon Brothers Non-US Govt. Bond)			

NOTE: 3-year and 5-year custom blended performance benchmarks may have different indices or percentage weights included than disclosed above.

### San Diego City Employees' Retirement System

## STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

Adopted by SDCERS' Board, May 15, 1995

### Investment Goal

It is the goal of the SDCERS' investment program to assure that sufficient financial assets are available to provide SDCERS' members and their beneficiaries with all benefits due as specified in SDCERS' plan. It is the goal of the SDCERS' investment program to earn, on a long-term average, a total real rate of return of at least 2.5% above the rate of inflation.

### General Limitations

In accordance with the City Charter, SDCERS is structured as a separate Retirement System Trust Fund. It is neither part of nor combined with the City of San Diego operational investment pool.

SDCERS' Board establishes overall asset allocation guidelines for the Retirement System Trust Fund. These guidelines identify the asset classes that are to be utilized in the SDCERS' investment portfolio. Investment percentages are designated for each class and are used to assist SDCERS' Board in determining which asset class(es) should receive additional contributions when available.

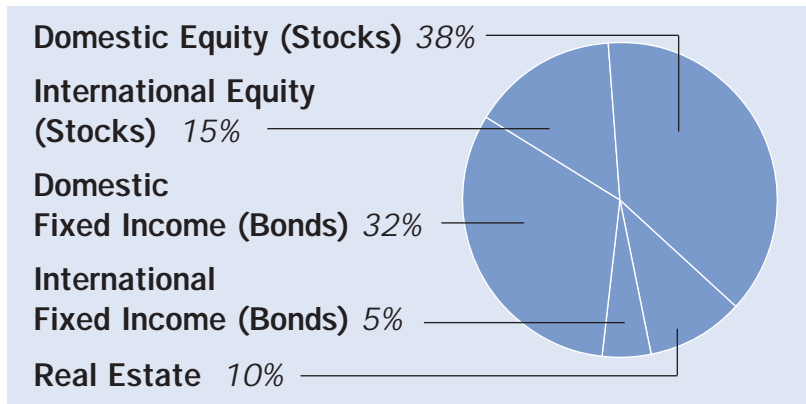
### Diversification

1. At the time of the initial investment, not more than 5% of the equity portfolio can be invested in any one security.
2. At the time of the initial investment, not more than 10% of the fixed income portfolio can be invested in any one issue except for obligations of the U.S. Government or its agencies.
3. Both geographic area and property type must diversify mortgages. In addition, fund assets may be invested in mortgages offered by institutions or private parties.
4. Short-term investments must also be diversified by issuer type except for obligations of the U.S. Government or its agencies.
5. Fund assets may be invested in equity investments provided that the equity is a common stock or preferred stock and sold on a nationally recognized registered stock exchange, is marketable because of the number of shares publicly held and traded or is in a diversified equity investment fund issued by an investment company registered with the Securities Exchange Commission (SEC) under the 1940 Act.
6. Fixed income investments may be in debt securities, including convertible bonds.
7. The portfolio mix consists of domestic equities, international equities, domestic fixed income, international fixed income, mortgages, real estate, and cash and cash equivalents.

\* The above is an executive summary of *SDCERS' Goals, Objectives and Policies Relating to Investments as of May 19, 1995*; for a full copy of SDCERS' investment policy document, please contact SDCERS' Offices.

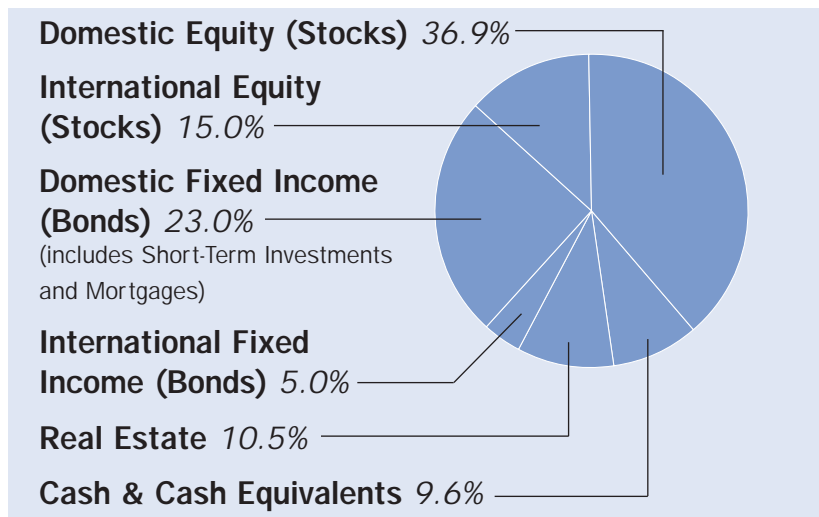
San Diego City Employees' Retirement System  
**TARGET ASSET ALLOCATION**

As of June 30, 2002



San Diego City Employees' Retirement System  
**ACTUAL ASSET DIVERSIFICATION**

As of June 30, 2002



	Fair Value
Domestic Equity (Stocks)	\$935,859,657
International Equity (Stocks)	379,798,539
Domestic Fixed Income (Bonds) (includes Short-Term Investments & Mortgages)	584,803,907
International Fixed Income (Bonds)	126,953,432
Real Estate	267,069,355
Cash & Cash Equivalents	243,596,793
<b>Total Assets</b>	<b>\$2,538,081,683</b>
(Total Cash & Cash Equivalents plus Total Investments)	

Note: The numbers included in this chart were obtained from the audited financial statements. For purposes of asset allocation analysis, residual cash held by investment managers is considered invested in their respective asset classes of stocks, bonds and real estate. Total Assets includes pending transactions in accordance with GASB Statement No. 25.

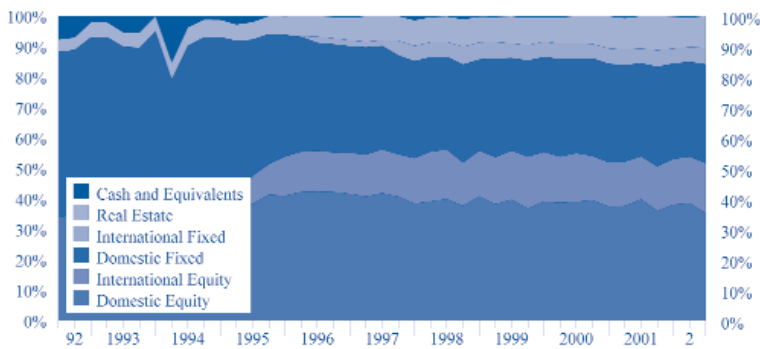
# San Diego City Employees' Retirement System HISTORICAL ASSET ALLOCATION (ACTUAL)

Ten Year History for Fiscal Years 1993 - 2002 (July 1, 1992 - June 30, 2002)

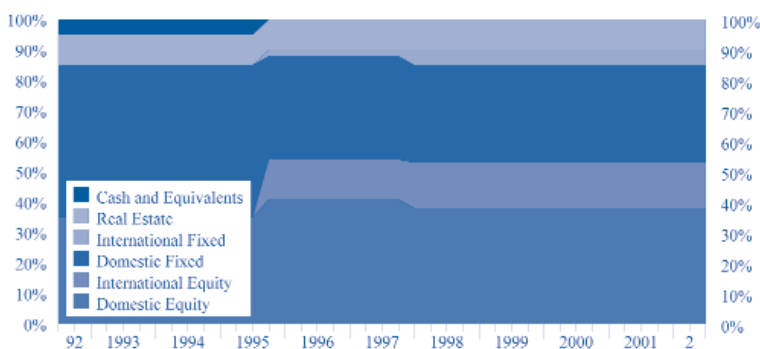


**Actual vs Target Historical Asset Allocation**  
 The Historical asset allocation for a fund is by far the largest factor explaining its performance. The charts below show the fund's historical actual asset allocation, the fund's historical target asset allocation, and the historical asset allocation of the average fund in the CAI Public Plan Sponsor Database.

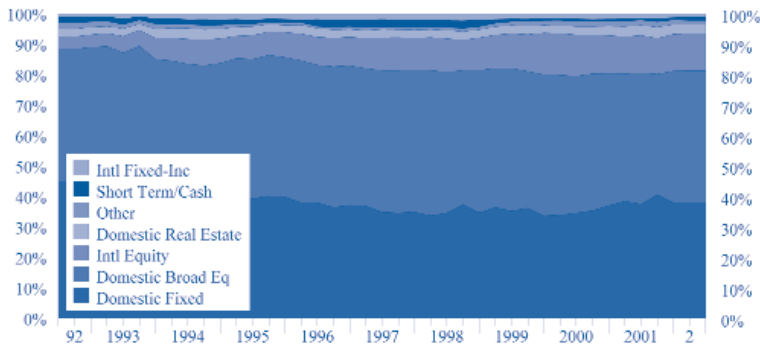
Actual Historical Asset Allocation



Target Historical Asset Allocation



Average CAI Public Plan Sponsor Database Historical Asset Allocation



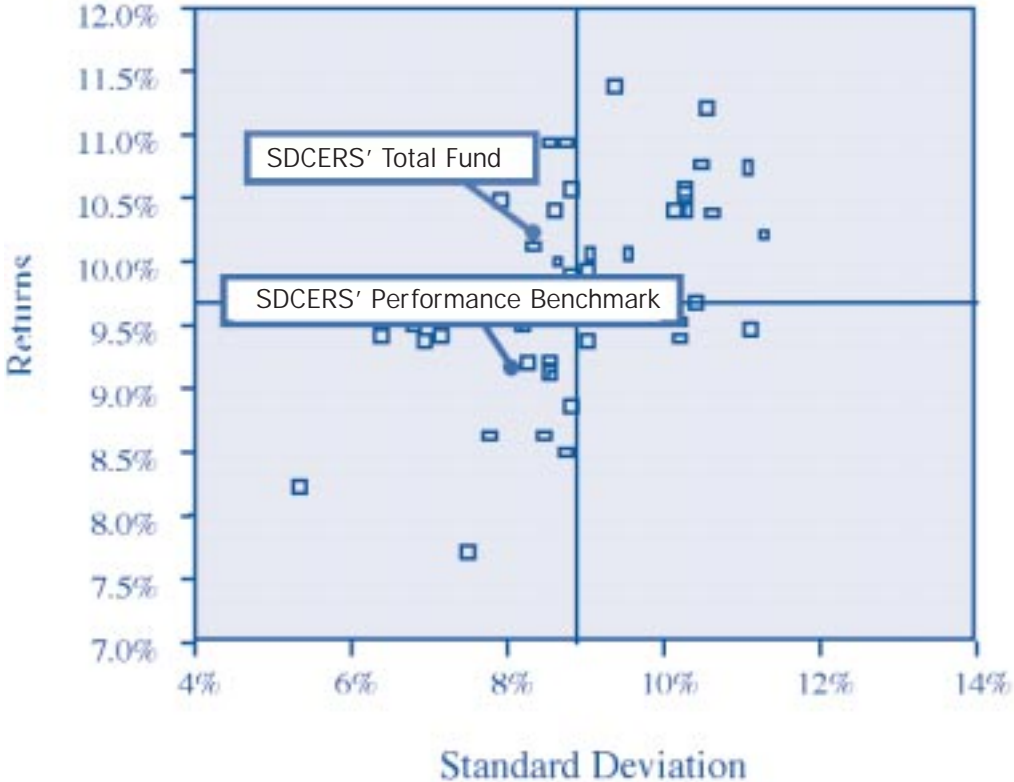
\* Current Quarter Target = 22.8% S&P 500, 22.4% L/B Agg., 10.2% MSCI EAFE Index, 7.6% Russell 2000, 7.6% S&P Mid Cap 400, 7.5% NCREIF Classic Index, 6.4% ML 1-5 Govt/Corp, 5.0% SB Non-US Govt, 3.2% FB Convertible Index, 3.0% EMI World ex US Index, 2.5% NAREIT and 1.8% MSCI Emer Markets



San Diego City Employees' Retirement System  
**HISTORICAL RISK VS. RETURN ANALYSIS**

Comparison Since Inception of Diversified Investment Program  
For Years Ended June 30, 2002

**Public Plan Sponsor Database**  
Annualized Thirteen and One-Quarter Years Risk vs. Return



## INVESTMENT SECTION

### San Diego City Employees' Retirement System SCHEDULE OF LARGEST EQUITY HOLDINGS

As of June 30, 2002

Rank	Shares	Equity Securities (Stocks)	CUSIP	Market Value
1	204,058	Bank of America Corporation	060505104	\$14,357,521
2	390,405	Pfizer, Inc.	717081103	13,664,175
3	432,100	General Electric Company	369604103	12,552,505
4	222,630	Microsoft Corporation	594918104	12,177,861
5	198,600	Wal Mart Stores, Inc.	931142103	10,924,986
6	194,030	Johnson & Johnson	478160104	10,140,008
7	646,040	Cisco Systems, Inc.	17275R102	9,012,258
8	174,042	Viacom, Inc.	925524308	7,722,244
9	107,370	American Int'l Group, Inc.	026874107	7,325,855
10	466,571	AOL Time Warner, Inc.	00184A105	6,863,259

### San Diego City Employees' Retirement System SCHEDULE OF LARGEST FIXED INCOME HOLDINGS

As of June 30, 2002

Rank	Par	Fixed Income Securities (Bonds)	CUSIP	Market Value
1	30,020,000	FNMA TBA JUL 15 Single Family	01F060477	\$30,611,094
2	17,583,814	Small Business Admin Partin CTF	831641CX1	19,166,358
3	17,700,000	Germany (Federal Republic of)	453980II7	17,849,812
4	14,737,000	United States Treas BDS	912810FG8	13,862,064
5	11,440,000	Ford Motor CR CO	345397TS2	11,570,073
6	1,340,000,000	Japan (Govt of)	637496II3	11,241,455
7	10,200,000	Continmortgage Home Equity Ln	21075WJY2	10,792,824
8	10,300,000	Conseco Fin Secs Corp	20846QHN1	10,518,987
9	6,050,000	Treasury	088808II3	10,234,590
10	9,000,000	Residential FDG Mtg Secs II	76110VHH4	9,249,158

A complete list of portfolio holdings is available upon request.

## San Diego City Employees' Retirement System

## SCHEDULE OF COMMISSIONS

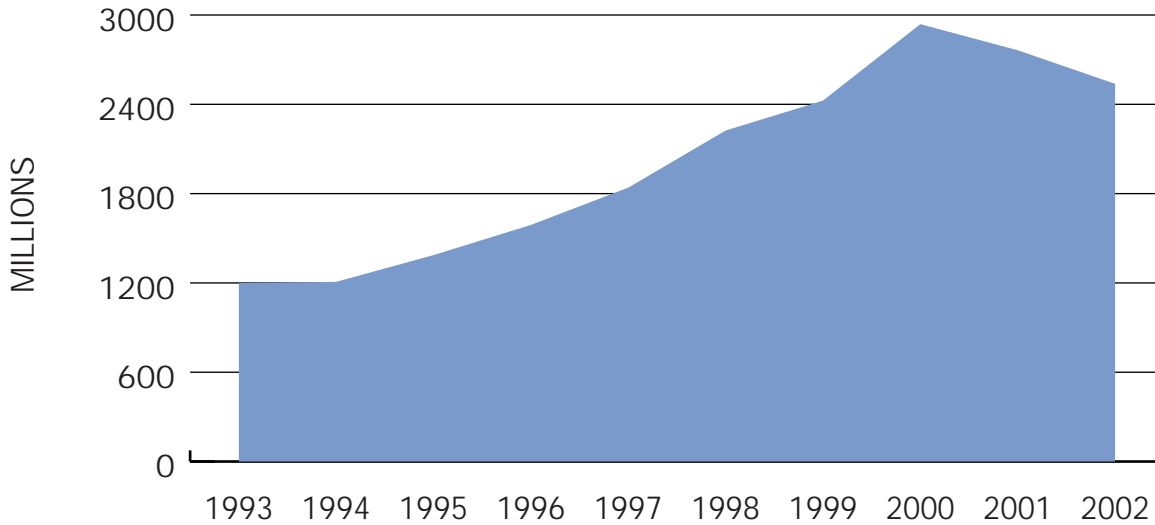
For the Year Ended June 30, 2002

## Top 25 Brokerage Firms Used

Rank	Brokerage Firm	Number of Shares	Total Commissions	Commission Per Share
1	ABN AMRO	11,117,806	\$525,369	\$0.05
2	Salomon Brothers	13,239,897	511,090	0.04
3	UBS Paine Webber	10,018,749	393,448	0.04
4	Investment Technology Group Inc.	9,123,191	251,834	0.03
5	Goldman Sachs	5,899,484	212,617	0.04
6	Lehman Brothers Inc.	5,548,449	211,269	0.04
7	Credit Suisse First Boston	6,626,822	180,822	0.03
8	Merrill Lynch	9,643,325	169,917	0.02
9	Morgan Stanley	4,076,246	156,420	0.04
10	Instinet	3,969,154	155,489	0.04
11	BNY ESI Securities	2,983,835	152,394	0.05
12	Ragen Mackenzie	3,484,394	118,450	0.03
13	Jefferies & Company	3,554,814	118,362	0.03
14	Bear Stearns	2,184,715	107,275	0.05
15	Bridge Trading	1,682,400	97,203	0.06
16	Lynch Jones and Ryan	1,437,850	87,040	0.06
17	Broadcortcapital	1,537,506	86,089	0.06
18	Cantor Fitzgerald	1,451,316	81,440	0.06
19	Prudential Securities	1,495,610	66,387	0.04
20	Legg Mason Wood Walker	1,382,749	59,381	0.04
21	Wells Fargo Bank Dealer Operations	1,659,905	56,683	0.03
22	Abel Noser Corporation	919,781	54,835	0.06
23	Banc Of America Montgomery Securities	1,732,289	54,388	0.03
24	Deutsche Banc Alex. Brown Inc.	2,242,139	51,416	0.02
25	Weiss Peck and Greer	841,056	50,251	0.02
	All Other Brokers	48,606,550	832,504	0.02
	<b>Totals</b>	<b>156,460,032</b>	<b>\$4,842,373</b>	<b>\$0.03</b>

San Diego City Employees' Retirement System  
**GROWTH OF INVESTMENTS AT FAIR VALUE**

For Ten Years Ended June 30, 2002

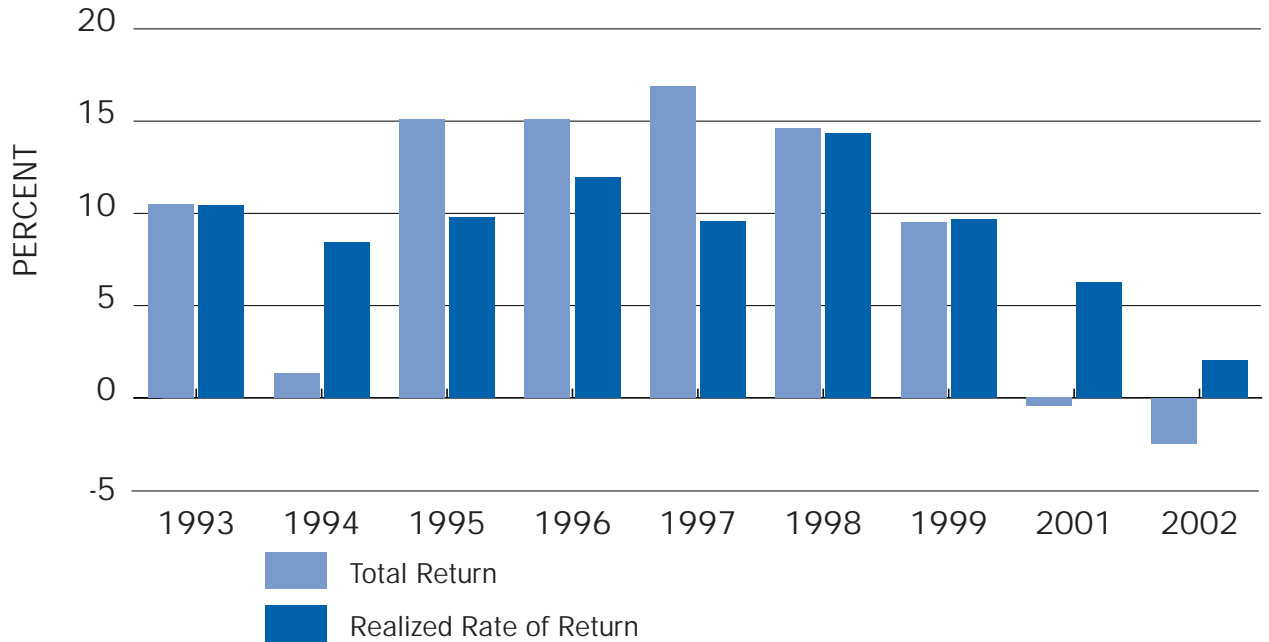


Fiscal Year	Fair Value*
1993	\$ 1,201,656,850
1994	1,209,027,093
1995	1,387,177,988
1996	1,590,285,263
1997	1,843,391,624
1998	2,225,367,416
1999	2,426,515,102
2000	2,940,773,904
2001	2,765,447,008
<b>2002</b>	<b>2,538,197,453</b>

\*Fair Value of Investments includes cash and cash equivalents on deposit.

San Diego City Employees' Retirement System  
**HISTORY OF PERFORMANCE**

For Ten Years Ended June 30, 2002



Fiscal Year	Total Return	Realized Rate of Return
1993	+10.47%	+10.41%
1994	+1.35%	+8.42%
1995	+15.11%	+9.80%
1996	+15.08%	+11.96%
1997	+16.88%	+9.57%
1998	+14.62%	+14.33%
1999	+9.53%	+9.70%
2000	+14.93%	+18.24%
2001	-0.45%	+6.26%
<b>2002</b>	<b>-2.48%</b>	<b>+2.02%</b>

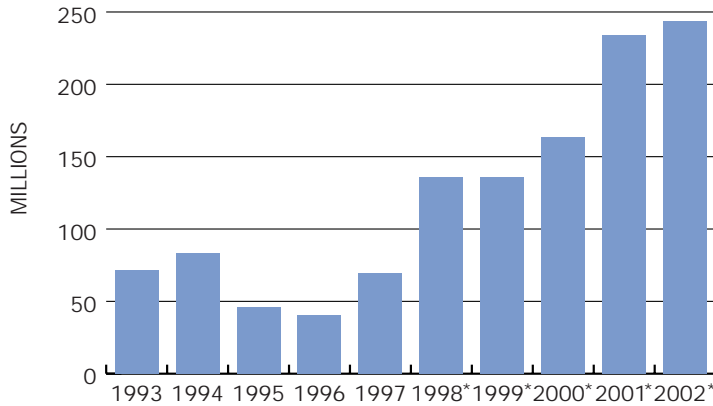
Total return measures fund performance in terms of the aggregate change in the fund's market value from the beginning of the measurement period to the end of the measurement period. The Realized Rate of Return measures the gains or losses from actual sales of assets plus income earned during the period relative to the average book value of the assets during the period.

San Diego City Employees' Retirement System  
**HISTORICAL ASSET HOLDINGS INFORMATION**  
 For Ten Years Ended June 30, 2002

**CASH & CASH EQUIVALENT HOLDINGS**

Valuation done June 30 each year

*Cash and Cash Equivalents are investments with maturities of 90 days or less.*



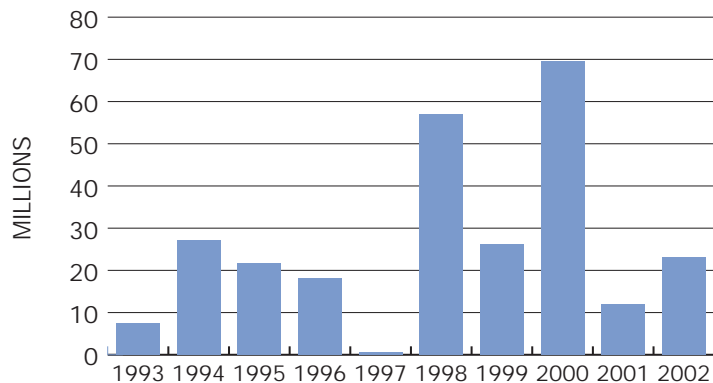
Fiscal Year	Market Value of Cash & Equivalents
1993	\$71,585,190
1994	83,463,989
1995	46,347,036
1996	40,726,138
1997	69,361,891
1998*	135,676,617
1999*	135,976,338
2000*	163,498,829
2001*	234,194,670
<b>2002*</b>	<b>243,596,793</b>

\*Higher cash holdings are due to a change in accounting for pending transactions pursuant to GASB Statement No. 25.

**SHORT - TERM INVESTMENT HOLDINGS**

Valuation done June 30 each year

*Short - Term Investments are investments with maturities greater than 90 days but less than 1 year.*



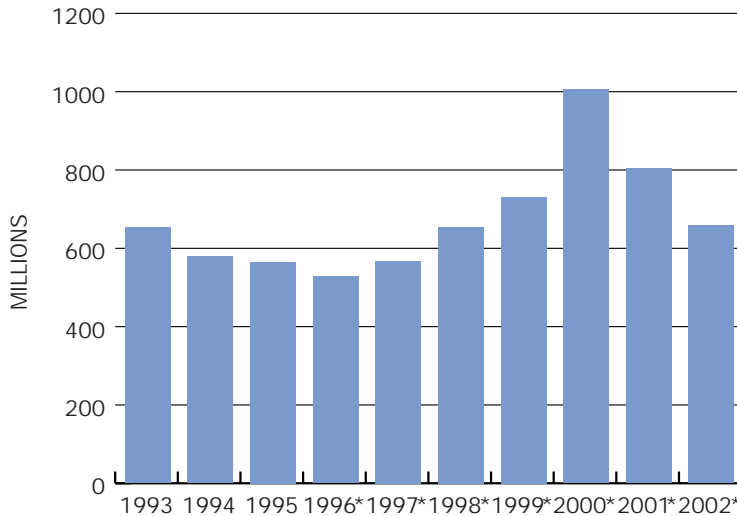
Fiscal Year	Market Value of Short Term Investments
1993	\$7,544,620
1994	27,129,484
1995	21,666,006
1996	18,185,248
1997	609,768
1998	57,018,178
1999	26,318,203
2000	69,460,684
2001	11,864,163
<b>2002</b>	<b>23,004,166</b>



San Diego City Employees' Retirement System  
**HISTORICAL ASSET HOLDINGS INFORMATION** (continued)  
 For Ten Years Ended June 30, 2002

**HISTORY OF DOMESTIC AND INTERNATIONAL BOND HOLDINGS**

Valuation done June 30 each year

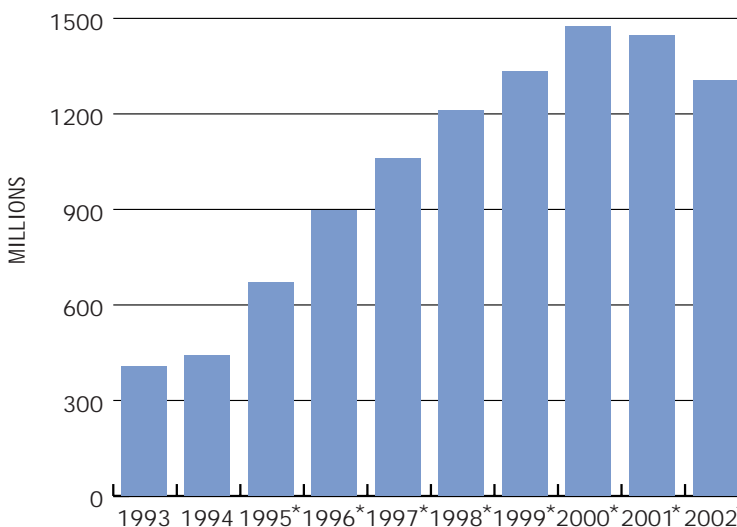


Fiscal Year	Market Value of Bonds
1993	\$653,424,825
1994	579,577,133
1995	564,440,812
1996*	528,199,836
1997*	567,063,982
1998*	654,726,238
1999*	731,111,193
2000*	1,005,154,473
2001*	803,756,585
<b>2002*</b>	<b>687,237,643</b>

\*International fixed income (bonds) exposure added to bond holdings in FY 1996.

**HISTORY OF DOMESTIC AND INTERNATIONAL STOCK HOLDINGS**

Valuation done June 30 each year



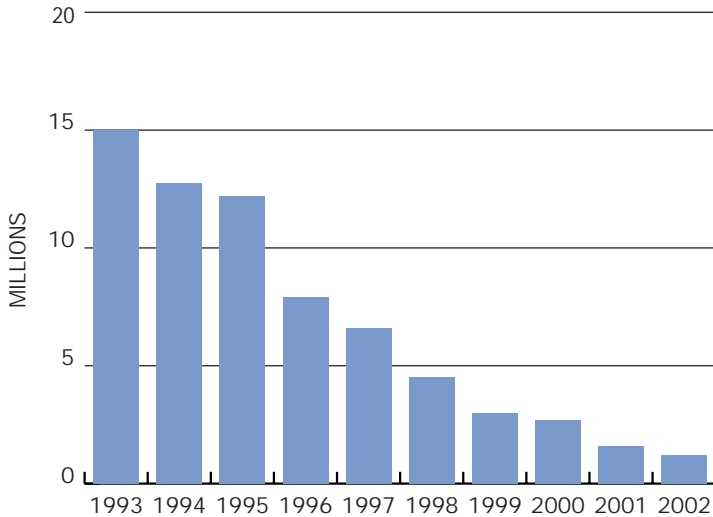
Fiscal Year	Market Value of Stocks
1993	\$408,287,526
1994	441,786,781
1995*	669,385,913
1996*	895,631,516
1997*	1,059,691,384
1998*	1,210,749,732
1999*	1,332,344,711
2000*	1,473,187,920
2001*	1,446,763,240
<b>2002*</b>	<b>1,315,658,196</b>

\*International equity exposure (stocks) added to stock holdings in FY 1995.

San Diego City Employees' Retirement System  
**HISTORICAL ASSET HOLDINGS INFORMATION** (continued)  
 For Ten Years Ended June 30, 2002

**HISTORY OF MORTGAGE HOLDINGS**

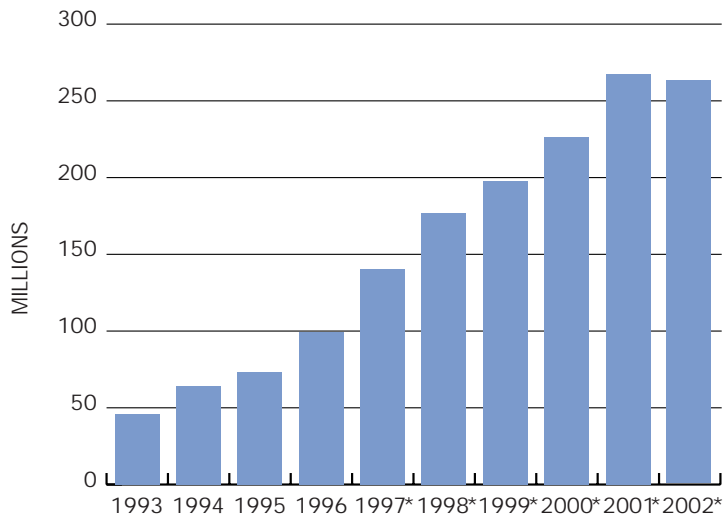
Valuation done June 30 each year



Fiscal Year	Market Value of Mortgages
1993	\$14,997,429
1994	12,743,974
1995	12,180,228
1996	7,916,298
1997	6,551,890
1998	4,493,308
1999	3,008,566
2000	2,784,927
2001	1,617,777
<b>2002</b>	<b>1,515,530</b>

**HISTORY OF REAL ESTATE HOLDINGS**

Valuation done June 30 each year



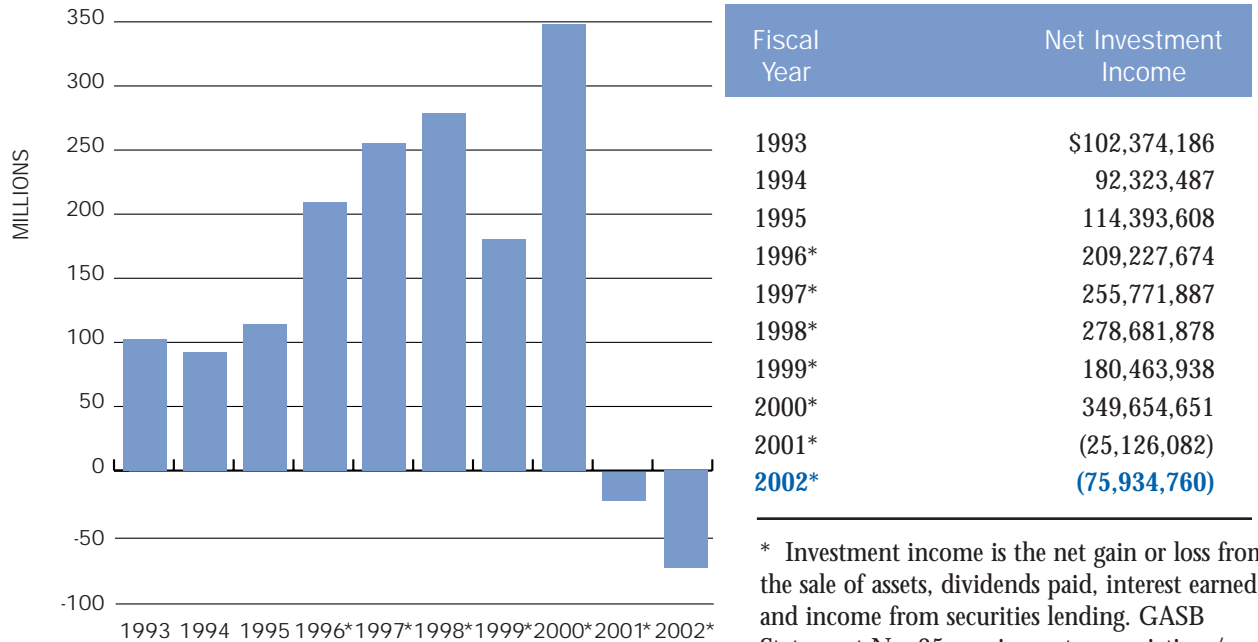
Fiscal Year	Market Value of Real Estate*
1993	\$45,816,920
1994	64,325,732
1995	73,157,993
1996	99,626,227
1997*	140,112,709
1998*	176,961,020
1999*	197,756,091
2000*	226,687,071
2001*	267,250,573
<b>2002*</b>	<b>267,069,355</b>

\*REIT Securities added to Real Estate Allocation beginning in FY 1997

San Diego City Employees' Retirement System  
**HISTORICAL ASSET HOLDINGS INFORMATION** (continued)  
 For Ten Years Ended June 30, 2002

**HISTORY OF NET INVESTMENT INCOME**

Income Earned as of June 30 each year



\* Investment income is the net gain or loss from the sale of assets, dividends paid, interest earned and income from securities lending. GASB Statement No. 25 requires net appreciation / depreciation in assets to be recognized with changes in market value. These changes are included as part of investment income beginning FY 1996.

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## IV. ACTUARIAL SECTION



**GABRIEL, ROEDER, SMITH & COMPANY**  
Consultants & Actuaries

9171 Towne Centre Drive • Suite 440 • San Diego, California 92122 • 858-535-1300 • FAX 858-535-1415

## LETTER FROM THE ACTUARY

September 19, 2002

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

Members of the Board:

We are pleased to have provided the actuarial report from the results of the required annual actuarial valuation of the San Diego City Employees' Retirement System (SDCERS or Retirement System) prepared as of June 30, 2001. The valuation is intended to provide a measure of the funding status of the Retirement System. As of June 30, 2001, the City of San Diego's funded ratio was 89.9% versus last year's funded ratio as of June 30, 2000 of 97.3%. Additionally, the funded ratio for the San Diego Unified Port District was 118.0% as of June 30, 2001 compared to the previous year's funded ratio of 137.1% which was as of June 30, 2000. The assumptions and methods used in this valuation for funding purposes meet the disclosure requirements stated in GASB Statement 25.

The valuation survey was based on financial statements and financial data provided by the Retirement Staff. The data was checked for reasonableness by our staff. The valuation was based on an inflation assumption rate of 4.25% and an annual real rate of investment return of 3.75%. Thus, the nominal assumed investment return rate was 8%. The annual salary increase was assumed to be 4.75% with an additional, variable merit increase for an employee's first five years of service.

The most recent year's actuarial valuation results indicated that there was a sizable City experience loss of \$193.2 million for the Retirement System. This loss was primarily attributable to worse than expected investment performance and unanticipated pay increases. This loss represents 7.6% of actuarial accrued liabilities as of the previous valuation date of June 30, 2000.

All schedules in the actuarial section were based on information obtained from the June 30, 2001 valuation. The following is a list of schedules in the Actuarial Section provided by us for this report.



Members of the Retirement Board  
San Diego City Employees' Retirement System  
September 19, 2002  
Page Two

1. Schedule of Retirants and Beneficiaries Added To and Removed From Rolls
2. Solvency Test
3. Analysis of Financial Experience

While we did not specifically assemble any of the schedules in the Financial and Statistical Sections, we understand that specific data from the June 30, 2001, and June 30, 2000, valuations was used by the Retirement Staff in the presentation of some schedules. A list of those schedules follows.

Financial Section

1. Employer Contributions Based on Actuarial Valuations
2. Average Employees' Contribution Rate
3. Schedule of Funding Progress
4. City-Paid Rate for the Schedule of Employer Contributions

Statistical Section

5. Schedule of Allowances Being Paid as of July 1, 2001 (FY2002)
6. Schedule of Average Benefit Payment Amounts
7. Schedule of Active Members
8. Schedule of Deferred Vested Members

The asset value used in determining the employer contribution rate reflects a portion of the unrealized gain or loss in assets. The actuarial assumptions used in the valuation are summarized in the attachments to the complete actuarial valuation on file at SDCERS' Offices. All assumptions were adopted by the SDCERS' Retirement Board after receiving input from the Board's actuary.

Sincerely,



Rick A. Roeder, EA, FSA, MAAA

GABRIEL, ROEDER, SMITH & COMPANY

San Diego City Employees' Retirement System

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Used for the June 30, 2001 Valuation

- The investment rate of return in making the valuations was 8.0% per year, compounded annually, before retirement and 2.0% per year, compounded annually, after retirement.
- The real rate of return is the rate of investment return in excess of the inflation rate. The assumed inflation rate was 4.25%.
- The morality table used in evaluating allowances to be paid was the 1994 Uninsured Pension Mortality table, set back 2 years for retirees and 5 years for disability retirees. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below.

Investment return	8.00%
— Inflation	4.25%
Real rate of return	3.75%

Sample Ages	Future Life Expectancy (Years)		
	Retirants		Disabilitants
	Men	Women	
45	36.07	40.44	30.01
50	31.37	35.64	25.49
55	26.78	30.90	21.20
60	22.38	26.27	17.26
65	18.28	21.86	13.77
70	14.61	17.80	10.66
75	11.35	14.03	7.97
80	8.48	10.61	5.86

- The actuarial value of assets was determined using the net market value and net book value of plan assets. Taking the gross values and deducting payables as indicated in the financial statements arrives at net values available for benefits. The percentage differences between net market value and net book value over the most recent five-year period was calculated. The resulting percentages were averaged for the five-year period and applied to the current year's net book value of plan assets to arrive at the actuarial value of plan assets.
- The actuarial assumptions and methods shown in the supporting schedules were calculated by the actuary and adopted by the Retirement Board. These assumptions and methods are reviewed and approved annually with each valuation.

San Diego City Employees' Retirement System

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (cont'd)

Used for the June 30, 2001 Valuation

- The probabilities of withdrawal from active employment, together with individual pay increase assumptions, are shown in Schedule 1(a) and Schedule 1(b) in the pages following.
- The probabilities of retirement with an age and service allowance are shown in Schedule 2(a) and Schedule 2(b) in the pages following.
- Total active member payroll was assumed to increase as follows:
 

Inflation	4.25%
Merit & Longevity	0.50%
Total	4.75%
- The assumed, annual cost-of-living adjustment is generally 2% per annum, compounded. There is a closed group of special safety officers whose annual adjustment is equal to inflation (4.25% per year).
- The member statistical data on which the valuation was based was furnished by SDCERS, together with pertinent data on financial operations. Data was reviewed for reasonableness, but was not audited by the actuary.
- The actuarial valuation computations were made by or under the supervision of a Member of the Academy of Actuaries (M.A.A.A.).

- The projected unit credit actuarial cost method (adopted as of July 1, 1993) was used in determining age and service allowance actuarial liabilities at normal cost. Actuarial gains and losses reduce or increase the unfunded liability and are amortized over a 30 year, closed amortization period that began in July 1, 1991 (19 years remaining).

## ACTUARIAL SECTION

### San Diego City Employees' Retirement System

#### SCHEDULE 1(A)

#### Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions

Percent of Active Members Separating Within Next Year

#### CITY OF SAN DIEGO

Sample Ages	Years of Service	General Members Men	General Members Women	Safety	Percent Increase in Individuals Pay During Next Year
All	0	4.30%	7.30%	4.40%	
	1	4.30	7.20	4.40	4.75%
	2	4.30	7.00	4.30	4.75
	3	4.30	6.90	4.10	4.75
	4	4.20	6.30	4.00	4.75
20	5 & Over	4.00	5.60	3.20	2.00
25		4.00	5.60	3.20	2.00
30		3.70	4.20	2.20	2.00
35		3.20	2.60	1.40	2.00
40		2.10	2.00	0.60	2.00
45		1.70	1.60	0.30	2.00
50		1.30	1.30	0.10	2.00
55		0.90	1.00	0.00	2.00

#### SCHEDULE 1(B)

#### Withdrawal From Active Employment Before Age & Service Retirement and Individual Pay Increase Assumptions

Percent of Active Members Separating Within Next Year

#### SAN DIEGO UNIFIED PORT DISTRICT

Sample Ages	Years of Service	General Members Men	General Members Women	Safety	Percent Increase in Individuals Pay During Next Year
All	0	4.30%	7.30%	4.40%	
	1	4.30	7.20	4.40	4.75%
	2	4.30	7.00	4.30	4.75
	3	4.30	6.90	4.10	4.75
	4	4.20	6.30	4.00	4.75
20	5 & Over	4.00	5.60	3.20	2.00
25		4.00	5.60	3.20	2.00
30		3.70	4.20	2.20	2.00
35		3.20	2.60	1.40	2.00
40		2.10	2.00	0.60	2.00
45		1.70	1.60	0.30	2.00
50		1.30	1.30	0.10	2.00
55		0.90	1.00	0.00	2.00

**San Diego City Employees' Retirement System**  
**SCHEDULE 2(a)**  
 Percent of Active Members Retiring  
 Within the Next Year

**CITY OF SAN DIEGO**

Retirement Ages	Safety Members	General Members	Legislative Members	
			Men	Women
50	10%	—	—	—
51	10	—	—	—
52	10	—	—	—
53	10	—	15%	15%
54	20	—	1	1
55	40	20%	5	6
56	40	10	3	3
57	40	10	4	4
58	50	15	5	4
59	80	15	6	5
60	85	20	60	60
61	90	25	25	25
62	100	50	39	29
63	100	40	23	25
64	100	25	34	35
65	100	50	70	60
66	100	40	70	65
67	100	40	75	70
68	100	40	80	80
69	100	40	90	90
70	100	100	100	100

Deferred vested members were assumed to retire at the earliest age that they would have been eligible for a service retirement in City employment based on their completed years of service.

**SCHEDULE 2(b)**  
 Percent of Active Members Retiring  
 Within the Next Year

**SAN DIEGO UNIFIED PORT DISTRICT**

Retirement Ages	Safety Members	General Members
51	10	—
52	10	—
53	10	—
54	20	—
55	40	20%
56	40	10
57	40	10
58	50	15
59	80	15
60	85	20
61	90	25
62	100	50
63	100	40
64	100	25
65	100	50
66	100	40
67	100	40
68	100	40
69	100	40
70	100	100

Deferred vested members were assumed to retire at the earliest age that they would have been eligible for a service retirement in District employment based on their completed years of service.

San Diego City Employees' Retirement System  
**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**  
 For Years Ended June 30

**CITY OF SAN DIEGO**

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
6/30/01	9,892	\$481,863,319	\$48,712	7.70%
6/30/00	9,913	448,501,827	45,244	2.90
6/30/99	9,654	424,515,969	43,973	3.10
6/30/98	9,359	399,035,094	42,637	3.70
6/30/97	9,312	382,715,084	41,099	3.50
6/30/96	9,198	365,088,750	39,692	2.60

**SAN DIEGO UNIFIED PORT DISTRICT**

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
6/30/01	734	\$36,425,136	\$49,626	6.00%
6/30/00	654	30,621,242	46,821	3.00
6/30/99	661	30,034,900	45,439	4.90
6/30/98	616	26,672,111	43,299	0.30
6/30/97	588	25,390,456	43,181	4.10
6/30/96	568	23,557,274	41,474	5.40



**San Diego City Employees' Retirement System**  
**SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED**  
**TO AND REMOVED FROM ROLLS**

For Years Ended June 30

**CITY OF SAN DIEGO**

Year Ended	No.	Added Annual Allowances	No.	Removed Annual Allowances	No.	Total Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
2001	386	\$15,610,998	163	\$1,918,967	5,012	\$11,637,558	18.1%	\$22,474
2000	251	8,798,554	119	1,273,240	4,789	95,348,751	8.6	19,910
1999	319	11,506,968	81	1,720,856	4,657	87,823,437	14.8	18,858
1998	241	8,107,722	Data Revision <sup>(1)</sup>		4,419	76,507,181	22.1	17,313
1997	138	4,029,048	67	746,110	4,123	62,672,105	7.6	15,201
1996	136	3,294,722	50	563,123	4,052	58,224,674	7.0	14,369

(1) Reflects data revision due to retroactive DROP (Deferred Retirement Option Program) retirants

NOTE: DROP recipients are treated as retirees for this exhibit. DROP was instituted in 1997. Due to the COLA, rolls at end of the year will not "sum" to additions and removals of new and deceased benefit recipients

**SAN DIEGO UNIFIED PORT DISTRICT**

Year Ended	No.	Added Annual Allowances	No.	Removed Annual Allowances	No.	Total Annual Allowances	% Increase In Annual Allowances	Average Annual Allowances
2001	9	\$241,083	5	\$121,845	246	\$4,346,932	4.9%	\$17,670
2000	11	302,123	1	10,818	242	4,144,798	9.7	17,127
1999	7	114,675	2	19,293	232	3,777,935	4.6	16,284
1998	24	743,928	6	62,433	227	3,610,346	25.7	15,905
1997	9	141,786	8	14,476	209	2,871,423	6.7	13,739
1996	12	325,356	4	60,306	208	2,690,405	13.1	12,935

NOTE: DROP recipients are treated as retirees for this exhibit. DROP was instituted in 1997. Due to the COLA, rolls at end of the year will not "sum" to additions and removals of new and deceased benefit recipients.

## ACTUARIAL SECTION

### San Diego City Employees' Retirement System

## SOLVENCY TEST

For Years Ended June 30 (In Thousands)

### CITY OF SAN DIEGO

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members	Reported Assets <sup>1</sup>	(1)	(2)	(3)
6/30/01	\$296,851	\$1,337,799	\$1,174,888	\$2,525,645	100.0%	100.0%	75.8%
6/30/00	295,762	1,170,075	1,062,937	2,592,998	100.0	100.0	100.0
6/30/99	238,278	1,026,395	916,874	2,033,153	100.0	100.0	83.8
6/30/98 <sup>2</sup>	227,740	885,586	866,342	1,852,151	100.0	100.0	85.3
6/30/97	218,544	699,535	830,739	1,632,361	100.0	100.0	86.0
6/30/96 <sup>3</sup>	204,426	647,228	768,719	1,480,772	100.0	100.0	81.8

<sup>1</sup> Actuarial Value of Assets <sup>2</sup> Reflects revised actuarial and economic assumptions <sup>3</sup> After Manager's proposal

### SAN DIEGO UNIFIED PORT DISTRICT

Valuation Date	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members	Reported Assets <sup>1</sup>	(1)	(2)	(3)
6/30/01	\$10,754	\$52,025	\$60,347	\$145,278	100.0%	100.0%	100.0%
6/30/00	9,609	44,774	42,777	133,183	100.0	100.0	100.0
6/30/99	8,792	40,725	40,292	110,310	100.0	100.0	100.0
6/30/98 <sup>2</sup>	7,325	39,282	35,026	98,007	100.0	100.0	100.0
6/30/97	7,656	29,979	35,929	85,511	100.0	100.0	100.0
6/30/96	6,813	27,904	27,514	72,511	100.0	100.0	100.0

<sup>1</sup> Actuarial Value of Assets <sup>2</sup> Reflects revised actuarial and economic assumptions

**San Diego City Employees' Retirement System**  
**ANALYSIS OF FINANCIAL EXPERIENCE**

For the Years Ended June 30

Actuarial gains or losses realized in the operation of retirement systems provide an experience test. Gains and losses are expected to cancel each other out over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common.

Components of Experience Gain (Loss)	CITY OF SAN DIEGO			SAN DIEGO UNIFIED PORT DISTRICT		
	2001	2000	1999	2001	2000	1999
Estimated Gain (Loss) Attributed to Investment Experience	\$(95,647,385)	\$290,700,000	\$74,892,018	\$1,304,928	\$14,962,558	\$3,854,203
Estimated Gain (Loss) Attributed to Pay Increases	(37,000,000)	18,773,910	13,135,392	(2,462,678)	36,100	(288,881)
Estimated Gain (Loss) Attributed to Change in Size of Group as it Pertains to Amortization of UAAL	—	—	—	—	—	—
Estimated Gain (Loss) Attributed to Post-Retirement Mortality Experience of Retirants and Beneficiaries at Beginning of Year and Pay Increases for New Retirees in Year of Retirement	—	—	—	1,267,497	(896,871)	(523,992)
Estimated Gain (Loss) Attributed to Employee Turnover, Pre-Retirement Mortality, Retirement Incidence, Data Corrections and Miscellaneous Factors	(60,521,599)	(22,834,750)	(58,277,111)	(3,009,643)	992,586	559,703
<b>Total Estimated Experience Gain (Loss)</b>	<b>\$(193,168,984)</b>	<b>\$286,639,160</b>	<b>\$29,750,299</b>	<b>\$(2,899,896)</b>	<b>\$15,094,373</b>	<b>\$3,601,033</b>

**San Diego City Employees' Retirement System**  
**ANALYSIS OF FINANCIAL EXPERIENCE** (continued)  
 For the Years Ended June 30

**CITY OF SAN DIEGO/SAN DIEGO UNIFIED PORT DISTRICT\***

Components of Experience Gain (Loss)	1998	1997	1996
Estimated Gain (Loss) Attributed to Investment Experience	\$101,000,000	\$40,036,829	\$60,894,270
Estimated Gain (Loss) Attributed to Pay Increases	9,141,984	9,609,149	14,328,481
Estimated Gain (Loss) Attributed to Change in Size of Group as it Pertains to Amortization of UAAL	—	—	—
Estimated Gain (Loss) Attributed to Post-Retirement Mortality Experience of Retirants and Beneficiaries at Beginning of Year and Pay Increases for New Retirees in Year of Retirement	—	(9,435,558)	(5,066,789)
Estimated Gain (Loss) Attributed to Employee Turnover, Pre-Retirement Mortality, Retirement Incidence, Data Corrections and Miscellaneous Factors	(79,055,974)	(1,736,427)	(10,563,002)
<b>Total Estimated Experience Gain (Loss)</b>	<b>\$31,086,010</b>	<b>\$38,473,993</b>	<b>\$59,592,960</b>

\* Prior to 1999, City of San Diego and San Diego Unified Port District were reported together.

**Reconciling Differences Between Assumed Experience and Actual Experience**

Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience regardless of the skill of the actuary and the many calculations made. Most retirement systems, including SDCERS, cope with this difference by having annual actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continuing adjustments in financial position.

**San Diego City Employees' Retirement System**  
**ANALYSIS OF FINANCIAL EXPERIENCE** (continued)  
 For the Years Ended June 30

**CITY OF SAN DIEGO**

Valuation Date	Gain (Loss)	Beginning of Year Accrued Liabilities	Gain (Loss) Percentage	Net Increase in Liabilities
6/30/01	\$(193,168,984)	\$2,528,773,900	(7.6)%	\$347,226,447
6/30/00	286,639,160	2,181,547,453	13.1	201,879,415
6/30/99	29,750,299	1,979,668,038	1.5	238,868,590

**SAN DIEGO UNIFIED PORT DISTRICT**

Valuation Date	Gain (Loss)	Beginning of Year Accrued Liabilities	Gain (Loss) Percentage	Net Increase in Liabilities
6/30/01	\$(2,899,896)	\$97,159,852	(3.0)%	\$7,351,310
6/30/00	15,094,373	89,808,543	16.8	8,175,973
6/30/99	3,601,033	81,632,570	4.4	N/A*

**CITY OF SAN DIEGO/SAN DIEGO UNIFIED PORT DISTRICT\***

Valuation Date	Gain (Loss)	Beginning of Year Accrued Liabilities	Gain (Loss) Percentage	Net Increase in Liabilities
6/30/98	\$31,086,010	1,822,432,018	1.7%	\$139,827,486
6/30/97	38,473,993	1,682,604,532	2.3	205,893,870
6/30/96	59,592,960	1,476,710,662	4.0	138,431,121

\* Prior to 1999, City of San Diego and San Diego Unified Port District were reported together.

San Diego City Employees' Retirement System  
ANALYSIS OF FINANCIAL EXPERIENCE (continued)

For the Years Ended June 30

Discussion of the Comparative Schedule of Experience Gain (Loss)

**June 30, 2001:** The net losses of \$193.6 million (City) and \$2.9 million (District) were as a result of the decreasing market values of invested assets and more than expected employee pay increases, combined with less than expected employee turnover and pre-retirement mortality. These losses significantly increased SDCERS' liabilities of \$347.2 million (City) and \$7.4 million (District) over SDCERS' prior year liabilities. The result of the June 30, 2001, actuarial valuations is the first time in recent years that a net loss was experienced by SDCERS.

**June 30, 2000:** The net gains of \$286.6 million (City) and \$15.1 million (District) were as a result of investment earnings and the savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover and pre- and post-retirement mortality. These gains helped to reduce the net increases in liabilities of \$201.9 million (City) and \$8.2 million (District) over the prior year.

**June 30, 1999:** The net gains of \$29.7 million (City) and \$3.6 million (District) were as a result of investment earnings and the net savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover, and, pre- and post-retirement mortality. These gains helped to reduce the net increase in liabilities of \$238.9 million over the prior year.

**June 30, 1998:** The net gain of \$31.1 million was as a result of investment earnings and the savings from expected employee pay increases exceeding losses due to less than expected employee turnover and pre-retirement mortality. This gain helped to reduce the net increase in liabilities of \$139.8 million from the prior.

**June 30, 1997:** The net gain of \$38.5 million was as a result of investment earnings and savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover, and, pre- and post-retirement mortality. This gain helped to reduce the net increase in liabilities of \$205.9 million from the prior year.

**June 30, 1996:** The net gain of \$59.6 million was as a result of investment earnings and savings from expected employee pay increases exceeding losses due to more than expected pay increases to new retirees, and less than expected employee turnover, and, pre- and post-retirement mortality. This gain helped to reduce the net increase in liabilities of \$138.4 million from the prior year.



## San Diego City Employees' Retirement System

### SUMMARY OF SDCERS' PROVISIONS

As of June 30, 2002

#### SDCERS' Description and History

Established in 1927, the San Diego City Employees' Retirement System (SDCERS) provides retirement, disability and death benefits and administers health insurance benefits for its members. In 1955, the closed Police and Fire Systems were merged with SDCERS resulting in SDCERS' composition of two distinct benefit structures for general members and police and fire safety members. Employees of the San Diego Unified Port District (District) became members of SDCERS in 1963 through an agreement between the City of San Diego (City) and the District. In 1971, legislative officers were added to SDCERS as the third distinct benefit structure.

SDCERS, acting as agent of a multi-employer defined benefit plan, provides vested members a specified portion of their annual salaries when they retire. In order to attain the appropriate level of funding for each member, the Plan specifies a formula to be used to calculate the amount that would need to be contributed by members each year until retirement. To maintain low levels of required contributions by members, SDCERS invests in fixed income, equities and real estate, and reinvests interest earnings and the profits from the sale of securities. Currently, SDCERS' Net Plan Assets are valued at \$2.527 billion.

SDCERS is governed by a thirteen-member Board comprised of representatives of general and safety members, retirees, City management, and appointed citizens. SDCERS' Board is responsible for administering SDCERS in accordance with the California State Constitution Article XVI, Section 17, the San Diego City Charter Article IX, Sections 141 – 148.1, and Article X, Section 1, and the San Diego Municipal Code Sections 24.0100 *et seq.*

Since its inception, the membership of SDCERS and the number of retirees has continued to increase. In the most recent plan year, there was an increase of 650 members and an increase of 130 retirees. DROP participants decreased by 25 over the past fiscal year. Continued growth in membership and retirees is projected for the next few years. In order to accommodate this growth, SDCERS has established a long-term investment strategy based on sound investment policies and risk reduction through diversification of assets. By adhering to prudent investment principles, SDCERS' objective is to be in a position to fund the retirement benefits earned by current and future members

San Diego City Employees' Retirement System  
SUMMARY OF SDCERS' PROVISIONS (continued)

As of June 30, 2002

Major Provisions

**Membership Requirements**

*Salaried Classified Employees*  
Immediate upon employment.

*Salaried Unclassified Employees*  
Immediate upon employment (if hired on or after August 11, 1993).

*Salary Base for Benefits*  
Highest one-year average.

**Service Requirement**

A. *Eligibility*

- 1) General Members - Age 62 with 10 years of service, or age 55 with 20 years of service.
- 2) Safety Members - Age 55 with 10 years of service, or age 50 with 20 years of service.
- 3) Legislative Members - Age 55 with 4 years of service, or any age with 8 or more years of service with a 2% reduction in retirement allowance for each year under age 55.

B. *Benefit Formula Per Year of Service\**

- 1) General Members

CHOICE OF:

Retirement Factors in effect July 1, 2000, of 2.25% at age 55 to 59 increasing by .05% per year beginning at age 60 and continuing to a maximum of 2.55% at age 65 and over;

OR

A 10% increase to Final Compensation (highest one-year average salary) used to calculate the Base Retirement Benefit using the Retirement Factors in effect on June 30, 2000, of 2.0% at age 55 increasing to 2.55% at age 65 and over.

- 2) Lifeguard Members

CHOICE OF:

3.0% at age 50 and all ages after 50;

OR

A 10% increase to Final Compensation used to calculate the Base Retirement Benefit using the Retirement Factors in effect on June 30, 2000 of 2.2% at age 50 increasing to 2.77% at age 55 and over.

- 3) Safety/Police & Fire Members

CHOICE OF:

3.0% at age 50 and all ages after 50;

OR

A 10% increase to Final Compensation used to calculate the Base Retirement Benefit using the Retirement Factors in effect on June 30, 2000 of 2.5% at age 50 increasing to 2.999% at age 55 and over.

\*Please see the Subsequent Event Disclosure, Item 8, in the Notes to the Financial Statements for information regarding the change in the benefit factor for FY 2003.

San Diego City Employees' Retirement System  
**SUMMARY OF SDCERS' PROVISIONS** (continued)

As of June 30, 2002

4) Legislative Members

A 10% increase to Final Compensation used to calculate the Base Retirement Benefit using the Retirement Factors for legislative members of 3.5% of final average salary.

*C. Unmodified Form of Payment*

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

**Disability Retirement**

**Non-Industrial Disability**

*A. Eligibility*

Ten years of service.

*B. Benefit Formula Per Year of Service*

- 1) General Members - Greater of 1.5% per year of service, 33.3% of salary, or the earned service retirement benefit.
- 2) Safety Members - Greater of 1.8% per year of service, 33.3% of salary, or the earned service retirement benefit.

**Industrial Disability**

*A. Eligibility*

No age or service requirement.

*B. Benefit*

- 1) General Members (City) - Greater of 50% of salary, or the earned service retirement benefit. General Members (District) – Greater of 33.3% of salary, or the earned service retirement benefit.

- 2) Safety Members - Greater of 50% of salary, or the earned service retirement benefit.

**Death of Member**

**Non-Industrial Death**

*A. Death Before Eligible Service Retirement (Active Member Death Benefit)* - Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six month's salary.

*B. Non-Industrial Death After Eligible to Retire for Service* - 50% of earned benefit payable to surviving eligible spouse (or active member death benefit) or minor dependent children.

**Industrial Death (Special or Modified Special Death Benefit)**

50% of final average salary payable to surviving spouse or minor dependent children (or active death benefit).

**Death After Retirement**

\$2,000 death benefit paid to named beneficiary.

**Withdrawal Benefit**

*A. Pre-12/8/77 Hires*

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

San Diego City Employees' Retirement System  
SUMMARY OF SDCERS' PROVISIONS (continued)

As of June 30, 2002

*B. Post 12/7/77 Hires*

- 1) Less than ten years of service - Refund of accumulated member contributions with interest, or may keep deposits in SDCERS and earn additional interest.
- 2) Ten or more years of service - If contributions left on deposit, entitled to earned benefits, upon application at age 62 or older.

**Post-Retirement Cost-of-Living Benefits**

*A. General Members and Safety*

Based on changes in Consumer Price Index, to a maximum of 2% per year.

*B. Special Class Safety Fluctuator Members*  
Indexed to active wages for the same position.

**Contributions**

*A. City Contributions*

Determined by the Projected Unit Credit Funding Method with a closed, 30-year amortization of Unfunded Actuarial Accrued Liability beginning July 1, 1991.

*B. Member Contributions*

- 1) City of San Diego SDCERS Members - See the Notes to the Financial Statements in the Financial Section of this CAFR, 3. Contributions Required and Contributions Made.

2) San Diego Unified Port District

SDCERS Members - SDCERS' provisions applicable to City general members are generally applicable to District general members. SDCERS' provisions applicable to City lifeguard members are generally applicable to District safety members.

- 3) Legislative SDCERS Members - SDCERS' provisions applicable to general members are generally applicable to legislative members except where specifically noted.

*C. Total Contributions*

- 1) The funding objective of SDCERS is to establish and receive contributions, expressed as percentages of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens.
- 2) Employer contributions, member contributions, and investment income from invested assets support SDCERS. Contributions are determined by an annual actuarial valuation using assumptions, which generate sufficient Plan assets to:
  - a. Cover the actuarial present value of benefits allocated to the current year by the actuarial cost method (the normal costs); and
  - b. Finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).





## V. STATISTICAL SECTION

## STATISTICAL SECTION

### San Diego City Employees' Retirement System SCHEDULE OF REVENUES BY SOURCE (ADDITIONS)

For Fiscal Years Ended June 30

Year Ending	Employers' Contributions	Member Contributions Paid By Employers	Member Contributions	DROP Contributions*	Investment Income	Other Income	Total
2002	\$49,962,365	\$28,794,143	\$53,546,085	\$29,892,770	(\$75,934,760)	\$450,646	\$86,711,249
2001	44,598,473	25,566,207	35,413,089	28,303,009	(25,126,082)	371,123	109,125,819
2000	40,666,091	24,271,821	29,533,246	16,011,124	349,654,651	308,302	460,445,235
1999	35,901,367	23,439,812	30,081,241	11,770,221	180,463,938	290,335	281,946,914
1998	32,497,329	22,148,460	24,217,798	7,939,756	278,681,878	697,110	366,182,331
1997	29,165,584	21,211,659	15,770,286	0	255,771,887	414,807	322,334,223

\*DROP (Deferred Retirement Option Program) began in FY 1997 (April 1, 1997). Contributions to DROP were started in FY 1998.

### San Diego City Employees' Retirement System SCHEDULE OF EXPENSES BY TYPE (DEDUCTIONS)

For Fiscal Years Ended June 30

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous	Total
2002	\$149,919,912	\$7,591,273	\$994,740	\$35,378	\$158,541,303
2001	153,198,830	7,645,839	1,462,746	28,706	162,336,721
2000	110,592,601	5,813,354	1,250,997	21,887	117,678,839
1999	98,302,899	3,207,897	1,643,187	27,770	103,181,753
1998	83,315,307	4,179,621	1,468,813	51,790	89,015,531
1997	65,606,901	4,539,021	1,741,230	43,791	71,930,943

\*Administrative expenses re-categorized beginning July 1, 1999 (FY 2000) to include all SDCERS' expenses except Investment Related Expenses as identified in the Schedule of Fees Paid to Investment Professionals in the Financial Section of this CAFR.



San Diego City Employees' Retirement System  
**SCHEDULE OF ALLOWANCES BEING PAID**  
**AS OF JULY 1, 2001 (FY 2002)**

Retirees and Beneficiaries as of June 30, 2001

**CITY OF SAN DIEGO**

Type of Allowance	Annual No.	Annual Allowances
<b>Service Retirement</b>		
Life Annuity Only	592	\$13,461,991
Cash Refund Annuity	99	2,267,617
Joint & 100% Survivor	173	6,712,566
Joint & 50% Survivor	0	0
Automatic	2,038	58,120,457
Elected	10	375,255
Option 4*	11	468,439
Social Security Option	22	363,519
<b>Total Service Retirement</b>	<b>2,945</b>	<b>81,769,844</b>
<b>Disability Retirement</b>		
Life Annuity Only	309	4,807,872
Cash Refund Annuity	8	196,097
Joint & 100% Survivor		
Automatic	37	267,872
Elected	32	926,023
Joint & 50% Survivor		
Automatic	844	18,353,696
Elected	2	41,087
Option 4*	5	140,746
Social Security Option	1	3,647
<b>Total Disability Retirement</b>	<b>1,238</b>	<b>24,737,040</b>
<b>Death Before Retirement</b>	<b>40</b>	<b>543,541</b>
<b>Death After Retirement</b>		
Service Retirement	574	3,962,279
Disability Retirement	215	1,673,761
<b>Total Death After Retirement</b>	<b>789</b>	<b>5,636,040</b>
<b>Total Allowances Being Paid</b>	<b>5,012</b>	<b>\$112,686,465</b>

\* Option 4 - Section 24.0607 of the San Diego Municipal Code allows, upon approval of the Board, other benefits that are the actuarial equivalent of the retirement allowance.

San Diego City Employees' Retirement System  
**SCHEDULE OF ALLOWANCES BEING PAID**  
 AS OF JULY 1, 2001 (FY 2002)

Retirees and Beneficiaries as of June 30, 2001

**SAN DIEGO UNIFIED PORT DISTRICT**

Type of Allowance	Annual No.	Annual Allowances
<b>Service Retirement</b>		
Life Annuity Only	30	\$528,806
Cash Refund Annuity	7	139,605
Joint & 100% Survivor	5	65,285
Joint & 50% Survivor		
Automatic	98	2,327,478
Elected	0	0
Option 4*	0	0
Social Security Option	2	47,194
<b>Total Service Retirement</b>	<b>142</b>	<b>3,108,368</b>
<b>Disability Retirement</b>		
Life Annuity Only	26	378,809
Cash Refund Annuity	0	0
Joint & 100% Survivor		
Automatic	0	0
Elected	0	0
Joint & 50% Survivor		
Automatic	32	504,425
Elected	0	0
Option 4*	0	0
Social Security Option	0	0
<b>Total Disability Retirement</b>	<b>58</b>	<b>883,234</b>
<b>Death Before Retirement</b>	<b>2</b>	<b>18,438</b>
<b>Death After Retirement</b>		
Service Retirement	28	210,076
Disability Retirement	10	126,816
<b>Total Death After Retirement</b>	<b>44</b>	<b>336,892</b>
<b>Total Allowances Being Paid</b>	<b>246</b>	<b>\$4,346,932</b>

\* Option 4 - Section 24.0607 of the San Diego Municipal Code allows, upon approval of the Board, other benefits that are the actuarial equivalent of the retirement allowance.

**San Diego City Employees' Retirement System**  
**SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS**

For Years Ended June 30

**CITY OF SAN DIEGO**

Year Ended	No.	Annual Allowance	Averages				New Retirees		
			Annual Allowance	Attained Age	Age at Retirement	Service Years at Retirement	No.	Age	Allowance
2001	5,012	\$112,637,558	\$22,474	67.5	54.2	21.2	386	56.1	\$40,443
2000	4,789	95,348,751	19,910	68.1	54.4	20.9	251	56.3	35,054
1999	4,657	87,823,437	18,858	68.0	54.5	20.9	319	55.6	36,072
1998**	4,419	76,507,181	17,313	68.3	54.5	21.0	241	56.2	33,642

**SAN DIEGO UNIFIED PORT DISTRICT**

Year Ended	No.	Annual Allowance	Averages				New Retirees		
			Annual Allowance	Attained Age	Age at Retirement	Service Years at Retirement	No.	Age	Allowance
2001	246	\$4,346,932	\$17,670	68.3	57.4	15.8	9	56.6	\$26,787
2000	242	4,144,798	17,127	68.5	57.7	16.1	11	59.2	25,920
1999	232	3,776,524	16,278	68.5	58.0	16.0	7	55.4	16,382
1998**	227	3,610,346	15,905	68.7	58.6	16.7	24	60.8	30,997

**CITY OF SAN DIEGO/SAN DIEGO UNIFIED PORT DISTRICT\***

Year Ended	No.	Annual Allowance	Averages				New Retirees		
			Annual Allowance	Attained Age	Age at Retirement	Service Years at Retirement	No.	Age	Allowance
1997	4,332	\$65,543,528	\$15,130	68.7	54.6	20.2	138	55.2	\$29,196
1996	4,260	60,915,079	14,299	68.5	54.8	20.2	148	54.5	24,460

\* Actuarial data prior to 1998 was provided in one composite report which included members and beneficiaries from both the City of San Diego and the San Diego Unified Port District

\*\* Retirees only (including DROP Participants); beneficiaries excluded.

San Diego City Employees' Retirement System

**SCHEDULE OF ACTIVE MEMBERS**

For Years Ended June 30

**CITY OF SAN DIEGO**

Year Ended	No.	Total Salaries	Averages		
			Annual Salary	Age	Years of Service
2001	9,892	\$481,863,319	\$48,712	42.1	10.7
2000	9,913	448,501,827	45,244	42.2	10.7
1999	9,654	424,515,969	43,973	41.9	10.7
1998	9,359	399,035,094	42,677	41.8	10.8

**SAN DIEGO UNIFIED PORT DISTRICT**

Year Ended	No.	Total Salaries	Averages		
			Annual Salary	Attained Age	Years of Service
2001	734	\$36,425,136	\$49,626	43.8	7.7
2000	654	30,621,242	46,821	43.9	7.8
1999	661	30,034,900	45,439	43.7	7.5
1998	616	26,672,111	43,299	43.5	7.4

**CITY OF SAN DIEGO/SAN DIEGO UNIFIED PORT DISTRICT\***

Year Ended	No.	Total Salaries	Averages		
			Annual Salary	Attained Age	Years of Service
1997	9,900	\$408,105,540	\$41,223	41.8	10.5
1996	9,766	388,646,024	39,796	41.3	10.2

\* Actuarial data prior to 1998 was provided in one composite report which included members and beneficiaries from both the City of San Diego and the San Diego Unified Port District

**San Diego City Employees' Retirement System**  
**SCHEDULE OF INACTIVE MEMBERS**  
 For Years Ended June 30

**CITY OF SAN DIEGO**

Year Ended	Inactive Members	Other**	Total	Member Contribution Balances			Averages		
				Inactive Members	Other	Total	Age	Service	Contribution Balance
2001***	1,271	N/A	1,271	\$18,443,339	N/A	\$18,443,339	44.2	6.6	\$14,511
2000	1,016	N/A	1,016	18,620,827	N/A	18,620,827	44.3	7.5	18,328
1999	800	N/A	800	12,244,598	N/A	12,244,598	43.1	6.6	15,306
1998	791	344	1,135	12,281,289	19,829,472	32,110,761	42.6	7.4	15,526

**SAN DIEGO UNIFIED PORT DISTRICT**

Year Ended	Inactive Members	Other**	Total	Member Contribution Balances			Averages		
				Inactive Members	Other	Total	Age	Service	Contribution Balance
2001****	163	N/A	1636	\$1,135,633	N/A	\$1,135,633	44.2	4.3	\$6,967
2000	142	N/A	142	938,416	N/A	938,416	41.6	3.7	6,609
1999	99	N/A	99	631,050	N/A	631,050	42.6	3.6	6,374
1998	91	37	128	567,632	1,372,784	1,940,416	41.5	4.1	6,238

**CITY OF SAN DIEGO/SAN DIEGO UNIFIED PORT DISTRICT\***

Year Ended	Inactive Members	Other**	Total	Member Contribution Balances			Averages		
				Inactive Members	Other	Total	Age	Service	Contribution Balance
1997	817	262	1,079	\$11,850,472	\$7,240,527	\$19,090,999	42.6	7.6	\$14,505
1996	777	301	1,078	9,932,950	6,524,100	16,457,050	42.1	7.1	12,784

\*Actuarial data prior to 1998 was provided in one composite report which included members and beneficiaries from both the City of San Diego and the San Diego Unified Port District.

\*\*“Other Members” may include withdrawals (refunds), deaths, disabilities, and service retirements which are in transition.

\*\*\*947 General & 101 Safety Inactives have less than 10 years of service. These members’ liabilities are valued as the balance of their employee contributions with interest.

\*\*\*\*145 Inactives have less than 10 years of service. These members’ liabilities are valued as the balance of their employee contributions with interest.

San Diego City Employees' Retirement System  
**SCHEDULE OF PARTICIPATING EMPLOYERS**

As of June 30, 2002

**City of San Diego**

202 C Street  
San Diego, CA 92101-3860  
(619) 236-5555

**San Diego Unified Port District**

3165 Pacific Highway  
San Diego, CA 92101-1128  
(619) 686-6200





75 Years of Serving  
San Diego City Employees'  
Retirement System Members,  
Retirees & Beneficiaries



THE CITY OF SAN DIEGO

This information is available in alternative formats upon request.  
Esta información se encuentra disponible en otros medios.